

Young, Fabulous & Smart About Your Money!

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Let's face it - all of us want to party like a rock star and actually be able to afford it. Be it now or 40 years from now, we can all feasibly do it too. Just put your best foot forward and start saving something - anything - today!

The most commonly-used accounts for saving are regular savings accounts and money market accounts. The difference between a regular savings account and a money market account is the interest rate earned on the money and the required minimum balance. A money market will pay more interest, but will require a minimum balance most likely somewhere in-between \$500 - \$2,500. Money market rates typically go up as your balance goes up.

What is interest? Interest is what a financial institution will pay you for keeping your money on deposit with them. The interest is a percentage rate that may be referred to as interest rate, yield or Annual Percentage Yield (APY). Whenever you see or hear an advertisement for a savings account, focus on what the APY is. This is the easiest way you can measure what you'll really earn. That way, when comparing APY's from various financial institutions, you'll be comparing apples to apples.

Whatever type of savings account you choose, it should be one with the highest interest rate possible and one without any fees. Two of the most common fees are a monthly maintenance fee and a fee for when your balance falls below the minimum deposit required. Both of these fees can be expensive & end up costing you money instead of making money.

Your savings account should be used for items that have a big price tag attached to them and to cover unexpected expenses. Call it your emergency fund. A vacation, new furniture, a new car, or even your wedding, are purchases that may be a little out of your price range currently, but easily attainable if you start saving today. A savings account should give you the freedom to say "Yeah, I can afford to take that trip to Bermuda next year."

Unexpected expenses could be anything from a \$700 car repair to a \$1,500 medical bill. Your savings account should give you the security of knowing you can handle the unexpected payment without having to borrow money from family, friends, your financial institution, your credit card or a paycheck lending place.

This savings account should also be your emergency fund that keeps you from panicking if should you find yourself out of work unexpectedly. The cushion of money should make it possible for you to cover your living expenses until you find a new job. Ideally, a savings account should also give you the financial security to

move out on your own, either from mom & dad's or from a living arrangement that is no longer working.

People in a relationship should make sure they have a savings account of their own, in their name only, with a goal of at least three months of living expenses. Staying in a relationship because one feels financially trapped can be overcome by having a savings account. It doesn't mean that you don't love your partner or family, it's just something you should do for you - just in case!

Let's get one thing straight - a checking account is NOT a savings account, or vice-versa. Your checking account is where you should keep the money you need for monthly expenses; such as the cash you need for a night out on the town and to cover your monthly bills. Today, you can pretty much withdraw money from your checking account anytime, anywhere, thanks to the many convenient ways to access your money, including writing checks, using a check card, or using the ATM.

Sure, a savings account is a bit less convenient than a checking - but that's good because it shouldn't be used to cover your routine expenses. That is what your checking account should be used for, remember?

You are making a costly mistake if you keep your emergency money in your checking account. Interest-bearing checking accounts typically earn less than savings accounts, costing you money in the long run.

Back to building that savings account. So how much of an emergency savings should you have? As mentioned previously, a common rule of thumb is to have as little as three months worth of living expenses in your savings. The latest in Suze Orman's* book *Women & Money: Owning the Power to Control Your Destiny*, is a minimum of eight months worth of living expenses. Depending on your lifestyle, choose what you are comfortable with. It may sound like a lot, and it may certainly take you a while to build your savings to have at least eight months of expenses in your account. **Whatever you can afford to put away each month is the right amount for you, and it's better than nothing at all!** (This emergency savings does not include funds you have in any IRA's or 401K accounts, as those should be viewed as retirement savings only.)

We can hear you now, saying that you do not have any money to save. Don't sell yourself so short! The bottom line is that with all of life's mishaps, you can't afford NOT to save! Even by adjusting small things in life you can find money to save.

Here are a few examples:

try this!

- Cut down the number of times you go out in a week for drinks or dinner.
- Stop buying a coffee at a coffee shop and drink the free stuff from work, or make your own at home. You'll thank yourself later when you realize how much money you've saved!
- Do not spend your change. Put those coins into a savings account. You could probably earn \$50 extra dollars a month or more!
- When you receive a raise from work, put your extra pay directly into your savings - don't let it even touch your checking!

This chart shows how your savings can add up if you deposit into a savings account with an APY of 5%.

| Amount Deposited each Month | In One Year | In Three Years | In Five Years | In Ten Years |
|-----------------------------|-------------|----------------|---------------|--------------|
| \$50 | \$614 | \$1,938 | \$3,400 | \$7,764 |
| \$100 | \$1,228 | \$3,875 | \$6,801 | \$15,528 |
| \$200 | \$2,456 | \$7,751 | \$13,601 | \$31,056 |

Your system for saving should be automatic. A great way to do this is to have direct deposit. Direct deposit is where your paycheck is electronically deposited into an account of your choice. You can have it go to any financial institution you choose and it can go into any one of your accounts - your checking account is recommended. Your employer must offer direct deposit for you to be able to take advantage of it - so check with them today!

With direct deposit, you will no longer need to run to the credit union or bank to cash your check every time you get paid! In addition to the convenience of direct deposit, you should talk to your financial institution about the electronic services they offer. You can set up automatic transfers that happen immediately after your direct deposit gets into your account. These automatic transfers can be set amounts of money that go into your savings or go towards any loan payments you may have. The money left in your checking should be the amount you need to pay your monthly bills and for any spending money you need until the next time you get paid.

To keep track of all of your accounts, you should also set yourself up with online banking & bill pay through your financial institution. This way, you can keep an eye on your accounts at your convenience, make additional transfers within your accounts and with bill pay, you can set up your monthly bills to be paid electronically as well.

Using these automatic systems forces you to save. It takes it out of your hands, so you do not get the urge to spend a little more here or there. Remember that every paycheck you receive you should put some of that into your savings. Consider your savings as a monthly bill that has to be paid. Remember, when you get paid - you should pay yourself first!

Get on the right track to saving today - either for your emergency fund or your goals. Talk to your employer about direct deposit and talk to your financial institution about automatic transfers, online banking and online bill pay. Time is of the essence - it's the most important part of saving. It's like a snowball rolling down a hill....it starts small and gets larger with time.

A TRIPLE Dose of Motivating Financial Facts:

1. A 25-year-old woman who saves \$100 a month until she retires will have six times more money when she retires than if she were to begin saving \$100 a month at age 45.
2. A 50-year-old man who contributes \$500 a month to a retirement plan will never catch up with the 30-year-old woman who has been socking away \$100 a month.
3. The average personal wealth of a 50-year-old American, including home equity is less than \$40,000.

** Suze Orman is the author of five consecutive New York Times best-sellers, host of her own award winning CNBC-TV show, contributing editor to O, The Oprah Magazine, and a featured writer on Yahoo! Personal Finance. www.suzeorman.com*

