

Managing Your Money and Learning to Save

People with a small income may have trouble saving. If you are one of them, this booklet is for you. “Why should I save if there are more days in a month than I have money to spend in each day?” The answer to that question is simple: You need to save to stay out of debt and reach your financial goals. People who have savings do not have to pay extra for the big items they buy. The extra is what you pay in interest when you use credit. If you use credit, you may be adding more than 20 percent to your total cost of buying an item. This means an item that costs 50 cents will cost 60 cents when bought on credit.

- **People who save do not run out of money in an emergency.**
- **People who save can help their children go to college.**
- **People who save have a nestegg for their retirement. The nestegg allows them to live better than they would if the only money they had were from social security.**

“Well,” you now say, “I agree these are good reasons for saving, but how do I begin?” Follow the 3 steps shown in this booklet.

Step 1. Figure out where you stand now

Where does your money come from? Where does your money go?
To find these answers, fill in this chart.

Where your money comes from:	Monthly Amount:
Your Income	_____
Spouses Income	_____
Other Sources	_____
Total Monthly Income	_____
Where your money goes:	Monthly Amount
Food	_____
Housing and Utilities	_____
Clothing	_____
Personal Care	_____
Transportation	_____
Medical Care	_____
Education and Recreation	_____
Gifts and Donations	_____
Others and Emergencies	_____
Savings	_____
Total Monthly Expenses	_____

Did you get ahead or fall behind? To find out, fill in the following blanks.

Total Monthly Income	\$	_____
Total Monthly Spending	- \$	_____
=Savings (+) or Amount Owed (-)	\$	_____

If you came out with extra money, good for you!
You will want to put it someplace safe for your future needs.
We will explore that in a few pages.

If the money ran out or if there were no regular savings, there is work to be done. To save you WILL have to spend less. Here are 12 ideas for spending less. You may already do some of these things, but there may be a few new ideas you can try.

- When you go to the store, ask yourself these questions:
 - “Do I really need this item?”
 - “Is there something I need more?”
 - “Can I put off buying this until sometime in the future?”
- Before buying new items, go to secondhand stores, garage sales, or flea markets.
- Avoid grocery shopping when you are hungry.
- Sell or trade items you no longer need.
- Look for bargains. Avoid buying items when they are not on sale.
- Avoid paying for recreation. The cost of tickets and video rentals adds up. Use neighborhood parks, pools, and libraries. Your local library may lend video tapes.
- Join Project Share, if available. This project provides members with groceries (including meats, fresh fruits, and vegetables) once a month at little cost. In exchange, members must perform 2 hours of community service.
- Budget your money to pay bills on time. This will save late charges.
- At work and school, avoid buying sodas, coffee, and snacks from machines. Reduce costs by bringing a lunch and drink.
- Buy washable clothing. Avoid buying clothing which requires dry cleaning.
- Find ways to fix up items you would normally throw away.
- Exchange services with neighbors.

Step 2. Set goals for saving

- It is easier to save when saving for a reason.
- If bills are overdue, pay more than is due on them each month.
- Continue making payments until they take up no more than 15 percent of your monthly take-home pay.
- “How will I know when I have reached 15 percent?”
- Divide the credit balance by your monthly-take home pay.
- For example, if a credit balance is \$175 and your take-home pay is \$1200 ($\$175 / \$1200 = .15$ or 15%), you have reached your goal of 15 percent.
- Once bills are under control, then you can start saving for some other goals.
- A wise goal is to put some money aside for an emergency fund.
- Try to set aside 2 months living expenses.
- Once you do this, you should be able to stop borrowing money.
- Remember, when you spend this money for an emergency, you must replace it.

Once you have established your emergency fund, then you can set some other goals. The following are some suggestions.

- New or new to you furniture or appliances
- College fund for your children
- Nestegg for retirement

Be sure to put a price tag on your goals. For example, your goal may be \$500 for a new washing machine. A second goal may be a down payment on a condominium or house of \$5,000. A third goal may be \$10,000 in college fund. A final goal may be a nestegg of \$20,000 for retirement.

“Wow!” you say. “How will I ever save that much?”

Well, you must start somewhere. Try starting with 25¢ a day and 50¢ on Sunday. That is \$2 per week or \$104 per year.

Step 3. Choose a place to help your money grow

So far you have learned the need to buy carefully so that you can save and set some savings goals. What happens next? Let us look at two ways for beginners to save. Two good choices are a savings account at your local bank or credit union and U.S. Series EE savings bonds

Local Banks and Credit Unions

Check with a local bank or credit union to see what is the smallest amount they will accept to open a savings account. When you have saved enough money to open an account, deposit it right away so that you will not be tempted to spend it. If you have a job, you may be able to have a certain amount of money taken out of each paycheck and put into a savings account. This way you will be less tempted to spend the money because you don't have to deposit the money yourself.

Once you put your money in an account that earns interest, your interest will earn interest. This is called compounding. For example, let's say you find a bank that pays a 3 percent annual percentage rate on a regular savings account. If you open your account when you have \$26 and add \$26 to the account every 3 months, at the end of the years you will have saved \$104. Your account will be worth \$131.96, including the interest. At the end of the second year if you continue to make regular payments, you will have \$241.14. Had you not put your money in the bank, you would have only \$208. At the end of five years, your account will be worth \$588.96 You will have exceeded your \$500 goal for the new sofa by \$88.96 All you will have done is saved 25¢ a day and 50¢ on Sunday. If you can find a higher interest rate, you will reach your goal sooner. Some people may think 5 years is a long time to save \$500. To reach this goal sooner, start saving \$10 a week. Increase this amount when you can.

Series EE savings bonds pay a market interest rate that changes every 6 months. After you own the bond for five years, you receive a higher interest rate that changes every 6 months. You buy series EE type bond for one-half of the value that bonds will be worth when they mature.

If you have a job, your employer may offer a payroll savings program. In such a program, the amount you save is used to buy U.S. Series EE savings bonds. People who cannot join a payroll savings program can purchase Series EE bonds from a local bank.

Here is an example of how Series EE savings bonds help you save money. Let us say your children will enter college in 10 years. To help save for college, any earnings on Series EE savings bonds used to pay college tuition are not taxed.

Although this booklet discusses only two ways to save, there are many other places to save. When you put these basics to work, you will be ready to learn more. Contact your local Cooperative Extension Service office.

Happy Saving!

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