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## **Season 1.** Taking more control of your money

### **Episode 5.**

## **Building your cash reserve**

Hi there. Jason here. And in this Money Insight we're going to talk about continuing to build your emergency fund. About how much you might want to build it up to, before looking at other investments, and the types of accounts you could use to build your funds.

Now if you've followed the guidance in our earlier Money Insights, you'll already have a starter emergency fund in place and be well on your way to paying down any expensive debts you may have. And when you've paid down those debts (or if you didn't have any to begin with) that's the time to focus on continuing to beef up your emergency fund. The good news for you, if you've had to pay down expensive debts, is that you'll now have some surplus income you can use to continue building your emergency fund.

The big question is how much of any surplus income you have should you save towards building your emergency fund? And the answer, as always in financial planning, is that it depends entirely on your personal situation. That said, if you've cut your spending to the bone and gone without luxuries for some time, in order to pay down some debts, then now might be a good time to reward yourself for what you've achieved. So, you could mark this milestone with a one-off celebration and put the odd luxury back into your budget.

Of course, you'll want to keep your spending under control and stick to any valuable spending habits you've developed that helped you pay down your debts. But, you may want to mark this end of austerity moment by giving yourself a bit more freedom on what you're allowed to buy. So, reset your spending budget now, taking account of any new surplus income you have and then redirect what's left of your regular income straight into your emergency fund.

How big an emergency fund do you need? Well, I said, in an earlier Insight, that the amount you'll want to aim for over time will be completely unique to you. And that's because it depends on things that are also unique to you, such as the stability of your job, and the uncertain demands on your money from yourself - or from any loved ones you might have to support today.

So, the best guidance on how much of a 'cash reserve' to build is whatever you need to give yourself some peace of mind. That said, if you like to have a target then you could aim to have enough money in your emergency fund to cover about 6 months' worth of your regular living costs. And aim for at least a year's worth of those living costs before you explore any investments that carry a risk to your money.

Okay, so you could build your emergency reserves using any one or more of a variety of accounts that are available. If you've already started to build your emergency fund as I suggested in a previous video, then you could simply increase your payments into that savings account. Or you could save by salary deduction into a savings scheme arranged through your employer, or increase payments if you already use that approach. But whatever account you use to finish building your emergency fund be sure you have instant or easy access to your funds, and also make sure that the account you choose pays more interest than a basic current account.

Now, you can of course use tax-free Cash ISAs as part of your cash reserves. And it might make sense to use these products once you have built your emergency fund to the ideal amount. Also, if you're a first-time buyer saving for a deposit on a home or you want to build a fund to supplement your pension income in your later years you should explore the accounts that offer a 25% free bonus from the government. These accounts can help you to achieve some seriously good returns on your money without you having to take any investment risks at all. And they generally give you immediate access to your money too, although you need to be aware that some of these accounts impose a high penalty to access your money early. So, check which, if any, of these free bonus types of account might be best for your particular circumstances using the information in the resources area of the Salary Finance website.

And here's one final thought. Even if those free bonus type accounts are not right for you, you might still want to build your cash reserves well beyond a basic emergency fund. And that's because you may have some important life goals coming up in the short term that you really want to save for. Now, by short term I mean anything less than 5 or 6 years and

for those terms, you'll probably not want to expose your savings to investment risks. So, go ahead and build your cash reserves further to fund your shorter-term life goals too.

Okay, so that's all for now and I wish you good luck in building up your cash reserves to a level that makes sense for you. Next time we'll explore credit scores. What they are, why they matter and how to make sure that yours is a good one. See you back here when you're ready for that.

End

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