

Building an Emergency Fund

Your financial safety net for unexpected expenses

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From a broken down car to an urgent home repair, financial surprises can happen. That's where an emergency fund comes in – providing you with a cushion and giving you peace of mind. This guide will walk you through what an emergency fund is, how much you should have in it, and how to set one up.

What is an Emergency Fund?

Simply put, an emergency fund is a pot of money you set aside specifically to cover unexpected and urgent costs. Think of it like a financial safety net, ready to be used whenever life throws you a curveball.

Emergency funds are designed to help you handle unforeseen expenses without having to rely on credit cards, loans, or dipping into your long-term savings. Common emergencies might include: unexpected medical bills, car repairs, home repairs (like a broken boiler), job loss or reduced income, or urgent travel expenses.

How Much Should You Save?

While there's no one-size-fits-all answer, a widely recommended guideline is to aim for three to six months' worth of essential living expenses.

To work this out, start by calculating your essential monthly outgoings. Include costs like: rent or mortgage payments, utility bills (gas, electricity, water), groceries, transport costs, minimum debt repayments, and insurance premiums.

Once you have a total, multiply that by three and then by six. This will give you a range for your target emergency fund.

For example, if your monthly expenses are around £1,500, your target emergency fund would be between £4,500 and £9,000.

Factors to Consider

If you're not sure whether to shoot for the lower or higher end of this scale, think about:

Job security: If your employment is stable, three months might feel like enough. But if your income is unpredictable or unsteady, you might feel more comfortable having a bigger buffer.

Your family: If you have kids or other family members who rely on your income, a bigger emergency fund can offer greater security.

Your expenses: If you have higher monthly costs or dependents, you might want to aim for the six-month mark.

How to Build Your Emergency Fund

Set a goal: Determine your target amount based on your monthly expenses and how much money you want to have behind you. Having a specific number in mind will help you stay motivated.

Balance your budget: Understanding where your money is actually going is the first step towards seeing how you can free up cash for your emergency fund.

Find ways to cut back: After you've looked at your expenses, think about whether you've spotted any places you can make small cutbacks. For example, could you reduce your takeaways or subscriptions? Every little bit you save can go towards your emergency fund.

Automate your savings: Treat your emergency fund contributions like any other essential bill – set up a regular transfer from your current account and send it to a dedicated pot. Even a small amount each week or month will add up over time and helps you build a habit. By automating your deposits, you don't even have to think about it!

Stay consistent: Don't get discouraged if progress feels slow. The important thing is to be consistent.

Where to Keep Your Emergency Fund

Once you start building your emergency fund, you'll need to decide where to keep it. The ideal place should offer easy access to your money as soon as you need it, while still keeping it separate from your everyday spending.

Consider using: a dedicated savings account with instant access, Monzo Savings Pots that earn interest, or a separate bank account that's not linked to your debit card.

The key is to keep it accessible enough that you can get to it in an emergency, but separate enough that you're not tempted to dip into it for non-urgent expenses.

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