BUILDING YOUR SAVINGS

THE USAA EDUCATIONAL FOUNDATION®

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SAVING VS. INVESTING

The one thing you can count on is your income probably won't always be enough to cover everything you need right when you need it. As a result, you need to save money today so it's available down the road.

SAVING

Saving is accumulating money safely for short-term needs such as emergencies or upcoming expenses. Money is typically placed in accounts which take no risk, earn lower returns, but are easily accessible. The key objective is not the return ***on*** your money, but the return ***of*** your money when you need it.

INVESTING

Investing requires that you take some risk with your money purchasing things you think will increase in value. Traditional financial market investments include stocks, bonds and mutual funds. Investments generally don't offer the safety that a savings account does so your principal is at risk.

In exchange for taking risk, you have the potential for a greater gain. The key objective is a return ***on*** your money, but not necessarily a return ***of*** your money.

BECOMING A SAVER

Setting aside money — whether for short-term needs, long-term goals, or emergencies — is one of the most important financial moves you can make.

There are many approaches to saving money, but these five steps are usually a good place to start:

- Save now. Start sooner rather than later.
- Save first. Take it off the top instead of hoping some will be left over.
- Save or invest 10 - 15% of your gross pay, not your pay after taxes.
- Save automatically. Make it as effortless as possible.
- Save separately. Separate savings from your checking account.

Of course, once you make the decision to set some money aside, you need to figure out how to divide it up and where to put it. Money for long-term goals can often be put into investments but short-term and emergency fund money need to be kept safe, secure and easily accessible.

Saving money can be a life-changing move because it could be the difference between confidently being able to do the things you need and want to do or continually repeating, "I don't have the money for that."

5 STEPS TO MORE EFFECTIVE SAVING

1 **Save now.** Just start. Regardless of your age, income, or life situation, one of the hardest things about saving money is actually getting started. It can seem like it's never the right time. But the fact is, the sooner you start saving money, the better. Even if you can't save as much as you'd like to or need to right now, start saving something today so that you can get into the habit. The key is to establish a disciplined savings plan that you can hopefully increase in the future and stay committed.

2 **Save first.** Don't wait to see what's left over each month because we all know that never works — at least not consistently. Instead, pay yourself first. Just like the taxes you pay to the government come right off the top of your paycheck, so should your savings. The difference is, you get to keep this money.

Becoming a saver doesn't always require a bigger paycheck. You can do it with a bigger commitment to paying yourself first.

3 **Save (and/or Invest) 10 - 15%.** If you begin saving now, strive to set aside at least 10 - 15% of your monthly gross pay (the amount you make before taxes or other deductions are taken out). This should allow you to start building an emergency fund and accumulating money for other goals. The right mix of how much money to put where will depend on your specific situation and goals. Sometimes it will make sense to direct most of this money to short-term savings goals and other times it will make more sense to allocate a larger portion to investments for the future. If you can't afford this amount, save as much as you can now and increase your contributions when possible. For example, when you receive pay increases, federal income tax refunds, gifts or any extra money, consider putting some or all of it toward your savings goals. The key is to begin saving now. If you wait until later, you'll typically need to set aside an even greater percentage of your pay.

4 **Save automatically.** The most foolproof way to save money is to make it automatic. Set up a direct deposit to take it from your pay before you ever see it or create an automatic monthly transfer from your checking account to a savings account.

5 **Save separately.** Mixing your intended savings with your day-to-day money is almost a guaranteed way to ensure that money gets spent, not saved. Instead, set aside your savings in separate accounts and label them if you can for their intended purpose. For example, you might have an emergency fund account, a car down payment account or a vacation account, just to name a few.

WHERE TO SAVE?

The types of accounts used for saving will often pay less interest but that's usually OK. It's more important to have this money available when you need it than to earn a lot on it. The following are traditional savings accounts and programs. Keep in mind, not all of these are easily accessible.

SAVINGS ACCOUNTS

- Save money while earning interest.
- You can withdraw funds whenever needed.
- Your money is generally insured up to $250,000* for each account. Banks are required to have coverage under the Federal Deposit Insurance Corp. (FDIC) and credit unions are covered under the National Credit Union Association (NCUA).
- Rates of return are low.

CERTIFICATES OF DEPOSIT (CDs)

- Save money while generally earning a higher rate of return than regular savings accounts and money market accounts.
- Money has to remain invested for a specified period — from 30 days to 10 years. Substantial penalties may be charged for early withdrawals.
- Considered a low-risk investment, but not all CDs are insured by the FDIC.

**The standard FDIC or NCUA insurance amount is $250,000 per depositor, per insured institution (bank or credit union), for each account ownership category.*

MONEY MARKET ACCOUNTS

- Save money while generally earning a higher rate of return than regular savings accounts.
- You can withdraw funds whenever needed and may be able to write checks against the balance.
- May require a minimum balance to earn interest.
- May charge service or transaction fees.

Saving money is typically about safety and availability, not high returns.

LOWER RISK INVESTMENTS

There are a few lower risk investments that are sometimes used to try to earn higher returns but still keep the money relatively safe.

U.S. SAVINGS BONDS

- One of the safest investments you can make.
- Pay a fixed amount of interest.
- Interest can be paid from one to 30 years. It is generally best to hold savings bonds until they mature. Selling them earlier generally results in a reduced return or penalty.
- Earnings are exempt from state and local income taxes, but not federal income taxes.

U.S. TREASURY BILLS (T-BILLS)

- Another very safe investment.
- These are loans to the federal government.
- Maturity dates vary and are one year or less. Generally, the longer the maturity, the higher the rate of return.
- Earnings are exempt from state and local income taxes, but not federal income taxes.

IMPORTANCE OF AN EMERGENCY FUND

It's not a question of IF an unexpected expense will come your way. It's a matter of WHEN.

EMERGENCY FUNDS

It's important to have money set aside for unexpected expenses because life has a way of throwing us financial curve balls from time to time. Your ultimate goal for an emergency fund should be to build up a balance equal to 3-6 months' worth of your committed expenses. It's OK to start smaller, especially if you are trying to eliminate consumer debt. The point is to have some money available, so you don't have to go into debt or sell other assets when an unexpected expense arises.

The list of possible reasons you might need some emergency cash is nearly endless. Some common examples are:

- Vehicle repairs
- Unexpected travel to visit family
- Replacing a damaged smartphone
- Speeding or parking tickets

WHAT'S NOT AN EMERGENCY

When discussing emergency funds, it's important to understand the difference between true unexpected needs for cash and other big expenses you could actually plan. Holiday spending is a good example. It's really not a surprise that people tend to spend a lot of money during the holidays. It happens every year so it's not unexpected and NOT a good reason to raid your emergency fund. Keep your emergency fund for true emergencies and save for other big expenses separately.

THINK OUTSIDE THE BOX

If cash flow alone isn't going to allow you to build up your emergency fund fast enough, consider the following.

- Selling unwanted items to help build an emergency fund.
- A part-time job could be a great way to build or bolster an emergency fund.
- Gifts of cash don't have to be spent. Sometimes it's better to save them for a rainy day.

Balancing saving and spending is important to your financial well-being.

LET'S ASSESS YOUR CURRENT SAVINGS HABITS

Given the 10 - 15% of gross income target, how much should you be saving each month?

____

How much are you actually saving? ______________________________________

What can you do to save more if you need to?

1. ______________________ 4. ______________________

2. ______________________ 5. ______________________

3. ______________________ 6. ______________________

What goals do you have for which you might set up separate accounts?

1. ______________________ 4. ______________________

2. ______________________ 5. ______________________

3. ______________________ 6. ______________________

Using the 3-6 months of committed expenses target, how much should you have in your emergency fund? ______________________________________

How much do you have? ______________________________________

What is your accountability strategy to save more prudently? ______________________

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