

**FINANCIAL LITERACY -
EMERGENCIES**

How is your budget doing? Have you applied what you have learned from last month's article on how to follow your budget? A budget helps you anticipate your income and expenses in order to save for your goals. Because you plan your expenses, you are not caught by surprise by bills you have forgotten about. Some expenses are easy to plan: fixed expenses have always the same amount and frequency (tuition fee for example). For the variable expenses, like phone expenses, the frequency is known but the amount can change from one month to the other. Discretionary expenses are, believe it or not, the easiest to anticipate because **you** decide (clothes, leisure), so determine how much you can spend on them and limit yourself by allocating an amount in an envelope.

The only type of expenses which is really hard to plan ahead is the emergency expenses: it can be a medical bill due to an accident or a sickness, or an urgent repair. First of all, emergency expenses are real emergencies; if you have forgotten to pay a bill you should have planned, this is not an emergency. Big projects, like education and retirement either aren't emergencies because they can be anticipated. Emergency expenses cannot be anticipated because you cannot plan some events.

How can you manage them? Do you track your expenses as I recommended you to do in my first article in November? If you don't, it is never too late. If you do, you now have a good understanding of how much you spend on the four types of expense categories, including the emergency expenses. So when you write your budget, always plan an amount for them. You can take the same amount as last year, or an average monthly amount. If you don't have any emergency expenses, don't spend the money on something else, just keep it for later; it can help you save for other emergencies and it can also help you build saving for your goals.

When you write your goals (cf. January's article), always include "emergency" as one of your saving goals. Emergency is not only expenses. What happens if you lose your job? It is safer to have an "emergency" treasure chest where you keep money to be able to live the time you find another job. To calculate how much you need, list the expenses you would still have to pay even if you are out of work (either you in Hong Kong or the family expenses you provide for in the Philippines). It can be rent, phone, transportation, food. Then evaluate how long it might take you to get a new job. If you think it would take you three months, then build saving to cover three months of these vital expenses.

Another powerful way to plan for the emergency expenses is to get insurance. Insurance companies collect a yearly fee called "premium" from people they insure. If the risk happens (sickness, car accident, theft...), the insurance takes charge of the costs incurred by their customers (indemnity) who ask for it (claim).

Financial Literacy

Because money is more than adding up figures

Insurances are not investment, except from life insurance. It is an expense, and if the risk never happens to you, you don't get your money back. But bad luck can strike any time and anybody, and if it does, the expense you would have to pay is likely to be bigger than your yearly insurance premium. If you are insured, emergency expenses are easier to plan: instead of having big amounts to pay you are never sure about, you pay a fixed amount every year. Think of the opportunity cost: you have the choice of spending a known amount of money every year, or to pay large amounts from time to time.

When you subscribe an insurance, always read the contract ("insurance policy") carefully to fully understand which risks are covered, under which circumstances, how to claim it, how much it will be indemnified, if there are restrictions, if some expenses stay at your charge, etc.... Also check how famous and reliable the insurance company is. Risks insured can be of many types: medical, property, liability (legal claims, if you cause damage), motor vehicle, disability...

Life insurance can be two kinds: either your heirs get money if you die, or they can be used as investment: you pay a premium and after several decades you can get the money back at a higher value. In the latter case, life insurance is an investment, and you need to compare it with other investments to see if it is worth doing.

So to avoid emergency expenses undermine your financial situation and your saving, build an emergency saving as soon as possible and consider taking an insurance for you and your family. If you have questions, send me an email: Sophie@aandbmake3.com