



HEALTHY, WEALTHY, & WISE

Learning to improve financial health, increase wealth, and make wise consumer choices

Are you saving some of your income or barely getting by at the end of the month? Would an emergency trip to the dentist or an unexpected leak in the plumbing wreck your budget? Families with no savings or emergency fund frequently find themselves in a bind when unplanned expenses come out of the blue. What's more, money problems can lead to other problems. That's why having a regular savings plan is so important.

This issue helps you decide where to keep your money, establish savings goals, determine ways to save, and decide how much to save to reach your goals. It also helps you shop around and compare accounts.

Saving requires tough decisions. To reach savings goals, you may have to give up some things. What you give up depends on what you and your family value most.

Why Save?

Reasons for saving include:

1. to accumulate an emergency fund equal to 3 months of your take-home pay or expenses;
2. for education;
3. for retirement;
4. for major purchases, vacations, or annual events; and
5. for seasonal or nonmonthly expenses.

There are many ways to save. But the most important thing to remember about a savings plan is to keep it safe, simple, and steady. If you make saving automatic, it will be easier to stick with your program. A plan for saving and investing is an important part of a household spending plan. Begin today to build your savings for a financially secure future.

Is Your Money Safe?

Money needed to pay monthly expenses, to meet emergencies, and to save for short term goals must be convenient, readily available, and safe. It should also be in an account that is safe. Most savers keep emergency money in a savings account or a money market deposit account. Both of these accounts are federally insured and available through local financial institutions. Checking accounts at banks and credit unions are also insured accounts.

Do not confuse money market deposit accounts with money market mutual funds. Money market mutual funds, although relatively safe, are not federally insured deposits. Both types of accounts are easy to open but do require a minimum deposit.



Savings and Loans

Financial institutions offer not only savings and checking accounts, they also offer loans to deserving customers at much lower rates than some other types of lenders. If you have established a good relationship with a bank or credit union and have money in a savings account to cover a small loan, you are sure to get it.

Even for larger loans, apply with your bank first to see if you qualify for a low-cost personal loan or mortgage and see what your interest rate would be before shopping for a loan elsewhere. Then you can decide where you'll get the best deal.

You will learn more about shopping for credit and using credit wisely in the coming issues. Learn more about high cost banking options on the last page of this issue.

How Much To Save

How much do you need to save to reach your goals? It depends on:

- ✓ how much money you need.
- ✓ how much time you have to save the money.
- ✓ what interest rate you can earn on your savings.

For example, let's say your goal is to take a vacation in three years. You think you'll need \$1,800 and you plan to save at your bank. Use the worksheet below to estimate the monthly savings you'll need. In the example, you would need to save \$50 per month for the \$1,800 vacation. That's less than \$2 per day. You will also earn a little interest on your savings.

Goal	Amount Needed	When Needed	Yearly Savings Needed	Monthly Savings Needed
<i>Example: Vacation</i>	<i>\$1,800</i>	<i>3 years</i>	<i>\$600</i>	<i>\$50</i>



Ways To Save

How can you save when you don't have a dime to spare? Below are some tips. Check the ones you plan to try.

- _____ 1. **Pay yourself first.** When you pay your bills, pay your savings bill by depositing the money in your savings account.
- _____ 2. **Use payroll deductions.** Have your employer deposit your savings directly into a credit union or bank account.
- _____ 3. **Save "bonus" income.** Save tax refunds, overtime pay, gift money, refunds, and rebates.
- _____ 4. **Save coupon money.** Save the amount you "save" by using coupons at the grocery store. If you save \$2 a week using coupons, put the "savings" (the money you did not spend) in your savings account.
- _____ 5. **Pay installments to yourself.** Once you pay off a loan (and if other loans are not overdue), continue to make "payments" to your savings account.
- _____ 6. **Collect loose change.** Empty your pockets and wallet of loose change and place in a jar. Once a month, deposit the change in your savings account.
- _____ 7. **Break a habit.** Every time you don't have a donut at coffee break or don't buy a soft drink, save the money you didn't spend.
- _____ 8. **Save lunch money.** Get up 10 minutes earlier and make your own lunch. Save money you would have spent on lunch.
- _____ 9. **Save money on sale.** Save the difference between the sale price you paid and the "full" price you would have paid if the item had not been on sale.
- _____ 10. **Have a "nothing week."** Once in a while have a week when you try not to spend any extra money. Save the money you would have spent.

How To Save \$100 a Month

If both you and your spouse will make a commitment to save \$1.67 each day, by the end of the month, you'll have \$100. It's that simple.

$\begin{array}{r} 1.67 \\ \times 2 \\ \hline 3.34/\text{day} \\ \times 30 \\ \hline \$100.20 \end{array}$

How To Save \$1.67 a Day

- ✓ *Buy one less soda.*
- ✓ *Buy one less cup of coffee.*
- ✓ *Buy one less donut.*
- ✓ *Use a 50¢ coupon.*
- ✓ *Drink water with your lunch – not tea or soda.*
- ✓ *Have bills paid by bank draft and save the postage.*





High Costs of Not Having a Bank Account

Families that don't have a bank account may pay higher fees for everyday services or get caught in money traps that are hard to escape. Here are some money traps that having a good relationship with a bank might help you avoid. Use the word choices below to fill in the blanks:

a. car title loans

b. cash advance and payday loans

c. check cashing charges and money orders

d. pawn shops

e. refund anticipation loans

- _____ 1. If you have a savings account or checking account, you can get your tax refund directly deposited into your account in just a few days and avoid the high cost of a _____. You may not realize that rapid refunds from tax preparers are really loans, and loans always cost extra money or interest. Also, there is no guarantee you will actually get the refund if your taxes were not figured correctly. Then how would you repay the loan?
- _____ 2. Using a financial institution, such as a bank or credit union, is usually less expensive than _____. Look for a low-cost checking account, and learn to manage it well to pay your bills. This establishes a reputation with a banking institution that could be valuable to you later if you need a loan or credit card and have been a good customer.
- _____ 3. Small short-term loans, such as _____, carry extremely high interest rates. If you cannot pay on your next payday, the temptation is to keep rolling one loan into another until it snowballs into such a big, expensive problem that there is no hope of ever paying off the loan or getting out of debt. Consumers who have a good credit history and who qualify for a credit card may use it for a cash advance at a much lower rate.
- _____ 4. _____ offer another type of expensive short-term loan. If you own jewelry, guns, cameras, or other items of value, a broker will give you cash for the item after deciding what he or she thinks it is worth. If you cannot pay off the loan as agreed, you lose the items that can be offered for sale in the shop.
- _____ 5. When you sign a contract to get a _____, you are signing ownership of your automobile over to the lender if you do not pay as agreed. Unlike a repossession, where you still own the car and must follow certain legal procedures, the loan company owns the car and you may have received only about one-third the true value of your car as a loan.

Answers to High Costs of Not Having a Bank Account
1. E, 2. C, 3. B, 4. D, 5. A

References

Ann Berry, Money Traps that Keep You Broke, Louisiana State University Extension Service.

FDIC Money Smart, You Can Bank on It.

IN THE NEXT ISSUE: *Smart Goals*

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