

# Five things for millennials to know about emergency funds

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## Globe GenYmoney Q&A

**Question from Calvin Chan:** I'm in my early 30s and I was wondering how much cash I should have on hand? I currently have a mortgage, carry no balance on credit cards, do not have a car loan, and regularly contribute to a RRSP. There seem to be conflicting thoughts on the concept of an emergency fund, with the usual advice being to have enough cash to cover three to six months' worth of expenses. Is this still a valid thought or should that money be used to invest in something like a TFSA, keeping a smaller amount of cash on hand?



Ms. Stafford works with single people, couples and families to turn financial concepts into concrete financial plans.

*Alison Stafford is Vancouver-based certified financial planner and a fee-for-service [money coach](#).*

**Answer:** This morning I was driving down a residential street near my home and came across a car accident. One of the cars was on the sidewalk, squished up against a street lamp with the occupant stuck inside. The other car was sitting in the intersection, its front end crushed and gas leaking down the street. I'm sure it's not how the people involved expected to spend their day. Thankfully, there didn't seem to be any major injuries.

It's not an exciting prospect to consider, but building up an emergency fund is part of creating a stable financial foundation. It's true that this money won't earn large returns in a savings account, but it has a different purpose from your investments. It's meant to buy you a little time and provide some peace of mind

when life throws a major curve ball such as income loss or reduction, injury, illness, or perhaps family members needing help. Since you are starting to acquire assets and build long-term savings diligently, you want to protect them by having funds and/or insurance you can use if you have a setback. The amount you set aside depends on your own situation, but the three to six months' worth of essential expenses rule of thumb is still a valid guideline for figuring out what your needs are. The money can be held in your TFSA if you have contribution room, or a high-interest savings account if you are maximizing your TFSA with longer-term investments.

Here are a few things to consider:

- If you own a home, vehicle, pet, or computer, you know there will be expenses for maintenance and repairs (or veterinarians), so build these things into your budget, saving for them separately from the emergency fund – otherwise, you will find yourself raiding your emergency fund continually.
- Get to know your insurance coverage – disability, critical illness, car, home, life. If you have coverage through work, contact human resources for information. You can also talk with an insurance broker for an assessment of your needs. Especially at a young age, disability insurance is important since you still have many earning years ahead of you. Find out what you could expect if you had to make a claim – for example, what would be covered, how much the benefits are, how long you would need to wait before receiving them, how long the benefits would last.
- Make an inventory of your resources – other savings, elimination of non-essential expenses, assistance from family, line of credit. Many people have a low-interest line of credit as a back-up plan. It's a better option than having to raid your RRSP or use high-interest credit cards, but it prolongs recovery if you have to pay off debt for months afterward and it adds to an already stressful situation.
- Take an objective look at job stability in your field and how long it might take to replace your income if you had to find new employment.
- It will take some time to save up, so break the goal into manageable chunks. Aim to save one month's worth of expenses, then go for the next milestone once that's accomplished.

*This interview has been edited and condensed*