BE PREPARED FOR THE UNEXPECTED

Owning a home is a long-term commitment that can span a lifetime. While we all hope for the best, it is likely that at some stage during our lives, a home emergency of some kind will strike, so it is best to be prepared. While impossible to determine when it will happen, home repairs are a certainty homeowners will need to consider and prepare for. Putting aside money each month in a contingency fund will provide you with a financial cushion and assist in avoiding going into debt when a crisis strikes.

On average the typical buyer of a single-family home will remain in the property for around 13 years – often longer. It’s fair to say that a lot can happen over a decade or longer. Having a plan of action in place will help you to tackle whatever life throws at you and keep going. The goal is to have the means to address the changes or emergencies that occur, without it jeopardising the homeownership or placing you under severe financial pressure.

There are emergencies that happen to the house itself, such as roof repairs or rising damp, both of which can be a massive financial expense, and there are the financial emergencies that affect you as the homeowner, such as job loss. The question you need to ask yourself is if something like this happens, would I still be in a position to afford the home? For most, the answer would probably be no, which is why a contingency fund is imperative as a homeowner. While the idea of putting money aside can be a daunting task, especially with the constantly rising cost of living, the consequences of not having a financial cushion to fall back on will be far greater.

Essentially there are three basic steps that you need to take to start creating an emergency fund, which will provide a safety net and assist with any obstacles that come your way:

One – Determine the required amount

As a bare minimum you should aim to save approximately one month’s salary, however, in an ideal situation, six months’ income in saving is preferable. A six-month financial cushion should see you through most crises that arise. That said, saving up half a year’s worth of income will be no mean feat, it will take a fair amount of time and planning to achieve. Setting smaller goals along the way will ensure that you maintain focus and stay motivated.

Two – Choose a saving vehicle

When wanting to build up a significant amount of savings, selecting the right savings account is crucial for success. Interest rate yields will vary from one account to the next, so it might require some research to find the right product that will yield the greatest return while meeting the criteria. Often the savings accounts with the highest interest rates will require the account holder to lock their money away for a certain fixed period - this could be problematic if you require the money in an emergency. The interest rate, as well as accessibility, will be key factors to consider.

Three – Automate the savings

Setting up a monthly automatic transfer will make the process far easier and will help you remain disciplined with savings. If a predetermined amount of money is transferred into a savings account automatically each month, it takes the decision-making process out of the equation and ensures that a contribution is made towards the contingency fund regularly with very little effort on your part.

Setting money aside each month is the best way to prepare for and deal with an emergency situation without being forced into debt. A contingency fund will help you be ready for the unexpected while building a solid foundation for their financial security and independence.