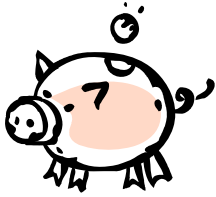




STUDENT ADVOCATES FOR FINANCIAL EDUCATION

SAVINGS PLANS



Savings is one of the building blocks at the base of the financial pyramid. It is part of the foundation that consists of a checking account, a savings account, insurance, a money market account, and employee benefits. Savings accounts create a source of liquid, easily accessible, money in the case of emergencies.

GETTING STARTED

- **Pay Yourself First**—Try to put 10% of your gross income into savings. Many employers can deposit a certain percentage of each paycheck directly into a savings account.
- **Cut costs**—Spend less money on wants, such as eating out, clothes, and entertainment.
- **Deposit Extra Money**—Deposit bonuses and tax refunds. Live on your base salary and deposit increases.

HOW DO PEOPLE RATIONALIZE NOT SAVING MONEY?

- Savings accounts typically do not keep up with inflation.
- People use credit cards in emergencies instead of creating an emergency fund for times of need.
- People believe their job is secure and they have enough medical and disability insurance which would reduce the financial effect of an emergency.

If you follow the adage, “Pay Yourself First,” you can create a reserve for emergencies, such as job loss, injury, or other unexpected expenses and have adequate protection.

SAVINGS INSTRUMENTS

Bank or Credit Union Savings Account: A standard savings account usually requires a deposit of \$25 - \$50 to open. Then the interest rate can range from bank to bank. Currently, the rates could be as low as 0.10% and up to 0.50%.

Money Market Account: Money market accounts offer a higher interest rate with liquidity. There is usually check writing privileges that accompany other features. Deposits to open a money market account vary as does the interest rate. These accounts often have tiered interest rates. The rate is higher with a higher balance.

Certificate of Deposit: Certificate of Deposit accounts are long-term savings accounts for fixed periods of time. Terms can be from 3 months to 10 years. Deposits can range from \$500 to \$100,000. Certificates of Deposit are not as liquid as money market accounts, especially with longer certificate terms. With early withdrawal there will be penalty fees.

Mutual Fund or Investment Savings: You could use a mutual fund or other investment to increase long-term savings. These investing instruments may have much higher rates of return, but will also carry higher risk and less liquidity.



SAFE - 210B Herrick Hall - Bozeman, MT 59717 - Phone: (406) 994-7223
Email: safe@SAFE - 210B Herrick Hall - Bozeman, MT 59717 - Phone: (406) 994-7223 - Email: safe@montana.edu

Funded by Montana State University and a grant from Student Assistance Foundation
to the Department of Health & Human Development

Sources: Garman, E., & Forgue, R. (2006). Management of Monetary Assets. *Personal Finance* (8th ed.). (pp. 127-148). NY: Houghton Mifflin Co., First Security Bank. <https://www.ourbank.com>. First Interstate Bank. <https://www.firstinterstatebank.com>. U.S. Bank. <http://www.usbank.com>. Sky Federal Credit Union. <https://www.skyfcu.org>.



STUDENT ADVOCATES FOR FINANCIAL EDUCATION

EMERGENCY FUNDS

An **emergency fund** is savings that is easily accessible to help pay for at least three to six months of bills and monthly living expenses if income is stopped suddenly. An emergency fund should be liquid, or easily converted to cash. Accessibility is more important than the rate of return on an emergency fund.

WHY? ESTABLISH AN EMERGENCY FUND

- **Financial Security**—To provide peace of mind for the future.
- **Avoid Credit Cards**—Without an emergency fund, you may be forced to use credit cards and end up paying for many years, costing you much more.
- **Avoid Borrowing from Retirement**—You have 60 days to replace borrowed money from 401(k) accounts, then the opportunity is lost. With IRAs, you may not be able to replace the money entirely due to yearly contribution limits. Borrowing from a 401(k) or an IRA is a very last resort because of the permanent loss of compounded gains.
- **Unable to Work**—Generally there is a six month waiting period for disability insurance to take effect. Without short-term or long-term disability you would not receive any benefits until another form of income is determined.

HOW? TO ESTABLISH AN EMERGENCY FUND

- **Be Consistent**—Building an emergency fund is dependent upon whether you consistently put money away and leave it. It takes discipline.
- **Treat it as a Bill**—It may make it easier to put the money away monthly if the emergency fund is thought of as a bill.
- **Budget**—Create a budget and determine what you can afford to put into an emergency account. Revise your budget as needed.



For more ideas on how to save for an emergency fund visit:

22 Ways to Build an Emergency Fund

<http://www.bankrate.com/brm/news/cheap/331Ways/PF/emergency-fund.asp>

******Once an emergency fund is established, the savings can be channeled into long-term investments and retirement accounts.******

\$AFE - 210B Herrick Hall - Bozeman, MT 59717 - Phone: (406) 994-7223
Email: safe@SAFE - 210B Herrick Hall - Bozeman, MT 59717 - Phone: (406) 994-7223 - Email:
safe@montana.edu

Funded by Montana State University and a grant from Student Assistance Foundation
to the Department of Health & Human Development

Sources: About.com. <http://financialplan.about.com/cs/personalfinance/a/EmergencyFunds.htm>. Bankrate.com.
<http://www.bankrate.com/brm/news/pf/20011105a.asp?caret=2>.