

YOU may have heard of the saying, "When it rains, it pours!" This is especially so for money problems because there is a compounding effect. Therefore, it's advisable to create a Rainy Day Fund before a financial tsunami hits us!

What is a Rainy Day Fund?

It's a fund that you've created to pay for unexpected expenses. For example:

- Your car needs a new set of wheels.
- Your home is infested with termites and requires treatment.
- Your child has appendicitis and needs to undergo surgery.
- You need to remove your wisdom tooth.
- Your company suddenly winds up.

The list can go on and you may not necessarily experience only one of the above but all! That's when it pours!

Why do I need a Rainy Day Fund?

As Forrest Gump said in the self-titled movie: "Life is like a box of chocolates... you'll never know what you'll get!"

Everyone experiences ups and downs, sunny days and rainy days. When you save money for a rainy day, you protect yourself and your family. You get ready for those unplanned times when you need that extra boost of "Vitamin M".

It is easy to go into debt (especially credit card and "Ah Long" debts) if you don't have some money stashed aside. You want to pay your bills and keep your credit debt low, even when something unexpected

Rainy Day Fund

You're facing a financial emergency but lack the funds to take care of it. Look to the Rainy Day Fund

happens to you.

Since no one knows what the future holds, everyone needs a rainy day fund.

How can I save when I don't have much?

You are probably thinking that there's really nothing much left to save after paying all the bills. Many people, no matter how much money they have, say they can't save. That is because expenses usually grow and the extra money is used up.

But you, and only you, can change this pattern. Here's how.

Pay yourself first

Create a "forced-savings account" that allows you to withdraw in times of emergencies.

Lower your expenses by living smartly.

Set rules for when you're allowed to use the money, some really hard rules!

Try till you succeed, but never give up!

What does it mean to "Pay Yourself First"?

Most of the time, when our salary comes in, we start to pay for this and that and to everyone else first and only then, do we save whatever's left. This is backwards. It's your money and you deserve to keep some of it for yourself and your family.

Don't feel discouraged if you can only set aside a small amount. Saving RM1 a day or RM10 a week may not sound a lot but at the



end of a year, you'll have RM365 or RM520.

As the Malay proverb goes, "Sedikit-sedikit, lama-lama jadi bukit!" It's better to save a little each week than to try to save a lot and fail.

The key is to make a habit of saving some money each pay day. When you save first, you tend to make your expenses fit the money that's left. If you never see the money, you don't have the chance to spend it. As they say, "Out of sight, out

of mind!"

The rule of thumb is to save at least 10 per cent of your income. But this may not always be possible. It's best to start with a comfortable amount and gradually work towards that target.

Of course, if you can save more, that's much better.

Your goal is to create a rainy day fund to cover between three and six months of your monthly expenses. You can do this by

trying to save up one week's expenses, then two weeks' and gradually build it up to a month and so on.

Remember: Getting into the savings habit is more important than how much you save!

Where should I put my Rainy Day Fund?

Your rainy day fund should be kept in an account which is easy enough for you to withdraw in times of emergencies. However, it should not be too easy for you to dig into as and when you wish.

You may choose to open a Savings Account with a bank but opt not to have the ATM card. Alternatively, you may also invest part of it into funds such as Amanah Saham. Choose a fund that ensures safety of your capital while giving you a reasonable rate of return.

When your pay comes in, remember to pay yourself first. An easy and effective way to do this is to enrol into a payroll deduction scheme. You may instruct your employer or your bank to put part of your salary into this savings account/fund every month. Remember that this account is strictly for emergencies, try not to use it for other purposes.

How do I decide when to use my Rainy Day Fund?

It depends on your situation. You need to think about this ahead of time.

Remember when we talked about setting up rules? Make some rules about when it's okay to use your money so you don't spend it foolishly. Then follow your own rules!

The following questions may help you decide in setting some ground rules:

Is this expense a need or want?

Do I really need to incur it today?

What would happen if I don't spend it now?

Can I find a cheaper substitute?

Is there some other way I can pay for this expense without going into debt?

If I use this money today, how will I feel about my decision next month?

Always remember that this is your Rainy Day Fund and if it isn't raining, you are not supposed to touch it. No others excuses apply here!

There is another Malay proverb that says that we should prepare an umbrella before it rains. This Rainy Day Fund is our umbrella: Make sure that it's big enough to shield you when it rains, and make sure there are no holes!

So start building this fund now and it might just be your life-saver someday.

AKPK is an agency set up by Bank Negara Malaysia to provide free services of financial education, counselling and debt management programme. Call 1 800 882 575, or visit www.akpk.org.my or www.speaksens.com.my, or on Facebook, YouTube and Twitter. Get *Money Sense* and *Celik Wang* books and keep a lookout for the Mandarin version coming soon at all of its 11 offices nationwide.

Make Prudent Financial
Management a Way of Life



Financial Education

Learn to put into action your financial knowledge by practising positive financial habits daily.



Financial Counselling

Learn to put into action your financial knowledge by practising positive financial habits daily.



Debt Management

Learn to put into action your financial knowledge by practising positive financial habits daily.

Our services are **FREE** of charge

www.akpk.org.my
www.speaksens.com.my
1800-88-AKPK

