

This week we talk about the importance of having an Emergency Fund.

These days, there's a lot of discussion about financial literacy, whether it's the question of savings, the advantages of taking out a PPR, interest rates and spreads on home loans. Financial stability is therefore synonymous with family stability.

As this is not a subject that is covered in schools, it is essential that parents encourage their children to become financially literate, as they themselves hear about these issues and are unable to understand why family finances are being restricted in order, for example, to cope with increases in mortgage instalments.

Children see saving as a way of depriving them of material objects. It's crucial to change this mindset, to make them realise that saving and investing can create a wide range of life options.

The starting point for financial stability will be the creation of an emergency fund. It is extremely important for a family to be able to cope for 6 to 12 months without the pressure of a salary that doesn't arrive due to unemployment or sick leave. But how can you do this when wages aren't stretching and the cost of living has only increased? Start right there!

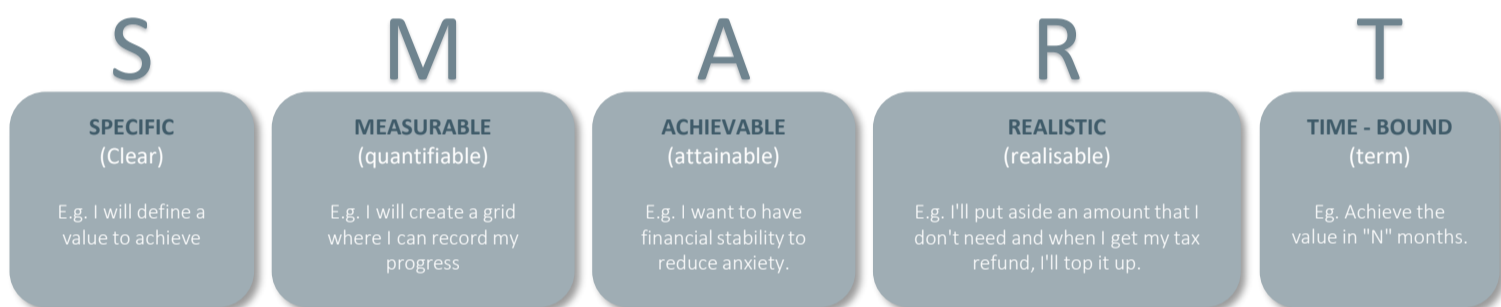
What is an Emergency Fund?

An emergency fund is used to cover unforeseen expenses. In times of instability, it's very comfortable to have this reserve to fall back on. We should evaluate our expenses and realise where we can cut back in order to increase these savings.

And where should we start?

First step: Make a monthly survey of your expenses and realise where the superfluous expenses are, or where, if they aren't superfluous, they won't be used.

Step Two: Have **SMART** objectives (Specific, Measurable, Achievable, Realistic, Time - Bound).



Step Three: Know where to store this amount in a product with low financial risk (the amount to be redeemed can never be less than what you're going to save) and liquidity (quick access, because in the event of an unforeseen event, it's urgent).

Now let's look at the practical effect in the case below:

João and Inês are the same age, have finished their degrees and have started their first jobs. They are now going to calculate their Emergency Funds and then start saving and investing for their goals.

João finished his degree a few months ago and now has a job. He still lives with his parents.

Monthly expenses that João considers essential	
Gymnasium	40 €
Mobile phone	20 €
Car (IUC + insurance + diesel to go to work/master's degree)	70 €
Post-labor master's tuition fee	250 €
Outings, dinners and being with friends	150 €
Total	530 €

In order to have peace of mind if he loses his source of income, João only needs an **Emergency Fund equal to 3 times his monthly expenses**, because he is staying with his parents and this amount allows him to maintain the same lifestyle in the event of unemployment, for example, until he finds a new source of income.

John FE = 530,00 €x3 = 1 590,00 €

Inês is now independent and lives in a rented house with Rufus, her dog.

Monthly expenses that Inês considers essential	
House rent + Expenses (water, electricity, etc.)	500 €
Feeding	150 €
Rufus food and vaccines	50 €
Public transport pass	35 €
Outings, dinners and being with friends	100 €
Gymnasium	40 €
Clothing / hairdressing / aesthetics, etc...	70 €
Total	945 €

Inês, on the other hand, feels more secure if she has an **Emergency Fund equal to one year's expenses**. She wants to remain independent and in her profession she can't get a job easily.

Inês FE = 945,00 €x12 = 11 340,00 €

The Emergency Fund can be so different for people at apparently identical stages of life. It will always be influenced by variables and assumptions that differ greatly from person to person, as we've seen in this small example.

How about you? Do you know the amount of your Emergency Fund? Why?

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<https://www.rosabarreto.pt/contents>

Note: This information is only of general nature, its reading does not exempt the consultation of the legislation in force. In case of any discrepancy between the version in English and the version in Portuguese, the later shall prevail.