Five financial learnings from 2020 to take into 2021

Learn from 2020 and come out financially stronger in the New Year.

It's finally time to say goodbye to 2020, the year that everything—from our health, finances, relationships, and jobs—changed. As difficult as the last several months have been for many people, the pandemic has also taught us some valuable lessons—particularly about money and financial planning. Let these five financial learnings inform your choices as you move into 2021.

1. Emergency funds work

With a lot people's income negatively impacted last year, whether from a temporary job loss, a business shutting down, or having to take time off work to care for kids, many realized the importance of having an emergency fund—a separate source of money that you can tap into in case something unexpected happens.

It's important for everyone to put some cash aside into a high-interest savings account or short-term guaranteed investment certificates (GICs) (make sure they mature at different times so at least some of your money is always liquid) and have these savings earmarked for emergencies like a job loss, a roof repair, an unexpected car purchase, or other unexpected, significant expenses. If you have contribution room, you can shelter those GICs inside your Tax-Free Savings Account (TFSA) so that any money you do earn on it can grow tax-free, without you losing access to those funds.

2. Giving matters

Despite the financial setbacks people faced this year, Canadians still want to give to charity—and many learned just how much non-profits need their financial support. Going forward, it's important for people to think more carefully about their giving so that they can continue to donate no matter what happens. Instead of cutting a cheque at the last minute, consider gifting securities that have risen in value from a non-registered account. You'll get a tax receipt for the value of the security and you won't have to pay tax on the gain.

Also, consider incorporating giving into your budget so that you can ensure you're setting money aside for philanthropy. Consider the tax implications, too, as the credits can be generous—if your net income is more than $222,000 you may be eligible for a receipt of up to 33% of the amount you donated at the federal level.

3. Keep your receipts

Another lesson people learned is that working from home may be here to stay—at least in some capacity—so it's important to hang on to any work-related receipts, such as for a new laptop, monitor, or desk chair. The government recently announced a maximum $400 tax deduction for all employees who have had to work from home this year, which you can claim on your tax form, but if you want to deduct more, you'll need your employer to fill out form T2200-s and potentially provide receipts for those expenses. Also keep that documentation in case the rules change again for 2021, which could happen if people continue to work from home.

4. Check on your financial plan

There's a chance that your financial situation changed in 2020, and it could shift again in 2021 as things, hopefully, return to a more normal state. As we enter the new year, now's a good time to take a close look at your financial plan—or create one—and reassess where you're spending and saving. Ensure you're on track to meet your long-term goals and touch base with your advisor to talk about whether you're properly diversified in a range of investments that suit your needs and risk tolerance level. You also want to have a plan so you can easily assess your overall financial situation and prepare for unforeseen shocks.

5. Use your cash wisely

From a financial perspective, one of the benefits of the lockdowns is that it in some ways, it was much harder to spend money in 2020, which means many people have saved cash over the last several months. Now's the time to map out what you'll do with those dollars: consider investing them; or, using that extra cash to pay down debt, especially high-interest credit card debt—and to help make sure you don't incur more debt when regular spending patterns return. Treat yourself, too. It's been a tough year—if there's an item you've had your eye on, and you have the money to buy it, then go for it, but don't overspend on things you may not need.