

My Reward Safety Fund (RESAFE Fund)

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Precautionary savings are a pillar of a good personal finance plan. They are the first step to building financial resilience. Having a buffer stock of savings is more important than ever given the uncertainty created by the coronavirus pandemic and the need to prepare for what lies ahead.

Academic research tells us that even a small buffer can do a lot to make us feel better and help us through difficult times. To save effectively, we need to do it regularly, in small amounts, and with rewards.

Because of the pandemic, many of us have been at home doing chores that we may have outsourced in the past: things like cleaning, mowing the lawn, doing the laundry, and cooking. When doing a chore that we used to pay someone to do, we are saving money. Let's use that money to "pay ourselves" (it is indeed our reward for an avoided expense) and earmark it to be used for a rainy day. We can call the savings we accumulate "my reward safety fund." How does it work? Set up a savings account at your bank or online, separate from the account you use to pay bills. Whenever you perform an activity yourself that you once paid someone else to do, transfer or Venmo the amount you have saved from your checking account to your reward safety fund. This provides a psychological reward and ensures that the money you worked hard for is not spent away. Saving even small amounts regularly adds up, and it is much easier to save \$10 a week over a long period than a big chunk of money in a short time. The reward for doing a chore you normally pay for is that you are improving your financial security. And anytime you hit a milestone – the first 500 dollars, 1,000 dollars, and so on – reward yourself with a small gift if you can: a bottle of wine, your favorite ice cream, a toy for the dog, or whatever suits you. Just make sure you do not use your reward safety fund to pay for it! As we resume our regular schedule, we may keep doing some of those chores, and continue to save.

The money in the safety fund should only be used in emergencies or when something unexpected hits, such as a medical bill, unforeseen car repairs, or an unemployment spell. Make sure you do not tap into it for regular expenses; this is why it is important that you keep it in a dedicated account. The result will be like having a strong umbrella when it rains—be it a drizzle or a deluge—and you will be glad you can stay dry and well.