Why Savings Accounts are Important

Smart and Safe Investing

How to save for personal use vs. savings for your retirement

The ABC=s of Retirement Accounts

Many peoples idea of Asaving@ money is to hoard just enough to buy the new forge that they can=t live without. If they would only properly invest a few dollars a month, this type of paycheck to paycheck living would be a thing of the past. How do you properly invest money? Here are a few smart ways to invest.

Savings accounts are wonderful places to keep money that is very liquid or easy to get to if you need it. It earns a small rate of return with very little risk. Due to these factors, they are great places to store emergency funds, which is a fundamental part of any personal finance strategy. An emergency fund is a buffer or fall back to deal with any disaster in the event of a personal crisis, such as an injury, loss of customers, buying a new furnace for the home, etc.

Savings accounts are indeed advantages. You can get to your money at your convenience, it can make a nice return in the right account, with the right bank, and there=s very little risk as the accounts are FDIC insured up to $100,00 per person on the account.

Your savings account should have enough emergency funds in it to last 2 to 4 months= worth of salary. This should be enough of a buffer to cover most any personal crisis.

However, once your Savings account reaches a point that is more then what would be needed for any personal emergencies, you should be looking for a place to put your money for the long term. There are a lot of options to investing such as bonds, Corporate funds, stocks, etc. However a few simple options worth considering are high-yield savings accounts, investment accounts, certificate accounts, money market accounts, and retirement accounts.

Fortunately, there are new savings accounts now appearing with all of the features of a regular account like FDIC insured and easy deposits, but with an interest rate that 4.5% to 6%. They are known as High-Yield Savings Accounts. A typical savings account earns about 0.5% APY. Therefore, $1,000 in a savings account and $1,000 in a high-yield savings account, would mean at the end of a year, you would have $1,005 in a typical savings account and $1,050.50 (using 4.5%) in a high-yield savings account. That is $45.50 more money earned in the high-yield savings account. The money you make in a high-yield savings account will grow greater than any typical bank savings account.

Once you find a bank that you like, just sign up and transfer some money in from your checking accout. Set up an automatic withdrawal plan from the checking account into the high-yield savings account. Just a little bit each week will steadily grow the account over time.

Investment accounts are reasonably liquid as you can pull out any money needed at any time, are not guaranteed, and are a little more riskier. For example, the Vanguard 500 has returned an average of 12% a year since the middle 1970=s, but the reutrn is not guaranteed year-after-year. Some years have had a loss, while other years have had incredible gains. The potential returns are too good to pass up when it comes to investing. Typically your money doubles every 6 years in a Vanguard 500, while in a 5% savings account, your money doubles every 16 years. However, you do not want to invest everything in investment accounts. There have been many years that returns were positively scarey with 20% losses. The positive gains occur over a long term. You need to put money in and do not look at it, track it, or listen to the news.

If you have a $500 or more of extra cash, then you could purchase a certificate of deposit (CD). CD=s are a way of investing a fixed amount of money for a fixed term (3 to 60 months) usually at a fixed interest rate. They are a great way to put away some extra cash and collect it at the end of the term. At that point you can purchase another CD or deposit the money into another account.

Another way to save money is to open an Individual Retirement Account (IRA). Government and employer sponsored retirement accounts such as 401(k)s and IRA=s are the best way to save for your retirement. The money invested will continue growing, tax free, until your are eligible to begin drawing it out. IRA=s are mostly designed as a long-term savings account. There are also short-term or fixed-term IRA=s for when you don=t want to leave your money in the account for the long term but want to be able to get to it under 10 years. This type of account is advantages for a person who has a chunk of money saved and wants it to earn money so they can pull it out in 5 to 10 years to buy a house. There are several types of retirement accounts. 401(k) and 403(b) for employees at larger organizations, IRA=s such as Regular, Spousal and Roth for most everyone, and SEP Ira=s, Keoghs ans SIMPLEs for small business and the self-employed. IRA=s are the most powerful retirement vehicles available because they compound interest (grows at an accelerated rate), reduces taxable income (pay less tax on your income), are tax-deferred growth (grows tax free), and have consistent savings.

With all of this basic information, how do you go about saving money?

1 - open a checking account if you do not already have one.

2 - open a savings account if you do not already have one.

3 - establish an on-line account if you have the internet so you can transfer money at your discretion. If not, no worries. You will just have to do it in person each week.

4 - establish an easy-to-obtain amount of money to put into the savings account each week. Choose a day to do it. I usually do it on Thursday. How much money? Start off simple to get into the habit. $10 to $20 a week is good. Generally in business we call this paying yourself and usually calculate starting off with one hour=s worth of income every day or 5 hours a week. A person making minimum wage ($7.15) would be depositing $35.75 a week into this savings account. Depositing $35.75 a week $1,859 a year) would earn you at the end of 5 years $13,158. Less than $40 a week into a savings account is an easy goal to obtain. Imagine increasing that to $100 a week. That would be $36,806 at the end of 5 years.

5 - Once you obtain enough in your savings account to cover 2 to 4 months of salary for any emergencies, then it is time to now deposit your money some where else. Leave your savings account open and growing interest. If you are making minimum wage, you would need to have between $2,288 and $4,576 in the savings account to meet the 2 to 4 months of emergency money. At the $35.75 a week deposit, it would take you less than 1and 1/2 years to obtain this reserve fund.

6 - Now decide to make future deposits into a high-yield savings account or and IRA. Both are fine choices depending on your age and goals. If you think you will be needing the money withing 10 years, then choose a high-yield savings account or a fixed-term IRA. If you would like to start saving for longer, as in for retirement, then open a SEP IRA. Putting $75 a week into a IRA will give you a return of roughly $61,453 in 10 years, $227.811 in 20 years, $678,146 in 30 years, and $1,897,224 in 40 years. You can determine this yourself by utilizing on-line retirement calculators to determine your return on what you deposit weekly.

7 - With your savings account growing on interest and you making deposits into your IRA, as you make more money you will need to decide the best use for it. Increase payments into your IRA so you will have more to retire on, or make deposits into your savings account for more of a buffer, open a high-yield savings account, or all of the above. In short order you will see your financial situation looking great as you have developed a plan of easy, consistent depositing.