



# An Emergency Savings Account Matters!

## Why emergency savings are important

No matter how well you plan things, chances are life will inevitably throw something your way that you weren't expecting. In these situations, having an emergency fund can greatly reduce the stress and complications as you'll be able to still cover things such as food, shelter, or potentially even deal with the situation head on depending on how much you have saved and the nature of the situation.

## What an emergency savings account can buy you

Effectively, any amount of money set aside in the case of an emergency can work as an emergency fund. However, the more money you have set aside, the better off you'll be. The following is breakdown of the sort of disaster a person can be prepared for based on the amount they have saved.

	If you've saved...	You're prepared for...
Short Term	\$50	<ul style="list-style-type: none"> <li>• Getting additional groceries on short notice</li> <li>• Covering an expense that was slightly higher than expected</li> </ul>
	\$500	<ul style="list-style-type: none"> <li>• Getting emergency medication in the event your insurance can't cover it</li> <li>• Covering the gap in a surprise increase in a utility bill</li> </ul>
Medium Term	\$1,000	<ul style="list-style-type: none"> <li>• Purchasing a new phone or similar electronic device</li> <li>• A sudden change in income, requiring a new budget</li> </ul>
	\$5,000	<ul style="list-style-type: none"> <li>• An emergency trip to the hospital</li> <li>• A sudden, temporary change in rent and living costs</li> </ul>
Long Term	\$10,000	<ul style="list-style-type: none"> <li>• Repairing your car after an accident</li> <li>• Covering basic necessities for a few months of unemployment</li> </ul>
	\$25,000	<ul style="list-style-type: none"> <li>• Replacing your car after an accident</li> <li>• Covering basic necessities for a year of unemployment</li> </ul>
	\$50,000	<ul style="list-style-type: none"> <li>• Starting over after a major disaster</li> <li>• Covering basic necessities for a few years of unemployment</li> </ul>

## Ways to start saving

Starting an emergency savings account can seem daunting at first, especially if you're going for a large savings pool. However, there are some methods you can apply that can provide a good starting point to your savings account.

### **Spare Change:**

Anytime you make a purchase in cash, take any change leftover from the purchase and put it in a jar or envelope. At the beginning of your next payday, take the amount saved and deposit it into a savings account. If your bank requires a certain minimum before you are allowed to deposit, then wait until it's at least that much before depositing.

If you are primarily using cards or digital payment, then instead take any amount leftover from your budgeting categories and move it to a savings account at the start of your next payday. While these amounts on their own are small, keeping this up overtime will lead to a considerable amount for your savings account.

### **Be Your Own Debtor:**

Go over your budget for any debts/loans you are currently repaying and select one of them. Once you have finished repaying that loan, begin putting the money that you would have used to repay that loan, into a savings account. One of the largest advantages of this method is that you can start saving without having to make any major changes to your budget which makes the process and planning of an emergency savings account much easier. One thing to consider however, is don't choose a loan like your credit card payment, as you'll most likely be continuing to pay that one as long as you use your credit card.

### **Saving Raises and Gifts:**

The next time you receive a cash gift, put it into your savings fund. If you're going to be receiving a raise soon, consider putting the additional amount you'll be payed into your savings fund. Much like the debtor method, this method allows you to start saving without making any major changes to your budget.

This method also helps with improving your financial literacy overall by encouraging mindful saving and spending when faced with a sudden influx of income as opposed to immediately spending it. Additionally, instead of an emergency savings, you can also put your raises and gifts into a retirement fund such as a Roth IRA.

## **Growing and Shrinking**

Do not be afraid of using your emergency fund, even if it's before you hit your desired goal. If you were planning on saving up \$10,000 but end up needing to replace your car battery along the way, don't be afraid to take that out of your emergency fund even if you haven't hit your goal yet. The point of this fund is to cover emergencies regardless of their size and when they occur.

However, as long as you continue to make an effort to grow your emergency savings, you can be prepared for events that cause it to shrink. In doing so, you can keep your peace of mind during accidents as you can be assured that you have a solid foundation to stand on.

To get further involved with our Financial Literacy program, such as one-on-one financial counseling, Orcas Talks Money drop in workshops, or our 7-month Orcas Money Smart cohort, reach out to the Orcas Community Resource Center at 360-376-3184 or [info@orcascrc.org](mailto:info@orcascrc.org) for more information!