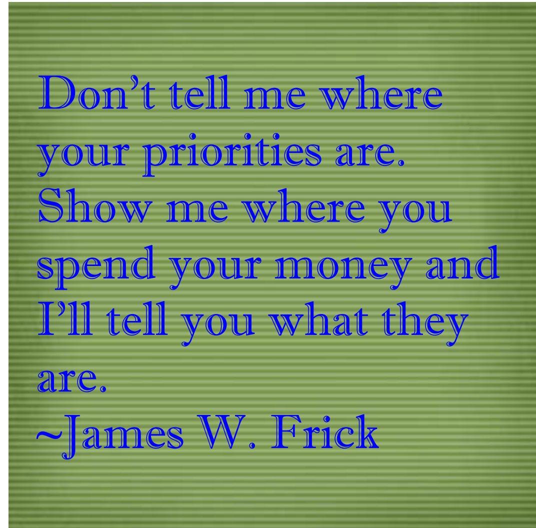
Financial Skills Education

Planning to Save



Why should I save?
There are multiple reasons to save:

Short-Term Needs
Emergency Fund for unexpected expenses or loss of income
Retirement
College

Short-term savings goals should be accounted for in your annual and monthly spending plans. Medium-term savings will also need to be incorporated into your monthly spending plan based on how much you have determined you need and can afford to set aside. This section will provide basic guidance on saving for an emergency fund, retirement, and college planning. However, Skyline recommends you seek professional guidance for retirement and college investment planning.

Be sure to think through your goals and incorporate them into your overall financial goals. Remember that goals should be measurable and achievable.

An Emergency Fund—The First Step
A basic emergency fund is a "must" before beginning to pay down debt or save for retirement or college. If you don't have an emergency fund, then your first response to an unexpected emergency will be to pull out your credit cards, getting you further into debt. Here's how your emergency fund should develop:

⇒ Enough to pay one month's housing payment or $1,000, whichever is greater. This will help you maintain your residence no matter what.
⇒ One month's necessary expenses.
⇒ Three months' necessary expenses.

Of course saving more is always desirable, but three months should get you through most economic setbacks. If you are facing disability, long-term disability insurance typically will not provide payments for the first three months. Short-term disability is an option in this scenario and may be something for you to work into your budget as funds allow.

Keep your savings in an easily accessible savings or money market account. Do not invest it in an asset such as stock, a mutual fund, or CD with a long-term maturity date. Emergencies are, by definition, urgent and unplanned – you want to have the money available when you need it. Do not use the money for non-emergencies that can be planned for such as birthday presents or back-to-school clothes.

How Much I Will Need to Keep in My Emergency Fund?	
Grocery bill for 1 month ______ x 3 months =	$__________
Gas/oil, electric, and water for 1 month ______ x 3 months =	$__________
Mortgage or rent for 1 month _______ x 3 months =	$__________
Car payment or bus fare for 1 month _______ x 3 months =	$__________
Other debt payments for 1 month _______ x 3 months =	$__________
Total amount I will need to keep in my Emergency Fund =	$__________

Identify Your Priorities

The beginning of a plan is determining what is important and where you want the plan to take you. That means establishing your values. This step will help you make choices about how to spend your money. If saving isn't a priority for you, it will never happen. If you have a spouse or other head of household, complete this chart together.

What is Important to You?

	Vital	Very Important	Important	Not Important	Unnecessary
Religious Giving					
Charitable Giving					
Higher Education					
Private Education					
Vacation					
Saving Money					
Children's Activities					
Health					
Food					
Auto Insurance					
Health Insurance					
Disability Insurance					
Life Insurance					
Clothes					
Sports					
Job Satisfaction					
Jewelry					
Time with Friends					
New Car					
Paying Off Debt					
Buying a Home					
Entertainment					
Other ________________					
Other ________________					

Wants vs. Needs
What are "needs"? What are "wants"?

"Needs" are what we need to survive. "Wants" include everything else we might like to have, but are not absolutely necessary. Having this difference firmly in mind helps get spending under control. Depending on the circumstances, wants might be: larger home, paper towels, and a cell phone (unless you don't have a home phone). "Needs" should be housing, food, shoes, and bed. Other things to consider include expensive activities for your children or elaborate vacations. Do the benefits outweigh the costs?

The Time Value of Money

Individuals who start saving earlier in life have an advantage over those who start later. That's because when you put away even small amounts early, a very important financial concept is working for you: *the time value of money*.

When you put money away in savings or investments, the amount you save or invest is the principal. The *principal* earns interest, which then is added to the original principal. This amount (principal + interest) again earns interest, and so on. This process is called "compounding," and its effect is like magic when you let it work for you over time.

Here is a dramatic example of why it pays to start saving and investing early:

Samantha starts investing $1,000 a year at the age of 22 in a tax-deferred individual retirement account (IRA). Tax-deferred means the earnings and the principal aren't taxed until the money is withdrawn, usually years later. Samantha quits putting money in the IRA after nine years, at age 31, but leaves her money so it will grow through compounding until she reaches retirement age.

Her twin brother, Samuel, doesn't start investing $1,000 until age 31. But once he starts, he invests $1,000 in his IRA every year for 34 years, until he reaches retirement age. Samantha and Samuel both earn 9% annually on their IRAs. Who has the most money accumulated in their IRA for retirement at age 65? Look at the chart below—you may be surprised!

	Samantha's IRA	Samuel's IRA
Interest rate	9%	9%
Number of years of contributions	9	34
Age when investing/saving	22–31	31–65
Amount contributed	$1,000 per year for 9 years (or $9,000)	$1,000 per year for 34 years (or $34,000)
Future value	$243,863 at age 65	$196,982 at age 65

Retirement Planning

The Department of Labor recommends replacing 70 to 90 percent of your pre-retirement income. That means, if you're currently making $40,000 per year, you will need a retirement income of $28,000 to $36,000. However, this is just a beginning point and does not apply to everyone. Those with greater health needs, for instance, will definitely need to plan for more income each month.

When planning for retirement, the earlier you start, the easier it is. That is the power of compound interest. Even a small amount of savings each month can have a big impact on your future. If you find yourself running out of time, consider these tips from the Department of Labor:

⇒ It's never too late to start.
⇒ A good goal is to put away 20% of your income in a tax-sheltered retirement plan.
⇒ Reduce expenses to funnel savings into retirement.
⇒ Increase income through a second job.
⇒ Don't take risks, but don't be afraid to be aggressive in your investments.
⇒ You may need to retire later and continue working at least part-time.
⇒ Reconsider your retirement lifestyle.
⇒ Delay taking Social Security as benefits will increase the later you take them.
⇒ Consider possibilities of saving in your housing costs by downsizing or renting out a room.
⇒ Sell assets that are not producing income or growth.
⇒ Take advantage of employer contribution plans.

Tips for Paying Yourself First

If you think that paying yourself first is easier said than done, here are some ideas to get started:

- If possible, have your employer automatically deduct money from your paycheck and deposit it into a savings account. What you don't see, you won't miss if the amount is small (say $10, $15, or $20 a week). And you will be amazed at how fast your money grows.
- Another option is to have your bank automatically deduct a set amount from your checking account each month and deposit it into your savings account. Your financial institution usually can set the date of the automatic transfer for the day (or a few days after) your pay is deposited.
- Try putting $1 a day, plus pocket change, into a large envelope or a jar. At the end of the month, you probably will have about $50 to deposit into your savings account. That's $600 a year (not including interest)!
- Put a refund, raise, or bonus into savings.
- When looking for a better job, consider only employers that offer good benefits, such as healthcare coverage and life insurance. If your employer provides these benefits, you won't have to pay for your own coverage.
- Include "savings" as part of your spending plan. Make it a priority above spending for things such as movies or eating out.
- Send in product rebates. (Most people fail to take advantage of this savings tool.)
- When you need items, shop at thrift stores and garage sales.
- Break costly habits, such as smoking, and save the difference.
- After paying off a loan, put the same amount each month into savings—if the money isn't already going to paying off another loan.

Get Started by Setting Goals

As you begin to translate your dreams and values into goals, they should be specific, measurable, achievable, results-oriented and trackable (SMART). Above, all, be realistic but optimistic. If your monthly budget doesn't balance, a luxurious vacation should be a long-term goal, not short-term.

Also remember to be flexible. Your goals may not come to fruition or, at least, not on your schedule. Plans and goals are great, but they don't always work out. Be prepared for disappointment so you don't let it stop you. Reconsider goals if you don't achieve them within your timeframe. If the goal is still important to you, resolve to work harder to make it happen. Use this chart to get started.

Goals	Cost or amount	Number of months to save	Monthly savings	Weekly savings