

Adventures in Savings



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The sound of the ocean lapping gently against the sandy shore calls some people from their cubicles to a great adventure in a tropical paradise, while others' hearts are set on more domestic goals, like replacing that noisy refrigerator or finally buying a new car. Whatever your dreams are, eventually you have to find the money to pay for them.

With so many introductory rates, low APR financing, and zero-down offers, it's difficult to navigate the tangled vines of consumer finance. Sometimes it seems like borrowing money for a big purchase is the right move, but in uncertain economic times, the last thing you need is another payment if your new television purchase can wait a little while.

Saving Versus Borrowing

There are plenty of instances where credit is handy, especially when you absolutely must make an emergency purchase, but not every appliance, plane ticket, or home repair is a matter of life or death. In these less-than-urgent situations, starting a savings account makes a lot more sense than borrowing and paying interest to someone else. Like that coin jar mom used to fill up all year long for Christmas presents, you can build your savings account slowly and cash it out whenever you're ready to make a big purchase.

Interest rates remain very low, but they're not at zero – whenever you borrow money from a credit card or a bank, you pay for the privilege, adding several hundreds or thousands of dollars onto the initial cost of reaching your dream. According to the Federal Reserve's Credit Card Repayment Calculator, even if your credit card has a very good rate of around 9.9% APR, borrowing \$5,000 for your dream getaway ends up costing you an additional \$3,104 in interest and fees if you only make the minimum payment – and it takes about 17 years to pay it off at that pace.

Saving the money, on the other hand, means that you get paid interest. On a basic savings account, rates hovering around 0.75% APY are not uncommon, according to Bankrate.com. This might seem low, but when you consider how much you would have spent in interest if you borrowed, saving for your vacation instead of charging it gains you more than 10% in interest. It doesn't take much to save for that trip, either – with as small a contribution as \$100 each month, you'll be on a sandy beach in a little over 4 years. That may seem like a long time to wait, but in the time it takes your friend to pay off one charged vacation, you'd have already been to Hawaii, Sweden, Japan, and Ireland if you waited the four years and saved for your adventures.

Saving also means you have less debt and fewer payments, making it easier to get through your week. Instead of choosing between paying the credit card payment and buying groceries in a month that has been filled with expensive emergencies, you can relax, knowing that the credit card company's attack dogs won't be after you and you're not going to be accumulating fees, pushing your payoff date further into the future.

The fewer payments you've obligated yourself to, the more likely you are to always make them on time and the better you look for important credit-based purchases like mortgages, where your overall monthly payments are compared to your income to determine how much home you can afford. You might not think you're interested in buying a home today, but in a few years you may feel differently. You'll be in a better position to own your own house down the road if you keep your unsecured credit debt low, especially if you've already got student loans.

When you're saving for the object of your desire, it gives you plenty of time to think your purchase through, as well as research other, similar items. That way, when you've saved enough money, you can choose the most reliable

option with the features that interest you. With items like appliances or cars, the time you have to look around may allow you to find the same model substantially discounted due to seasonal sales or coupons. If you feel the fire dying as you approach your savings goal, you may want to reconsider the purchase entirely, instead of suffering the empty feeling that comes with buyer's remorse on an expensive item. You can always use the money you saved toward a different goal.

Savings Aren't Just for Retirement

When people think about savings, retirement is usually what comes to mind, but there are lots of good reasons to save. Many people have found that when they save for a purchase, they have more options available to them. A saver can choose to buy new or used items, or even something that might make a good restoration project, without having their hands tied by lenders who may have to be convinced that their money isn't at risk if they had to take your item back and sell it again.

Electronics are ever-present in our lives and becoming increasingly embedded every day. This doesn't mean they're cheap, though, so if you're thinking about the newest iPhone or a massive computer upgrade, setting a little bit of money aside now may create the horde you'll need to be first in line on release day. Even if you're not after the latest and greatest, a new television can be out of reach after the bills are paid, but if you save a little bit each month, you'll be ready to buy in time for the Super Bowl.

New furniture and appliances give your home a completely new look, but the interest rates on store cards for these items leaves you paying on them far longer than you might expect. The same goes for that new car, boat, or RV – if you're still making payments on them when they run out of warranty, you'll be hung for both repairs and the monthly loan payments, making it difficult to afford either.

A new look can really improve your self-esteem, especially if you're hunting for a new job or wanting to meet a potential mate. A little cosmetic surgery, hair removal, or laser eye correction can go a long way toward a new image, but these procedures aren't covered under most health insurance plans. Your savings account brings elective surgery into reach and while you're saving up, you'll have plenty of time to be sure you want to make a permanent change.

We all secretly dream of adventures we're sure we'll never afford. How many times do you find yourself imagining you're eating bangers and mash in London, or lying on a beach in the Caribbean drinking piña colodas? Do you dream of careening down a mountainside on a pair of skis while bundled up against the cold?

Destination weddings are all the rage for the travel-inclined, but they are often as pricey as having a lavish wedding at home. Instead of eating cake while listening to your uncle drone on and on about how cute you were as a baby, though, you could be snorkeling the Great Barrier Reef or fishing for sailfish off the Florida coast. Your monthly savings contribution can take you anywhere.

Admittedly, not everyone's a traveler. After all, air travel can be a huge hassle and driving cross-country is exhausting. Maybe you've been spending a lot of time on Pinterest, looking at ideas for redoing your home landscape. An outdoor kitchen might even be in order, once you have that new deck installed. Dedicated savers who use their money toward home improvements get to design their environments, no matter how unusual or obscure the idea. There's no one to question your choices

when you're remodeling your home with money you've saved yourself, like there might be if you borrowed against your home's equity.

Saving for the Future

Trips, cars, stuff ... that's not always where big dreams lie – perhaps you're looking further down the road. A savings account can help with really big goals, too. Long gone are the days when you could buy a house with no money in your wallet. A few programs remain to help first time home buyers, but the guidelines are strict and sometimes programs even limit the type of home you're allowed to purchase. Take control of your home purchase by socking away money for a significant down payment.

Maybe you already own that dream house and you're ready to start a family. Your growing kids are going to need money for college – if you start saving now for those non-tuition related expenses, like rent, clothing, food, and books, they may be able to finish school without being burdened with student loans – surely you remember those minor expenses that ate up every last nickel from your campus job.

After a few years of trying to get pregnant, you might decide to look into adoption, but be prepared, because families who adopt are often at a distinct financial disadvantage. Adopting is expensive, especially if your child comes from another country, plus there are all of those immediate expenses before you can bring them home, like furniture, clothing, and toys. You'll need to childproof your house prior to your child's arrival, adding further cost to the process. Start saving now and you won't be tripped up by the details.

A small business can allow you more time with your new family, if you plan and budget well. But businesses require capital, even if that money is only to cover your living expenses during the time that it takes to get some income flowing. The more you can stick away for this end, the sooner you'll be balancing changing diapers with servicing customers from the comfort of your home office. It's not for everybody, but if your family is central to your dreams, a small home-based business may give you the leverage to attend more ball games and school functions.

How to Start Saving

Saving sounds great, but if you've never had a savings account or tried saving toward a goal, the process may be a little more intimidating than sticking coins in a piggy bank. You probably have a lot of questions about getting started and where you'll find the money, but rest assured that there are lots of easy tricks to savings.

The best thing you can do for your new saving self is to make a budget. This way, you'll know how much money you have left to put toward certain key expenses and be able to curb your spending accordingly. Budgeting for savings isn't unlike budgeting for anything else, except that you must have a rough idea as to the final cost of your target expense, including any applicable taxes and fees. You should also take into account the rate of inflation, if your savings plan requires more than a few months to accomplish.

Over the last 10 years, inflation in America has fluctuated from between zero and about 4%. It may not seem like a lot, but when you finally book that trip or buy a new car, these small percentages can add up. If your savings target is \$1,000, but you think it will take two years to save that amount, make sure you add an extra 4% to each year's budget. If you don't end up needing the extra money, all the better!

A budget is also helps you ensure that the amount you intend to put back is reasonable. If only 10% of your monthly budget is expendable, it's unlikely you can rearrange things to permit saving more without some major life changes. At the same time, few people can curb extra spending entirely, no matter how great the reward at the end. Start by aiming to save half of your extra monthly cash before committing more money toward savings – after all, the more painless savings is for you, the more likely you'll be successful.

You can figure out how many deposits it takes to reach your savings goal by dividing the total amount of money you're going to need by the amount you think you can easily save each month. Once you have that number, you can mark off each payment to yourself as they're deposited into savings, just like with a bank loan. Before you know it, you'll have saved all the money you need and be in the habit of saving, paving the way for all kinds of future plans.

If you plug your monthly savings contribution into your budget as a major expense and make it a priority so that you're paying yourself first before you spend money on luxuries or conveniences, you're more likely to succeed. Protect yourself from the mistake of overestimating how much you can save each month by carefully examining your spending habits instead of trying to achieve some kind of idealistic savings percentage. Only you can know how much money you're comfortable moving to savings each month – if you deny yourself the most basic rewards, you'll feel like your savings plan is more of a financial burden than a gift.

Cutting the Fat to Save Faster

Knowing where to cut the fat can be tricky, but most budgets have areas that could use room for improvement. First, look for those things that you are never going to miss, then work your way down to reducing waste on necessities like food, energy consumption, and housing.

One of the easiest ways to save money is to skip the super-sizing. Eating out is not always avoidable, but you can choose to stick to the regular meal with the standard sized fries, or get a small coffee instead of a five dollar number covered in foam and caramel. It may only be a dollar here and there, but over the course of the month, those dollars and cents add up. If you saved two bucks every day, you'd have an extra \$60 toward your savings goal at the end of the month.

A lot of people have subscriptions they pay every month for services they never use. You know you mean to go to the gym more often and you'll get there one of these days, but it's been 10 months since you drove by the building. Maybe it's time to cancel that membership and use the money toward something you really want. The same goes for things like cable television and the many websites where you pay to play. Are you really watching those extra channels? Do you actually go to Ancestry.com? Cancel what you don't use, but instead of putting that money back in the general budget, divert it to savings – after all, this is money you already don't miss.

Payroll deductions are another source of overlooked valueless payments. It's great if your company offers medical, dental, and vision insurance, but if you never go to the dentist or don't wear glasses, why are you paying for coverage? The same goes for other optional services your company may offer for your convenience. Just because there's a lawyer on retainer doesn't mean you're going to need him, especially if you've never had so much as a parking ticket – stop paying for services you aren't going to utilize.

Sales tend to run in cycles, especially those on vital supplies like food and paper goods. It may take a little planning on your part, but if you can design your grocery list around the items that are on sale that week, your

budget will thank you. Coupons can be a pain in the real world, but they're easy when shopping online. A simple code entered at checkout saves a chunk on items you find at Internet retailers like Amazon.com – subscribe to your favorite web shop's mailing list and those coupons come straight to your inbox.

Shopping lists are another great way to help yourself save money, provided you stick to them. Many people wander the store, buying whatever seems like a good idea at the time, only to get home and realize that they already had plenty of aluminum foil or shampoo or that the new shirt they bought doesn't remotely match anything they own. Detailed shopping lists include item names, quantities, and brief descriptions. Treat your list like you're shopping for your grandmother and you won't be tempted to stray when the Funyuns on the end cap beg to jump into your cart.

Help Yourself Save

There's a whole world beyond the easiest of savings parlor tricks if you want to become a life-long saver. Learning to save is a great habit to get into and you'll be more insulated against the personal ups and downs that modern living brings. Plus, the more you save, the more fun you can have with that savings.

Tracking your spending can be tedious, but there are lots of software packages out there that help you keep a virtual checkbook. You can run reports showing how much you spend on specific items, like mangoes, or in categories such as tropical fruit. If you get into the habit of writing down every transaction you make, it has a similar effect as carrying around cash – you become super aware of where your money goes.

Some savers find it's helpful to set up a dedicated account for each of their long-term savings goals, so that no account can rob from another. When you have just one large, lump savings account, it can be hard to remember which goal you chose to sacrifice if you have to dip into those savings or make a smaller contribution due to emergency expenses.

Once those separate savings accounts are set up, contact your bank or employer about having a certain percentage or set amount deposited directly into each of your savings accounts. This way, you won't be tempted by that extra money in your checking account, and it'll build up without your intervention. This is trickier if you have more bills coming out of one pay check than another, but your bank won't mind if you move extra from your checking account to one or more of your savings accounts.

Speaking of your payroll checks, did you budget for those extra checks you get every year? You know the ones – they appear like a miracle every so often, giving you a whole paycheck without bills. Since most people don't plan for them in their budgets, these are a great source of extra savings money. They're the same amount as a payroll check and their addition to the pool helps you get closer to your goal without you having to do anything but resist the temptation of spending them. IRS refund checks fall into this same category – saving them rather than spending them knocks out a big chunk toward your savings goals.

Just because your smaller dreams require less money than retiring from your job doesn't mean that you should finance and pay for them for a reckless number of years. Teaching yourself to save by having short-term goals allows you to do more with your income, no matter how large or small. Instead of paying interest, you get to pay yourself and you get rewarded with more trips, better appliances, or a more fuel-efficient car using the same amount of money. Although it can be hard to see through the monthly payments and zero down credit offers, in the long run, using a savings account for big purchases provides you more financial freedom and gets you out of debt sooner.