Manulife

Saving for life's short-term needs

Would you like to take a vacation or maybe buy a new car? Just as retirement savings should be earmarked for your retirement years, it's a good idea to set-up a separate savings account specifically for short-term needs like a car, vacation, down payment on a home, home renovations, or an emergency fund in case of job loss or unexpected expenses.

Start by asking yourself how much you'll need and when you'll need it. This will help you determine how much to set aside every month to reach your goal.

Let's look at an example. If you'd like to take a family vacation a year from now and you estimate the cost to be $7,500, in order to accumulate that amount, you'll need to set aside $625 per month.

Now that you know how much you need to set aside, the next question is – where is the best place to invest your savings? Sure, it's safe under a mattress but your money isn't working for you. A number of savings vehicles may help your money grow, however they are not all created equal so it's important to understand the differences and select the option that best suits your needs.

TAX-FREE SAVINGS ACCOUNT (TFSA)

A Tax-Free Savings Account is a great way for Canadian residents, aged 18 years and older, to save for short-term goals. The money can grow in the account tax-free and can be easily accessed, for any purpose. Contributions are made from after tax-income and a contribution limit is set each year. Consult Canada Revenue Agency for the annual contribution limit. If you contribute less than the limit, any unused portion will be carried forward to future years and the contribution room is never lost. The full amount of any withdrawal will be added back to your available contribution room for the following year – so you can continue saving for your next goal. Keep in mind, however, that withdrawal fees may apply. The money in your TFSA can be invested in a variety of investment options, offering different ranges of return. However, be careful not to take on too much risk as your goal is short-term savings!

NON-REGISTERED SAVINGS PLAN (NRSP)

A Non-Registered Savings Plan is also a good option to help individuals save for short-term goals. Like a TFSA, contributions are made from after-tax income but the difference is the investment earnings are taxable yearly as well as when you withdraw them. There are no age or contribution limits, so you can save as much as you want, when you want. Withdrawal fees may also apply. Your non-registered assets can also be invested in a variety of investment options, offering different ranges of return. Again, be careful not to take on too much risk since your goal is short-term savings.

BANK ACCOUNTS

Another way to safely invest your money and have easy access to it is through a bank account. There are a number of accounts to choose from (savings accounts, chequing accounts, high-interest rate accounts…) so select the account that best meets your needs. The interest earned on these accounts, however, is usually lower than other options. And, depending on the type of account, transaction fees may also apply.

KEEP IN MIND THAT YOUR GOAL IS FOR SHORT-TERM NEEDS OR FOR AN EMERGENCY FUND. THAT MEANS,

- You need to be able to withdraw the money whenever you want
- You want to avoid withdrawal fees as much as possible
- You want a return on your investment without taking on too much risk since you don’t have time on your side to recover from market loses. Guaranteed or fixed income funds are better suited for this purpose since the risk of losing your money is less likely.

So, if you see a shiny new car or an exotic vacation in your near future, take some time to think about how much you will need, when you will need it and where to save it.

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