

Setting Savings Goals & Creating a Savings Plan

The foundation of your personal finance planning and achieving your financial goals is built upon savings. This topic addresses the three main components of a savings plan – emergency fund, short-term savings, and long-term savings – and helps you identify targets for each component. In an activity, you will create an individualized savings plan toward reaching your specific personal finance goals.



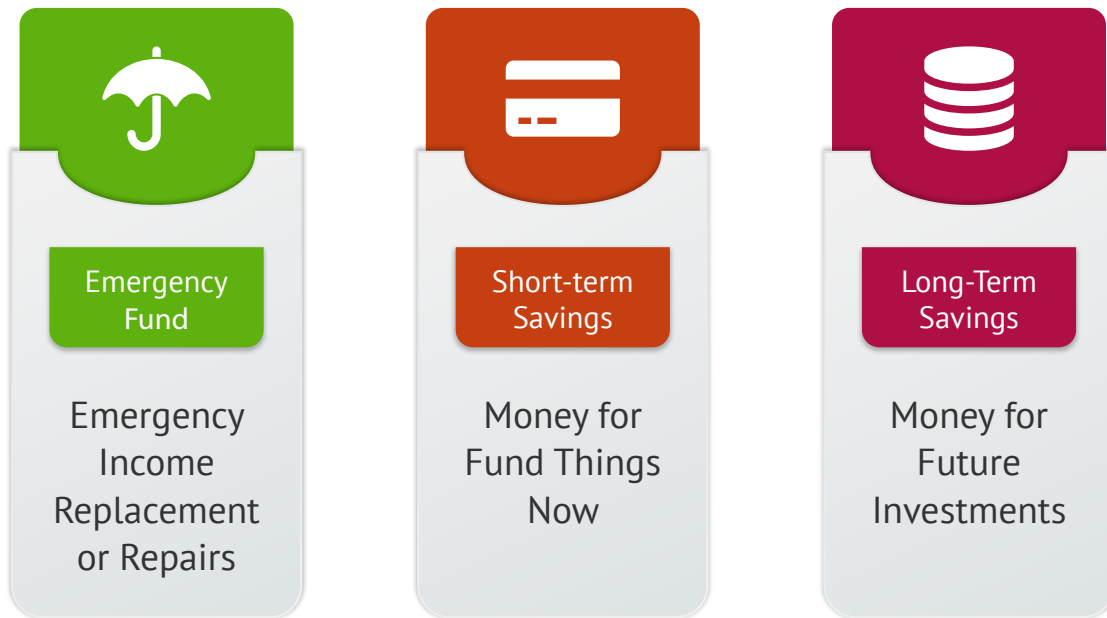
Time Investment
35 minutes



Setting Savings Goals & Creating a Savings Plan
Savings, Expenses & Budgeting

Setting Savings Goals & Creating a Savings Plan

Saving money builds a foundation to establish future wealth while you enjoy shorter-term lifestyle goals. Life is about experiences. By saving money, you'll be able to partake in more of what you like to do now, and invest in those things you dream of doing or having in the future.



The goal of creating a budget is to save money for the things you want now, while making sure you have enough for later. Saving money is the key component of working toward a financially secure lifestyle.

Setting aside money each month contributes to a foundation for establishing future wealth while still leaving you able to enjoy time with family or friends now. Putting away your hard-earned dollars can help free you from the emotional stresses of everyday bills.

Divide and allocate your savings into three specific categories: emergency fund, short-term savings, and long-term savings.

Emergency Fund

Your emergency fund is your first priority. Your emergency money should be liquid – in other words, it's money you can easily convert into cash. Money in your checking account, savings account, or cash on hand that is not already assigned to other bills or obligations are all considered liquid assets that can be immediately considered as the start of your emergency fund. This definition may be compared to non-liquid assets – like the value of a car or home – where selling it to convert it into cash would take time.

Emergency funds should equal at least six months of your living expenses. Also consider setting aside enough to cover your bills for the amount of time it would take to replace an income source. So if your bills are \$2,000 per month, you should have \$12,000 saved for emergency purposes. Those of you who work in an industry that is downsizing, or have highly competitive jobs, should set aside more money in your emergency fund in case of long-term unemployment. The Bureau of Labor Statistics provides the average expected unemployment period for each industry sector.

Simple Emergency Fund Calculation

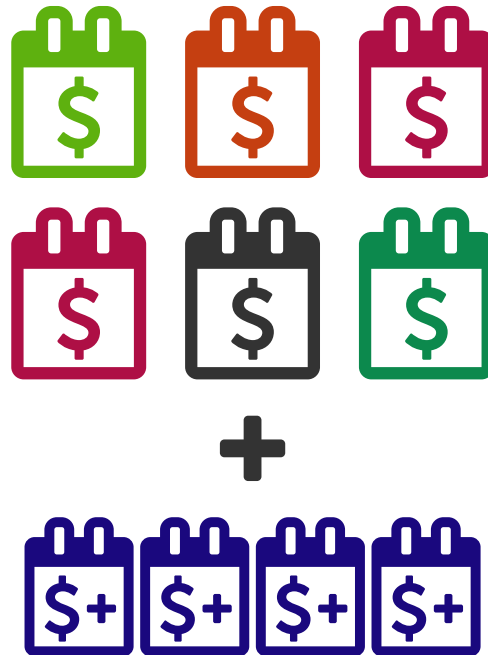
A simple calculation is to multiply your monthly financial needs by 6



6 Months
Financial Needs

Advanced Emergency Fund Calculation

Consider the amount of time it would take you to replace your income source if that source were lost. Set aside at least 6 months' worth of expenses, plus expenses for the time it would take to replace your income source.



Also, always be prepared for another major market collapse: find out how your industry performed during the Great Recession that began in 2008, and be prepared to meet a similar downturn. While that recession occurred many years ago and your industry may have become more or less resilient since then, it is our most recent reference period for an economic collapse of that magnitude.

Your emergency savings are not purely set aside to replace your income in the event of income loss. Unexpected problems also arise in life. Your emergency savings help reduce your worry. For example, say your car breaks down and needs expensive repairs. If you have no money saved, how will you get to work? Will you take public transit? Walk? Get rides from friends or colleagues? There are obvious alternatives that can be worked out with additional effort on your part; but if you have emergency savings, you may be able to get back in the driver's seat with little or no stress or panic.

When Should You Use Your Emergency Fund?

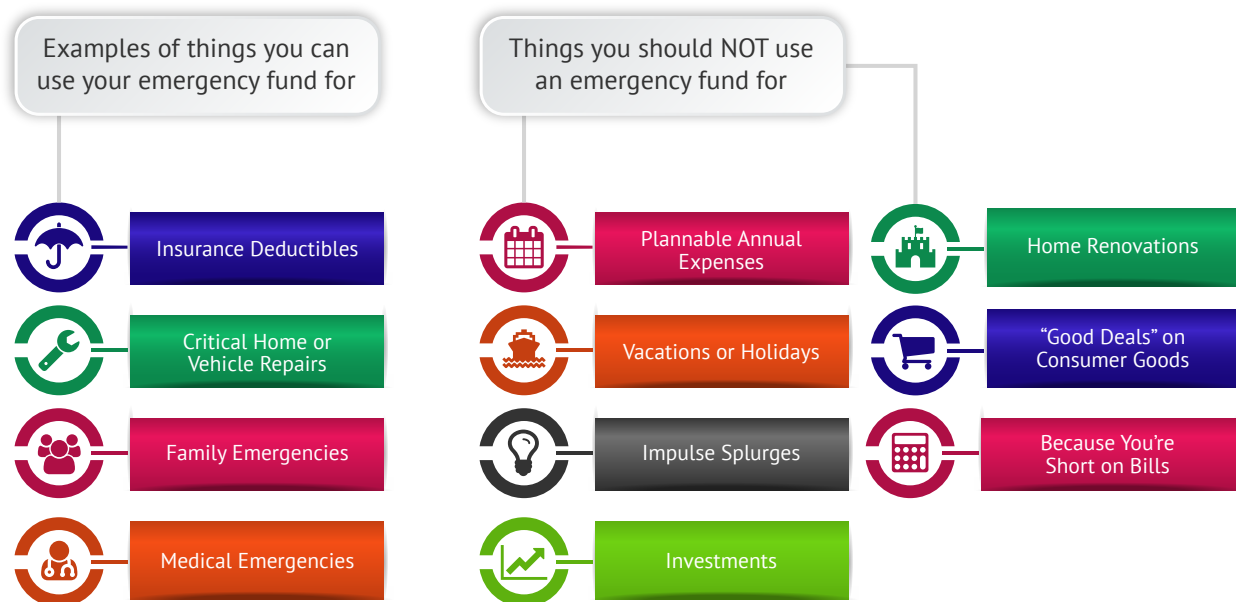
Clearly, it's acceptable to use your emergency fund when you become suddenly unemployed. Rely on your emergency cash to look for new job opportunities, pay your bills, and support your lifestyle needs (rent/mortgage, utilities, food, etc.) until you get your next great job.

Dip into your emergency fund to pay for things you must have in order to make money. For example, the computer you use for work crashes; or the car you drive to work dies. You are justified in using your emergency funds to replace those items.

Obviously, if you, your child or other loved one needs emergency medical attention, your emergency funds are there to cover just such a situation. You can turn to the emergency account when your neighborhood suffers a disaster like a flood, tornado, or fire. Also use those monies to cover insurance deductibles in case of an accident or other loss.

Using emergency money is warranted if something needs fixing that would cause continuous or additional damage if neglected. For example, say your roof is leaking; your furnace dies in the dead of winter; or your house has termites that are damaging the structure. Those incidents are legitimate uses for emergency funds.

Not everything will fit neatly into the above situations. If you're faced with an unexpected expense, ask yourself: "Is it urgent?" If it is both unexpected (i.e. it couldn't be planned for) and urgent (i.e. it must be fixed VERY soon), using your emergency fund is justifiable.





Short-term Savings

Your short-term savings is important because it gets you into the habit of saving for financial goals to enjoy in the near future. Short-term savings hold the money you set aside for those fun things you like to do to enjoy the fruits of your labor. Plan ahead and determine how much you must save each month to pay for your short-term goals. For instance, maybe you want to get good seats for a concert. Tickets will go on sale in six months, but they'll cost \$600. Start saving an extra \$100 a month and you'll have enough money available to buy the tickets when they go on sale.

Short-term savings provide the sense of gratification we receive by buying things, but keeps us from going into debt to do so. It also gets you into the habit of honestly evaluating and prioritizing your wants. Is that new TV really what you want? Well, after saving for several months, it will be clear whether you still want that TV, or if it was just a potentially expensive impulse.

Long-term Savings

The long-term savings account is where you hold money for future investments. This account typically lays the foundation for your long-term financial plans, such as retirement. Get into the habit of “paying yourself first” and deposit money into this account every month. In other words, before you buy new shoes, take a trip, or go out for a nice dinner, first make sure you have set money aside in your long-term savings.

Try to set aside something – any amount – this month for long-term savings. Strive to increase the amount each month. Your target should be 10% of your total take-home pay per month. That may seem like a tall order. Increase it gradually over time through automatic transfers so you pay your long-term savings account after your bills are paid, but before the money goes into your everyday transactional account.

Sudden Unemployment

Regardless of your occupation, sudden unemployment can happen. Its expected duration ranges from individual to individual, and industry to industry. According to the U.S. Bureau of Labor Statistics, the average duration of unemployment was 23.8 weeks as of October 2018 (<https://www.bls.gov/news.release/empsit.t12.htm>). These statistics vary between industries, for example, the expected duration was 23.5 weeks for those in service occupations, and 27.7 weeks for those in management and professional positions (<https://www.bls.gov/cps/cpsaat32.htm>). Further variance exists among different demographics, e.g. age, gender, education level, or race/ethnicity. Obviously, many factors can play into what you can expect, and due to this variability you should maintain an emergency fund adequate to get you through such a situation. Could you afford five months with zero or greatly reduced income?

Caring for Aging Family Members

The cost of taking care of an aging loved one can vary widely from one situation to another. The U.S. Department of Health and Human Services estimated an annual cost in 2016 of around \$21,000 for in-home health aide care for partially independent individuals, and upwards of \$80,000 for facility, nurse-provided care (<https://longtermcare.acl.gov/costs-how-to-pay/costs-of-care.html>). Be sure to factor in all the potential costs: remodeling your home to accommodate their special needs, additional health care costs, transportation needs, special dietary requirements, and a myriad of other expenses that might be associated with caring for your loved one.

Minimum Savings Goals

Set a goal to save at least 10% (10 cents for every dollar earned, or \$1 for every \$10 earned) of your income for long-term savings. This goal may sound challenging, but it gets easier over time. Everyone's situation is unique, and you may start with a goal of a lower amount than 10%. That's OK; just try to work toward increasing your savings goal as you progress.



For those of you who are carrying a debt load, compare the interest rates on your debt to the interest rate on your savings account or your investment rate of return. If you're paying more interest on debt, first work toward paying down your debt before you contribute to your short-term and long-term savings. For instance, if you have a credit card at 24% interest but your savings account is only earning 2%, it would be better to pay off your credit card first. If you don't feel comfortable with percentages, don't worry! The bottom line is: if your debt has a higher percentage number for interest than your savings rate percentage number, then focus on paying down the debt first. But before paying down your debt, make sure you have some emergency money set aside.

If saving money is a challenge for you, there are two main ways to save more. First, you can earn more money. Second, you can cut down on expenses. Easier said than done, right? But that's really as straightforward as the answer gets. Cutting down is something you can do immediately. Increasing income may take a bit more time, effort, and resources; but the combination of the two strategies really creates a powerhouse opportunity that may improve your financial security.





Conclusion

Setting up and following your budget may also help you see your total savings grow over time. And increased savings may help you attain financial security and reach your personal lifestyle goals.



Activity:

Create Your Savings Plan

This activity is designed to help you develop a savings plan that works specifically for your needs, guides you toward financial health, and moves you closer to your personal finance goals.

Activity: Create Your Savings Plan

Follow the instructions below to develop a personalized savings plan that incorporates an emergency fund, short-term and long-term savings goals.

Emergency Fund

Save 6 months' worth of your total bills – or the total amount you would need to replace your income for a greater length of time if it would take longer than 6 months. Consider increasing your emergency fund to cover your bills for the amount of time it would take to replace an income source.

Calculate your emergency fund goals by narrowing down to the most critical elements of your life that you would have to support to maintain a basic standard of living.

The standard of living you maintain during unemployment is your personal decision to make, however. Some of you may be willing to adopt austerity measures, while others will simply take their current lifestyle expenses (required AND frivolous) and multiply the total by 6 – such that 6 months of unemployment would have no effect on your lifestyle at all. The decision on how you live your life during emergency unemployment is up to you, but the more luxuriant your lifestyle, the more money you must set aside for such an emergency.

 Home Ownership Expense	Short-term	Long-term
Fixed Rate Mortgage Payments		
Adjustable Rate Mortgage Payments		
Property Taxes		
Homeowner Insurance		
HOA Dues or Assessments		
Maintenance		
Other		
Sub Total:		

Activity: Create Your Savings Plan

 Home Renting Expenses	Short-term	Long-term
Rent		
Renters Insurance		
Other		
Other		
Sub Total:		

 Utilities		
Electric		
Gas		
Water / Garbage		
Cable/Satellite		
Phone (cell)		
Internet		
Home Security		
Other		
Sub Total:		

Activity: Create Your Savings Plan

 Other Insurance	Short-term	Long-term
Health Insurance		
Life Insurance		
Long-term Disability		
Umbrella Insurance		
Other Insurance		
Sub Total:		

 Kids & Caregiving		
Children's Activities		
Child Care		
Child Support		
Alimony		
Caregiver		
Sub Total:		

 Pets		
Pet Supplies		
Veterinarian		
Pet Insurance		
Grooming & Boarding		
Other		
Sub Total:		

Activity: Create Your Savings Plan

 Educational Expenses	Short-term	Long-term
Professional Development		
School Tuition		
Books		
Other		
Other		
Sub Total:		

 Transportation Expenses	Short-term	Long-term
Vehicle 1 Payments		
Vehicle 2 Payments		
Insurance		
Registration		
Gas		
Maintenance		
Public Transportation		
Taxi / Ride Sharing		
Other		
Sub Total:		

Activity: Create Your Savings Plan

 Health & Fitness	Short-term	Long-term
Gym Membership		
Alternative Medicine		
Supplements & Vitamins		
Doctor Visits		
Dentist Visits		
Prescriptions		
Eye Care		
Other		
Sub Total:		

 Fees & Charges		
Banking Fees		
Credit Card Fees		
Mismanagement fees (late, overdraft)		
Other Fees		
Sub Total:		

Activity: Create Your Savings Plan

 Loans & Debt Expense	Short-term	Long-term
Credit Cards		
Personal Loans		
Student Loan		
Tax Debt		
Appliance Loans		
Other		
Sub Total:		

 Variable Personal Expenses		
Groceries		
Vitamins & Supplements		
Cell Phone		
Personal Items		
Subscriptions		
Other		
Sub Total:		

Activity: Create Your Savings Plan

 Entertainment	Short-term	Long-term
Entertainment (movies, concerts)		
Eating Out & Drinks		
Hobbies & Recreation		
Random Purchases		
Other		
Sub Total:		

 Personal Care		
Clothing		
Laundry / Dry-cleaning		
Personal Grooming (hair, nails)		
Skin Care (makeup, lotions)		
Other		
Sub Total:		

 MSC		
Donations / Charity		
Other		
Sub Total:		

Activity: Create Your Savings Plan

 Monthly Savings Contributions	Short-term	Long-term
Emergency Fund		
Short-term Fund		
Long-term Fund		
Other		
Other		
Sub Total:		

Total Short-term Expenses

Total Long-term Expenses

Now that you have an estimated total of your monthly expenses, simply multiple that number by 6. This figure is your target emergency fund total:

Your 6 Month Target Emergency Fund Total

Your Emergency Fund Target that Considers Your Employment

(6 months of expenses plus the amount of time you think it will take you to get a job.)

Activity: Create Your Savings Plan

Short-term Savings

Planning ahead for future expenses will help ensure that you have money set aside in advance. Answer the following questions in order to calculate how much you need to save monthly for future purchases:

- What major expenses do you have coming up (new child, car purchase, college, buying a home, big electronics purchase)?
- How much do you have currently saved for this item?
- When do you need the item?

Activity: Create Your Savings Plan

Start planning early by completing the worksheet.

Item	Start Saving Date [MM/YY]	Target End Date [MM/YY]	Total Amount to Save	Number of Months Saving	Target Saved per Month

Example: In 24 months I am planning to purchase a used car which will cost \$15,000. I already have \$5,000 saved toward the purchase. To ensure that I have enough money saved in advance, I will save \$416.67 per month. (Calculation: cost of item (\$15,000) – how much you have saved (\$5,000) DIVIDED BY number of months (24) = \$416.67).

Long-term Savings

Work toward saving at least 10% of your income for investments and longer-term goals. Save more if you need it to help you reach your longer-term goals; but 10% is the minimum amount you should strive to save.