Buying Happiness

Learn to invest your time and money better

Kate Campbell

Host of the *Australian Finance Podcast*

Praise for *Buying Happiness*

Plenty of books discuss building wealth. Not enough discuss using that wealth to build a great life. Kate's book *Buying Happiness* is a timely reminder of why we invest. Money is not the end in itself. Kate reminds us it is a tool to unlock choice, freedom and to help us build the life we want to live.

Alec Renehan, co-founder of Equity Mates

Buying Happiness is a meaningful contribution to the personal finance conversation, teaching the important fusion between planning for your future and enjoying the journey to get there.

Natasha Etschmann, personal finance educator @tashinvests and host of the *Get Rich Slow Club* podcast

This book is not just an essential financial roadmap, but a philosophical guide, helping us reorient our goals and priorities. Kate teaches us to not only invest our money wisely, but also to invest our time, the one resource we cannot earn back, in a meaningful and fulfilling way.

Glen James, creator and host of the *my millennial money* podcast

A fresh, holistic take on investing like none other.

Simran Kaur, author of *Girls That Invest*

Kate Campbell's *Buying Happiness* is a beautifully written personal finance book that helps you value the things that give you true happiness. Kate's book makes you focus on what you value, what you want and the time you have to achieve the happiness you deserve now and throughout your life.

Evan Lucas, author of *Mind over Money*, Head of Strategy at InvestSMART and financial media personality

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MAJOR STREET

To my parents, Susan and David,
for encouraging me to take risks as a child
and, more importantly, make mistakes.

MAJOR STREET

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Foreword

Are you *sure* this is a good idea?

That was my first thought when Kate said, 'Owen, I want to write a book.'

Over 90,000 Australians already tune into the *Australian Finance Podcast* to hear Kate speak with some of the world's leaders in finance about money, investing and how to design an ideal life. So, naturally, my gut instinct was, 'Are you sure you want to commit to writing a book when you're already doing so much? You're already helping tens of thousands of families across the country and throughout the world.' However, over the years I've known Kate, I've watched her grow and grow and grow to become one of the most influential women in Australian finance. I thought, if anyone could do it, she could – and do it well.

So, we decided to sit down and properly talk it through. What would she write about? What would she like to research? How could she help people even more than she already did? Then we studied the data and found that '8 ways to buy happiness: Rethinking how we spend our money' was one of the most popular *Australian Finance Podcast* episodes ever. The path was clear. It had to be a book about behavioural finance and about helping people use money *intentionally* to build happiness.

Now, after hundreds of episodes, thousands of hours of planning, research and practice, and countless discussions with experts in Australia and around the world, it all comes together in a book – *Buying Happiness* – designed to help you do just that: stop, reflect, recharge and start using money to improve your life.

Far too many people think, 'I can't be wealthy. I'm not smart enough.' Or, 'I don't have enough money.' Or, 'It's too scary.' Or, 'Isn't that like gambling?' These types of limiting beliefs might seem true to you now, but this book will prove that so much of what you've been taught about money simply isn't right.

You *can* do it. You *can* live a life where you don't worry about money: a life where you have everything you need *and* everything you want.

In *Buying Happiness*, Kate distils the best bits of what others have already figured out about using money to increase your happiness. After a crash course in money and laying your foundations, Kate explores techniques, strategies and methods to help you find your own answers to your real money problems and plan for the future. On top of this, she's taken the Rask community's feedback and ideas to showcase what truly matters to us all and included this at the back of this book and online at buyinghappiness.com.au.

My biggest takeaway from *Buying Happiness* is that forgiving yourself is an essential step to improving your happiness. Once you do this, you will realise – as I did – that it's good to experiment with money, even if some is lost along the way. It's important to make mistakes, so long as you learn as you go. It's crucial to take the risks you've always wanted to take, provided you know what they are. And, perhaps most important of all, it's okay to have regrets.

These are all signs that you're on the path to discovering what makes you happy – and learning to be good with your money will help you do that.

Owen Rask
Founder of Rask and host of the *Australian Finance Podcast*

Introduction

What does it mean to be happy? ‘Happiness’ is an interesting word, one that I believe everyone gets to define for themselves. From my perspective, it’s a by-product of a well-lived life, not a destination. In *Happiness: A Very Short Introduction*, Daniel Haybron recommends that we ‘give up the idea that any single account of happiness can capture everything we use the word to talk about’. People use many words to describe happiness, such as ‘satisfaction’, ‘wellbeing’, ‘fulfilment’ and ‘contentment’, but I’d like to add a few more – especially in the context of money.

Happiness is freedom. It’s the ability to make choices and know when you have enough. It’s about being satisfied with life right now, while still growing as a person. It’s about not postponing your life to a future date. It’s piecing together a tapestry of small moments that compound over time to form a good life – and that, in my view, is a lifelong journey.

In *Flourish*, Antonia Case points out that ‘one does not stumble on a good life, it has to be actively managed’. This book is about using the resources at your disposal, specifically time and money, to build a good life – a happy life. While happiness can’t be bottled up and purchased at a store, by taking control of your finances and thinking a little more deeply about the way you use your resources, you can improve your life.

Money, time and happiness

Money is a tool that you get to choose how you wield. While having more money won't solve all your problems, you can certainly use it to smooth the road ahead and achieve your goals. The more you learn about your money story and the better you manage your finances, the more choice you'll have – because money gives you the freedom to choose.

Whether you want to change careers, spend more time with family or travel in Europe for six months, money is a tool that can make your dream viable. To give yourself those options, however, you have to take that first step. That could look like taking a glance at your spending for the first time, having a conversation about your current savings goals with a friend, or investing your first $5. We'll do all this and more in the next ten chapters.

It's not just about money, though. Your time is another valuable asset to be spent, saved and invested with intention. It's a finite resource with a powerful effect on happiness, so it's important to consider how you can use your time in a way that feels most valuable to you – remembering that this will be unique to every individual, and will likely change throughout your life. Although you can't deposit your time in a bank account, you can create space in your days – right now and in the future – to spend your time in more meaningful ways (be that travelling, spending more time with family or even retiring early).

This book is ultimately about the choices you can make in life and supporting you to make them from a position of strength. It's a guide to using the time and money at your disposal to increase your happiness. The central idea is that if you spend, save and invest both your time and your money better, you'll have access to more of it. If you then use these additional resources to make intentional decisions about the way you spend your life, you'll be on a good path to happiness.

You can do this

Many people avoid getting on top of their finances because they think money is hard, but it doesn't have to be. As you'll discover in reading this book, a simple system can set you up for a lifetime of choices. You don't need a qualification to manage your own finances well, but you do need to start with some foundations. First up, it's important to educate yourself. This builds your confidence to make positive decisions for your financial future. By opening this book you're taking the perfect first step. It's also essential to be patient. Sorting out your finances isn't an overnight process and will take time. You need to start planting the seeds of the trees you'll sit under in the years to come. Finally, I urge you to be kind to yourself during this big (but essential) learning journey. Many people beat themselves up for not knowing about this 'money stuff' already, but it's much more important to focus on the opportunity in front of you to change your money story.

Please be kind to yourself on your money journey. Try not to get stuck comparing yourself with friends and family who are a few steps ahead of you. At times it will feel confusing and challenging, but I encourage you to push through those feelings because there's a lot to look forward to on the other side.

Using this book

In this book I share so much of what I've learnt as a financial educator and podcast host, funnelling everything I've gathered from experts over the years into the one resource. I've set out the ten major focus areas into ten different chapters, so you can easily jump into the topic that's a priority for you at any particular moment.

The first two chapters lay the essential foundations of your money journey, covering paying off high-interest debt, building an emergency fund, understanding your current financial position, budgeting and setting goals according to your values and priorities. Chapters 3 and 4 invite you to look inwards and support you to build a healthy money mindset, manage financial regrets and avoid common behavioural traps along the way. Then in chapter 5 it's time to discuss why it can be so difficult to talk about money and work through some strategies to manage vulnerable money conversations. The early chapters of this book are about giving you the tools you need to make financial decisions from a position of strength.

Chapter 6 explores the connection between time and money, suggesting ways of maintaining balance and enjoying the present (even when working towards big financial goals) by using your time more intentionally. Then in chapter 7 you'll be challenged to think deeply about how you can incorporate research-based methods of using money to buy happiness – now and in the future. Chapter 8 is all about getting started on your investment journey and making your money work for you. You'll learn about the magic of compound interest, open a brokerage account, invest your first $5 and automate your wealth-building journey. In chapter 9 you'll explore how risk affects your life as an investor and discuss how to take healthy risks and manage the common fear of making mistakes. Finally, in chapter 10, you'll pull together everything you know about your money, your time and what makes you happy to explore the concept of financial independence and what achieving that dream could look like for you.

To help you apply everything you learn in this book to your own life, I've included plenty of exercises (indicated by this little pencil), conversation starters, and tips and tricks that you can use right now. As we'll sometimes be working through some new or tricky ideas, I've also collected the essential takeaways in a TL;DR (too long; didn't read) summary at the end of each chapter.

Five key ideas

As you work through this book, you'll also see some key ideas pop up again and again. I'll walk you through them now to give you a head start.

It's your money. It might not seem like it right now, but you have a lot more choices about how you earn, spend, save and invest your money than you realise. By sorting out your financial foundations, you'll feel more in control of your financial future. Remember, this is your money journey and you get to choose the destination.

Talking about money is okay. It's not always fun and easy, but there's a huge benefit to having conversations about money at any age. Be the person to kick off the conversations in your own community and don't get discouraged if not everyone is open to it (research shows it's one of our least favourite topics of conversation). Most importantly, listen without judgement during these vulnerable moments.

You can buy happiness. The experts have spoken; there are many ways you can use your time and money to increase your happiness. The first step is being aware of where your time and money are currently being spent, and then adjusting your actions to get the most out of your resources.

Take small actions, lots of times. When it comes to sorting out your finances and starting to invest, it's not all or nothing. I encourage you to remember that you can start small, but start *now* – and take regular action. Your confidence is built through the actions you take.

Take healthy risks. Many of the things that make us happiest today began with taking a risk – be that a career, partner, business or hobby. We need to see taking healthy risks as a positive part of the journey to building wealth. Plus, it turns out taking risks actually makes us happier; how great is that!

Bookmark this page so you can come back to these five key ideas whenever you feel uncertain or need reminding of what's important on your financial journey.

My community and crowdsourcing happiness

I've hosted the *Australian Finance Podcast* with investment analyst Owen Rask since the start of 2019 – and it has been a journey! We now talk to over 80,000 unique listeners a month who want to learn the skills to supercharge their own financial future. If I reference 'the podcast' or 'the show', this is what I'm talking about. If I mention my community, I'm talking about the people who listen to the show, take our investing courses on Rask Education or engage with Rask Australia on social media.

I've learned so much from this community over the years, so when I started writing this book I invited members to share with me how they've used their time and money to buy happiness. You can find highlights from their responses in 'Crowdsourced happiness' at the end of the book, and I share many more online at buyinghappiness.com.au. I hope these real examples inspire you to find your own happiness along the way.

Let's begin

I got lucky. I figured out what makes me happy in my 20s and I'm actively designing my finances around the life I want to live. I've had the opportunity to speak with experts in their fields about everything from investing my time better to achieving financial freedom. But we don't all start our money journeys at the same point. This book discusses long-term thinking, goal-setting and taking action – and that's not going to be easy for everyone.

I encourage you to be kind and patient with yourself during this journey. Don't judge yourself against someone else's timeline, but *do* get started today. I know from experience that it's all well and good learning as much as you can about your money, but if you don't take any action, you'll look back in ten years' time and wonder why.

If this is the first money book you've ever read, I can't wait to help you get started. If you've been on your finance journey for a while, I look forward to sharing insights that'll add value to your life.

1

Finding your feet

Pay off high-interest debt and build your emergency fund

The journey of a thousand miles begins with one step.
Lao Tzu

If I've learnt anything on my money journey, it's the importance of getting the foundations right. Many of the mistakes we end up making with money happen because we jump into the deep end without first learning to swim. The first two chapters cover the essential foundations of your money journey. Though it might be uncomfortable or difficult, it's essential you stick with me if you haven't already taken those first steps. Happiness costs time and money. It requires you to put in the work – and this is that work.

If you're beginning your finance journey a little later in life, please know that you are not alone. Whatever lessons you've learnt, missteps you've made or regrets you have about not sorting this all out earlier can be used as fuel for your next steps. Forgive yourself for the decisions you made when you had less information and fewer resources.

My mum has always told me to look for kindness in the people I form relationships with, and that has always served me well.

It's important to be kind to yourself, too. You deserve the opportunity to learn about money and take steps to improve your financial future. It's the actions you take from this day forward that matter.

As we're all starting this journey at different points, some parts of this book may be more relevant to you than other parts, and I'm a big believer in gathering the information you need when you need it. You don't have to read every chapter or even read the chapters in order. Life's too short for that.

For example, feel free to skip ahead to chapter 3 where we talk about your money mindset if you tick all the following boxes:

- You've paid off your high-interest debts (such as car loans, personal loans and credit cards).
- You've set up an emergency fund (approximately 3–6 months of expenses set aside in a savings account).
- You know what your income is and where your money is going each month.
- You've set some money goals and have a solid plan to reach them.

However, if that's not you, keep reading. In this chapter we're going to work through paying off high-interest debts and setting up an emergency fund, then in the next chapter we'll figure out your current financial position and get started on goal-setting. These are all important steps in increasing your overall feelings of financial wellbeing.

Sound good? Let's jump in!

Paying off high-interest debt

Paul struggled to find a full-time job after finishing university, but the bills he faced after moving out started to pile up. Thankfully (or so he thought at the time), the bank was more than happy to send him a credit card with a $10,000 limit, which he eventually used to pay for everything. He'd maxed out the card after a few years and, while he made the minimum repayments each month, he wasn't too worried about paying off the debt. When Paul turned 30 he started to get his financial affairs in order and finally looked into paying off his credit card. However, when he asked the bank how much was left to pay, he was shocked to find out he owed them a lot more than $10,000. How on earth did Paul end up there?

There's a common misconception that people who end up in debt made bad choices, tried to start a business that didn't work out or lashed out on some luxurious overseas holiday. These things all happen, but the truth is that it's generally just a build-up of small purchases over time: a medical expense here, a grocery bill there. Mix in a very profitable line of credit 'kindly' offered by a bank – and boom. Suddenly those small expenses have snowballed into something unrecognisable.

I'll discuss how compound interest can help you build wealth later in this book, but first let's discuss how it works against you when you're the one paying it. If you had a $10,000 credit card debt (like Paul did before it grew), were being charged 20 per cent a year in interest by your bank and made only the minimum repayment of around $200 (2 per cent of the loan balance) each month, it would take you over 60 years to pay it off. Worse still, over the life of the loan you'd end up paying the bank over $40,000 in interest alone! Compare this to making higher repayments of around $500 each month, which would clear your debt in approximately two years, and you'd only pay $2000 in interest over the life of the loan.

Getting out of high-interest debt is a hard but important part of sorting out your finances. It'll build your financial confidence, help you pay less in interest over the life of your loan and put more money in your pocket for your own goals. Plus, paying off these debts will take a whole heap of stress off your plate. I'm focusing on debts like loans from friends and family, buy now pay later (BNPL), payday loans, car loans, personal loans and credit cards because they can be harmful to relationships, get you into a cycle of debt or charge you a higher interest rate than you could earn by saving or investing instead.

This is just a general guide and ultimately you will need to decide what your financial priorities are.

If you want to speed up the process and get your lender off your back, you'll need to consider making more than the minimum repayments each month. So how do you get started? Whether you're trying to pay off your BNPL purchases, take control of your car loan or reduce your credit card debt, here are five steps to follow that can make the tough process of figuring out your high-interest debts a little simpler.

Step 1: Write everything down

This first step is tough, but it's necessary. Find all your paperwork, emails and logins for any current debts in your name and write them down. Then hunt down details like the size of each debt, who you need to make repayments to, how fast the debt is growing (the yearly interest rate), when the debt is due, the minimum repayments and so on. All of this data will help you make more informed decisions in step 3.

Step 2: Identify what led you to this point

Before you begin this step, I want to stress that this isn't about being hard on yourself and allocating blame. Rather, it's about being curious about the circumstances, choices and purchases that led you to being in debt. If you skip this step, you may find yourself repeating certain behaviours and ending up in debt again, which is definitely something you want to avoid.

Take the information you assembled in step 1 and try to answer each of these questions:

- When did this debt start?
- What was happening in your life when you took on this debt (took out the loan, applied for the credit card)?

- Where was most of the money spent? (This will be easier for something like a car loan and a little more work for a credit card balance you've been carrying for years.)
- Are you still adding to the debt on a regular basis? (This is important because until you're able to balance out your monthly income and expenses, it will be very difficult to make a lot of progress.)
- Who have you told about your debt?
- How much do you want to be debt free? What sacrifices are you prepared to make to pay everything off?

These questions may be challenging to answer, but this opportunity to reflect on your path into debt will help you create a more informed plan in step 3 to move in a different (and better) direction. There's a quote that resonates here from the late Maya Angelou: 'Do the best you can until you know better. Then when you know better, do better.' The better you understand yourself and the way you manage your money, the stronger the position from which you'll be able to make financial decisions going forwards.

Step 3: Make a plan

If you're relying on a credit card or personal loan because your monthly expenses are greater than your monthly income, it's important to focus on this first. Before you can make progress towards paying off your debt, you'll need to find a way to flip these numbers around so that your income is greater than your expenses. Before you make a plan to pay off your debt, it's important to stop adding to it. Here are a few preliminary ideas:

- If you're struggling to pay your bills, call your bank or service provider and ask to speak to their financial hardship team. They may be able to help you set up a payment plan or offer other short-term solutions.

- Run through your bank statements over the past three months and cancel any non-essential expenses (including any subscriptions that have been running in the background).
- Decide if there are any areas in your spending that you can cut back on. For example, until you have your debt under control, catch-ups with friends could be walks or homemade dinners instead of nights out.
- Find any items around the house you haven't used recently that can be sold on Gumtree or Facebook Marketplace.
- Are there any ways you can earn some extra money right now? This might include taking on extra shifts, doing gig work after hours or finding a second job. For example, I spoke to an Uber driver who was driving for two hours each day outside of his 9–5 to pay down his debt and get a handle on his finances.

Once you've found a way to ensure your income is greater than your expenses, it's time to think about how to pay off your debt. Here are my suggestions:

- Work out the order in which you want to pay your debts off. You might consider paying off the highest-interest debt first, for example. Some people prefer the snowball method, where you pay off debts from smallest dollar value to largest to keep you motivated.
- Set out a realistic repayment schedule. What's left in your bank account at the end of the month? How much of this can you put towards making extra repayments? Write down a realistic plan, including the additional fortnightly or monthly repayments you can make, being very clear on where the money is going, how often you'll make the repayments and when the debt will be paid off by. If you can automate these payments to leave your bank account each month without even thinking about it, even better!
- Decrease your expenses as much as possible while still providing yourself with flexibility on your debt repayment journey.

What are some bigger moves you can make to reduce your expenses? Things might be really tight right now, but if paying off your debt is a priority, could you sell your car and buy a cheaper second-hand one, move into a share house or back home, or replace higher-cost activities with lower-cost options? For example, could you skip the bigger holiday and opt for a local road trip, or ask family to run a Secret Santa this year rather than having to buy everyone gifts?

- Explore longer-term ways to increase your income, such as building a case for a pay rise, taking an after-hours course that will help you to move into a higher-paying industry or starting a side hustle.
- Remember to track how you're progressing on a regular basis and adjust your plan if necessary. This plan should be something that works *with* you, not *against* you. Also, be sure to find ways to create and celebrate milestones along the way, especially if your debt is quite large, to stay motivated and acknowledge your progress.

Paying off debt can be a tough journey, but it's a foundational stage in taking back control of your finances. Plus, it'll get you one step closer to *making* interest on your money, not paying it, and who doesn't like the sound of that?

Step 4: Get help

If this is all feeling a little overwhelming, consider asking someone you trust to help you make a plan and check in with you on a regular basis. Paying off debt can feel very lonely, but you're definitely not alone. Many online groups focused on becoming debt-free, where people encourage and support each other through the journey, have sprung up on a range of different platforms. The sense of community these groups offer can be valuable.

Many countries also have financial counsellors or advisers who are qualified to help you pay off debts and deal with banks and service providers. In Australia, the National Debt Helpline is an excellent resource where you can speak to a financial counsellor confidentially and for free. They can provide you with valuable support and guidance on your journey. Another helpful resource is the Financial Rights Legal Centre, which can help you understand your legal rights in relation to financial debts and disputes. Asking for help is okay; in my books, it's a sign of strength.

Step 5: Stay motivated

Paying off debt isn't an overnight journey, and for many people, getting the lender off their back will take a few years. It can be hard to stay motivated, so try to acknowledge the small wins, and be kind to yourself if you can't stick to your plan every month. It may need to be adjusted, or you might just need a quick reset before you're back on track.

Even though there are just a few steps here, while you're doing the hard work of paying off your debt, the process can feel anything but simple. To help you keep your head up when things are tough, I encourage you to celebrate whenever you hit a milestone and focus on the positives of your journey to becoming debt-free. For example, consider the great money habits you're building on the way. Consistently putting money aside in your budget to pay off debt every month is a skill that can be directly transferred to saving and investing in the future. Best of all, when you do reach your goal of being debt-free, you'll have accomplished a huge feat and should be really proud of yourself.

Finally, I really encourage you to use this time wisely and learn as much as you can about your finances and investing during this process. This will put you in the best possible position to change the direction of your financial future.

A note on BNPL

Borrowing money and being in debt is a tale as old as time, with stories about lenders and loans dating back to 2000 BCE. These days we've got more options than ever before when it comes to borrowing money, and brands are using the research of experts in consumer behaviour against us. They know exactly which buttons to push, colours to use and cookies to track to convince us that we need that item – and we need it now. Enter buy now pay later (BNPL) services, the modern-day consumer's best friend (as they would have you believe).

If you're not familiar, BNPL allows consumers to access goods and services by paying only a small portion of the total cost upfront, with the rest to be paid in instalments over the months that follow. Plus, for many of these services, the merchant (not you) pays the upfront costs. Sounds great, right? Maybe not. Research from BNPL platforms themselves suggests that consumers spend more when using BNPL at the check-out than they do if they have to save up for their purchase prior to making it. One company tells business owners that by offering their service at check-out, they will increase the average order value by up to 18 per cent, while another touts a 41 per cent increase in average order value. While that might sound great for a business, it's not so good for you. Many consumers also use multiple BNPL platforms at once, and what originally seemed like a helpful tool at check-out can quickly snowball into an ongoing cycle of debt.

For all of these reasons, it might be a good idea to avoid using BNPL if you can. Plus, as you'll learn in chapter 7, there's a lot of research that shows saving up for and anticipating a purchase actually increases your overall levels of satisfaction.

Building your emergency fund

You know those weeks when everything goes wrong and you can't seem to keep your head above water? You're looking at your bank account and you know there's not enough in there to cover everything, so you pull out that credit card you've been keeping for emergencies and resign yourself to going back into debt for the next year or two. But what if you didn't have to go into debt? What if you had money set aside for a situation exactly like this?

This is what your emergency fund is for. It's money you put aside specifically for the challenges life loves to throw at you, challenges that you can't really plan for, like a family emergency. It's also the money that gives you the financial breathing room to leave a toxic job, a bad relationship or unsafe situation. This is one of the areas of finance I am most passionate about, because while investing is great, having the power to make decisions from a position of financial strength is even better.

So, how much do you need? There are many different ways to cut this cake, but a good place to start is anywhere from three months to six months of basic living expenses – and having that money stashed in a high-interest savings account (so you can access it when you need to) is important too. If you have a good (and financially-secure) family support system, work in a highly sought-after role or have multiple sources of income, you might be completely comfortable with a smaller amount in your emergency fund. On the other hand, if nobody can support you if something bad happens, you're financially responsible for other people or you work in an industry where it could be difficult to secure your next role, you might be more comfortable knowing you've got a bigger safety net.

My mum's had breast cancer twice, and there's always that thought at the back of my mind that it could come back for a third time. If this ever happens, and I really hope with all my heart that it doesn't, I want to be able to drop everything to spend quality time with her. That could be flights, unpaid leave from work or a family holiday – and all those things cost money. That's why having a larger emergency fund is so important to me, even though I could probably get by with much less. I don't want my choices in a challenging situation to be dictated by my finances.

If you think about it, you've probably also faced some challenging situations in which having a break-glass-in-case-of-emergency account would've come in handy. Have I convinced you that you need an emergency fund yet? If so, it's time to get cracking.

Step 1: Open your emergency account

First things first, open a completely separate bank account that isn't directly linked to a spending account and label it as your dedicated emergency fund. Ideally this will be a high-interest savings account that won't charge you account-keeping or withdrawal fees and allows you to access the money quickly. This account will be used solely for your emergency fund, so you'll have to practise self-restraint and access it only for emergency situations.

Step 2: Set a goal and budget for it

Your next step is to work out how much you'll need in your emergency fund. Consider your needs and your current financial situation. Once you've got a number in mind, you'll need to make room in your monthly budget for it (unless you've already got the money available to move into your emergency fund straight away). Here's an example:

> *I've determined that I need around $3000 to feel comfortable, and I've worked out that I can reach that goal by transferring $250 into my emergency fund each month for the next 12 months. If I can also take on some extra work during the holidays or sell some items around the house to speed up the process, that would be a bonus!*

Remember, whether it's $500 or six months' living expenses, you need to work out the appropriate emergency fund goal for you. For example, if you have competing priorities or you're currently paying off debt, it may be better to start by putting aside just one month of living expenses and committing to building up your emergency fund over time.

Step 3: Set up automatic payments

Once you've worked out how much you want to move into your emergency fund each month, set up an automatic payment depositing the planned amount of money into your emergency fund from the account you receive your salary into. If that's not an option, put a recurring calendar event in your diary that reminds you to move money across to your emergency fund.

This step draws on US financial educator Ramit Sethi's automation-centred approach to building wealth and security. This is how he describes the benefits of automating aspects of personal finance:

> *By setting up a bulletproof personal finance system, you can start to dominate your finances by having your system passively do the right thing for you, leaving you to focus on the things that really matter.*

So, put your plan on autopilot and move onto the next step!

Step 4: Be consistent

The key thing to keep in mind is that you need to be consistent with building your emergency fund. It may take a few years for you to set up your emergency fund, and you may even need to use it before you reach your goal, but don't be discouraged. After getting started, continuing to add to your fund until you reach your goal is the most important part of this process – even if it feels like you're not really getting anywhere. If you have any unexpected windfalls, such as a tax refund or a bonus, consider them good opportunities to boost your emergency fund.

Step 5: Use – and replenish – your emergency fund

Finally, once you've got your emergency fund in place, or at least in progress, don't be afraid to use that money if something unexpected happens. That's what it's there for! Just think of it as your personal parachute that you can open in case of emergency. If you do have to use your emergency fund, start repairing it straight away!

That's great in theory, but it can be a bit harder in practice. If you have difficulty actually spending money after you've saved up for something, you may find it challenging to use your emergency fund when you need it. My suggestion to you here is to reflect on what kind of situations would warrant breaking the glass, so to speak, and writing them down. This ties into your values, so it'll look different to everyone, but the list could include things like flying interstate for a funeral, taking time off work to support a friend having a tough time or getting an urgent car repair. Remember that this money has been put aside by past-you to support future-you in tough times and using that support is okay!

It's true that replenishing an emergency fund that you've worked hard to build can feel a little disheartening, but don't let that stop you. You might need to take a short break and have a breather before you get going again; however, you'll get there – and this time you're not starting from scratch. Not only have you already got your emergency fund account set up and know how much you need, but you've also built the skills and discipline required to reach your goal again. So, if this is you, remember you've got this!

TL;DR

Getting the foundations right is important. Though what you've read in this chapter mightn't sound that exciting, sorting out the building blocks of your finances gives you bang for your buck. If buying happiness is your goal, paying off debt and building your emergency fund are essential steps on your journey.

- Building your financial foundations is an important part of your journey. Don't skip it.

- People usually end up in debt because of many small purchases that build up over time. It can take time to unpack this, and more time still to actually pay off the debt, but it's important to reflect on what caused your debt to avoid repeating the pattern.
- Paying off debt is hard and takes resources, but that doesn't mean you shouldn't do it. Find people to support you on your journey and reach out if you need help.
- You need a break-glass-in-case-of-emergency account. Having 3–6 months of expenses in a high-interest savings account is a key factor in increasing your financial wellness levels.
- You'll probably have to use your emergency fund at some point – and that's okay! Just remember to breathe, deal with the situation at hand and then, when you're ready, start filling it back up again.