Saving for a Financial Emergency

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It is next to impossible to know when you might be impacted by a financial emergency; therefore, it is important to be prepared for something unforeseen in the future. Most people have heard the saying about saving money for a "rainy day". With the right forward planning, there is a great chance of being able to avoid a financial crisis should this present itself at a later date.

How much emergency funds are enough?

A typical suggested amount to set aside as an emergency fund is equal to at least six months income – but being able to save more is always welcome as you never know if you will run into trouble, run up medical bills, or lose your job with short notice. Many people experience these types of unexpected life turns, so it makes sense to put aside enough money to give time to get back on your feet.

What is the best way to save the rainy day funds?

Let us look at several of the most practical choices available to Canadians today:

High Interest Savings Account

Some financial companies occasionally offer high interest savings accounts with interest rates close to 2.00%. A great benefit of this type of account is the ease in which a regular monthly deposit can be made to the account. But, similar to a standard bank or savings account, it is very easy to withdraw money even in times of non-emergencies. Consequently, this ease can lead to situations where savers with low willpower have a higher tendency to spend the money on superfluous things, and not on a future emergency.

Non-Registered Investment funds

Investment funds are preferable to a high interest savings account because of the potential for better returns. Plus, this type of account also makes it easy to pay in the regular monthly deposit. Most investment funds can take a few days to access, which means there is less likelihood of using the money for anything other than an emergency. At the very least it discourages impulse purchases.

Tax Free Savings Account

A TFSA account is a great place to consider building up money for a "rainy day". One of the key advantages of a TFSA account is the ability to select from a wide variety of investment types such basic savings accounts, GICs, or investment funds. These different types of investment options can generate income for the account holder in the forms of either basic interest, dividends and even capital gains depending on the types of investments selection.

Just like a RRSP account, in a TFSA the account holder can diversify the assets into different types of investments depending on their time horizon and risk preferences. Another excellent feature of TFSA accounts is that any earnings are always 100% tax free and can be withdrawn at any time without any penalty or income tax headaches.

To get help saving for a financial emergency, contact us today [1].

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tfsa [3]
saving strategies [4]

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