



The Australian Finance Podcast Episode Transcript

Episode: 🤖 f*ck off money | starter pack

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Episode transcript:

Owen:

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Kate:

Owen, what are you going to do when your financial shit hits the fan?

Owen:

Well, Kate, I'm prepared because I have an emergency fund, which is what this episode's all about.

Kate:

Yes. Making sure you have money put aside that when all of that shit stuff in your life starts to happen, maybe you run your car into the side of the road. You need to see a sick family member. You're sick yourself. You're having a divorce. Whatever happens, you've got some money, so you don't have to go into debt to deal with these financial curve balls and you don't have to sell some of your investments, which we'll talk about later in this series.

Owen:

Yep. This is about not being fragile with your money. Having that big buffer in place that protects you. And what it does, Kate, is it gives you peace of mind.

Kate:

Yes. It's that sleep at night factor, so you can live your life. You can make decisions. You can invest without having to worry about not having a bit of money put aside for when things go wrong. And in life, they inevitably do at some point things. And sometimes they go all wrong all at once. And so having that money put aside, we'll talk about how much you need in this episode, where to put it, how to save up for it. Even what to call that bank account. Yeah.

Kate:

And how to actually use it and replenish it, because that emergency fund ... it's just like that break glass in case of emergency. You have that money aside, and this is going to stand you in good stead your whole life. Once you get used to this, you might change it. You might have more or less depending on your life circumstances. If you've got kids, it starts to change, but always having this buffer in case of emergency. And I think that if you get this foundation in place, then it makes everything else we talk about buying a house, investing for the first time, changing careers, going overseas. It just makes everything so much easier.

Owen:

Absolutely. This episode, we're going to talk about what the emergency fund is, where to put it, what to spend it on, what not to spend it on, why it's so important, how we do it. So on and so forth. It's a bit of a quick, concise episode. But don't let the duration of this episode trick you. This is perhaps the most important part of your budgeting and money strategy of all.

Kate:

Yes.

Owen:

Kate, first of all, what on earth is the emergency fund?

Kate:

An emergency fund is that money you put aside in a separate savings account that hopefully isn't linked to your transaction account. You can't touch. I would suggest even labelling it an emergency fund. And often, it looks like three to six months of your basic living expense.

Owen:

That'd be like mortgage, rent, food, utilities, car. That sort of stuff.

Kate:

Yeah. If you need about \$2,000 to live each month, you might have \$6,000 in there, or you might have \$12,000 in there. That sounds like a pretty big number. I would even just start with,

"Can I put \$500 in there, or a thousand dollars in there?" And sometimes you might need to save for one to two years to get up to this emergency fund amount. You might want to take on some extra work to just get to that point where you've got that money put aside. And if you are in a high risk industry where you're at risk of losing your job, like many people went through-

Owen:

Like a contractor or hospitality. These types of industries.

Kate:

Or if you do have a family. So, there's other people relying on your income as well, or potentially you have family overseas that in an emergency you might have to get quite an expensive plane ticket over there. That would change the amount that you would need. It's really just coming to terms of what would make you comfortable. What do you think you ... I mean, it's hard to estimate what you might need in an emergency. But just thinking, "If I couldn't work for six months, have I got enough to sort of sustain me for a while?"

Owen:

Yeah. We had some people write into us after we did this a few years ago, and they said, "I did lose my job for six months. And I used my emergency fund." And they weren't nearly as stressed as they otherwise would be. This money is basically the cheapest form of insurance you'll ever get.

Kate:

Yeah. It's like self-insurance.

Owen:

Yeah, exactly. I think the barefoot investor called it mojo, because it gave you confidence to go out and do things. I call it a go-bag, just like Jason Bourne, because I'm a fan of spy movies where he goes away to a Swiss bank account. And he's got his gun, his passport, and all of his money in there. And that's basically if things go wrong, this is where you go. In the movie, he couldn't even speak English properly. So, speaking some German there. This whole thing is about making sure that you have a backup. And you said separate bank account. That's important why?

Kate:

Because if you want to keep this money just for emergencies, you should ... like when you get fined, if you start using the fire extinguisher when it's not actually a fire or breaking that glass, you don't want to be able to touch this just for a new item.

Owen:

On TV.

Kate:

You're not using it to buy the latest Apple iPhone. Needing a new phone, well, you can go on Gumtree. I wouldn't say that's an emergency. But if it's a real emergency where you need a book of flight at the last minute, you need to leave a bad situation, that sort of is why you've got that money there. And it really gives you that peace of mind you need. And the alternative ... if you don't have this emergency fund. And I've seen in my family. I'm sure you have, Owen, and our listeners have seen this.

Kate:

You end up going into tens of thousands of dollars of credit card debt. You end up taking a personal loan from some dodgy person on the internet. You have to take out a massive car loan. You have to borrow money from friends and family. And none of these things are a good situation. They take you back financially. I mean, in the series ... like, we've got an episode coming out on debt. If you are in these situations, how to get out of it. But we want to make sure you're prepared as much as possible to not get into these situations in the first place.

Owen:

Yep. The reason why we say this is so important is not just for those. For that. It's also when you don't need the emergency fund. It's for times when you're investing your money, and say you have a thousand dollars, and you're going, "I'm going to invest in this thing for the next five years." It gives you the confidence to do that. The reason why we say three or six months of living expenses, by the way, which is an interesting figure for a lot of people. Why three, six months?

Owen:

Now, ideally it's six months, or longer if you have children. If you're in one of those high risk industries, as Kate said. But the reason why we say this is imagine you injure yourself. Now, at work, you would be covered by work cover. If you injured yourself playing sports on the weekend, you won't have that cover typically. You will have to rely on your income protection. Don't worry. We'll explain what that means in another episode.

Owen:

But typically, those things take time to start hitting your bank account. Let's say you injured yourself while you're playing netball on the weekend, and you don't have an income for three months. Your income protection won't kick in typically for at least three months. Sometimes longer. And so you need to get you between injury and that time, at a time when your medical expenses are probably going up. This is that kind of cushion that gets you there.

Owen:

And another thing is job loss. What we find is that people do tend to take at least six weeks to find a new job after job loss. Again, this is your safety net to get you there. That's basically where we find this emergency fund comes in. I personally, Kate, have never had to use my emergency fund. Touch wood. I'm guessing that I will need to use it sometime in my life, but I haven't had to use it yet. But I feel better knowing that it's there.

Kate:

Yeah, absolutely. And that's the thing. You have to feel comfortable to use it if you do need to in an emergency. And also you can replenish it. If you do have a situation, you need to use a couple of thousand dollars to get that flight to leave a job or get you through, use that money and then think, "Okay, now I'm back into a stable position. I can start saving up to replenish that emergency fund." It's not something that once it's gone, it's gone forever. You can start building it back up again.

Owen:

We've got actually an interesting community case study here from our risk education site. And I might just read this out. It's from Emma, who says, "I was very grateful for my emergency fund when I was out of work for 10 months. I lived in the UK at the time, and my mom and dad died about nine months earlier. And I struggled every day going to a job I hated during that time. And in the end, decided to quit without having a new job lined up, as I wanted to go home for a couple of months and spend some time with my family," which is totally fair.

Owen:

"I didn't think I would be out of work for so long, but it was 2010. London was still struggling with the fallout of the GFC, so it took a long time for me to find my next job. Luckily, I didn't need to move back to Australia as I wasn't quite ready to leave the UK yet. And my emergency fund kept me going during that period."

Owen:

This is someone that's even overseas on holiday and they needed their emergency fund. This is a person that, by the sounds of it, didn't need emergency fund to cover their mortgage, or maybe it was their rent in this case. But you can see here this is a really visceral example of why the emergency fund matters. I mean, of course, she's also in Europe, which is where Jason Bourne was when he went to Switzerland. We can forget about that, but ... Okay. So-

Kate:

But it does. It gives you that sense of control over your finances, and even on the latter, too. Like, feeling financially comfortable with yourself and where your finances are heading. Having this emergency fund is really that first step also sort of on that level of getting out of debt, because it just gives you so much more comfort in doing everything else, and making every other financial decision from a position of strength where you actually know you've got that money put aside. You could save that much money. And if anything goes wrong, it's there to help you.

Owen:

Yep. I just want to ... Before I throw it over to you to tell us how to save up an emergency fund, I want to give a special shout out to people that are in debt. If you have credit card loans or if you have an Afterpay, or a buy now, pay later loan outstanding. What I want to say to you is you may not be able to save cash for your emergency fund straight away, but it's still important that you

have one. What I mean by that is when you set up your emergency fund, you typically put it in a savings account which pays ... let's be honest. Bigger all interest.

Owen:

What you can do as an alternative is keep the credit card that offers the lowest interest rate and the lowest fees while you continue to pay down the balances. That credit card can be your emergency fund. We don't like it. We be honest about that. We do not like this, but it is your best option. If you have multiple credit cards, keep paying those down, and those personal loans, and all that before you get rid of that one credit card, which you know is the lowest cost, the lowest fee. You can use that as your emergency fund.

Owen:

But if you only have one credit card, that's not an excuse to keep holding onto it for all the rewards points. We want you to get rid of that credit card ASAP. Once you save your money in cash, get rid of all those loans. Get rid of them and say goodbye to them. Cut them up. Send us a photo. Be proud of it. That's that. Kate, now you've got your money. Let's imagine ... fast forward a few months or a few years, depending on your situation. I've got my money. I've got my 5,000, 10,000, 20,000. Whatever it is that I've saved up for my emergency fund. Is this just like, "Hallelujah?" Can I just go away and take a trip to Europe?

Kate:

No. This is the money you're only going to be using in the emergency. If you want to take a trip to Europe, you're also going to have to save up for that separately. Unfortunately. I don't think you should be spending your emergency fund or using your credit card for a trip to Europe.

Owen:

Bigger. Okay. So, there goes that idea.

Kate:

Yes. But it's definitely a first step before investing. We really recommend building that emergency fund first, because you don't want to be forced to sell your investments at a time you don't want to. And we'll definitely be talking about that. I just think having an emergency fund's so important. It's helped so many of our listeners in the past, and I just think it's a really important concept to talk about early on in this series. Because it just gives you so much more control, and freedom, and choice over everything you do, and it will get you out of many, many sticky situations to come over the rest of your life.

Owen:

Yeah. Kate, how do you use an emergency fund? You personally?

Kate:

Well, fortunately as well, I haven't had to use it. Because when I was made redundant, I did have my travel funds sort of saved up. I did have some cash aside. Because like many people I never got to Europe during 2020. For me, it's just put aside. It gives me a lot of peace of mind

when I'm investing, because I'm investing for a very long time. And just having that my money in a separate account, I know it's there. I don't have to touch it. It's secure. I've got two-factor authentication on that account, so I know if anyone's trying to get in. And it's just there for peace of mind.

Owen:

Okay. Yeah. For me, my partner and I live on the smell of an oily rag, which is an Australian saying for very low cost. Our only major expense is our mortgage. Literally, that is our only major expense. And the reason that works for us is because it gives us maximum flexibility. We don't have credit cards. We don't have any buy now, pay later accounts. We don't have any personal loans. We've been through all of that, and we do not want that back in our lives again. Basically, what we have is a mortgage and that's our major expense. Of course, we have gas and electricity and we have internet.

Kate:

Occasionally, you want to eat.

Owen:

Occasionally, yeah. And you budget for that accordingly. But in terms of the big rocks on the cost side of our personal balance sheet, those are the things that are on there. What we can do is we know that our mortgage ... I think from the top of my head is about \$2,700. Right? We can effectively say if we have, say, \$10,000, that's four months of mortgage. That's a pretty good buffer. We'd like more than that, but we just have those very basic rules of thumb. And we know that even if something was to go wrong today, we've still three, six months, whatever it is in there at the moment, of that core spending put aside.

Owen:

And that means that then if we get paid this month, I can feel comfortable investing a thousand dollars of that money, because I know that this money, there's like a float there already taking care of that. That's how we use an emergency fund. I've never had to use it. Touch wood. But if my family members ... I've got family members all over Victoria, and indeed Australia. If something was to go wrong, I could instantly get on a flight. Not even bat an eyelid that we're spending that money. Kate, in terms of takeaways, we've got three takeaways for people here. What are they?

Kate:

Yeah. The first one is just keeping in mind that having an emergency fund is really important. We're not just saying that. Talk to friends and family who have been through different situations and say, "Did you have any savings in place when this situation happened?" And see what they did. Maybe they did have an emergency fund. Maybe they didn't. And ask to hear about their experiences, because you really might need it one day and you might be very thankful you spent 12 months saving that \$5,000 and putting it aside for the future.

Kate:

And then once it's there, it's there. You don't have to keep ticking off that financial goal. Unless you need to use it and you need to fill it up again, it's there for life. Then keeping it separate from the rest of your money is really important. I would highly recommend not keeping it linked to your everyday transaction account. Keep it in a separate bank account that makes it a little bit harder to access, so you can't instantly transfer money from it. And the final thing is actually using it in an emergency. Sometimes you've got that money put aside, you've looked at it for so long, and it becomes really ... sort of sometimes emotional because you save so hard for this emergency fund.

Owen:

Sure. You could be investing this money, or I could be doing whatever.

Kate:

And then when something actually goes wrong, it feels almost cruel to take money from that emergency fund. But I think you need to just remind yourself ... That's why I find labelling that account really helpful. Emergency fund, go-bag, F-off fund. Whatever you want just so you know you can actually use it in that situation. And if you do have to use it once you're on stable footing again, get to work refilling it again.

Owen:

Yeah. And by the way, we didn't mention why it's called the F-off fund. Why some people call it that. And that's because if you are in a situation in your life where you hate your job, you hate whatever it is that you are doing, the situation you're in. You can literally say F off. Because you've got the money to walk away and to find a better situation for yourself. That's what this is all about.

Owen:

And if you do use it, as Kate said, just remember that if you do use, say, a thousand dollars of your emergency fund, the first priority is not investing. It's not increasing your wants and needs. It's actually refilling that. So, refilling the tank with some gas and putting the emergency fund back on the right footing. Kate, two action points here. The first one for new investors and people that are new to the podcast, and then haven't got an emergency fund. What do they got to do?

Kate:

Yep. After listening to today's podcast, I think it's really important if you just take five, 10 minutes writing down some sort of plan of how much you might want on your emergency fund. How much do you currently have? How much do you need to save to get to that point? And creating a savings plan that works with your budget, as we mentioned in the prior episode to get there. And then just creating a separate savings account and labelling it emergency fund, or go-bag, or whatever cool term you want to call it.

Owen:

Yep. Great. And if you've been with us for a while and you do have some money put aside, what I would urge you to do is to run through a few scenarios and ask yourself: do I have enough put aside for X, Y, and Z? Do I have enough for a loss of job? For an injury? For illness? For a family member going down? For a car breaking down? Do I actually have enough? Take stock of that right now.

Owen:

Also review your insurances, which will get to an upcoming starter pack episode. Because you may find that over the last few years, you have become closer to retirement. Your expenses have increased because of kids. Whatever the situation. You might have a bigger mortgage. Just do that review. Check in on it, and that's your action point for today. Kate, some wonderful resources to accompany this episode. People, you can all go straight into the show notes and you'll find the resources that we put it together for you there, including some case studies which are really valuable, like the one that I read out. Kate, as always, it's always fun to talk emergency funds.

Kate:

Yeah. I think it's such an important topic. And I will talk about this forever, because there's always someone else that needs to hear this and put one into place, or even share this message with their friends and family.

Owen:

Yep. Indeed, there is. Thank you for being with me for this episode. And thank you, listeners and viewers, for taking part in this episode on emergency funds.

Kate:

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Owen:

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