

A contingency plan for peace of mind

It's appealing to think you can avoid "tempting fate" by not considering worst-case scenarios. However, as the global pandemic continues to affect the financial health of both businesses and individuals, you can improve your peace of mind by having a contingency plan for unexpected financial hardship.

What types of scenarios should I plan for?

Many factors could precipitate a personal financial crisis, including job loss, reduced work hours, a medical event, quarantine lockdown, or a large repair bill. Any of these situations could potentially have severe consequences without a financial safety net, so your contingency plan should include two primary strategies:

- an emergency fund to handle an immediate need for a cash lump sum, and
- a pared-down budget ready to go if necessary to reduce cash flow

Create an emergency fund

An emergency fund is a cash reserve account set aside specifically to cover your expenses while you get through an emergency, to help you avoid taking on debt or dipping into your retirement savings.

- **How much do I set aside?** The general rule of thumb is to set aside 3-6 months of living expenses, including items such as housing, utilities, groceries, childcare, and transportation.
- **How can I build this fund?** Start by saving gradually if necessary -- even a small amount set aside every month will really add up over time. Consider setting up an automatic saving plan that deducts money from your bank account each pay period.
- **What type of account should I use?** You need an account you can access quickly that is separate from your daily chequing account. Don't invest the money in market-based funds with volatility risk, since values could drop just when you need it. Products like a high-interest savings account, money market fund, and cashable Guaranteed Interest Accounts (GIAs) work well. You could also consider using a Tax-Free Savings Account (TFSA) for your emergency fund.
- **Top it back up:** If you have to use money from your emergency fund, prioritize building it back up again as soon as possible.

Budget for reduced cash flow

If your emergency affects your regular income (such as job loss), immediately pare your spending back to necessities only and eliminate budget categories like entertainment, unnecessary online shopping, subscriptions and restaurants.

If you are still working and earning, try to maintain some level of saving. If you need to reduce your budget temporarily, be sure to resume your saving activity as soon as you're able.

To set up an emergency fund TFSA or to obtain a budget worksheet, contact Reuter Benefits' team of licensed professionals by phone at 1-800-666-0142 or email retire@reuterbenefits.com.

