Family Foundations Underscores the Necessity of Saving

Many consumers are on the ropes financially. This situation is perhaps hardest for those who feel as though they've done everything right. After all, the experts told us to:

- buy a home, as it's a great wealth-building tool;
- invest in our retirement account, setting aside money for the days we can no longer work; and
- open credit card accounts in order to build a solid credit rating.

Now, after having followed the advice, these same consumers discover that:

- even if we're able to afford the mortgage payment, our home is worth less than we paid for it;
- the value of our retirement investments has dwindled; and
- lines of credit are being lowered while the interest rate on our credit card is being raised.

There is one missing bit of advice, however, and if consumers had embraced it as they did the others, we wouldn't be feeling so much financial pain today. The one area we failed to include is savings.

The 2008 National Foundation for Credit Counseling (NFCC) Financial Literacy Survey co-sponsored by MSN Money revealed that a majority of people do not have a sufficient emergency fund, defined as three to six months income saved. Further, more than one-third, *or roughly 76 million adults*, say they do not have any non-retirement savings. Although a majority is currently saving for their retirement, more than one-quarter are not.

The problem is that when money is tight, it's very hard to think about saving, but it is critical that consumers find a way to build a rainy day fund, and then address the larger issue of saving three to six months income.

Family Foundations suggests the following ways to begin saving:

Start small. The point is to get started. Put 10 percent of take-home from each paycheck into an interest-bearing account. At the end of a year, you'll have a little more than one month's salary as your emergency money, and it's likely that you'll never miss the money from your paycheck.

Have the designated amount automatically deposited into your savings account. You can't spend what you don't have, so remove temptation by deducting the money before you receive it.

Shop around for the best rate. If your local financial institutions are not offering good interest rates on savings accounts, search online. Many sites provide you with rate comparisons and minimum deposits for online banks, with such banks often offering higher rates. You'll want your emergency fund money in an FDIC insured liquid account, though, so avoid making any long-term commitment such as a Certificate of Deposit, as you will be penalized for early withdrawal.

Commit to leaving the money in the savings account. Many people regularly deposit money into savings only to pull it right back out. Define what constitutes an emergency, and don't touch the money unless it meets the definition. Also, don't keep your money in a checking account, as that makes it too easy to access.

Set a goal. Since you're just getting started, make your initial goal very attainable. However, the simple act of setting a goal gives you something to shoot for. Once you reach that amount, see if you can dig a little deeper and keep going.

Examine all spending categories. If you could carve $10 out of 15 different spending categories, you'd have $150 each month to go into your savings account. That means that in 12 months you'd have built up a cushion of $1800 which should see you through most short-term emergencies.

Include all family members. A joint effort yields a greater result. You can make a game out of saving and have a prize for the person who saves the most each week. Or, set a family goal and reward everyone with a pizza party or another event that will serve as motivation to keep going.

Save for specific needs. Once you have your emergency fund in place, you may want to begin saving for upcoming needs such as a car, house or debt reduction. Some people even have different accounts for each purpose so they can see how close they're getting to obtaining the item.

Pretend it never happened. When you get a raise or a monetary gift, put it straight into savings. After all, you were living just fine before you had that money, so you'll do just fine without it. If you get an income tax refund, consider this lump sum as the seed money to begin your three to six month's income savings account.

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Even in this tough economic environment, consumers still spent money during the holidays. This is the ideal time to plan for the holidays of 2009. Total all expenses associated with this holiday season. Include anything you spent money on such as gift wrap, travel, entertaining, etc. Then divide the total by 10 and pay yourself that amount each month from January through October. Next November you can begin shopping and pay with cash, giving you the gift of a debt-free holiday.

If you need help finding hidden money in your budget to devote to savings, do yourself a favor and sit down with an NFCC-certified counselor. They are experts at stretching a dollar and making the most of your hard-earned money.

Family Foundations stands ready to help. To reach us, call (904) 396-4846 or go online to www.familyfoundations.org.

About Family Foundations
You don't have to solve your financial problems alone. Family Foundations has trained and certified credit counselors who offer financial management and debt reduction services. Family Foundations is a nonprofit, community-based organization and a Member of the National Foundations for Credit Counseling (NFCC). For more information on Family Foundations, call (904) 396-4846 or visit www.familyfoundations.org.