HOW *and* WHY *to* SAVE MONEY

Saving Money. . . means setting it aside—deciding that you won't spend it now because you want to be able to use it in the future. Saving part of the money you receive is one of the most valuable habits you can cultivate. Once you understand how important it is to save money regularly (instead of spending everything and maybe borrowing more!), you may begin to save more money. If you are able to save enough money, you will be able to put some of these savings into appropriate investments.

Investing Money. . . means putting it to work to protect and increase its future purchasing power. Simply setting money aside and failing to invest it (putting it "under the mattress") will cause it to lose value to inflation. This will not help you reach your long-term goals.

Saving money is the surest path you can follow if you want to minimize financial problems, both today and in the future. Even very small children can be taught not to spend every penny as soon as they get it, and to put some of their money in a piggy bank so that it will be there when they want or need it. "A penny saved is a penny earned" is still a valuable lesson.

But most young people do not learn the importance of saving. Their families may not have the motivation and self-discipline to plan for spending and saving. Parents may lack the knowledge and shopping skills needed to spend less and save more. They may be vulnerable to the tactics used in advertising and store displays that tempt them to buy things they don't need—using money that they could have saved, money they will want or need for something else tomorrow. Many surveys document the low priority that Americans give to saving money regularly. Even though some of these studies ignore the "forced savings" of Social Security and certain employer retirement plans, the fact remains that many Americans do not set aside much money from their take-home pay--do not, in fact, choose to save money.

Saving money has steadily declined in this country over the past 50 years while borrowing has increased. In 1950, savings averaged 12.3 percent of national output. By the 1960s, it was down to 8.5 percent; by the 1980s, it was 4.7 percent; and in the early 1990s, it was only 2.4 percent. A Merrill Lynch survey in 1993 found that half of all American families had less than $1,000 in net financial assets. Consumer installment debt reached a record $118 billion during 1994, accounting for 17.8 percent of disposable income, or 20 percent if auto leases and home equity loans are included. While government policymakers, academics, and the banking-business community do not agree on any one explanation, they do agree that this trend is serious.

If you did not acquire the savings habit while you were growing up, now is the time to begin to develop that habit. Set aside a goal to "pay yourself first"—to plan and manage your spending so that you will be able to save. Begin by saving a small amount, but save it faithfully.

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Gradually increase the percent of your income that you save. Over time, try to set aside enough savings to meet each of these needs: day-to-day living expenses (including debt repayments); common emergencies; large recurring expenses; short-term goals; long-term goals; and special opportunities or circumstances that would require substantial sums of money in the future.

Saving Money at Each Stage of Financial Management

Let's look at financial management as a lifelong challenge—as a series of tasks you will master one by one, and then move on to the next stage. Saving money is essential at each stage.

BASIC	INTERMEDIATE	COMPREHENSIVE
Create a budget, keep records, and make necessary adjustments in your spending and saving plan.	Continue budgeting, keeping records, and adjusting plan.	Continue budgeting, keeping records, and adjusting plan.
	PLUS	***PLUS***
	Increase savings and insurance protection.	Continue with more savings and insurance.
		PLUS
		Increase savings to permit investments for long-term needs and other goals.

Basic Stage of Financial Management

Basic money management is a process in which you:

1. Plan the ways you intend to use your money and access to credit—creating a flexible budget to guide your spending, saving, and borrowing;

2. Keep track of the ways you actually use both cash and credit; and

3. Adjust your spending and saving plan to help you achieve more of your day-to-day financial goals. (See Extension publication HE-345, *Making a Budget & Making it Work!)*

In the beginning, try to set aside at least a little money, in a checking account or other system that is safe from fire, theft, or temptation—to make sure there is enough money each month to pay all your bills and meet your family's basic needs. Then begin setting aside a little more money regularly (say, in a savings account that earns interest) for a "rainy day" or emergency fund for such things as car repairs or medical bills. Try to set aside enough each month to cover predictable periodic expenses, such as insurance premiums, taxes, and gifts.

Intermediate Stage of Financial Management

Budgeting, keeping records, and making adjustments are a lifelong challenge, not something you stop doing once you master the basic money management process. Whenever you can, increase the amount you save—setting aside additional amounts of money for selected investments and various types of insurance. (See Extension publication HE-274-1, *Financial Risk Management,* and other publications on insurance.)

As soon as you are comfortable with the budgeting process, try to increase the amount of money you set aside regularly, placing it in insured, interest-bearing accounts or other safe, easily accessible investments. Learn how to make informed decisions about insurance to reduce your financial risk from accidents, fire, theft, and other insurable losses. Keep up with the public policy debate on health care and health insurance, and make informed decisions about health insurance and potential out-of-pocket health care costs. Plan to use some of your increased savings for short-term financial goals, such as a car, an educational opportunity, or a vacation. Keep building your emergency fund to tide you over in case of a more serious event, such as losing your job. Such an emergency may cause a financial setback, but try to begin saving regularly again as soon as possible.

Comprehensive Stage of Financial Management

Basic money management remains the foundation for even the most advanced stage of financial management, which requires a still higher level of savings that you will put to work in appropriate long-term investments. (See Extension publication AG-390, *A Guide to Investing for North Carolinians.)*

When your emergency fund has reached a level you are comfortable with (say, enough for several months' living expenses), you are ready to begin investing some of your savings in new ways to reach future financial goals. The earlier you begin investing even a small amount of money, the more quickly its value can grow.

It is very difficult for most teenagers to think seriously about some of the things they may need or want in the future—to understand that many of their duties and dreams will require more money than income from their job will provide. But setting aside money for thoughtful investments is one of the most important goals a person can set for himself. (Social Security and a company pension plan should not be viewed as adequate, reliable sources of retirement income.) Young people deserve to be taught that they can prepare for most of their future financial needs if they begin saving and investing while they are young.

However, there is a definite trend or pattern in saving and investing that most families follow. Even though the greatest financial security comes to those who save enough to invest while young, this is very difficult for most families to do. Try not to let the costs of setting up a household and having children in your 20s and 30s cause undue concern. But do make every effort to launch a serious saving and investment program during your 40s and 50s. Waiting too long to plan for the costs of a house or college, for out-of-pocket health care costs, for retirement, and possible long-term care will have serious emotional as well as financial costs.

How to Begin Saving— And to Increase Your Savings

Developing a plan for saving is the first step. In the beginning, the amount is less important than the fact of saving regularly. If you look at the amount your decide to save each week or month as an obligation, such as a debt payment, the idea of "paying yourself first" can become a serious commitment. Begin with an amount that you are sure you can set aside so that you build a sense of accomplishment rather than frustration.

1. Decide on a realistic amount to save. If your income varies or is seasonal, select an achievable amount for each month and try to save that amount. Set up a Monthly Savings Plan, as in the form on the next page, to help you decide how much to set aside each month.

2. Follow your plan, save regularly, and increase your savings whenever you can. Think of your planned savings as a "fixed obligation" and set this money aside before paying other bills. (Use envelopes, an interest-bearing checking account, a savings account, or other appropriate investments that will ensure that the money is available when you want or need it.) Practice careful shopping and resist impulse buying so that you are able to live on the amount of money that is left after "paying yourself first." If your employer permits payroll deductions for savings, this might make it easier for you to save the amount of money you need to reach your goals.

3. Periodically review your progress toward your goals. Adjust the amount you save as old financial goals are met and new ones are set. If you receive a gift of money, an increase in salary, a tax refund or other "windfall" of extra cash, apply as much of this new money as possible to your savings goals, rather than spending it all on things that are not as important to you.

Monthly Savings Plan

Average monthly take-home pay or living allowance $________

Purposes for Saving	Amount Needed	Amount To Save
1. Meet bills, loan payments	________	________
2. Emergency fund	________	________
3. Recurring expenses (list)	________	________
________________	________	________
________________	________	________
4. Financial goals		
Short-term (list goals for next few years)		
________________	________	________
________________	________	________
Long-term (list goals for future needs and wants)		
________________	________	________
________________	________	________
5. Special opportunities (list)		
________________	________	________
________________	________	________
Totals	________	________

Complete the "Amount Needed" column first.

To meet bills and debt payments that come due each month, first calculate the typical amount of money required. Then estimate the amount of money that is not due at the beginning of a pay period but must be set aside so that the bills can be paid on time. (There is no law that says you have 30 days before a bill is due. You must check to see when each bill or debt payment is due, and you risk a bad credit rating if your payments are late.) Challenge yourself not to spend the money you will need for bills that arrive and are due between paychecks. (See Extension publication HE-400-3, *Organizing Personal or Family Filing Systems and Procedures,* for ideas on getting organized to pay bills, and get in the habit of scheduling time to review your bills and budget once a week, or at least twice a month.)

For emergency fund needs, try to set aside at least 5 percent of your take-home pay or living allowance, working toward a goal of saving 10 percent. Build and maintain an emergency fund equal to three to six months of your salary. Three months' salary may be adequate if you have resources such as: assets that can be converted to cash without loss; paid sick leave; and adequate insurance coverage. If you do not have these resources, keep saving to build a larger emergency fund.

For your recurring expenses, such as taxes or insurance premiums, estimate how much to set aside each month to meet those expenses. You might also include money for holiday and gift giving as a recurring expense.

List your financial goals. Write down the cost of each goal, the date you would like to reach that goal, and the amount of money you would have to save (and invest) each month to reach the goal. Study your list and select the short-term and long-term goals that are most important to you, and are realistic goals to work toward.

Under special opportunities, list other uses for which you want savings (and investments), and write down the amount of money needed for each. (Remember that you will need more than today's cost for opportunities in the distant future because of inflation. If you invest wisely, the value of your money will not only keep up with inflation but will increase at a faster rate than inflation. Also remember that you must pay taxes on the earnings of many investments, and you will need reliable investment advice.)

Total the money needed each month to reach these goals.

Complete the "Amount to Save" column.

Begin with "Meet Bills," and enter the amount of money you can set aside at the beginning of the month to meet the bills that come due during the month. Enter the amount you can save for items 2-5 in your savings plan.

Total the amount of money you believe you can save. Compare the totals for "Amount Needed" and "Amount to Save." If the sum you would need to save is greater than the amount you can save, try to figure ways to cut other expenses and increase your monthly savings. If you still cannot set aside enough savings for the goals you've chosen, study your list carefully and decide which goals to drop or delay so that the amount to be saved each month is possible.

Guard against borrowing money or charging unplanned purchases. If you are not able to save the money required to buy these unplanned purchases outright, will you have the extra amount needed for additional credit payments?

Learning to Live on Less than You Earn

Saving money may seem difficult at first because we want so much and we want it now. Saving instead of spending is always a trade-off. You must deny yourself something you want today in order to provide the money you will want or need tomorrow. Just as credit is a delayed expense, think about saving as delayed spending. How can your improve your ability to "no" when you're tempted to use too much cash and credit today? Try some of these tips for making more money available for saving.

1. Consider which of the things that you want to buy are not really "needs," and decide to do without some of these "wants." Remember the old saying, "Use it up, wear it out, make it do, or do without."

2. Plan your purchases for each pay period and then buy the true necessities first. If something in your budget costs less than you expect it to, put the amount of money you didn't have to spend into your savings!

3. Think about the brands you buy and where you shop. Much of what you spend goes for costly advertising budgets and overhead costs due to store location and decoration. Would less expensive or generic brands meet your needs? Does the product have to be new? Do other stores carry the same items but charge less?

4. Think about and practice ways to cut spending (which will let your increase your savings), such as reducing: meals eaten out; auto trips; use of credit cards for small items; high-cost brand name products; and clothes that require ongoing, expensive care. Remember the saying, "Waste not, want not."

5. Reducing household waste will also reduce costs and permit more savings. Don't buy things you don't need. Choose items without unnecessary, expensive packaging. Select items that can be used again and are made well enough to last a long time. Choose items that can be recycled and then recycle them. Buy things that have been made from recycled items, to "close the recycling loop."

6. Decide upon a reasonable amount of personal money for each family member so that everyone has a little money to spend or save as they choose. This can be an emotional safety valve and reduce the temptations of impulse spending.

7. Wait for and take advantage of genuine sales, especially for expensive items. This means using savings for a true bargain—something you need and would buy anyway. Getting such as item at a reduced price will permit you to save the difference between the regular price and the sale price. But if you buy something you don't need and can't afford just because it's on sale, you are not saving money. You are simply spending more money than you had planned to and reducing the amount you can save.

8. Return faulty products and get your money back. (Of course, you will also save money if you learn how to judge the quality of different types of consumer products and reduce the number of unsatisfactory purchases.)

9. Read the directions before using a consumer product so that you don't cause a problem, wasting money to replace items you damaged.

10. Take care of products so that they last a long time and don't have to be replaced so often.

11. Consider using free time and abilities to earn extra money or to provide goods and services for your family that will reduce the cost of living in cost-effective ways.

12. Take care of your health and follow good safety practices. More than half of all health care expenses are caused by lifestyle choices—things eaten or ingested, avoidable accidents, lack of exercise. Health care and health insurance are too expensive to use in a casual, wasteful manner. By avoiding or at least reducing those costs, you will free up money for other things you want and need in the future.

13. If you need to purchase services you are not familiar with, get information about the service and try to get personal recommendations of persons or companies with a good reputation. Be sure you understand the terms of any agreement you sign.

14. Save money on insurance by insuring only against large losses. You can reduce your premiums with a larger deductible. If you save and invest the money saved through lower premiums, you may be able to pay future deductibles.

15. Put the money that you work so hard to earn to work for you. Putting even small amounts of savings into appropriate types of investments can demonstrate the truth of the saying that "it takes money to make money." Pay attention to such things as minimum deposits, and avoid unnecessary charges for interest-bearing accounts. Read the small print and avoid accounts that would penalize you if you plan to withdraw money more often or sooner than the account permits.

Learning about Long-Term Investing

Choosing how and where to make long-term investments can be confusing. Numerous "financial products" are available from a variety of financial service institutions, and other investment options are available from many different sources. No one investment product is best for everyone. And because economic, political, and market changes constantly influence the yield, safety, liquidity, inflation, and tax aspects of any investment, you will need to do some research and shop around before making investment decisions. (See Extension publication AG-390, *A Guide to Investing for North Carolinians.)*

Summary

Saving money is essential if you want to achieve both small and large financial goals. Try to develop the saving habit, and increase the amount you save by careful planning and shopping.

It is also important to make wise investments to protect your financial resources and improve your future financial security. Consider your temperament and your needs for yield, safety, and liquidity. Diversify your investments to reduce the risks.

Be cautious in choosing financial advisers. Make sure the people you trust with your money have a record of competence and service. Be sure they understand the effects of inflation and taxes on an investment plan, and keep up to date with changes in marketplace options and public policy.

Remember that there are many unscrupulous con artists in this world who gain consumer confidence and convince people to give away their savings in telemarketing and other fraudulent schemes.

No one can protect us from our own bad judgment. Each of us is responsible for becoming well-informed and for making thoughtful decisions that improve our prospects for financial security.

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5,000 copies of this public document were printed at a cost of $XXX, or $.XX per copy.

Published by
NORTH CAROLINA COOPERATIVE EXTENSION SERVICE