

Coping with COVID-19

Establishing or replenishing emergency savings

Building an “emergency fund” has always been an essential step toward achieving financial security, and the record unemployment caused by the coronavirus pandemic reminds us just how crucial a financial cushion is. If you went into the economic crisis without one, or you’ve had to dip into the fund to get through it, establishing or replenishing an emergency fund should be at the top of your financial “to do” list as soon as you are back on your feet again.

Need for an emergency fund

The purpose of an emergency fund is to be able to cover an urgent, unanticipated expense, such as a surprise medical bill, a major car repair, a sudden move, or a period of unemployment, without having to skip essential expenses (like rent or a car loan payment) or go (further) into debt. Here are **“8 Reasons You Need an Emergency Fund”** (<https://www.thebalance.com/reasons-you-need-an-emergency-fund-2385536>).

Your savings goal will depend on a variety of factors, including your earnings and your risk for a financial emergency. One study recommends a goal of \$2,467 for lower-income households (<https://www.cnbc.com/2019/10/18/minimum-amount-of-money-you-need-in-an-emergency-fund.html>). Most experts recommend saving three to six months of living expenses, depending on your circumstances.

Since even \$500 is enough to get you through some emergencies, put away

whatever amount you can each week or pay period, no matter how small. Set achievable goals that you build on over time. America Saves offers **“38 Reasons You Need At Least a \$500 Emergency Fund”** (<https://americasaves.org/blog/1727-38-reasons-you-need-at-least-a-500-emergency-fund>).

Where to keep your fund

Your emergency fund should be:

- **Liquid**—able to be accessed quickly and easily
- **Safe**—not at risk of theft or of being lost in a fire or other disaster, insured against bank or credit union failure, and protected from the



Be prepared

If you had saved just \$5 a week since June 2009, the end of the Great Recession, you would have had just over \$2,600 accumulated by March 2020, the beginning of the COVID-19-related economic shutdown.

Be prepared for the next financial crisis by starting your emergency fund now!

temptation to spend the money on non-emergencies

■ **Stable**—not subject to fluctuations (such as the ups and downs of the stock market)

■ **Separate**—not kept in the same account as savings intended for other purposes, like vacations, a car or retirement

A **traditional savings account** is a good place to keep your emergency fund because:

■ You can easily withdraw money or transfer funds to a linked checking account to pay an emergency expense (normally up to six times per month, but there are temporary new rules during the pandemic: <https://www.moneytalksnews.com/new-rule-change-makes-savings-accounts-more-attractive/>).

■ In most cases, accounts are insured for up to \$250,000 in case the bank (<https://www.fdic.gov/deposit/deposits/faq.html>) or credit union (<https://www.mycreditunion.gov/share-insurance#section-4>) fails.

■ You would earn interest on your balance. Compare interest rates here (<https://www.depositaccounts.com/ratetable/savings/>), here (<https://www.bankrate.com/banking/savings/rates/>) and here (<https://www.nerdwallet.com/best/banking/savings-accounts>).

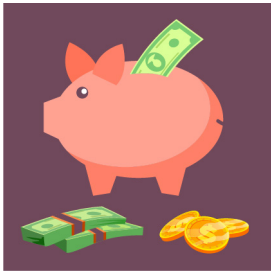
A **money market account (MMA)** (<https://www.investopedia.com/ask/answers/061616/how-liquid-are-money-market-accounts.asp>) is another good option because they pay a higher interest rate and usually come with a linked debit card that can be used like a credit card in an emergency (the money would come directly out of your account). However, these accounts have higher minimum balance require-

ments and may come with more fees. Get rates and details at Bankrate.com (<https://www.bankrate.com/banking/money-market/rates/>).

Because the interest rate on savings accounts is so low, it's even more important to consider fees when choosing an account. Try to find an account that has no maintenance fee and no or low other fees. **ValuePenguin** provides a run-down of the types of fees you might see, along with real-life examples (<https://www.valuepenguin.com/banking/savings-account-fees>). **The Balance** offers advice for finding a free savings account (<https://www.thebalance.com/where-to-open-a-free-savings-account-315776>).

One tip: Check out **credit unions**. As non-profit member-owned cooperative institutions, credit unions (<https://www.mycreditunion.gov/about-credit-unions/credit-union-different-than-a-bank>) often have lower fees and more consumer-friendly policies than traditional banks. (Plus, you could win money with each \$25 deposit into your savings account through Save to Win: <http://www.savetowin.org/product-info/how-save-to-win-works!>) Find a credit union you could be eligible to join at **aSmarterChoice.org** (www.aSmarterChoice.org). Local community banks can be another good option (<https://www.icba.org/about/find-a-community-bank>).





Once you accumulate a larger emergency fund, consider other places to keep your money where you can earn more on your balance. Find some ideas in **"4 Places to Keep Your Emergency Fund"** from

Discover (<https://www.discover.com/online-banking/banking-topics/where-to-keep-emergency-fund/>).

If you don't want to open a savings account, or if you can't due to problems with a previous account, a prepaid card that charges low fees, comes with desirable features and offers strong consumer protections can be a good alternative. Learn more about choosing and using a prepaid card at the **Consumer Financial Protection Bureau** (CFPB) website (<https://www.consumerfinance.gov/consumer-tools/prepaid-cards/>).

Savings tips

There are many tactics for making saving faster and easier. One of the most effective strategies is to sock away tax refunds and other windfalls to make major strides toward achieving your goal. **SaveYourRefund** (<https://saveyourrefund.com/home/>) offers information and prizes for savers.

One thing that virtually all experts advise: Make saving automatic. If you can, set up direct deposit of your paycheck so that a portion goes into your emergency fund and the rest goes into your checking account. Or, you can schedule automatic transfers from your checking to your savings—say, \$50 the day after each payday.

Learn more about automating your savings from:

AmericaSaves.org (<https://americasaves.org/for-savers/save-automatically>)

Consumer Financial Protection Bureau (<https://www.consumerfinance.gov/about-us/blog/looking-easy-way-save-money-make-it-automatic>)

Forbes (<https://www.forbes.com/advisor/banking/how-to-automate-your-savings/>)

For many more tips and some savings inspiration, check out these sources:

An essential guide to building an emergency fund, from the CFPB (<https://www.consumerfinance.gov/start-small-save-up/start-saving/an-essential-guide-to-building-an-emergency-fund/>)

Emergency Fund: What It Is and Why It Matters, from NerdWallet (<https://www.nerdwallet.com/blog/banking/savings/life-build-emergency-fund/>)

9 Tips for Starting an Emergency Fund Today, from MoneyTalksNews (<https://www.moneytalksnews.com/creative-ways-to-build-an-emergency-fund-when-moneys-tight/>)

Make a Plan: How to Save Money, from America Saves (<https://americasaves.org/for-savers/make-a-plan-how-to-save-money>)

How to Save Money Fast, from The Simple Dollar (<https://www.thesimpledollar.com/save-money/little-steps-100-great-tips-for-saving-money-for-those-just-getting-started/>)

10 Creative Ways to Save Money, from U.S. News & World Report (<https://money.usnews.com/money/personal-finance/saving-and-budgeting/articles/creative-ways-to-save-money>)

Savings tools

Online tools can help you start saving and stay on track.

Sign up for the **CFPB Savings Boot Camp** (<https://www.consumerfinance.gov/start-small-save-up/start-saving/cfpb-savings-boot-camp/>), a six-step email course to help you on your savings journey.



Take the **America Saves** pledge and receive information, advice, tips and reminders to help you reach your emergency fund goal (<https://americasaves.org/for-savers/set-a-goal-what-to-save-for/save-for-emergencies>).

AARP's **MySavingsJar** (<https://mysavingsjar.org/>) is a free online community and self-help resource developed to help low-income older adults and their families save for unanticipated expenses.

SaveAndInvest.org offers an emergency fund action plan (<https://www.saveandinvest.org/military-everyday-finances/start-emergency-fund>), as well as a "Tools and Resources" section offering savings calculators, worksheets and more (<https://www.saveandinvest.org/tools-and-resources>).

FinTech apps—personal finance software for your smartphone or tablet—are a relatively recent addition to the saver's toolbox.

One popular category is "round-up" apps, which help you save "the change" from credit and debit card purchases. For example, if you bought a sandwich for \$4.25 with your debit card, the app would round up the purchase to the next dollar (in this case, \$5) and transfer the difference (in this case, 75¢) to your savings.

Learn more in Forbes's "**The 5 Best Round-Up Apps For Saving Money**" (<https://www.forbes.com/advisor/personal-finance/the-5-best-round-up-apps-for-saving-money/>). Some financial institutions offer their own round-up service to account holders; check with your bank or credit union.

Another popular app category is budgeting. Saving is easier when you have a budget. If you need some help, check out NerdWallet's list of the **best budget apps** (<https://www.nerdwallet.com/blog/finance/budgeting-saving-tools/>).

SaverLife (<https://partner.saverlife.org/rewards/>) is an app that rewards you for saving.

Learn more, including what to consider when choosing an app and how to stay safe when using FinTech, in Consumer Action's "**Improving your financial health with FinTech: A beginner's guide to personal finance apps**" (<https://www.consumer-action.org/english/articles/improving-your-financial-health-with-fintech>).

About Consumer Action

www.consumer-action.org

Through education and advocacy, Consumer Action fights for strong consumer rights and policies that promote fairness and financial prosperity for underrepresented consumers nationwide.

Consumer advice and assistance: Submit consumer complaints to: <https://complaints.consumer-action.org/forms/english-form> or 415-777-9635. (Spanish-language complaints can be submitted to: <https://complaints.consumer-action.org/forms/spanish-form/>.)

Our hotline accepts calls in Chinese, English and Spanish.

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Find all project materials here:
www.consumer-action.org/covid-19