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LIFE | Three Steps to Create an Emergency Fund

Molly Brown: Life is unpredictable—even the best financial plans can be disrupted by unexpected events. That's why building an emergency fund is key to staying afloat when the unexpected happens.

Step one: Identify your fixed monthly expenses. These might include rent, a car payment, your mortgage, insurance, or utilities. Experts suggest that an emergency fund should consist of three to six months of monthly expenses.

If saving three to six months of expenses feels like too much, try starting with a goal of saving the first $1,000. Or, try putting away one month's mortgage or rent.

Step two: Choose where to keep your savings account. This should be an account that is there when you need it, but not too easily accessible. Avoid risk; the goal here is stability, not growth.

Step three: Automate, if you can. Direct a portion of your paychecks to an emergency fund account to start saving consistently. Even small amounts add up over time.

Bonus tip: Consider using any bonuses, raises, income tax refunds, or gifts, to help establish your emergency fund.

With an emergency fund in place, you gain more than just security; you gain flexibility when life doesn't go as planned.