Daily Union Article
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Title: Americans Need to Save

Most of us have about a month to get our taxes filed. Some of us are putting it off because we know we will have to pay more while others are anticipating a refund. For those receiving a refund, what can you do with that money to get the most out of it. This might be the ideal time to establish or enhance your savings plan.

Putting money aside for a "rainy day" is not a new concept. However, as a whole, Americans have become much more lax in their efforts to set money aside for future purchasing power or to offset unexpected expenses. Our savings habits have become less consistent and have reaped much lower cumulative gains over time. So how much should you be saving?

Paula Pant of Teachers Insurance and Annuity Association of America (TIAA) answers this question by first asking a bigger question. "What are your goals?" Determining what you should set aside for savings each month is unique to your financial goals. Breaking up your goals by the amount of time you have to reach them is a great first step.

One-year goals: Goals that fit into this area are considered short-term goals. The savings you compile in a year or less might be used to pay for taxes, get your car tires rotated out with new ones, or simply to pay for a vacation. During America Saves week, we are reminded to evaluate our savings practices and determine if we have accumulated enough in savings to make those occasional purchases needed for maintaining our home or lifestyle. Do you have enough in your savings to summer camp registrations for your kids? Can you pay cash for your family's vacation? What would happen if you had to have unexpected surgery, could you come up with the co-pay part of the surgery that your insurance won't cover?

Mid-range goals: These types of goals are ones that accumulate savings over many years, as much as 10 years, into the future. Just this last year, my husband and I bought a washing machine for our home. Although it is working great right now, we know that we will need to replace it sometime in the future. We are already putting away a small amount of money each month that is designated for the replacement of our 2016 washing machine. Based on the average life expectancy of a top-load washing machine, we have 12 - 14 years to accumulate the funds to replace it. Larger purchases, such as campers or cars, can be saved for in the same way, but would require a much more substantial amount of money saved monthly. Think of how much money you would save from not paying interest on a 60- or 72-month auto loan through a bank.

Long-term Goals: Goals of this nature are focused on saving for retirement. Ms. Pant recommends that 10-15% of your income should be set aside for retirement. So, for every $1,000 you make, the rule of thumb would be to save $100-$150 of it for retirement. Don't let this amount discourage you. Many employers offer a percent match or a minimum amount the company or organization will contribute toward your retirement. For example, if your employer contributes 5% of your income toward retirement and you contribute another 5%, you've met the 10% recommendation.

In combination with your long-term savings goal, you need to make sure you have 3-9 months of your living expenses in an easy-access "emergency fund." To determine how much that should be, you first need to calculate your monthly cost-of-living expenses. Consider the amount of money you would need to live off of should you lose your job. Granted, you can cut out cable, dining out, and other discretionary spending, but you still have to keep the lights on and keep yourself (and possibly a family) clothed and fed. How much money do you need to survive for 3-9 months without an income? If you cut that amount in half and save it, you would have your six month emergency fund built up in a single year. It would be hard, but it can be done.

As you look at your financial goals and the amount you should be saving to meet those goals, you will likely realize that you can't save for everything on your list. If that's the case, then you have several options: 1) re-define your goals; 2) change your spending habits; 3) lengthen the time you plan to accomplish the goal, or 4) find a way to earn more money. You should not simply give up on the idea of improving your savings practices.

Whether saving for short term or long term goals, you need to expect the unexpected and put enough cash away for easy accessibility. This will help ensure that you don't find yourself in a financial stronghold that forces you to make undesirable financial decisions.

In the end, with all things considered, a general rule of thumb is that you should save at least 20% of your income, while 50% goes toward basic needs, and 30% is used on discretionary spending. Ms. Pant describes this as the 50/30/20 rule of thumb and is a very practical strategy to apply to our personal savings plan.

Perhaps you don't have that much left over after bills. The key is that you start somewhere. By taking small steps today, you will be able to make great strides toward future saving strategies. Your tax refund can contribute to your efforts in this area.

For more information on money management, contact me at the Geary County K-State Research and Extension office at 785-238-4161. Until next time, keep living resourcefully!