



How to rebuild your emergency savings



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BakeRate

It is trying times for millions of Americans trudging through one crisis after another in 2020. The impact has been staggering, and for many, their savings haven't escaped unscathed.

"Emergency savings have been put to the test for millions of Americans who are furloughed, unemployed, or experiencing reductions in income," says Nilay Gandhi, CFP, senior financial adviser with Vanguard Personal Advisor Services. "Financial shocks like these can make any investor uneasy and underscore the importance of establishing or fortifying an emergency fund to help weather these uncertain times."

If you withdrew money from your savings to handle a financial shock, don't worry - that's what it's there for and what is lost can be replaced.

This is how you do it.

Take these steps before you begin saving

Before you can start rebuilding your nest egg, you need to make room in your budget - and your life - for this added expense.

Negotiate your bills

"If you've spent all your emergency savings, your first priority should be to cut expenditures ASAP," says Dino Selita, president and co-founder of The Debt Relief Company. "You should reach out to service providers that charge you on a

monthly basis and negotiate better terms on your bills or see how they can help. Utility payments and auto insurance are the main things you should focus on initially, as these are highly negotiable and should be able to net you a good amount of savings, depending on your situation."

Set a goal

To start rebuilding your nest egg, set a goal first and figure out what saving schedule works for you.

"Whether you contribute to your savings fund monthly, weekly, or every payday depends on your cash flow needs," says Timothy Hansen, CEO of Wealth Growth Wisdom, LLC. "Just make sure you commit to contributing the funds you've set aside in your budget for emergency savings until you reach your goal."

Fine-tune your budget

One way to save money is to streamline your expenses.

"Analyze your monthly spending and find things you want to cut back on," says Davon Barrett, associate adviser at Francis Financial. "Too much delivery? Big cell phone, wifi, and cable bills? These expenses are all somewhat easy to reduce or find alternatives for once you're aware of them."

It's especially important to revisit your expenditures because your spending patterns may have been significantly altered amid the pandemic.

"Your priorities may be different than what they were a year ago, so it's important to reevaluate what your household truly needs," says Valerie Moses, a senior relationship manager for Addition Financial Credit Union based in Lake Mary, Florida. "For example, if you are working from home and no longer have a commute, your expenses toward gas or public transportation may be a lot lower and you might be able to shift those funds toward emergency savings or another area of need. Take time to look through your current expenses and move your budget around accordingly."

How to begin saving

Use the right account

When it comes time to start stashing money away, you want to be sure that you use the right account so you can save as much as possible. For your emergency fund, look for a high-yield savings account with little to no fees. Since it's a liquid account, you can quickly access your money when you need it. But read the fine print first.

"While it's great to earn interest on your emergency fund, your primary goal should be to keep the money safe and liquid," says Scott Schleicher, a financial planning specialist group manager and senior financial adviser at Personal Capital. "Some accounts will have withdrawal limits, restrictions or even hidden bank fees, so just make sure you're aware of that before moving your money."

Set up automatic transfers

If you're still earning an income, you may want to set up automatic transfers into your savings account.

"One of the easiest ways to save money, regardless of your budget, is to make your savings automatic," Moses says. "If your employer allows you to direct deposit your paycheck into multiple accounts, set aside a portion of that paycheck to be deposited into a savings account so that this money is out of sight, out of mind."

You can also set up an automatic transfer of funds from checking to savings each month.

"Having that money in savings is a great way to ensure that you won't be tempted to spend it unless you really need to," Moses says. "During an unprecedented time like a pandemic, emergency funds are arguably more important than ever."

Get a side hustle

Sean Fox, co-president of Freedom Debt Relief, recommends earning additional income to devote to the fund.

"For example, some people sell unneeded items online or hold a (COVID-safe) yard sale," Fox says. "Other people have part-time jobs, provide dog walking services, do yard work, tutor or help with IT services."

How much should you save?

Before you can decide how much to save, you need to identify your needs. Every family is different, and factors like your income, where you live and how many people are in your household can all impact your ability to save.

A common rule of thumb, however, is to save between three to six months' worth of living expenses in an emergency savings account.

"That sounds like a lot - and it is - but getting to that goal is a process," says Amy Maliga, a financial educator with Take Charge America, a Phoenix-based nonprofit credit counseling agency. "If you're starting from scratch, we recommend an initial savings goal of \$500, which is enough to cover many common, smaller emergencies. Once you hit the \$500 mark, keep going. Remember, the point of emergency savings is to stay out of debt by avoiding the need to use credit cards for unexpected expenses."

Allie Fleder, a chief operating officer at retirement savings fintech Simplywise, says you may want to save significantly more than the typical guidance. "Given that the COVID-19 pandemic is a financial monsoon, we now recommend setting aside as much as you can today to get you through at least a year," Fleder says.

But at the end of the day, it's all about saving what you can.

"The reality is that many Americans are struggling to pay the bills today, so it's hard to think about saving, let alone saving for the long term," Fleder says. "Yet it's now more important than ever, given today's uncertainty, to create a budget, minimize expenses, and prioritize building up your emergency savings and investing in your future."

Our knowledgeable bankers can help you with several emergency savings options. Talk To Us Today!

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