

OCTOBER 02, 2020

5 tips for starting an emergency fund

It's an uncertain world and you never know when you'll have unexpected expenses thrown your way. That's why it helps to have an emergency fund on hand.



Even if you're good at saving and you're careful with your money, you're not immune to the unexpected... like a global pandemic. That's where an emergency fund comes in handy.

Here are five guidelines for building an emergency fund for some well-deserved peace of mind.

1. Create a budget

When your income goes up, your first impulse may be to start spending on yourself. But it's actually the perfect time to review both your budget and your savings goals.

- Not sure where to start? Try our [budget calculator](#).

You don't need to go to extremes. But you may need to take stock of your situation, fix any money leaks and know when you can afford a little treat. Set realistic and achievable short-term targets so you can aim higher later on.

2. Keep an eye on your credit report

Really give it some thought before you agree to a credit limit increase from your financial institution. Ideally, your limit should be no higher than your net monthly salary.

When paying your credit card balances, the high-interest ones should get priority. If you're paying off several balances, don't forget that a consolidation loan can help you **manage your debts**.

- **4 smart ways to protect yourself from credit card debt**

3. Get serious about saving up money

The time to start building your emergency fund is when your financial situation is healthy.

How much do you want to save up in your emergency fund? It helps if you can tuck away three months of your net income (the amount your employer deposits to your bank account after deducting money for taxes and other items). If you lose your job, that can help give you enough room to manoeuvre to get back on your feet.

An easy way to help build your fund is to set up an automatic deposit. If you set aside 10% of your net income, you can reach your goal in two and a half years.

- **How to reduce debt and improve your finances**

4. Make sound investments

A chequing account may not be an ideal place to keep your emergency fund. A **tax-free savings account (TFSA)** is a better account for building your safety net because all your investment earnings and income remain tax free.

Here's how it works: With a TFSA, you can grow your money with various kinds of investments, including bonds, stocks and mutual funds. TFSA contributions aren't tax deductible. But since you've already paid income tax on the money you put in your TFSA, you won't have to pay tax when you take it out. And, any investment income you earn won't be taxed – not even when you take the money out of your TFSA.

You can withdraw funds from your TFSA for any reason, whenever you need it. But the restrictions on the investments you hold in a TFSA mean it may take a few days to withdraw your money. This can actually help protect you from making impulse purchases.

- **6 really useful things you can do with your TFSA**
- **How to avoid these 4 common TFSA mistakes**

5. Talk to an advisor for professional help

By looking at your personal and financial situation, an advisor can help you create a plan that:

- helps you save money,
- make the most of any savings opportunities and
- balances your short and long-term goals.
 - Most advisors now offer to talk to Clients by phone or video chat. **Find an advisor today.**

For example, after talking to an advisor, you may find that investing in your **registered retirement savings plan (RRSP)** gives you a tax refund. You can then deposit the money from that refund into your TFSA.

Instead of dipping into your savings, you could also consider **borrowing from your RRSP for a down payment on your first home or to go back to school.** An advisor can help you examine each situation and each goal in order to make an effective plan.

- **RRSP or TFSA? How to choose between the two**

Keep in mind that there's no magic formula. But there are two essential ingredients: discipline and organization. Once you have that emergency fund in your back pocket, you'll be ready for anything.

- **How to build your emergency fund**

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Sources:

<https://www.sunlife.ca/en/tools-and-resources/money-and-finances/managing-your-money/5-tips-for-starting-an-emergency-fund/>