FROM YOUR ADVISOR

DEALING WITH LIFE'S EMERGENCIES

You should have the equivalent of about three to six months of your net income set aside so that you can cope with unforeseen events

Credit counsellor Pamela George has seen clients forced to resort to a payday loan — for want of $500 — to treat a sick pet.

Without even a small emergency fund, George says, an unexpected expense can spur a dangerous downward spiral in your finances. "Having $500 put aside is better than having none," she says.

That's why George, who works with the Credit Counselling Society in Ottawa, says that emergency funds are vital to deal with life's speed bumps, such as the loss of a job, urgent home repairs or other unanticipated expenses.

How much you need depends on your personal situation, but George recommends the equivalent of three to six months of your net income.

"If you have between three and six months income put aside, then you can look for a job without the stress of 'Oh my gosh, how am I going to pay my bills?'" George says.

For someone earning $50,000 a year, that means putting aside between $10,000 and $20,000 — an amount that George says may be daunting if you're starting from zero.

"Start small," she says, recommending an initial target of $1,000. "Put aside $50 per paycheque; eventually, that adds up to $1,000. When you've met the $1,000 [target], say: 'Now, I'm going to aim for $2,000.'"

Selling items online that you don't need or getting a second job also may be options to jump-start an emergency fund.

Tony Tintinalli, Bank of Montreal's (BMO) regional vice president for personal banking in Toronto, says the money in your emergency fund must be easily accessible.

He suggests cashable guaranteed investment certificates (GICs) or a high-interest savings account would be a good option because both offer safety and accessibility.

Tintinalli cautions people who might want to seek higher returns than those offered by GICs and savings accounts by investing in riskier securities: "If it's your emergency fund, how risky do you want to be?"

You may be willing to take on greater risk with your long-term investments because the longer time horizon will give you greater opportunities to recover from market downturns. But you should not expose your emergency fund to market risk, he adds. The full value of your emergency fund should be always available in case you need to draw on it.

George also stresses that an emergency fund should not be your only savings, but should be in addition to your retirement savings and other medium and long-term savings for other purposes.

"When life happens — and life will happen — we will have emergencies coming up, [the emergency fund] helps us to handle those emergencies by depending on our own money rather than going into debt," George says.

But many Canadians face stiff challenges in putting money aside for emergencies. A recent survey conducted for BMO found that 24% of Canadians have little, if anything, put aside in emergency funds. And roughly 56% have less than $10,000 saved for unexpected expenses. In addition, the ratio of household debt to disposable income is at a record level.

Medical expenses, job loss, major car repairs and unexpected home repairs were cited as the top emergency concerns by those surveyed.

Increased debt, higher stress when an emergency occurs, feelings of anxiety and lack of financial stability, even when not immediately faced with an emergency, were cited by survey participants as some of the consequences of not having an emergency fund.

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By Craig Wong (CP)

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