



08.20.25 | FINANCIAL LITERACY

Emergency Funds Made Easy: How to Build Your Financial Safety Net

Matthew Licata - Financial Planning Associate

Life rarely gives us a heads-up. One moment, everything's running smoothly, and the next, a medical bill arrives, your car breaks down, or your job takes an unexpected turn.

If an unexpected expense hits tomorrow, would you be ready?

We can't predict the future, but we can prepare for it. An emergency fund is a simple yet powerful tool that turns life's surprises into manageable moments. In this guide, you'll discover what an emergency fund is, how much you should save, where to keep it, and how to start building yours today.

EMERGENCY FUNDS MADE EASY: HOW TO BUILD YOUR FINANCIAL SAFETY NET

Life rarely gives us a heads-up. One moment, everything's running smoothly, and the next, a medical bill arrives, your car breaks down, or your job takes an unexpected turn.

If an unexpected expense hits tomorrow, would you be ready?

We can't predict the future, but we can prepare for it. An emergency fund is a simple yet powerful tool that turns life's surprises into manageable moments. In this guide, you'll discover what an emergency fund is, how much you should save, where to keep it, and how to start building yours today.

WHAT IS AN EMERGENCY FUND, AND WHY IS IT SO IMPORTANT?

An emergency fund is money set aside specifically for unexpected costs. Think of it as your financial safety net. It helps you avoid relying on high-interest credit cards, personal loans, or dipping into long-term investments when life throws you a curveball.

Emergencies happen to everyone. Having cash on hand keeps a small problem from spiraling into a major financial crisis. Without an emergency fund, people often resort to high-interest debt or pulling from retirement savings, which can result in taxes, penalties, and lost long-term growth. Selling investments in a downturn can also lock in losses and trigger capital gains taxes. Even if you're fortunate enough to avoid a significant crisis, simply knowing you have cash available brings confidence and reduces financial stress.

HOW MUCH SHOULD YOU SAVE IN AN EMERGENCY FUND?

Many experts suggest saving three to six months of living expenses. However, the right number varies for each person. Start by calculating your fixed costs, expenses you must pay monthly, like rent or mortgage, utilities, insurance premiums, and loan payments. Then add your essential discretionary expenses, flexible costs you'd still need in an emergency, such as groceries, transportation, childcare, basic healthcare, or pet care.

Once you have a total monthly expense figure, multiply that by 3 or 6 months (or more) depending on how much cushion feels comfortable for you.

HOW LIFE STAGE CHANGES YOUR EMERGENCY FUND

There's no one-size-fits-all emergency fund. The right amount depends on your lifestyle, income stability, and how much security you want in uncertain times. Here are examples of how different people might approach their emergency savings:

- **Lisa & Mark (40s, Parents, Homeowners):** Two kids, a mortgage, and one spouse self-employed. They aim for six to nine months of expenses, around \$30,000–\$45,000, because their income can fluctuate and they have higher family costs.
- **Maria (58, Nearing Retirement):** No mortgage, prioritizes security against health costs or market downturns, saving twelve months, about \$50,000.
- **Sandra (65, Retiree):** Retired, mortgage-free, and on a fixed income from Social Security and investments. She keeps twelve months of expenses, about \$50,000, to cover medical costs, home repairs, or market downturns, ensuring she doesn't have to sell investments during a down market.

These targets may be different for each person and their lifestyle. It may sound like a lot, but don't let it overwhelm you. If you're just getting started, even saving a small amount each month can help in covering smaller, everyday emergencies. It's all about building a safety net that works for you.

HOW DO YOU START SAVING FOR AN EMERGENCY FUND, EVEN IF MONEY FEELS TIGHT

Saving for an emergency fund can feel overwhelming, especially when budgets are tight or debt looms large. The reassuring truth is, you don't have to save it all at once. Even small steps create significant progress over time.

Here are practical ways to get started:

- Set up automatic transfers from checking to savings, even \$25 weekly adds up.
- Use round-up apps that funnel spare change into a savings account.
- Direct tax refunds, bonuses, or monetary gifts straight into your emergency fund.
- Trim non-essential spending temporarily to free up extra cash.

If you're dealing with high-interest debt, it's wise to build at least a small starter fund first to avoid new debt during emergencies. Then, balance debt payoff with continuing to grow your savings.

Think progress, not perfection. Even small, steady contributions add up over time.

WHERE SHOULD YOU KEEP YOUR EMERGENCY FUND?

Your emergency fund should be safe (minimal risk of loss), liquid (easy to access quickly) and interest-earning (if possible).

The best places to hold your emergency fund are either in a high-yield savings account (HYSA) or in a money market account. Both of these account types often pay higher interest rates than a traditional savings account.

Avoid holding your emergency savings in the stock market (too volatile), Certificates of Deposit or CDs (penalties for early withdrawal) or physical cash (earns no interest and could be lost or stolen).

For larger emergency funds, remember that FDIC insurance covers up to \$250,000 per depositor, per bank. Spread funds across multiple banks if necessary for full protection.

While it's true that cash loses some value to inflation over time, remember that the main goal of an emergency fund is security and immediate access, not growth. A high-yield savings account can help offset some of inflation's impact while keeping your money accessible when you need it.

READY TO BUILD YOUR SAFETY NET?

Life's surprises don't have to become financial disasters. We know that building an emergency fund isn't just about setting aside money, it's about having a clear plan and confidence in your financial future. Connect with a Grimes advisor to create a personalized savings plan tailored to your budget, lifestyle, and long-term goals and discuss what issues to consider when establishing and maintaining your emergency fund (see our discussion guide and checklist [here](#)). Our advisors can help you:

- Analyze your budget in detail, so you understand your income, fixed costs, and discretionary spending.
- Create a personalized savings strategy tailored to your lifestyle, risk comfort, and financial goals.
- Recommend the right savings vehicles, such as high-yield savings or money market accounts, so your cash stays safe and earns interest.
- Balance competing priorities, like debt repayment or investing, without sacrificing your emergency savings.

- Track your progress, so you always know how close you are to true financial peace of mind.

Don't let uncertainty derail your plans. Start building your emergency fund today, and give yourself the security and confidence you deserve. Take the first step now. Together, we'll build your financial safety net and help you move forward with peace of mind.

This article is part of an ongoing series aimed to help build overall financial literacy. While not a comprehensive deep dive into every single topic, it is designed to provide a helpful overview to key topics within the world of investing and financial planning. Please reach out to connect with an advisor or expert on the subject to learn more and start planning for your financial future.

IMPORTANT DISCLOSURES:

Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Grimes & Company Wealth Management, LLC (d/b/a Grimes & Company), or any non-investment related content, made reference to directly or indirectly in this blog will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this blog serves as the receipt of, or as a substitute for, personalized investment advice from Grimes. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. No amount of prior experience or success should be construed that a certain level of results or satisfaction will be achieved if Grimes is engaged, or continues to be engaged, to provide investment advisory services. Grimes is neither a law firm nor a certified public accounting firm and no portion of the blog content should be construed as legal or accounting advice. A copy of the Grimes' current written disclosure Brochure discussing our advisory services and fees is available for review upon request or at <https://www.grimesco.com/form-crs-adv/>. Please Note: Grimes does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party, whether linked to Grimes' web site or blog or incorporated herein, and takes no responsibility for any such content. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly. Please Remember: If you are a Grimes client, please contact Grimes, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian./