

# Savings 101

*Adapted from LearnVest's Savings 101 by Alden Wicker*

You may not know it yet, but your savings account is like your best friend: Treat it well during the good times, and during the tough times it will be there to take care of you.

Unfortunately, many Americans aren't treating savings accounts with the love and respect they deserve. 64% of Americans don't have enough stashed away to handle even a \$1,000 emergency expense. Hey, we get it. Between paying for gas to and from work and catching up with friends over dinner, it's easy to think, "I'll start saving when I get that raise." But you'll wish you had thought of little ways to save here and there the day you get that \$1,000 surprise. Plus, the habit of saving can help you achieve dreams, such as taking a big trip to Argentina or buying your first home.

Read on to find out why saving is so important and how to do it.

## Savings in a Nutshell

The official definition of savings is, basically, what's left over when you subtract your spending from your income. But we think this definition doesn't quite do savings justice, because it makes it sound like savings just happen. No way!

Savings should be the money you set aside *before* you spend. You should limit your spending to an amount that will allow you to save enough. In order to make this happen, you should send money from every paycheck directly to your savings account—it's that important. Once it's safely tucked away, you can pay rent or a mortgage and everyday expenses.

So why is savings so important? Mostly because doing so will stave off a panic attack if an emergency were to happen, such as losing your job. If that ever happens, you'll want to focus on networking and sending out résumés—not packing to move back in with your parents. This kind of savings is called an emergency fund, the necessary fund to help you get through an unexpected crisis.

A savings is also essential for funding your home maintenance needs, such as a failing furnace, appliance, roof, water heater, or any of the many repairs your home.

A savings also creates opportunities for you: it can enable you to someday move, to purchase a vehicle, to go to college, and even to start a business.

## How Savings Works

The best place for savings is not under your proverbial mattress but in a savings account, which is a bank account with interest rates that, while not incredibly high, are higher than what you will get in your checking account.

While interest rates can work for you or against you, in the case of savings, they work for you: When the bank offers you a higher interest rate on your savings than on your checking, that means it will pay you more for the money you deposit in savings than it will for the same amount you deposit in checking.

The difference between a 0.5% interest rate and a 1% interest rate may not look like much, but that difference snowballs because of a little concept called compound interest. When you're saving up a sum of money as large as six months' worth of expenses, that small percent difference could be \$50 or more a year in interest that you wouldn't have earned in your checking account.

## How Much You Should Save...

### A. For Your Emergency Fund

Your emergency fund should give you at least a three-month cushion. By that, we mean it should equal six months of your net pay. So, if your paycheck is \$1,500, and you receive two paychecks a month, your emergency fund should be \$9,000 (note that many experts recommend a 6-month cushion).

If your lifestyle expenses go up, contribute more to your emergency fund until you have six months of your new net pay saved. And never use your emergency fund for other short-term goals like a trip or a dress for a family member's wedding! Those aren't emergencies.

### B. For Your Goals

Once your emergency fund is stocked, decide what you want to save up for in the next year, or five or ten years. A car? A house? A gorgeous wedding and honeymoon in Paris? To figure out how much to set aside for your goals, you can either start with a deadline or the amount you're able to aside per month. You should also have a budget in mind for your goal, so you know whether you're aiming to have a \$2,000 week-long vacation in Sicily, or a \$3,000 one.

In your savings account, set up sub-savings accounts for these goals separate from your emergency fund so you don't start dipping into the latter.

## You Can Save! Here's How

Hopefully by now you understand why savings are so important to a happy, low-stress life! But how do you start putting money in your savings account? It may not actually be as hard as you think IF you are focused and strict with your commitment:

1. **Build a budget.**

A budget will ensure you never spend more than what you have. It will also keep you from getting into debt while you build your savings.

2. **Keep your savings separate from checking.**

And by that, we mean to hold your savings at a separate account from your checking account, so you're never tempted to spend it on something that's not an emergency and not a goal. The best idea is to have a completely separate bank!

3. **Prioritize savings above all else.**

As we said before, deposit a portion of your income directly into your savings account, and then put just what you need to live on into your checking account.

4. **Separate your emergency fund from your savings goals.**

Choose a savings account that allows you to open sub-accounts so you can keep your emergency fund separate from your other goals.

### Remember ...

Saving is a core part of your financial health. And it isn't as hard as you think. With a bit of planning and a smart budget, you can be confident in your financial future and reach your dreams.