

Emergency Fund

Alice just got a part-time job at Sweetie's Sweets Candy Emporium as a clerk. Between munching on Kwizzlers and ringing up chocolate, she makes \$1,500/ month (after taxes). Her dad says she should start saving for emergencies. Alice needs your help to figure out how much she should save.

Login to Banzai, click **Middle School Personal Finance**, scroll down to the library section, and read the **50/30/20 Budgeting** article. Use it and the **Budget Calculator** to answer the questions below.

1. Typically, an emergency fund is your monthly after-tax income multiplied by 6. How much should Alice have in her emergency fund?

\$ 9,000

Scroll down to the **Savings Calculator**. Alice's dad gave her \$500 to start her savings—nice! Enter \$500 as the **Starting Amount**. Adjust the **Monthly Savings** to how much Alice should save each month according to 50/30/20 rule. **Hint:** This is the answer to question 1.

2. Alice opened a savings account at her local financial institution with a 2.5% interest rate. Set the **Interest Rate** slider to 2.5%. Set the slider for **Years to Save** to 5 years. How much interest will Alice earn over 5 years according to the calculator?

\$ 1,258.56

3. What's the total amount saved in Alice's account after 5 years?

\$ 19,758

4. When you hover over each bar, you'll see the total in the account at the end of that year. Between what two years will Alice hit her emergency fund goal?

\$ Between 2 and 3 years

5. If Alice continues to save the same amount for 40 years, how much will she save in total?

\$ 248,897

6. Why do you think it's important to start saving for retirement when you're still young?

\$ It takes a long time to build savings. If you start when you're young, it's more likely that you'll have enough in your savings to cover all your expenses when you decide to retire