How Do You Know If You’re Saving Enough?

Most people think when they start earning more money, they’ll start saving more money. But what often happens is the more you make, the more you spend. If you want financial independence, you have to establish a savings routine. The more money you make, the more your savings rate needs to increase.

Savings at Every Age

Your 20s: You are just starting out, and hopefully, you’ve found a good job that pays a reasonable salary. This is the beginning of the accumulation stage, so you need to start by paying off debt and work to save at least 10%–25% of your income. If your employer offers a 401(k) plan, start investing right away. Try to contribute as much as possible or at least contribute as much as your employer will match.

Your 30s: You are still in the accumulation stage, so you should be increasing contributions to your retirement accounts and try to contribute the maximum every year. By the end of your 30s, you’ll want to have saved at least twice your annual salary.

Your 40s: This is the decade of major responsibilities, as you probably have dependents. Your income may have increased; but even with the increase in expenses, you need to also be increasing your savings rate.

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Borrow Wisely

- Use debt only for items that have the potential to increase in value, such as a home, college education, or home remodeling. Avoid incurring debt on items like clothing, vacations, or other luxuries.
- Consider a shorter term when applying for loans. Even though your monthly payment will be higher, you will incur much less interest.
- Make as large a down payment as you can afford. If you can make prepayments without incurring a penalty, this can also significantly reduce the interest paid.
- Consolidate high-interest-rate debts with lower-rate options. It is typically fairly easy to transfer balances from higher-rate to lower-rate credit cards. Another option is to obtain a home-equity loan to pay off your consumer debt. In many cases, home-equity loan interest rates are lower than other personal loans, and as long as the home-equity loan balance does not exceed $100,000, interest payments are tax deductible.
- Compare loan terms with several lenders, since interest rates can vary significantly. Negotiate with the lender. Although most lenders have official rates for each type of loan, you can often convince them to give you a lower rate if you are a current customer or have outstanding credit. Review all your debt periodically, including mortgage, home equity, auto, and credit card debt, to see if less-expensive options are available.
- Review your credit report before applying for a loan. You then have an opportunity to correct any errors that might be on the report.
How Do You Know?

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By the end of your 40s, you should have saved four times your salary. Now, you will want to maxing out your contributions to retirement accounts, as well as monitoring your investments for performance.

Your 50s: You are now at your peak earning years, and your saving rate needs to be at its highest. By the time you reach 59, you’ll want to have saved seven times your income. Monitor your investments so you can make adjustments.

Your 60s: You’re getting close to retirement or have retired. Your mortgage may be paid off and expenses have decreased. Your saving should be at its peak, which is 10 times your income prior to retiring. You’ll need to make sure you are informed about distribution requirements of your retirement accounts.

Your 70s and beyond: Now all of your expenses are being covered by your retirement account distributions and Social Security. Hopefully, you have saved well and are reaping the benefits of all those saving years.

Watch for These Warning Signs

As you go through the journey to retirement, you may not be able to accumulate the level of savings you need, but you should have acquired a good amount of savings for a comfortable retirement. Take stock of how much you are saving every year and look for warning signs that you are not saving enough.

If you experience any of the following, you need to take a hard look at your financial situation to get on track:

- You have no idea how much money you’re spending every month, which means you are most likely overspending.
- You don’t have savings goals or a savings plan. If you don’t have goals and a plan to achieve them, you will have a hard time saving for important milestones.
- You’re living paycheck to paycheck. It’s time to take a serious look at your finances to see what can be reduced or eliminated.
- You’re putting off saving for retirement. It will get here quicker than you think, and this is the one thing you really need to start saving for as early as possible.
- You can’t pay your credit card balance in full, which means you probably have significant debt.
- You don’t have an emergency fund. You know the unexpected will happen and you need to be prepared.

Please call if you’d like to discuss this in more detail.

5 Reasons to Start Saving More

Saving money is a bit like exercising. We all know how important both are, but it can be hard to actually get into the habit. If you’re interested in getting started with saving or want to save more, here are five reasons to help keep you motivated.

1. You’ll Be Prepared for Emergencies — Here’s an alarming fact: most Americans don’t have enough money saved to cover even relatively small, unexpected expenses, such as emergency room co-pays, minor car repairs, or a broken furnace. Without cash on hand to cover these irregular but inevitable costs, you’re more likely to turn to credit cards or loans when the need arises.

2. You’ll Be More Independent — Having savings gives you more flexibility and independence. With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city.

3. You’ll Be Able to Reach Your Goals — We all have goals. Whatever your dreams, they likely have one thing in common — you’re probably going to need some money if you want them to become a reality. Few of those dreams are achievable if you don’t save for them.

4. You’ll Be Able to Earn More Money — Saving isn’t just about setting aside what you’ve already earned. It’s also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving rather than spending. And because of the power of compound earnings, even relatively small amounts can grow significantly, provided you don’t touch your principal.

5. You’ll Be Happier — No one wants to suggest that money is the only thing that can make us happy. But there’s also evidence that saving money, even in small amounts, can make you happier. In contrast, having debt (often a consequence of a lack of savings) tends to lead to more unhappiness.

Convinced that saving for the future is the right thing to do? Please call to discuss how you can make regular saving part of your financial plan.
Planning a life together is an incredible journey for a couple. The two of you plan every detail for the perfect wedding day, but have you spent any time planning how you will handle and merge finances once you are married?

It’s important to have an open and honest conversation about each other’s financial behaviors. Here are some important issues to discuss in regard to your marital financial plan:

**Determine Your Financial Goals** — The financial future you build together has to begin with goals, both short and long term. You will want to begin with short-term goals, such as paying off wedding and student loan debt, purchasing a new car, or dealing with credit card debt. Next, list your long-term goals, like sending children to college, saving, investing, and retirement. Now you have to establish priorities for both your short- and long-term goals so you can focus on your plan.

**The Budget** — Each of you should list your income sources and a complete list of expenses. A good way to identify all of your expenses is to thoroughly review several months of both your checking account and credit card transactions. After you add them up, compare the totals. Hopefully, you will be spending less than you earn, but this is where the negotiation begins. Identify which expenses are essential and which are discretionary. Are there any expenses that you can reduce or eliminate so you can put those funds toward your goals?

**Who Will Manage the Finances?** — While it may be more efficient for one spouse to manage the budget, pay the bills, and keep the financial records, it is still very important for both parties to be completely aware of the finances. It is also a good idea to develop a filing system that both of you understand and can access.

**Separate or Joint Bank Accounts?** — What will work best for both of you? Having a joint account can make it easier to keep track of expenses. If you and your spouse are better off going separately, you should then determine who is responsible for which expenses and how you are going to manage your savings.

**Credit Cards** — This is an area to pay close attention to if one party has less than stellar credit. For example, if you are good at managing credit and your spouse is not, and he/she adds you to his/her credit card account, you are now also responsible for that debt. Additionally, it will also negatively impact your credit rating. In this case, it may make more sense to keep separate cards or make the spouse with good credit an authorized user of the card, which means you can use his/her card but will not be liable for the debt.

**Insurance** — If both you and your spouse have separate health insurance coverage, you’ll want to do a thorough review of both plans to determine the option that will provide the best benefits at the lowest cost.

This is also a good time to look at your auto insurance. If you have separate cars, you most likely have different auto insurance carriers. You should consider pooling your auto insurance policies with one carrier to receive discounts for insuring multiple vehicles.

**Is Little Johnny Going to College?** — If you plan on having children and know you want to send them to college, start a savings plan as early as possible. With the cost of college tuition, saving for college is almost like saving for retirement — the earlier you start, the better.

**What Will Your Golden Years Look Like?** — If both you and your spouse participate in an employer-sponsored retirement plan, you should carefully review and decide which plan offers the best benefits. The ideal situation would be to participate to the maximum in both plans; but if your cash flow won’t allow that for a period of time, then determine which plan is the best for your retirement strategy, including:

- If both plans offer matching contributions, determine which plan offers the best match and take full advantage of the free money.
- Determine the vesting schedules for the matching contributions from the employer.
- Identify which plan has more investment options so you can develop an investment mix that will meet your needs.

While all of this may seem overwhelming to a newly married couple, having a plan to merge your finances should actually help reduce the stress of bringing your lives together. Please call if you’d like to discuss this in more detail.
Credit can be a valuable tool that allows you to purchase major items and pay for them over time. But the ready availability of credit also makes it easy to incur more debt than you can comfortably repay. Rather than allowing lenders to set credit limits for you, evaluate your financial situation and determine your own limits.

To find out where you stand with consumer debt, which includes all except mortgage debt, make a list of your debts and monthly payments. Then calculate your debt-to-income ratio by dividing your monthly debt payments by your monthly net income. The general guideline is that your debt-to-income ratio should not exceed 10% to 15% of your net income, with 20% usually considered the absolute maximum. However, you should consider your own circumstances and decide how much debt you are comfortable with.

Before purchasing something on credit, carefully evaluate whether it makes financial sense to do so. Some questions to ask yourself include: Should I wait and save the money so I can pay cash for the item? Will the cost of the item increase or decrease in the future? Is it really worth paying interest on the item so I can use it now? Will I still be within my designated debt limits if I add this new debt payment? Will the item still have value after I finish paying for it? 🍇🍇🍇