Save For the Expected – and Unexpected

November is Financial Literacy Month. And while many people think of financial literacy in the context of understanding financial concepts, it also means putting your learning into action, such as being prepared for emergencies and meeting goals like building long-term wealth.

Everyone recognizes that saving for retirement is important, given that most people have considerably less income when retired and will rely on savings to fund their basic needs and desired lifestyle. However, as you put away money on a regular basis for longer-term goals like retirement, also get into the habit of saving some money each month for potential emergencies.

After all, they're called "emergencies" for a reason: unexpected circumstances may arise, leaving you with little or no time to react. Emergencies can be anything from major home or vehicle repairs to a loss of employment or severe illness. They come "out of the blue" and if you don't have money readily available, you could face a significant challenge.

Saving for emergencies

How do you prepare for a potentially expensive emergency? A crucial step is to build an emergency fund into your overall budget. Just as you designate a portion of your income to cover regular expenses like food and utilities, put aside some cash for emergencies. How much you'll need to save will vary depending on your personal situation, but generally it's recommended to target about three to six months of income for emergencies.

Once you've built up your emergency fund, keep it in a bank account or something similar, where you can access your money quickly. You'll experience peace of mind knowing that you're financially ready for the unexpected. Just be sure to resist the temptation to dip into your emergency fund for other purposes, as this would negate the benefit of having such a fund.

Saving for goals

As mentioned, it's practical to save for your goals while also saving for a potential emergency. The first step is to identify your major goals. Everyone's circumstances are different, but short-term goals may include buying a car, renovating your house or taking a vacation. Long-term goals may include purchasing a home, funding a child's post-secondary education or saving for retirement. Whatever your goals may be, jot them down and allocate an approximate dollar value to each goal – your advisor can help you estimate these expenses.

Now that you've identified your goals and know roughly what it'll cost to achieve them, you need to save for them. Start by creating a budget that lists your regular expenses and sources of income. Your budget will provide a snapshot of your finances and track your path toward saving for goals and emergencies. Include a regular amount to be saved or invested for the future. As you assess your budget, consider recurring expenses you could reduce or even eliminate, and think about ways you might be able to set aside or earn more money.

If you haven't done so already, you may wish to open a savings account so it's easy to see how much you're putting away, while also earning interest on your savings. In addition, a Tax-Free Savings Account allows you to build wealth in a tax-efficient manner so you can keep more money working for you. Your advisor can also help you build wealth by creating and maintaining a customized investment plan for you.

For convenience and to ensure disciplined saving, consider automatic savings/investment plans that designate a predetermined amount on a regular basis (e.g., monthly) to be put toward growing your long-term wealth. You don't need a large lump sum to invest – whatever money you can spare and put to work for the future will get you closer to reaching your goals.

A knowledgeable, trusted advisor can help you save for future needs – expected or otherwise. Contact us today to discuss your own savings program.