

7

Emergency Fund First

L3.5.7 · THE FOUNDATION

I CAN

calculate the size of an emergency fund and explain why it comes before investing

Rent or housing	
Food	
Transport	
Phone and utilities	
Minimum debt payments	
One month of essential costs	

STARTER GOAL	REAL GOAL	IF INCOME IS UNSTABLE
\$1,000	3 months	6 months

Why first?

Investing usually earns more than a savings account. So why should the emergency fund come first anyway?

MILO

"An emergency fund is not an investment. It is what stops an emergency from becoming debt."

Answers and talking points

What a good answer looks like, and one question to ask when the pencils go down.

6–8 Working the numbers

The five costs are the student's own, so there is no key — but the arithmetic is fixed. **Add the five essentials to get one month, then multiply by three for the real goal and by six if income is unstable.** On a typical worked example of \$1,800 a month, the starter goal is **\$1,000**, the real goal **\$5,400**, and the unstable-income goal **\$10,800**. Watch for students including subscriptions or eating out — essentials means *what you cannot stop paying*.

Ask: “Which of the five could you actually cut in a bad month?” Anything they can cut was never an essential.

6–8 Why it comes before investing — the real question

Investing does earn more than a savings account, so the sheet is right to ask. The answer is that **an emergency fund is not competing with investment returns — it is preventing a much larger loss**. Without one, a \$900 car repair goes on a credit card at 20–30%, or forces selling investments at the worst moment. **Avoiding 25% interest beats earning 8%**, every time. Accept any answer that gets to ‘otherwise the emergency turns into debt’.

Ask: “What would you have had to do last time something broke?” The honest answer is usually ‘ask a parent’ — which is somebody else's emergency fund.

Want the rest of the unit?

This page is one activity, unchanged, from **Unit 3.5 — Saving and the Time Factor**, a Financial Foundations™ unit of 10 to 12 lessons with teacher scripts, family letters and a unit checkpoint. For a free five-day money game your students can play in a browser, try **The \$100 Week™**. Everything is at wealthwisekids.org.