

## Sinking Funds

By Cierra Sheets

Savings requires some planning. Determining what you want to save for and then determining how to get there. That's where sinking funds comes in. It is a budgeting tool to help save for expected or unexpected expenses. The idea is that, by saving a little bit towards your larger goal every month, you can eliminate strain in your budget when yearly expenses come up like taxes, insurance, gifts, vacations, etc.

Sinking funds can help you set expectations, put your money to work, and give you security in your finances, knowing that everything is planned and accounted for! If you find yourself reaching for your credit card to pay for predictable expenses, these tips will be especially helpful. They are normally used in business practices for security to pay off a debt, but when applied to a personal finance perspective, they can be a great tool.

### **So, how and when should you use sinking funds as a budgeting tool?**

Here are some tips to help you make the most of this strategy:

1. **Identify your financial goals:** The first step in using sinking funds effectively is to identify the goals you want to achieve. This could include saving for a vacation, home remodel, car repair, taxes, insurance, or any other expense that is coming up.
2. **Determine the amount to save:** Once your goals are set in place, you then need to split them up according to the schedule you need and the amount you can afford. This is best shown by the following example:

It is January and Carol wants to save \$1,000.00 by Christmas to buy gifts this year. She wants to set up a sinking fund for this cost and opens a Christmas account at the bank. She talks to her employer and uses the HR system to setup the direct deposit to the new account. Since she gets paid twice a month, she deposits \$42.00 out of each paycheck into her Christmas account. This deposit will total \$84 per month and by Christmas she should have \$1,008.00 in her account!

3. **Go Automatic:** To make savings even easier, you could automate your savings by setting up automatic transfers from your checking account to your sinking fund accounts each month. Some employers also offer options to deposit to different accounts straight from your paycheck. This will help make sure that you always work towards your goals without having to think about it!
4. **Create Separate Funds:** To keep your savings organized and easy to track, you can create a separate sinking fund for each goal. This could be a separate savings account, checking account, envelope, or digital savings goal within your budgeting app. *(Keep in mind, Citizens Bank offers free digital banking options and account features that would be perfect for this!)* You do want to make sure you are aware of any minimum balance requirements and fees associated with the account. Having separate accounts is helpful, but one lump savings account could also work for you.
5. **Expect the Unexpected:** Sinking funds can include a fund for unexpected expenses. Having one fund for any emergencies can help you be prepared and provide security to your budget.
6. **Prioritize:** If you have a few different financial goals that you are saving for, prioritize your sinking funds based on due date and/or importance. Be sure to put more money towards high-priority goals.
7. **Be disciplined:** You may feel like dipping into your sinking funds for some pizza on Saturday, but sticking to the plan will help you reach your goals on schedule!
8. **Review and Adapt:** It's important to regularly review your plan and adjust your savings goals as needed. If your sinking funds seem to be lacking in certain areas and coming up short, you may need to adjust the amount put towards your goal every month. Life and financial goals may change, so it's important to reassess your plan occasionally to make sure you are still on track.
9. **Find a Coach:** You may consider seeking advice from one of our Certified Financial Coaches (for free!) or use online resources to guide you through setting up your sinking funds. The coaches at Citizens Bank are a great resource for anyone (customer or not!) and can set up times to meet in person, virtually or chat via email.
10. **Don't overcomplicate:** Too many sinking funds can lead to confusion. It can be overwhelming, and we want to keep things simple when starting out.

Setting your priorities initially and seeking guidance may help you streamline your sinking funds.

Overall, sinking funds are a great tool. They can help you see your financial future clearly and plan in advance. By following these tips and staying committed to your savings plan, you can be successful with your sinking funds and start putting your money to work for you.

#### Resources:

Hiles, C. (2023, November 29). *What is a sinking fund? meaning, types & how to set one up | time stamped*. Time. <https://time.com/personal-finance/article/sinking-fund/>

Horbrough, S. (2023, November 30). *What are sinking funds and should you have them?*. CNBC. <https://www.cnbc.com/select/what-are-sinking-funds/#:~:text=Sink%20funds%20are%20money%20you,debt%20to%20pay%20for%20things>.

*Sinking funds help handle expenses, avoid debt*. NerdWallet. (n.d.). <https://www.nerdwallet.com/article/finance/nerdwallet-sinking-fund-savings>