



About Savings

You set aside current income in savings to be used for a purpose in the future. Savings can be either short- or long-term. Savings are considered an expense because you are setting current income aside for use in the future which makes the money unavailable to use today.

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Short-term savings

A short-term savings is used to accumulate money for an immediate need. The money in short-term savings is kept in your checking account for quick access. Earning interest on short-term savings is normally not a concern.

Money set aside to short-term savings ledgers can be used in one of three ways:

1. Linking a short-term savings to a bill or credit card automatically deducts from the savings balance to make payments when you pay bills;
2. Writing a paper check;
3. Using the *Move Money* or *Consolidate Money* features.

In You Need A Cash Plan, the amount and frequency of a short-term savings set-aside can be:

- **A percent of an income** - The planned set-aside amounts are based on the planned income receipt amounts. The actual amounts set aside to the savings ledger are a percent of the income deposits.
- **A fixed amount** - The same amount of money is set aside on a fixed schedule.
- **Unscheduled** - Set-asides are made when there is extra money not needed for any other purpose.

You can create short-term savings for any purpose. There are three types of short-term savings that are easily set up in You Need A Cash Plan. One will prepare you for unexpected expenses. The other two will help avoid unpleasant dips in your net cashflow.

- Emergency fund
- Periodic savings
- Ongoing savings

Emergency fund

An emergency fund is a short-term savings to which you set aside money to pay for unexpected expenses such as:

- Unforeseen medical bills

- Home appliance repair or replacement
- Plumbing issues
- Vehicle repairs

You can create an automatic emergency fund in You Need A Cash Plan with the savings set-aside limit option. When the balance in the emergency fund ledger reaches the limit you have set, the set-asides are automatically stopped. When the ledger balance falls below the limit, set-asides are automatically resumed until the limit is again reached.

The amount of your emergency fund depends on your comfort level, which may change as you gain experience managing your household finances. When starting out, \$500 may be enough. As soon as you can, you can begin increasing your emergency fund to maybe \$1,000. As your income grows, continue increasing your emergency fund. Having money on hand for emergencies that is equivalent to three to six months of your expenses is a goal that will keep your emergency fund in sync with your income.

Resist the temptation to use the money in your emergency fund for non-emergency purposes. While having your emergency fund immediately available in your You Need A Cash Plan checking account is optimal, moving the money to another checking or savings account is a way to avoid spontaneous, unadvised use of your financial safety net. Putting your emergency fund in an investment account is not recommended unless the account allows immediate, on-demand withdrawals.

Periodic savings

A periodic short-term savings is used to pay a large expense that is predictable in both amount and frequency. Examples could include:

- Renewal of vehicle license
- Quarterly estimated income tax payments
- An annual HVAC maintenance contract
- Annual preparation of tax returns
- Having the gutters cleaned each year after the leaves stop falling

A periodic savings plan spreads the cost of a large expense over as much time as possible, thereby reducing the impact of the large expense on your net cashflow.

The set-aside amount for a periodic savings is the expected amount of the expense divided by the number of set-aside opportunities before the expense comes due. For example, an annual prepaid service agreement for HVAC equipment costs \$370.00. The contract is paid in full on March 1st each year. Accumulating the full payment over 12 months is done by setting aside \$30.83 ($\$370 / 12$) per month in a fixed amount savings.

Ongoing savings

Ongoing expenses are expected, but when they will happen or how much they will cost is not known. Examples could include:

- Auto maintenance (e.g., regular service, new battery, minor repairs)
- Home repairs (e.g., leaky faucet, clogged drain, broken window)
- Seasonal landscaping work
- Entertainment (e.g., concerts, movie premiers, tulip festivals)

A fixed amount, short-term savings for an ongoing expense smooths the impact on your net cashflow of a known and possibly large expense that will happen sporadically. The savings ledger is not linked to a bill or credit card because neither the expense nor how it will be paid are known in advance.

In You Need A Cash Plan, ongoing short-term savings can be either perpetual or limited.

- The set-aside amount for a perpetual ongoing savings is calculated by dividing the total of the estimated annual expense by the number of set-aside opportunities in a year. The amount of accumulated savings in the plan is allowed to grow without limitation.

A perpetual ongoing savings works well when the amount of the expense can fluctuate unpredictably, or when you are setting up a new ongoing savings and cannot, with reasonable accuracy, predict the total annual cost.

- The set-aside amount for a limited ongoing savings is calculated the same as for a perpetual ongoing savings. The difference is that there is a limit on the total that is accumulated in the savings ledger. When the amount in an ongoing savings ledger is at the limit amount, no further money is set aside until the balance falls below the limit. The

set-asides are then resumed until the money in the ongoing savings ledger again reaches the limit.

Limited ongoing savings are best for annual expenses that have a fairly well-known cost but may not happen every year. Eye exams and glasses are an example.

In *You Need A Cash Plan*, short-term savings can be switched between perpetual and limited at any time as circumstances indicate.

Long-term savings

Putting money aside in long-term savings and investment accounts is how you reach larger future goals, like building wealth or preparing for events such as retirement and loss of income.

An in-depth look at the myriad ways to grow your long-term savings is beyond the scope of this digest. There are many books, courses, as well as financial advisors available to help you along your path to building wealth and ensuring a secure retirement. The intent here is to introduce to you a few basic investing concepts so that you have some idea of where to start working toward your long-term goals once you get comfortable using *You Need A Cash Plan*.

- Unemployment reserve
- Putting your money to work
- Using gross and net income
- Automate your long-term savings

Unemployment reserve

A major long-term saving concern is what would happen if there is an unexpected loss of an income for any reason. There is no cookie-cutter solution for an interruption in your cashflow since the reason for the decrease could be anything from a job loss to a medical or family challenge.

How long the interruption will last is also a variable. Is the job market for your skillset strong so that you could find another job in a few weeks after being laid off? Will your job search possibly continue for years? Will you be able to return to the same type of job, or business, or is the interruption

such that a career change is needed? Perhaps you will have been permanently removed from the workforce.

You will have to decide on the amount of money and/or insurance that you want in reserve to cover an unexpected loss of income. For a monetary reserve, you could put the funds in a separate savings or investment vehicle that you set up for that purpose. Or you could consider part of your other long-term saving and investment plans as your reserve.

The bottom line for an unemployment reserve is that you consider your options and put a plan in place with which you are comfortable. You might consider discussing the issue with a professional financial advisor and/or insurance agent.

Putting your money to work

The money you set aside in long-term savings is not kept in your You Need A Cash Plan checking account. You put your long-term savings in other types of savings and investment accounts to take advantage of value growth, simple interest, or compound interest to grow your savings as quickly as possible.

Value growth – There are two categories of company stocks and investing styles. Value investors look for stocks they believe are undervalued by the market (value stocks) that can be sold for a profit, while growth investors prefer stocks that they think will deliver better-than-average returns (growth stocks) when held for the long-term.

Simple interest – Interest on a simple interest account is calculated using the total of deposits into the account. Interest earned in previous periods is not included in the calculation of interest for the current period.

Compound interest – Interest in a compounded account for the current period is calculated on the total of deposits into the account, plus all accumulated interest from previous periods. The balance in a savings account that compounds interest grows much faster than the balance in a simple interest account.

There are calculators in You Need A Cash Plan that you can use for estimating current and future values for simple and compound interest accounts.

Using gross and net income

You can set aside part of your gross (before withholdings and deductions) or net (after withholdings and deductions) income for long-term savings. Here are examples of both approaches.

Employee Savings Plans (ESP) – An employee savings plan is a pooled investment account provided by an employer that allows employees to set aside a portion of their pre-tax wages for retirement savings or other long-term goals, such as paying for college tuition or purchasing a home. Many employers match their employees' contributions up to a certain dollar amount, or by a certain percentage. The most popular ESP in the U.S. is the 401(k) retirement plan.

Participating in an employer's savings plan is attractive because:

- you don't see your pre-tax contribution in your paycheck,
- the employer's matching funds are extra income, and
- there are tax advantages.

Individual Retirement Account (IRA) – Popular tax-deferred savings accounts for net income are traditional, Roth, SEP, and SIMPLE IRAs. An IRA allows you to save money for retirement with tax-free growth or on a tax-deferred basis. An IRA can be set up at a bank, credit union, or financial institution. Withdrawing money before age 59-and-a-half normally results in a 10 percent penalty. There are income limitations for contributing to Roth IRAs and for deducting contributions to traditional IRAs.

For current information on IRAs as well as other tax-deferred saving options, visit your bank or credit union or talk with a financial advisor.

Investing – Investing is the act of allocating resources, usually money, with the expectation of generating an income or profit. You can invest in endeavors, such as using money to start a business, or in assets, such as purchasing stock or real estate in hopes of reselling it later at a higher price.

Growing your net income by investing in stocks, bonds, and property comes with risk. The money you invest may grow, but your investments can also decrease in value. The best edge for minimizing your risk and successfully building wealth by investing is to learn all you can about your chosen investment path and to seek advice from an accredited financial advisor.

Starting to invest does not require a great deal of money as is commonly believed. As with any savings program, you can start small and build on your portfolio (all of your investments). The sooner you get started, the longer your investments will have to grow.

Automating your long-term savings

Consistently putting money aside in your long-term savings is essential to achieving as much value growth as possible. Being consistent with deposits to your savings is much easier when you are not involved in the process. Options for automatic monetary transactions let you put your long-term savings on full automatic so that deposits to your investments happen whether or not you remember.

Money that you put into an employer savings plan is contributed automatically by your employer from your gross income. The deposits are made at the same time that you get your paycheck. Sticking with such an automatic plan is easy because it's transparent.

The plans that you have for saving from your net income can also be automated. You will see the money before it is added to your savings, but automatic contributions to your savings that happen without you having to do anything helps keep you on track.

- **Automatic Transfers** - Banks and credit unions offer automatic transfers that you can set up to transfer an amount of money from your checking account to another of your accounts on a fixed schedule.
- **Automatic Withdrawals** - Financial institutions, such as investment brokers, will automatically withdraw an amount of money from your checking account to your investment account on an agreed upon schedule.

Both types of automatic long-term savings are added to your cash plan in You Need A Cash Plan with pseudo bills.