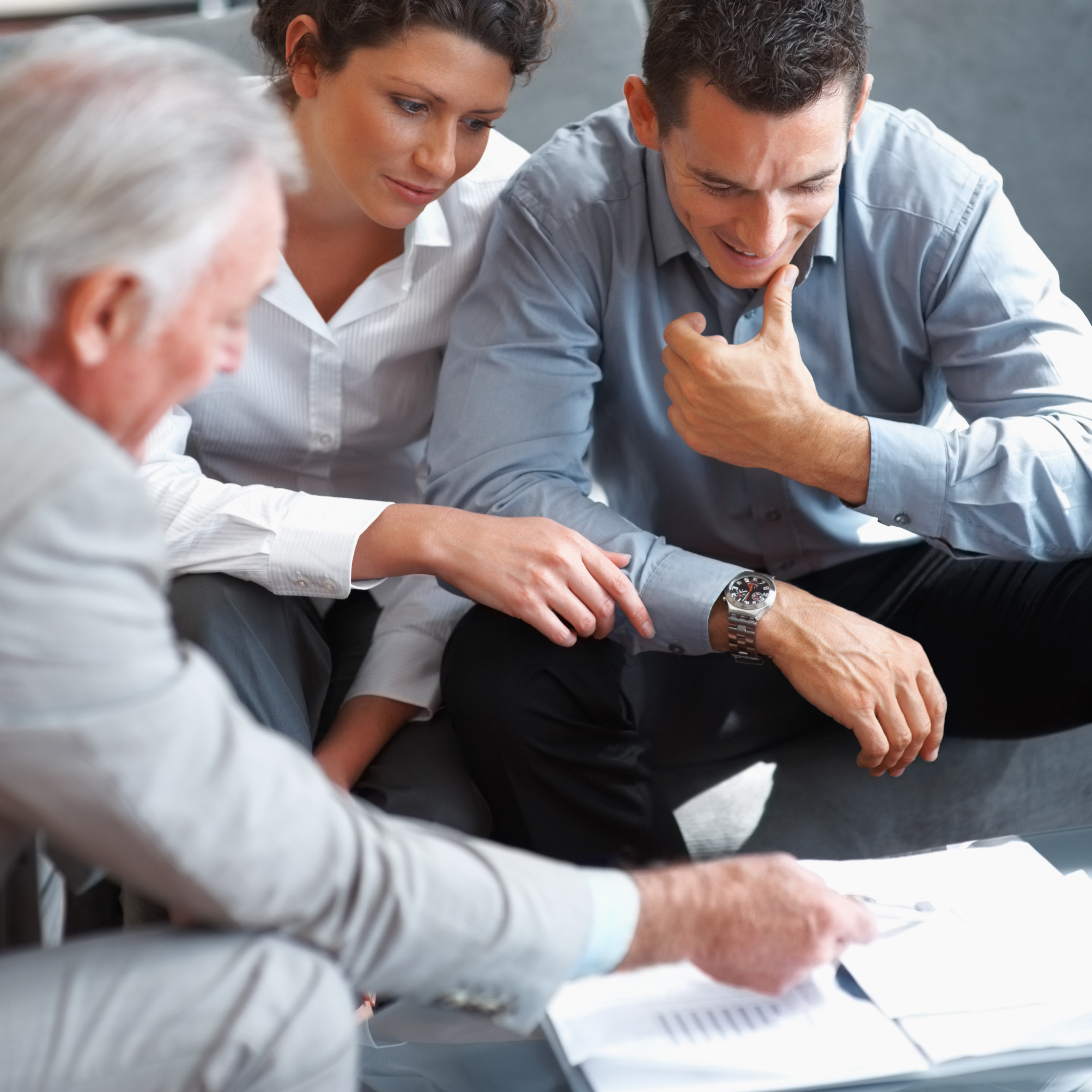
BUILDING YOUR SAVINGS

PERSONAL FINANCE FOR MILITARY LIFE



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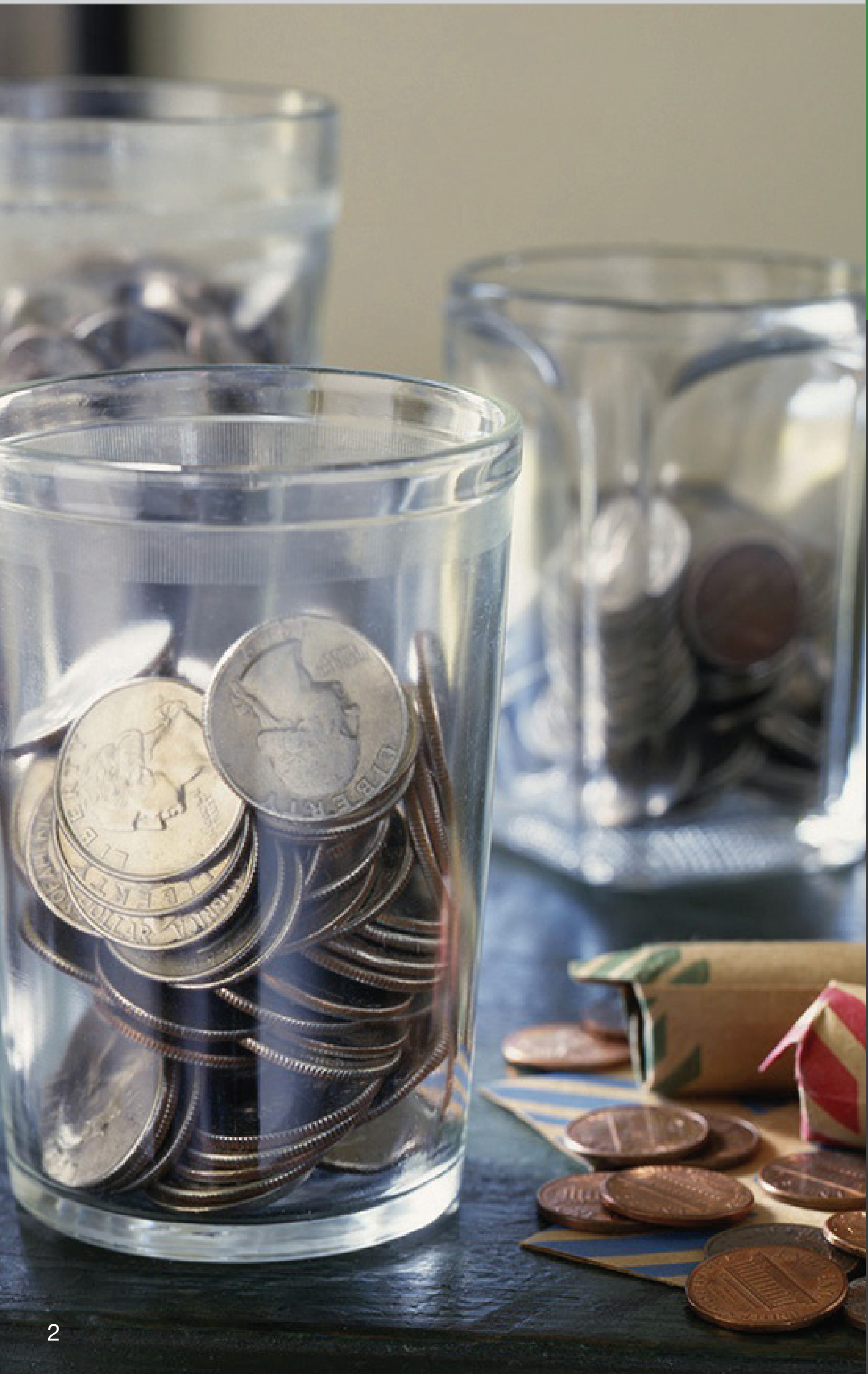
SAVING VS. INVESTING



The one thing you can count on is your income probably won't always be enough to cover everything you need right when you need it. As a result, you need to save money today so it's available down the road.

SAVING

Saving is accumulating money safely for short-term needs such as upcoming expenses or emergencies. Typically, money is placed in accounts which take no risk, earn lower returns, but are easily accessible. The key objective is not the return on your money, but the return of your money when you need it.

INVESTING

Investing requires that you take risk with your money and purchase securities, such as stocks, bonds or mutual funds, with the hope of earning higher, long-term returns. Investments generally do not offer the safety that a savings account does so your principal is at risk.

In exchange for taking risk, you have the potential for a greater gain. The key objective is a return on your money, but not necessarily a return of your money.

SAVE ENOUGH FOR EMERGENCIES

According to the 2015 National Financial Capability Study released in August 2016 by the FINRA Investor Education Foundation:

» Forty-three percent of 18- to 34-year-olds could not come up with $2,000 in 30 days in the event of an emergency—this compares to 35 percent for the 35 to 54 age group and 25 percent for the 55+ age group.

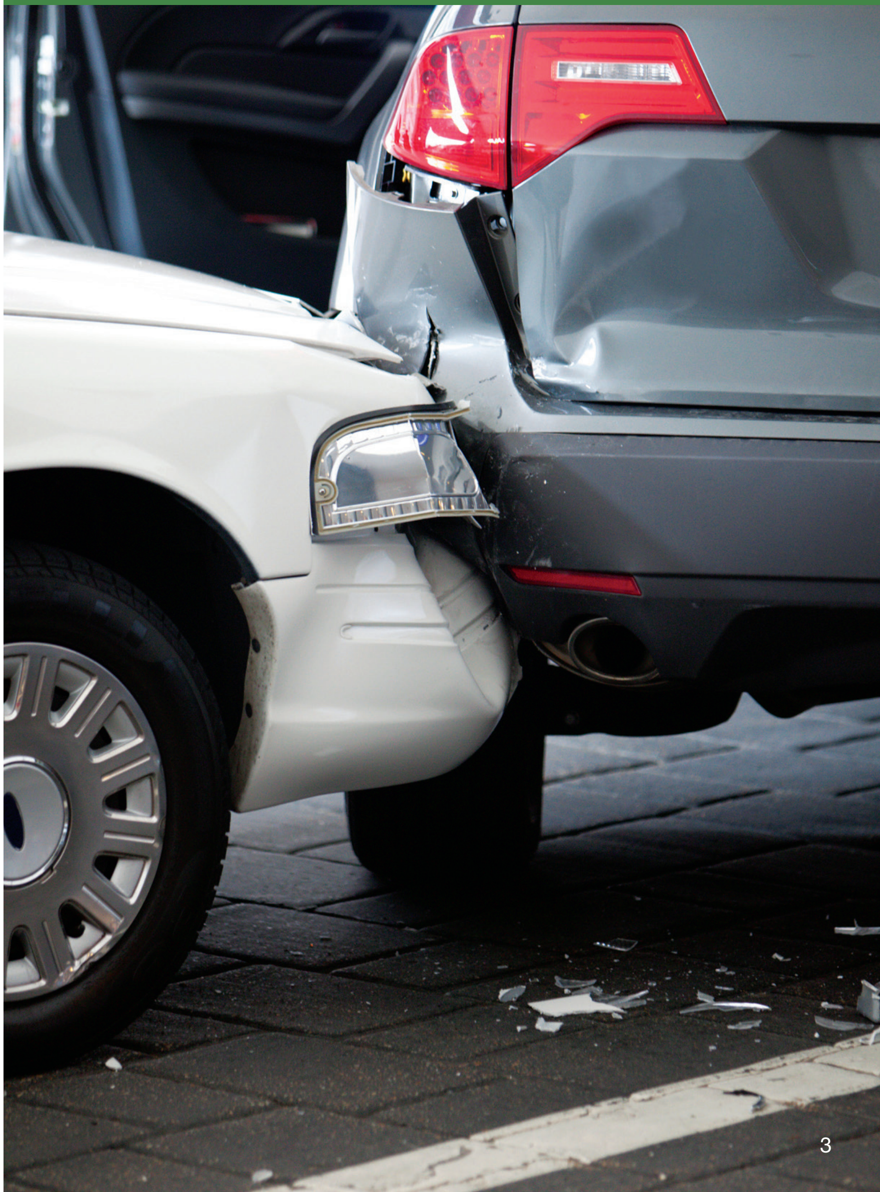
» Millennials overdrew their checking accounts at a greater rate than other age cohorts. Twenty-six percent of respondents with checking accounts between the ages of 18 and 34 reported they overdrew their accounts at least once in the past year, compared to 21 percent and 11 percent in the older cohorts.

While these findings may sound a little frightening, having some money in the bank could go a long way to keep you from being part of these statistics.

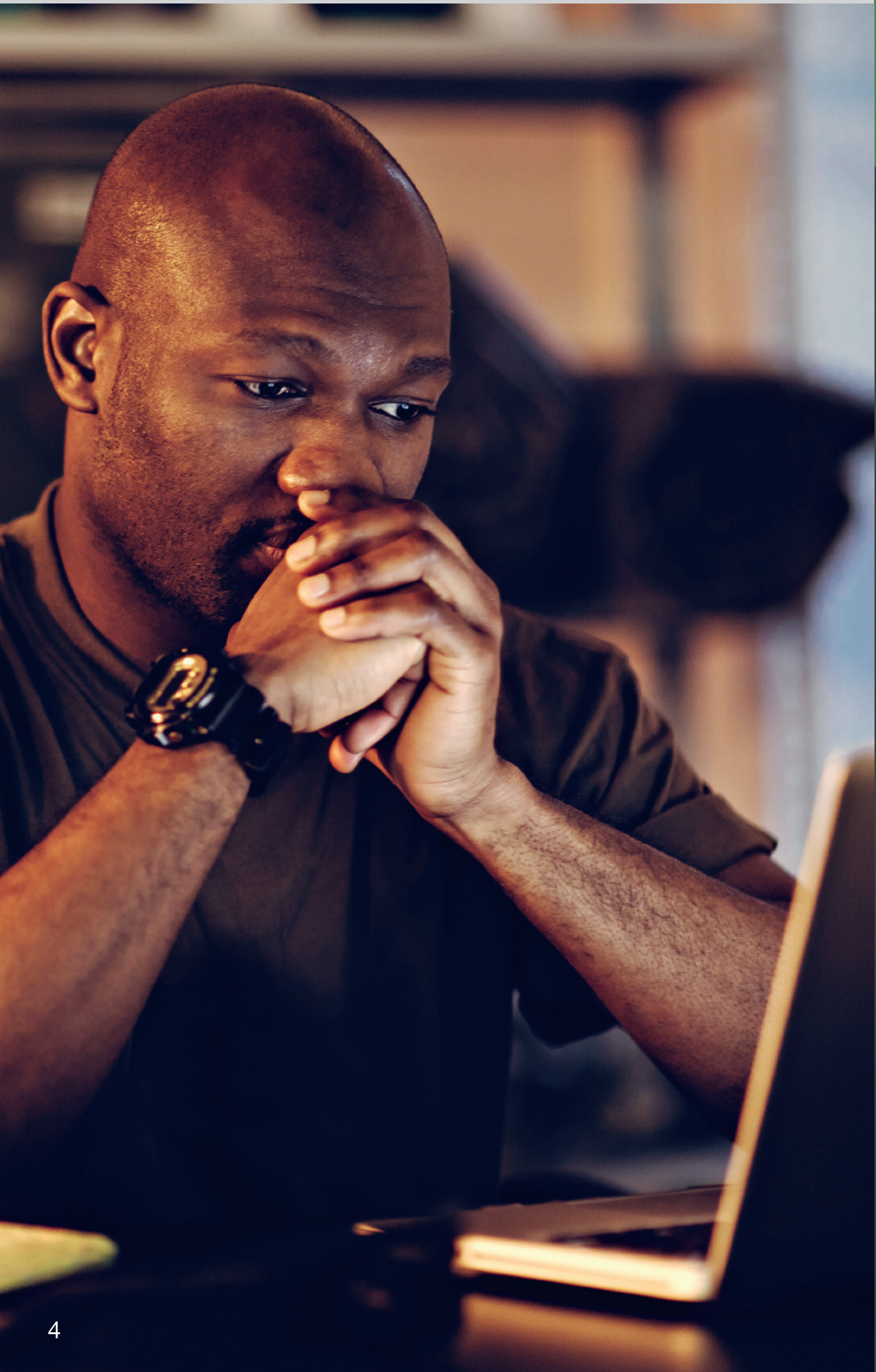
To save money, you must first spend less than you earn.

It's important to understand when it's appropriate to use savings accounts for your goals and when it's better to use investments.

Investment values fluctuate on a regular basis, with no sure way to know when they will be up or down. Because of this, they're typically not appropriate for accumulating money for short-term goals. You don't want to find yourself in a situation where you need money and selling your investments could cause you to take a loss.



BECOMING A SAVER



Setting aside money, whether for short-term needs, long-term needs, or emergencies is one of the most important financial moves you can make.

There are many approaches to saving money, but these five steps are usually a good place to start:

- Save now. Start sooner rather than later.
- Save first. Take it off the top instead of hoping some will be left over.
- Save or invest 10-15 percent of your gross pay, not what you take home.
- Save automatically. Make it as effortless as possible.
- Save separately. Separate savings from your checking account.

Of course, once you make the decision to set some money aside you'll also need to figure out how to divide it up and where to put it. Money for long-term goals can often be put into investments but short-term and emergency fund money needs to be kept safe and secure.

In the end, saving money can be a life-changing move because it could be the difference between confidently being able to do the things you need and want to do or continually repeating, "I don't have the money for that."

1 **Save now.** Just start. Regardless of your age, income, or life situation, one of the hardest things about saving money is actually getting started. It can seem like it's never the right time. But the fact is, the sooner you start saving money, the better. Even if you can't save as much as you'd like to or need to right now, start saving something today so that you can get into the habit. The key is to establish a disciplined savings plan that you can hopefully increase in the future and stay committed to.

2 **Save first.** Don't wait to see what's left over each month because we all know that never works (at least not consistently).

Instead, pay yourself first. Just like the taxes you pay the government come right off the top of your paycheck, so should your savings. The difference is, this money you get to keep.

Becoming a saver doesn't always require a bigger paycheck, you can do it with a bigger commitment to paying yourself first.

3 **Save (and/or Invest) 10-15 percent.** If you begin saving in your 20s, strive to set aside at least 10 to 15 percent of your monthly gross pay (the amount you make before taxes or other deductions are taken out). This should allow you to start building an emergency fund and accumulating money for other goals.

The right mix of how much money to put where will depend on your specific situation and goals. Sometimes it will make sense to direct most of this money to short-term savings goals and other times it will make more sense to allocate a larger portion to investments for the future.

If you can't afford this amount, save as much as you can now and increase your contributions when possible. For example, when you receive pay and longevity increases, federal income tax refunds, gifts or any extra money, consider putting some or all of it toward your savings goals. The key is to begin saving now. If you wait until later you'll typically need to set aside an even greater percentage of your pay.

4 **Save automatically.** By far, the most foolproof way to save money is to make it automatic. Set up an allotment to take it from your pay before you ever see it or create an automatic monthly transfer from your checking account to a savings account.

5 **Save separately.** Mixing your intended savings with your day-to-day money is a sure-fire way to guarantee the money doesn't stay saved. Instead, set aside your savings in separate accounts and label them if you can for their intended purpose. For example, you might have an emergency fund account, a car down payment account or a vacation account just to name a few.

WHERE TO SAVE

The types of accounts used for saving will often pay less interest but that's usually okay. It's more important to have this money available when you need it than to earn a lot on it. The following are traditional accounts and programs to save. Keep in mind, not all of these are easily accessible.

SAVINGS ACCOUNTS

» Let you save money while earning interest.

» Highly liquid — you can withdraw funds whenever needed.

» Your money is generally insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000* for each account.

» Rates of return are low.

CERTIFICATES OF DEPOSIT (CDS)

» Let you save money while generally earning a higher rate of return than regular savings accounts and money market accounts.

» Money has to remain invested for a specified period — from 30 days to 10 years. Substantial penalties may be charged for early withdrawals.

» Considered a low-risk investment, but not all CDs are insured by the FDIC.

**The standard FDIC insurance amount is $250,000 per depositor, per insured institution, for each account ownership category.*

MONEY MARKET ACCOUNTS

» Let you save money while generally earning a higher rate of return than regular savings accounts.

» Highly liquid — you can withdraw funds whenever needed and may be able to write checks against the balance.

» May require a minimum balance to earn interest.

» May charge service or transaction fees.

Saving money is typically about safety and availability, not high returns.

Now that you know your basic savings options, take some time to do your own investigating and see which makes the most sense for you. If you've already got a healthy savings going and are ready to start taking more risks with some of your money, check out our publication on Basic Investing.

U.S. SAVINGS BONDS

- One of the safest investments you can make.
- Pay a fixed amount of interest.
- Interest can be paid from 1 to 30 years. It is generally best to hold savings bonds until they mature. Selling them earlier generally results in a reduced return or penalty.
- Earnings are exempt from state and local income taxes, but not federal income taxes.

U.S. TREASURY BILLS (T-BILLS)

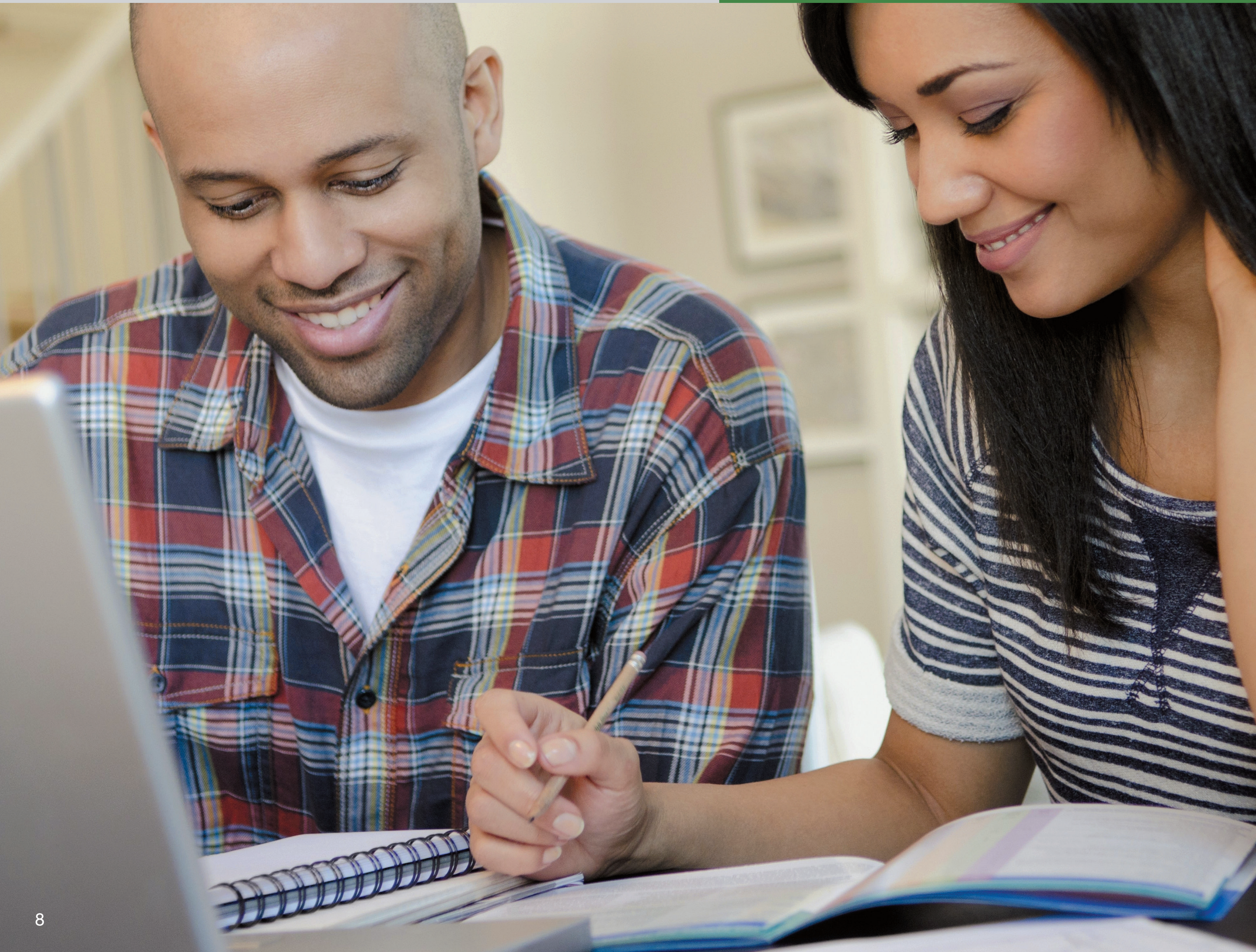
- One of the safest investments you can make.
- Earnings are exempt from state and local income taxes, but not federal income taxes.
- Loans to the federal government.
- Maturity dates vary and are 1 year or less. Generally, the longer the maturity, the higher the rate of return.

SAVINGS DEPOSIT PROGRAM (SDP)

- Service members deployed in designated combat zones, qualified hazardous duty areas or certain contingency operations can earn 10 percent interest annually (compounded quarterly) on money deposited into the SDP.
- You may deposit up to $10,000 of your unalloted pay and allowances.
- Deposits may begin on your 31st consecutive day in your deployment region and must end on your date of departure from your deployment region.
- More than one deposit may be made each month, but the total cannot exceed your monthly unallotted pay and allowances.
- The account stops accruing interest 90 days after returning from your deployment region.
- Emergency withdrawals may be made when authorized by the member's commanding officer.
- Interest accrued on earnings deposited into the SDP is taxable for federal income tax purposes.
- Contact your installation's finance office or visit the Defense Finance and Accounting Service (DFAS) website at dfas.mil for more information.

IMPORTANCE OF AN EMERGENCY FUND

It's really not a question of IF an unexpected expense will come your way. It's a question of WHEN.



EMERGENCY FUNDS

Because life has a way of throwing us some financial curveballs from time-to-time, it's important to have money set aside for unexpected expenses: an emergency fund. Your ultimate goal should be to build up a balance equal to 3-6 months' worth of your committed expenses but it's okay to start smaller, especially if you are trying to eliminate consumer debt. The point is to have some money available so that you don't have to go into debt or sell other assets when an unexpected expense arises.

The list of possible reasons you might need some emergency cash is nearly endless. Some common examples are:

» Car repairs

» Unexpected travel to visit family

» Replacing a damaged smart phone

» House repairs

» Insurance deductibles

WHAT'S NOT AN EMERGENCY

When discussing emergency funds, it's important to understand the difference between true unexpected needs for cash – actual emergencies – and other big expenses for which you could actually plan. A good example is holiday spending. While people tend to spend a lot of money during this time of year, it's generally not a surprise or in any way unexpected. It's also then not a good reason to raid your emergency fund. Keep your emergency fund for true emergencies and save for other big expenses separately.

THINK OUTSIDE THE BOX

If cash flow alone isn't going to allow you to build up your emergency fund fast enough, consider the following.

» Save a portion of your tax refund into an emergency account.

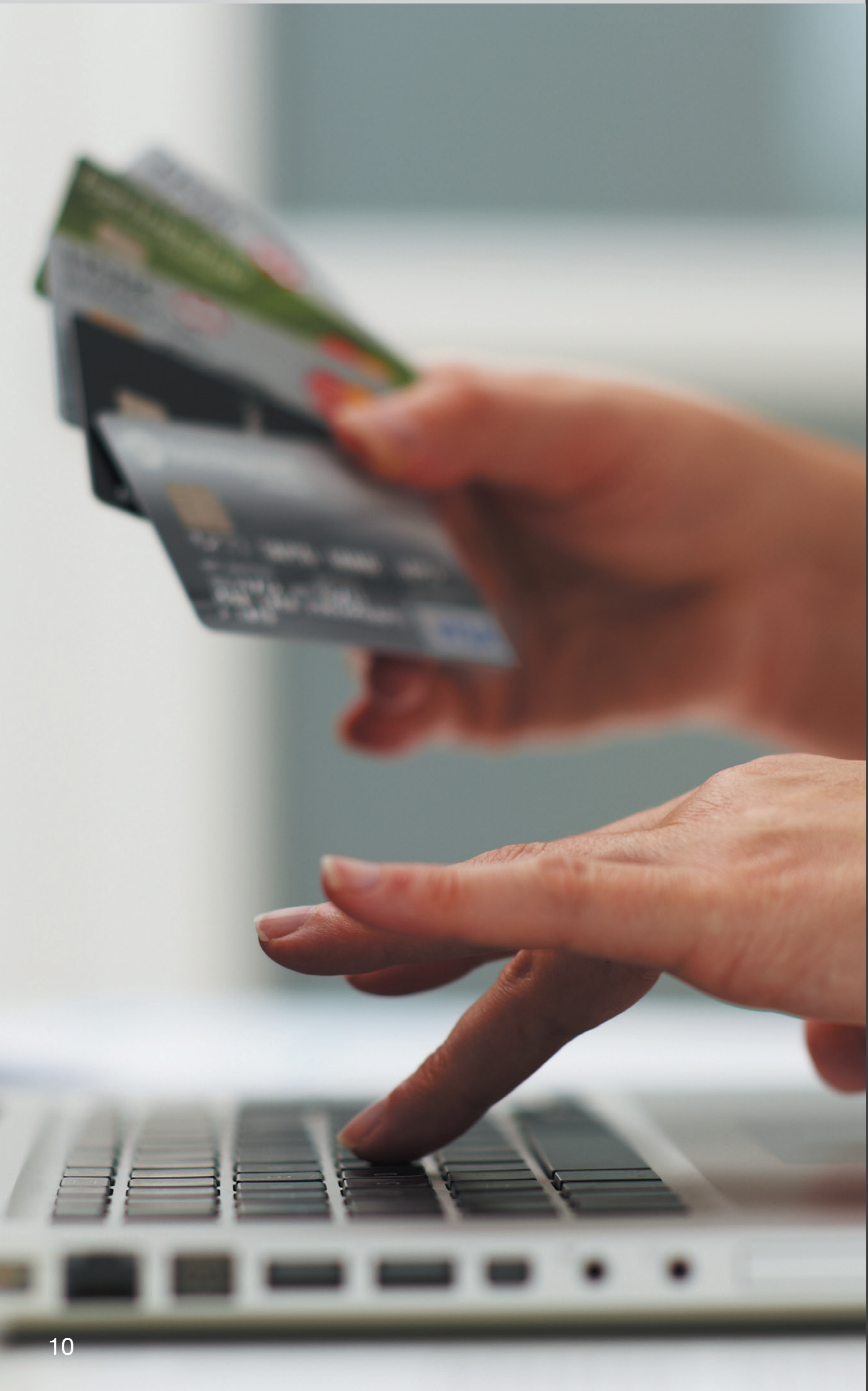
» Selling unwanted items on-line could help build an emergency fund.

» If eligible, a part-time second job could be a way to build or bolster an emergency fund.

» Gifts of cash don't have to be spent. Sometimes it's better to save them for a rainy day.

Balancing saving and spending is important to your financial well-being.

SAVE OR PAY DOWN DEBT?



HIGH INTEREST DEBT VS. LOW INTEREST SAVINGS

Not all debts are equal in terms of their potential negative impact on your financial life. This section is focused primarily on high interest consumer debts.

Question: Does it make sense to set aside money in a very low yielding savings account if you've got much higher interest rate debt you're trying to pay down?

Answer: Yes. It does make sense to have at least some money set aside while paying down debt. Otherwise, when something unexpected happens you'll likely have to go further into debt to handle it, and take both an emotional and psychologically blow that can derail a lot of debt reduction efforts. An emergency fund balance of $1,000 is often a good target in situations such as these. Once the debt is paid down, then you can focus on fully funding your emergency savings.

MAKE MONEY AVAILABLE

At the risk of stating the obvious, before you can even start to address the question of saving vs. paying down debt, you have to have money available to do it.

For most people this means starting with something else – creating a spending plan or budget – with the goal of freeing up cash on a monthly basis that can be used for this purpose.

LET'S ASSESS YOUR CURRENT SAVINGS HABITS

Given the 10-15% of gross income target, how much should you be saving each month?

____

How much are you actually saving? ______________________________

What can you do to save more if you need to?

1. ______________________ 4. ______________________

2. ______________________ 5. ______________________

3. ______________________ 6. ______________________

What goals do you have for which you might set up separate accounts?

1. ______________________ 4. ______________________

2. ______________________ 5. ______________________

3. ______________________ 6. ______________________

Using the 3-6 months of committed expenses target, how much should you have in your emergency fund? ______________________________

How much do you have? ______________________________

What is your accountability strategy to save more prudently? ______________________

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