

## 21 Strategies for Creating an Emergency Fund, and Why It's Critical

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Building up an emergency fund, if you haven't already, is one of the most important things you can do to help your finances.

But you knew that.



It's common financial advice, actually, but what's not so common is how to actually do it. Obviously those who haven't saved up an emergency fund have a difficult time saving money, even if they know they should.

So today we'll look at some strategies for building up an emergency fund, for those of us who don't have it so easy.

### Why It's So Critical

I don't like to use the word "critical" often, because it's often an exaggeration. But in this case, when we're talking about the health of your finances, an emergency fund is definitely critical.

If you are having financial problems, the most important steps you can take immediately are 1) reduce your spending by being more frugal; 2) stop getting into debt; and 3) build an emergency fund of \$1,000 (and later you can increase that to the standard 3-6 months of income).

Here are a few reasons an emergency fund is critical to your financial health:

1. **Stop getting into debt.** When an emergency comes up, if you don't have an emergency fund, the first thing that will be cut from your budget is your debt repayment. You'll use your credit card to pay for the emergency, and then you're deeper in the hole. An emergency fund stops the need to use credit to pay for emergency expenses.
2. **Smooth out your budget.** If unexpected things come up, you don't have to continually re-factor your budget to pay for these things. With an emergency fund, it makes budgeting much easier.
3. **Prevent late fees.** If you are living paycheck-to-paycheck, you will come up with times when you have to pay a bill late, or overdraw your bank account. With an emergency cushion, you avoid these financial hits.
4. **Get ahead.** If you can get a month ahead, your financial stress will drop way down. Instead of always playing catch-up, you can pay your bills ahead of time and sit back and relax.

### 21 Strategies for Creating an Emergency Fund

If you have trouble saving, it's not enough to tell you how important it is to have an emergency fund. You need some strategies for doing it.

Please note that you should choose the strategies that work best for you, and perhaps combine some of them if that works better.

1. **Start small.** If you don't have much to save, it doesn't matter — the important thing is just to start. Even if it's only \$25 per paycheck, just start. It will slowly grow each paycheck, and you will be glad to see at least a little in your savings, and will soon be motivated to try to save more.
2. **Automatic deduction.** This is common advice, but that's because it works. Set up an online savings account (such as [ING Direct](#) or [Emigrant Direct](#)) and have it automatically deduct an amount each payday. If you don't have to think about it, saving will be much easier.
3. **Payroll deduction.** If you have discipline problems, there are accounts where you can have the amount deducted directly from your paycheck, before it's deposited into your checking account (or before your employer cuts the paycheck).
4. **Treat it as a bill.** Every payday, you have a list of bills to pay before you can spend any of your money on variable expenses such as gas, groceries or eating out. Well, add your emergency fund contribution to your list of bills, and pay it at the same time. This makes it non-negotiable, and then what's left over is what you can spend on other stuff.
5. **Reduce an expense, save it.** Take a look at how you're spending money now, and find some things that can be cut back. Magazine purchases, gourmet coffee, comic books, cable TV, gizmos and gadgets. Whatever you decide to cut back on, take that same amount and put it directly into savings each paycheck. Don't spend it.
6. **Round up.** I got this tip from J.D. Roth of [Get Rich Slowly](#) ... actually, it's a strategy used by his wife, who will log every purchase or check she writes into her checkbook or finance software — but rounds up to the nearest dollar. So if she spends \$26.01, she enters it as \$27. Over the course of a month, this can add up to decent savings.
7. **Double purpose account.** This tip is from Trent of [The Simple Dollar](#), who wanted to pay down his debts but still have the financial security of an emergency fund at the same time. So Trent brilliantly used a double-purpose account: he would save money in an account, and after he reached a certain minimum, anything above that amount was being saved to pay off a specific debt. So let's say the minimum amount is \$500. After you pass \$500, the money being saved is for a \$200 debt (for example). Once you reach \$700 in your savings account, you can pay off the \$200 debt completely. Repeat the process for each debt.
8. **Tip yourself.** If you go to a restaurant and tip a waiter 15 or 20 percent, for example, match that tip for yourself. So if your tip is \$10, tip yourself \$10 as well ... and put that directly in savings.
9. **Keep paying debt, but to yourself.** If you finish making a car payment, or paying off a credit card or smaller debt, take the amount you were paying to that debt and put it directly in savings each month. You won't feel a difference in your budget.
10. **Budget big for groceries, then save the difference.** Let's say you normally spend between \$320 and \$375 on groceries. Budget \$400 for groceries, and whatever you don't spend of that \$400, put it in savings.
11. **Quit smoking or drinking.** Well, I wouldn't bet my emergency fund on quitting one of these two addictions, but if you do quit, you should take the amount you were spending (and that's a considerable amount, I know) and put it into savings. For me, I spent more than \$5 a day on smoking — and when I quit in November 2005, it freed up \$150 a month for savings.
12. **Limit your access.** If you are tempted to spend your savings, you should put it in an account that is hard to get to. Put your savings in a money market account or fund, and when it reaches a certain amount, roll it over into a CD or Treasury bond. You might not make as much on a CD, for example, but the point is that it's hard to access and requires less discipline.
13. **Stash a bonus or tax refund.** If you get a Christmas bonus, or a tax refund, or some other such windfall, put that directly in the bank and don't spend it. Use it for your emergency fund. Now start paying off your debt.
14. **Save your change.** Don't spend any coins you get. When you get home at the end of the day, empty out your pockets into a jar, and once a month, go to the bank and put it into savings. This can add up faster than you think.
15. **Save dollar bills.** Similar to the above strategy, get your cash in \$20 bills, or \$10s or \$5s. Don't carry \$1 bills. When you get \$1 bills as change, don't spend them. When you get home, put those \$1 bills in an envelope, and save them.
16. **Refinance.** Refinancing your mortgage or auto loan can save you a lot of money. Take the amount you save and put it in savings.
17. **Sell your car.** If you have two cars, see if you can live without one of them. That's what my wife and I do, and it works out fine, even with six kids. Take the amount you were paying on the second car and save it. Or,

alternatively, sell your car and buy a cheaper used model. Save the difference in the payments.

18. **Cut out dessert.** If you're trying to lose weight, don't order the dessert or junk food you would normally order. Instead, put the amount you would have spent in an envelope and save it.
  19. **Stay in.** Instead of going to the movies or eating out, cook your own meals and watch a DVD — or do something fun for free. Save the difference.
  20. **Freelance.** Take your skills and market them as a freelancer, or get a second job on the side. Take the extra income and bank it. This was one of my strategies, and it works great.
  21. **Save on auto insurance.** If you can switch to liability insurance, you might be able to save hundreds of dollars. Take the extra amount you would have paid for insurance and save it.
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