

Financial Fitness Series

Build Your Savings

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Are your savings a bit puny? Could they stand to have more muscle? Building up your savings is easy if you do it a little bit at a time. To develop your savings, you need to know –

- how to set savings goals.
- how much you need to save to reach your goals.
- ways to make saving “painless.”
- where to put your savings.

Setting Savings Goals

We can get so caught up in day-to-day problems that we don’t think about the future. This may not be a problem today or tomorrow, but in the long run – when it’s time for new job training, college or retirement – a lack of savings can mean trouble.

What do you and your family wish you could spend your money on? A new TV or refrigerator?

Clothes? A car? Vacations? Your wishes are really your family’s financial goals.

Some of these goals are individual – things you want. Others are family goals – things the family as a group wants. Thinking and talking about your goals helps you decide what you are saving for, and having a goal makes it easier to save.

What financial goals do you and your family have? What do you want to have or do in the next 6 to 12 months? In 2 to 5 years? In 15 to 20 years? How much do you expect each will cost? You can use the “Wish List” worksheet to write down your goals.

You may decide that you can’t reach all the goals you listed. Some goals may be more important than others. You and your family will have to talk about these goals and decide which ones are most important.

| Our Family’s Goals “Wish List” | | | | | |
|--------------------------------|----|-----------|----|-----------|----|
| Short Term | \$ | 2-5 Years | \$ | Long Term | \$ |
| | | | | | |
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Look at your “Wish List.” To reach your long-term goals, you may have to give up some things now. It all depends on what you and your family want most – for example, a vacation this year or a new car in four years.

Saving Tip #1

Saving for a goal is easier if all family members – children and adults – can agree on it and work together.

How Much to Save

How much do you need to save to reach your goals? The answer depends on –

- how much money you need.
- how much time you have to save the money.
- what interest rate you can earn on your savings.

For example, let’s say your goal is to take a special vacation in 3 years. You think you’ll need \$700, and you plan to save at your local bank, which pays 3 percent interest. You can use the Monthly Savings Plan worksheet to estimate the monthly savings you’ll need. The example on the worksheet shows that you’d need to save \$18.90 per month to have \$700 in 3 years.

Saving Tip #2

When you are deciding how much to save, it may help to think of how many cents a day you need.

If \$18.90 seems like a lot of money, you might want to think of so much money per week

(\$18.90 divided by 4 weeks is about \$4.73 per week) or so much money per day (\$18.90 divided by 30 days is about 63 cents per day). Is a vacation worth 63 cents a day to you? If it is, then you want to find a way to set aside 63 cents a day or \$4.73 a week to make your wish come true.

Saving Tip #3

If you feel you still can’t afford the savings to reach your goals, think about increasing the time you’ll have to save – put off your vacation or new car for 6 months or a year.

Saving Tip #4

Think about finding a lower-cost alternative – a used car instead of a new one, a vacation closer to home or community college instead of a four-year university.

Saving Tip #5

Shop around for the best interest rate. In the example in the Monthly Savings Plan worksheet, if you could earn 4 percent at a credit union, you would need to save \$18.67 per month for the \$700 vacation – that’s \$4.67 per week or just 62 cents a day.

The Monthly Savings Plan worksheet is designed to help you estimate the monthly savings you will need to reach the financial goals you and your family have set.

Step 1. Write down your goals, the estimated amount you’ll need (Column A) and when you’d like to have this amount (Column B). In the example, we use \$700 for a vacation in 3 years.

| Worksheet – Monthly Savings Plan | | | | | |
|----------------------------------|--------------------|------------------|--------------------------|------------------------------------|--------------------------------------|
| Goal | A Amount Needed | B When Needed | C Sinking Fund Factor | D Yearly Savings Needed (A x C) | E Monthly Savings Needed (D ÷ 12) |
| <i>example:</i> Vacation | \$700 | in 3 years | .324 | \$226.80 | \$18.90 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | Total \$ _____ | |

Step 2. Use the Sinking Fund Factor (SFF) table which allows you to figure compound interest on your savings. Find the approximate interest rate your savings account pays.

Go down the interest rate column and across the number of years row. The SFF number is at the intersection of this row and column (in the example, the SFF for 3 years at 3 percent is .324). Enter this number in Column C.

Step 3. Multiply the number in Column A times the number in Column C to get yearly savings (Column D).

Step 4. Divide the yearly savings goal in Column D by 12. This is the monthly savings needed for the goal you've listed. Enter this amount in Column E. (NOTE: Since we are using annual SFF figures and saving monthly, the figure in Column E will result in slightly higher savings because of monthly or quarterly compounding.)

Step 5. Add up Column E, the monthly savings for each goal. The total figure is the amount you'll need to save monthly to reach the goals you have set.

Ways to Save

You may think, "There's no way I can save any money!" But most people find they can save when they really put their minds to it. Here are some tips to get you started.

Savings Tips That Work!

- 1. Pay Yourself First.** Make your "savings bill" a part of your spending plan, just like rent or utility bills. When you pay your other bills, pay your savings bill by depositing the money in your savings account.
- 2. Use Payroll Deductions.** Have your employer deposit your savings directly from your pay into a credit union or bank account. If you never see it, you might not miss it.
- 3. Save "Bonus" Income.** Try to save tax refunds, overtime pay, gift money, refunds and rebates.
- 4. Save Coupon Money.** Save the amount you "save" by using coupons at the grocery or drug store. If you save \$2 a week using grocery coupons, put the "savings" (the money you did not spend) in your savings account.
- 5. Pay Installments to Yourself.** Once you pay off an installment loan (and if other loans are not overdue), continue to make "payments" to your savings account.
- 6. Collect Loose Change.** At the end of every week (or more often), empty out your pockets and wallet and put the change in a jar. Every other week or once a month, deposit the change in your savings account.

| Sinking Fund Factor* Table (annual) | | | | | | | | | | | | |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Years | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% | 13% | 14% |
| 1 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 2 | .493 | .490 | .487 | .485 | .483 | .480 | .478 | .476 | .473 | .471 | .469 | .467 |
| 3 | .324 | .320 | .317 | .314 | .311 | .308 | .305 | .302 | .299 | .296 | .293 | .290 |
| 4 | .239 | .235 | .232 | .228 | .225 | .221 | .218 | .215 | .212 | .209 | .206 | .203 |
| 5 | .188 | .185 | .181 | .177 | .173 | .170 | .167 | .163 | .160 | .157 | .154 | .151 |
| 6 | .155 | .151 | .147 | .143 | .139 | .136 | .132 | .129 | .126 | .123 | .120 | .117 |
| 7 | .131 | .127 | .122 | .119 | .115 | .112 | .108 | .105 | .102 | .099 | .096 | .093 |
| 8 | .112 | .109 | .104 | .101 | .097 | .094 | .090 | .087 | .084 | .081 | .078 | .075 |
| 9 | .098 | .094 | .090 | .087 | .083 | .080 | .076 | .073 | .070 | .067 | .064 | .062 |
| 10 | .087 | .083 | .079 | .075 | .072 | .069 | .065 | .062 | .059 | .057 | .054 | .051 |
| 11 | .078 | .074 | .070 | .066 | .063 | .060 | .056 | .054 | .051 | .048 | .045 | .043 |
| 12 | .070 | .067 | .062 | .059 | .055 | .052 | .049 | .046 | .044 | .041 | .039 | .036 |
| 13 | .064 | .060 | .056 | .053 | .049 | .046 | .043 | .040 | .038 | .035 | .033 | .031 |
| 14 | .059 | .055 | .051 | .047 | .044 | .041 | .038 | .035 | .033 | .030 | .028 | .026 |
| 15 | .054 | .050 | .046 | .043 | .039 | .036 | .034 | .031 | .029 | .026 | .024 | .022 |
| 16 | .050 | .046 | .042 | .039 | .035 | .033 | .030 | .027 | .025 | .023 | .021 | .019 |
| 17 | .046 | .042 | .038 | .035 | .032 | .029 | .027 | .024 | .022 | .020 | .018 | .016 |
| 18 | .043 | .039 | .035 | .032 | .029 | .026 | .024 | .021 | .019 | .017 | .016 | .014 |
| 19 | .040 | .036 | .032 | .029 | .026 | .024 | .021 | .019 | .017 | .015 | .014 | .012 |
| 20 | .037 | .034 | .030 | .027 | .024 | .021 | .019 | .017 | .015 | .013 | .012 | .011 |
| 25 | .027 | .024 | .021 | .018 | .015 | .013 | .011 | .010 | .008 | .007 | .006 | .005 |
| 30 | .021 | .018 | .015 | .012 | .010 | .008 | .007 | .006 | .005 | .004 | .003 | .003 |

*The formula for the SFF is: $\frac{r}{(1+r)^n - 1}$ where r is the interest rate and n is the number of years.

| Comparison of Savings Accounts Worksheet | Bank A | Bank B | Bank C |
|---|--------|--------|--------|
| 1. Is the bank or credit union convenient to use? | | | |
| – what hours is it open? | | | |
| – where are the branches located? | | | |
| 2. What kinds of accounts are available? | | | |
| – passbook accounts? | | | |
| – statement savings accounts? | | | |
| – checking accounts that pay interest? | | | |
| 3. What minimum deposit is needed to earn interest? | | | |
| 4. What interest rate will be paid on your account? | | | |
| 5. Are there any fees? | | | |
| 6. Are there any penalties for withdrawal? | | | |
| 7. Is the bank or credit union insured by the federal government? | | | |

7. **Break a Habit.** Every time you don't have a donut at coffee break or don't spend money in the pop machine, save the money you didn't spend.
8. **Save Lunch Money.** Get up 10 minutes earlier and make your own lunch instead of buying it. Save the money you would have spent on lunch.
9. **Save Money on Sales.** When you buy an item on sale, save the difference between the sale price you paid and the "full" price you would have paid if the item had not been on sale.
10. **Have a "Nothing Week."** Once in a while have a week when you try not to spend any extra money – don't go to the movies, don't go out to eat, don't go bowling. Save the money you would have spent.
11. **Use a "Crash Budget."** A crash budget works just like a crash diet – you try to cut out all unnecessary spending and save as much as possible.

Where to Put Your Savings

Opening up a savings account is easy. You need to fill out a form with your name, address and Social Security number. And you need to have some money to deposit.

Adding to your savings account is also easy. You need to fill out a deposit form and turn it in with the money you are adding to your account.

There are many places for you to put your hard-earned savings. Most likely you will put your savings in a commercial bank or a credit union. You should shop for your savings account just as you shop for a car or TV or new clothes – compare the services and fees at different "savings places." When shopping consider the questions that are listed in the above "Comparison of Savings Accounts" worksheet.

Financial Fitness Series:

- Shape Up Your Spending, FSHEC42
- Build Your Savings, FSHEC43
- Trim Your Credit Line, FSHEC44

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