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5 STEPS TO SET UP YOUR EMERGENCY SAVINGS FUND

By Tanita Conradie | Certified Financial Planner®, Brenthurst Pretoria

Of the many lessons that the COVID-19 pandemic taught us, the value of having an emergency fund was possibly the most important. Although many of us know that we should have an emergency stash for any possible unplanned crisis, how many were actually prepared when the world came to a standstill early in 2020?

Even if you were lucky enough to escape the economic effects of COVID-19, I get the sense that this was a big wake-up call for many households. Especially for those who had nothing to fall back on and are probably still trying to recover from this financial setback.

There are many ways of counting this cost; from lost income to savings or investments that were surrendered so as to cover living costs. In either event, those setbacks could have been avoided or cushioned if there had been emergency funds from which you could have drawn.

The great thing is that it's never too late to start putting money away for a rainy day. Even a modest nest egg can help soften the blow from an unplanned expense. **The trick is to just get started.**

5-STEP PLAN TO GET YOU MOVING IN THE RIGHT DIRECTION



STEP 1: SET UP A BUDGET AND TRACK YOUR SPENDING

The cornerstone of any successful savings plan is a sensible budget. Start by tracking all your monthly expenses, including groceries, school fees, utility bills and vehicle expenses. There are many budgeting apps and tools you can use to simplify this task. I suggest doing research and testing to find one which suits your needs, or create a spreadsheet that helps you track your finances.

Once you have a clear understanding of your monthly expenses, you'll be better equipped to determine how much you can realistically set aside for emergencies.

STEP 2: CREATE A SAVINGS PLAN

ONCE YOU HAVE A HANDLE ON YOUR EXPENSES, THE NEXT STEP IS TO CREATE A SAVINGS PLAN. Instead of setting a large goal, like saving three months' worth of expenses right away, aim for smaller, more achievable milestones. You could start by saving enough to cover one week's or one month's expenses. Achieving these smaller goals will provide you with the motivation to continue saving and to set higher targets.

STEP 3: CHOOSE THE RIGHT SAVINGS ACCOUNT

THE TYPE OF ACCOUNT YOU CHOOSE FOR YOUR EMERGENCY FUND IS CRUCIAL. I suggest a savings or money market account that is not directly linked to your bank cards. This will make the money accessible, but not immediately, which reduces the temptation of unplanned spending. To make the process even more effortless, set up a monthly debit order to transfer a set amount into this account automatically. The principle of 'out of sight, out of mind' works wonders here.

STEP 4: START WITH SMALL, REGULAR CONTRIBUTIONS

IF THE THOUGHT OF SAVING A LARGE SUM IS DAUNTING, BEGIN WITH SMALL, REGULAR CONTRIBUTIONS. Even setting aside a modest amount like R500 or R1,000 per month can add up over time. The key is consistency. Make it a habit to save at regular intervals, whether it's monthly or weekly. As you become more comfortable with this routine, you can gradually increase the amount you save.

STEP 5: STICK TO YOUR PLAN

WHILE IT MAY BE TEMPTING TO DIP INTO YOUR EMERGENCY SAVINGS FOR NON-URGENT MATTERS, DISCIPLINE IS KEY. Always remind yourself what the fund is intended for: unforeseen events like unemployment, medical costs and home or vehicle repairs. Having a clear understanding of its purpose will help you resist the temptation to use the funds for other reasons.

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STRATEGIES TO HELP STICK TO YOUR PLAN:

1. **AUTOMATE SAVINGS:** One of the most effective ways to stick to your savings plan is to automate it. Set up a standing order or direct debit to transfer a fixed amount from your current account to your emergency savings account each month.
2. **USE A DEDICATED ACCOUNT:** Open a separate savings account solely for your emergency fund. This will make it easier to track your progress and less tempting to dip into the fund for non-emergencies.
3. **SET MILESTONES AND CELEBRATE:** Break down your overall savings goal into smaller, more manageable milestones. Celebrate when you reach each one to keep yourself motivated.
4. **REGULARLY REVIEW AND ADJUST:** Life circumstances change, and so too should your savings plan. Regularly review your budget and savings goals to make sure they align with your current financial situation.
5. **ACCOUNTABILITY PARTNER:** Having someone to hold you accountable can be a powerful motivator. Share your savings goals with a trusted friend or family member and provide each other with regular updates.

SMART TIPS

- **BALANCING DEBT AND SAVINGS:** If you're grappling with high-interest debt like credit cards or short-term loans, it's crucial to find a balance between paying off that debt and building your emergency fund. Focus on clearing high-interest debt first, as the interest on these can often neutralise the benefits of saving.
- **HOW MUCH TO SAVE:** While financial experts often recommend having enough to cover 3 to 6 months of expenses, this can vary based on your personal circumstances, such as the number of dependents you have or other financial safety nets you have in place. So, choose a number that is right for your situation.
- **AVOID OVER-SAVING:** Believe it or not, there is such a thing as saving too much in your emergency fund. Once you've reached your goal, consider redirecting additional funds into other investment vehicles, such as retirement accounts or stocks, to maximise your financial growth.

Building up a tidy sum in your emergency fund becomes a lot easier when you have a plan in place and you can see the progress you're making. The main thing is to stick to your plan, because the rewards will be well worth it.

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TANITA joined Brenthurst Wealth in 2020 and currently holds the position of financial advisor at the Pretoria office.

She has been in the financial services industry since 2012, working as a liaison between wealth managers and clients, assisting in all financial planning-related duties. Tanita obtained her B.Com degree and a B.Com (Hons) in Financial Management at the University of Pretoria. She also completed her Postgraduate Diploma in Financial Planning from the University of the Free State in 2018.

Through practical experience and appropriate qualifications, she can advise clients on all investment related matters, focusing on pre- and post-retirement planning, as well as offshore investments. Tanita is a CERTIFIED FINANCIAL PLANNER® professional and a member of the Financial Planning Institute of SA.

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