What is an Emergency Fund?

Worksheet

An emergency fund is liquid savings of 3–6 months of living expenses reserved for unexpected crises. It prevents you from relying on credit cards or loans when emergencies strike.

Questions

1. Your monthly expenses are $2,500 and income is stable. Emergency fund target?
A) $5,000
B) $7,500
C) $10,000
D) $12,500

2. What is NOT an emergency?
A) Unexpected medical bill
B) Car breaks down and needs repair
C) Planned vacation
D) Job loss and temporary income gap

3. Best place to keep emergency fund?
A) Your checking account
B) Stocks and mutual funds
C) High-yield savings account
D) Your mattress under a pillow

4. You're a consultant with unpredictable income. Safe emergency fund level?
A) 2 months expenses
B) 3 months expenses
C) 6 months expenses
D) 1 month expenses

5. Your monthly expenses are $3,000. Your job is stable. How much should your emergency fund be?

6. You're a freelancer with variable income averaging $4,500/month. What's a safe emergency fund?

7. You have a 12,000 emergency fund. You use2,000 for a car repair. How long to rebuild?

8. Define: What is the recommended size of an emergency fund?

9. Define: Where should you keep an emergency fund?

10. Define: What counts as an emergency?

Answer Key

1. C) $10,000 — 2,500 × 4 months =10,000 (or 3–6 months range). 4 is a reasonable middle point for stability.

2. C) Planned vacation — Planned vacations are predictable expenses, not emergencies. Save separately.

3. C) High-yield savings account — High-yield savings: liquid, safe, earns interest, accessible instantly.

4. C) 6 months expenses — Variable income requires longer buffer. 6 months covers lean periods.

5. Stable employment = 3 months minimum Target fund = 3,000 × 3 =9,000 If you prefer more security, aim for 3,000 × 6 =18,000

6. Variable income = aim for 6 months Target fund = 4,500 × 6 =27,000 This buffer protects against slow months or project gaps.

7. Remaining fund: 12,000 −2,000 = 10,000 Target:12,000 If you save 500/month:2,000 ÷ $500 = 4 months to rebuild

8. 3–6 months of living expenses. Use 3 for stable jobs, 6 for freelancers or variable income.

9. A high-yield savings account — liquid, accessible, and separate from checking to avoid temptation.

10. Job loss, medical expenses, major car/home repairs, urgent travel. Not vacations, holiday gifts, or wants.