

Managing Your Personal Finances



SAVINGS



"Whether you are saving for a vacation, or 'just in case,' saving money is the best way to get ahead!"

THREE STEPS TO SAVING

Saving is the best way to get the things you want and achieve security and peace of mind. If you follow a plan, you can have money when you want or need it! We'll show you how, step by step.

1 Make the decision to save.

- ✓ Save to have money for surprises (good or bad).
- ✓ Save for something you want or need in the future.

2 Decide where the money will come from.

- ✓ Will you use part of your income? (money coming in)
- ✓ Will you reduce your expenses? (money going out)

3 Plan how you will save the money you need. With discipline, you can do it!

- ✓ You can start a savings plan with your bank.
- ✓ We'll give you explanations and examples.

GETTING STARTED

Saving money is the smart way to take care of yourself. It is a good discipline for life and a great way to take control of your personal finances!

*" Whether you are saving for a vacation, or
'just in case', saving money is the
best way to get ahead!"*

Before you begin, it's important to ask yourself these questions:

- ? Do you know how you are spending your money now?
- ? Where is the money that you want to save going to come from?
- ? Are you going to increase your income (money coming in)? or
- ? Are you going to decrease your expenses (money going out)?

KEY TERMS

When you learn something new, it's helpful to understand **key terms** - just like knowing what to look for when you buy a car, or learning a new language when you visit another country.

EXPLANATION OF KEY TERMS

✓ **Principal**

The money you put into a savings account.

✓ **Interest**

The money the bank pays you (on your principal) while you keep money in your account.

✓ **Compound Interest**

The money the bank pays you on your principal - and on previously earned interest.

Your money (principal) *plus* interest *plus* time can work together to increase your savings.

MONEY + TIME + INTEREST

Example

Save \$10 a week for 3 years = \$1,560.00 + interest!

MAKING CHOICES

Once you are aware of key terms, it is important to understand **safety, liquidity, and return**. You can make the best choices when you understand what these words mean and how they relate to each other.

❖ **SAFETY**

Safety means knowing that you'll always get back at least what you put into the account, no matter what happens.

❖ **LIQUIDITY**

Liquidity means you can convert your savings plus interest earned, into cash without any significant delay or penalties.

❖ **RETURN**

Rate of Return (interest rate) is the money you earn on your savings, and it is almost always related to the degree of risk associated with a particular account.

Now you are ready to find out about the types of accounts banks may offer, and which ones may be best for you and your money.

GENERAL TYPES OF ACCOUNTS

Most bank accounts are protected up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC), so your principal and interest are always safe. Check for this.

Savings accounts offer different *levels of safety, liquidity, and rate of return.* These levels depend on the types of accounts you choose. While banks may have different names for accounts, the information below explains general types of accounts.

❖ BASIC SAVINGS ACCOUNT

A basic savings account is a good first choice when you begin saving, and a good lifetime habit. Your money is easily available to you if you need it.

- ❖ **Time** - The longer you can save money in this account, the more it will grow.
- ❖ **Deposits** - May require a minimum deposit and minimum balance. No limit on number of deposits.
- ❖ **Withdrawals** - Usually unlimited (*varies from bank to bank*).
- ❖ **Interest** - Normally paid monthly. Although the interest rate (*or return*) you receive may not be as high as other types of savings accounts, your money is easily and quickly available.

❖ MONEY MARKET ACCOUNT

A money market account is a good choice when you are saving for the short-term, such as for a vacation or to purchase a car.

- ❖ **Time** - The longer you can save money in this account, the more it will grow.
- ❖ **Deposits** - May require a minimum deposit and minimum balance. No limit on number of deposits.
- ❖ **Withdrawals** - Usually limited to several each month. Normally includes check-writing privileges. (*varies from bank to bank*)
- ❖ **Interest** - Usually paid monthly; may be a higher interest rate than a Basic Savings Account.

❖ CERTIFICATE OF DEPOSIT (CD)

A CD is a good choice if you are saving for a vacation, a car, or college education and you won't need the money for a certain period of time.

- ❖ **Time** - This account offers the opportunity to save a specific amount of money for a specific amount of time, such as six months, one year, five years, or ten years.
- ❖ **Deposits** - A one-time deposit of a specific amount of your money.
- ❖ **Withdrawals** - You agree to keep your money in a CD for a specific time period, with no withdrawals. If you need to withdraw your money before the end of the specified time period, penalty fees will be charged by the bank.
- ❖ **Interest** - The interest rate will normally be higher than for a Basic Savings or a Money Market Account, because your money is not as quickly available to you.

SETTING GOALS

Whether you are starting a *general* saving habit, or you are saving for something *specific*, setting goals is the smart thing to do.

The GOALS WORKSHEETS on these pages offer an opportunity to plan two different kinds of goals for yourself using what you've already read and learned about.

You have lots of new information and ideas to consider.

Get a pen or pencil, use the examples we've shown you, and put your dreams and goals onto paper!

*"Think of what you will be able to give yourself
later - not what you might have
to give up right now! "*

GOAL WORKSHEETS

There are two kinds of goals: short-term and long-term.

SHORT-TERM GOALS

You can meet these kinds of goals in a fairly **short period of time**. You may also plan for these kinds of goals more than once.

Examples of short-term goals:

- vacation
- down payment for a car
- "just in case" for an emergency

Use the worksheet below to plan a short-term goal!

SHORT-TERM GOAL	
My short-term goal is:	_____
Total amount I need to save:	\$ _____
Where is the money I'm going to save coming from?	_____
Amount I need to save each month:	\$ _____
Number of months I need to save to reach my short-term goal:	_____
Type of account I'll choose:	_____

Many people have several short and long term goals at the same time.

LONG-TERM GOALS

For most people, these kinds of goals only occur once or twice in a lifetime and require careful saving over a **long period of time**.

Examples of long-term goals:

- saving to buy a home (usually requires 10% down)
- paying for a college education
- planning for retirement

Use the worksheet below to plan a long-term goal!

LONG-TERM GOAL	
My long-term goal is:	_____
Total amount I need to save:	\$ _____
Where is the money I'm going to save coming from?	_____
Amount I need to save each month:	\$ _____
Number of months I need to save to reach my long-term goal:	_____
Type of account I'll choose:	_____

MAKING PLANS

Whatever type of goals you have or accounts you choose, it's important to make plans and save regularly. Your local banker can help you make choices that are right for you and answer specific questions about the accounts they offer.

Regular saving is an important part of managing your money. Here are some ideas that can help you make savings plans:

- **Pay yourself first.** If you wait to see what's left over, you are less likely to save.
- **Consider "general" or "just because" saving.** Commit to save a specific dollar amount or percentage of your income every week or month.
- **If you receive a raise,** you can increase the amount you save.
- **If you pay off debt,** you can increase the amount you save.
- **Talk with your banker.** You can arrange for the automatic transfer of money from your checking account to your savings account on a regular basis.
- **Talk with your employer.** Consider automatic payroll deductions. Your employer can help you set up automatic savings deposits from your paycheck.

RISK, REWARD and INVESTMENTS

For long-term goals, such as saving for a home or even retirement, you may also want to consider investments.

Your local library is a good place to look for books or even internet resources. Some common investments are:

- ❖ **BONDS**
- ❖ **MUTUAL FUNDS**
- ❖ **REAL ESTATE**
- ❖ **STOCKS**

Remember, savings accounts with banks are protected up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). While Bonds, Mutual Funds, Real Estate, and Stocks may be good investments and offer higher rates of return, they are not FDIC insured, even when purchased at a bank. That means your principal is at risk and all or part of it could be lost if the stock market drops or the economy has a downturn.

When you make choices, only you can decide how much risk you are willing to take. Consider these types of investments only when you can afford to commit your money for the long term, and you are ready to take more risk.

FINAL THOUGHTS

While you are the only one who can make decisions about your money, lots of help is available! Here are more ideas:

- * Your banker is the best source of information about the accounts and interest rates available at your bank.
- * Time is truly on your side. The longer you can save, the more your savings will grow.
- * Be willing to make adjustments in your goals.

Don't be discouraged and do congratulate yourself for getting started! You are planning to take control of your finances. It will take some discipline, but the results will be worth your effort.

Be flexible, and learn to recognize when you need (and want) to make changes in your goals and plans. The important thing is to get started right away - - then watch your money grow and your dreams come true. ***Good luck!***