University of Kentucky
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MONEYWI$E

VALUING PEOPLE. VALUING MONEY.

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THIS MONTH'S TOPIC:
SAVING DOESN'T HAVE TO BE SCARY

Saving money may seem scary or intimidating, especially if past budgeting attempts have been frustrating or felt unattainable. The Consumer Financial Protection Bureau recommends putting 20% of your monthly income into savings. They suggest following a 50-30-20 ratio with your budget after taxes: 50% on needs, 30% on wants, and 20% on savings. If that number seems unrealistic for your budget, don't be scared to consider other ways to save that may work better for your family.

THINK BIG PICTURE

The first step to saving is becoming aware of how much money flows in and out of your household each month. To do this, compare your income to your expenses. Create and tally three lists: (1) sources of monthly income, (2) recurring monthly bills and financial obligations, and (3) other expenses that occur throughout the year, such as annual bills, holiday gifts, or vacations. From big purchases to small ones, estimate how much you spend on groceries, gas, entertainment, and unplanned purchases. Certain categories are essential such as housing, utilities, transportation, and food. Others leave room for discretion.

START SAVING SMALL

Once essential needs are met, closely examine the amount of money you have remaining. Decide how much money you can realistically put into savings each month. This amount will vary based on your personal budget and debt-to-income ratio. Saving deposits do not have to be large to make an impact. Small amounts will add up over time, especially if invested in an account that earns compound interest. Look for ways to cut back and redirect that money into savings. For example, choosing to cook at home rather than eat out once a week could free up enough to start a small savings account. That $30 a week adds up to more than $1500 for the year (and likely more with earned interest).

ONE OF YOUR FIRST SAVINGS GOALS SHOULD BE TO BUILD AN EMERGENCY FUND.

SAVE FOR EMERGENCIES

One of your first savings goals should be to build an emergency fund. Aim to cover three to six months of necessary expenses in the event of an unexpected financial emergency. This may include job loss, medical bills, home repairs, or automobile maintenance, for example. Because emergencies rarely come with warning, make sure that this money is easy to access when needed and can be withdrawn without excessive penalty. Talk to a trusted financial adviser or banker at your financial institution to discuss high yield, accessible options.

TIPS FOR SUCCESSFULLY SAVING

- Work to pay off debt then stop buying things that don't fit in your budget. Instead of paying interest toward a credit card, put money into savings and earn interest instead.

- Set specific savings goals — such as saving for a car, a vacation, or concert tickets — to help motivate you to cut out unnecessary purchases and stick to your savings plan.

- At the end of the month, if you don't spend all money in a budgeted category, put the difference into savings.

- Set up automatic transfers to your savings account each payday. This ensures that you "pay yourself first" before any nonessential spending.

- Put a portion of unexpected or additional income into savings, such as from tax returns, stimulus payments, gifted money, or bonuses.

Remember that saving doesn't have to be scary. Don't be afraid to make changes to your budget and lifestyle until you find a savings method that adds up for you.

REFERENCE

Consumer Financial Protection Bureau. My spending rule to live by. https://files.consumerfinance.gov/f/201603_cfpb_rules-to-live-by_my-spending-rule-to-live-by.pdf

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