

Money for Life

September 2009

Dear Readers,

It's always smart to control your spending. But if you or others in your family are facing difficult times financially, perhaps from a job loss or wage cuts, it is especially important to spend less so you can have more money to pay essential bills or to add to a savings account you can tap in an emergency. This month's newsletter features strategies from the FDIC to save money in tough times.

Take a serious look at your spending. As a first step, think about creating a spending plan, commonly known as a budget. Make a list of your monthly expenses divided into two groups — your "needs" and your "wants." The needs are expenses that are absolutely necessary, such as your housing, utilities, clothes, food, and transportation. The wants are optional purchases. Start with reducing spending on wants such as eating out, extras on phone service, subscriptions, and premium TV channels.

But also consider opportunities to save on your necessities. One example is carpooling or taking public transportation to work instead of driving yourself. If you have multiple cars, see if you can live without one of them. Ask yourself if you really need those \$200 sneakers or if a less expensive pair will do just fine. Buy used instead of new. Take better care of what you buy so it will last longer. Finally, don't use your credit cards or other loan products to buy things you really can't afford.

Keep financial service costs down. Review your habits to cut unnecessary fees. For example, use your own bank's ATMs for cash withdrawals instead of going elsewhere and paying a surcharge, and keep close tabs on your checking account balance to avoid bounced checks, which can be



costly. Review your existing accounts and comparison shop for the best deals. Look at what is being offered by your financial institution and a few competitors. The idea is to make sure the interest rates are competitive and that the fees and features are appropriate for how you use each account. For example, if your money is sitting in a low-rate checking or savings account, consider moving it to a higher-yielding account, perhaps a CD where the earnings can get an extra boost.

Likewise, ask your credit card lender to consider lowering your interest rate, particularly if you have a relatively good payment history and could qualify for a lower rate elsewhere. Also pay as much as you can as soon as you can. It will mean you'll pay less interest and avoid late fees.

While it's important to pay your bills, it's also wise to "pay yourself" — to contribute to your savings accounts, even in uncertain times when you may be



strapped for cash. As you trim your spending you should have more money available to set aside for other needs. Beyond that, here are ways to start saving more.

- 1) Collect loose change. At the end of every week (or more often) empty out your pockets and wallet and put the change in a jar. Every other week or once a month, deposit the change in your savings account.
- 2) Save the amount you "save" by using coupons at the grocery or drugstore. If you save \$2 a week using grocery coupons, put the "savings" (the money you did not spend) in your savings account.

- 3) Once in a while have a week when you try not to spend any extra money--don't go to the movies, don't go out to eat, etc. Save the money you would have spent.
- 4) Every time you don't have a doughnut at coffee break or don't spend money in the pop machine, save the money you didn't spend.

Have an emergency savings account. This is an account you can tap if you lose your job or have major, unforeseen expenses. Having emergency savings will help prevent use of credit cards or loans to pay bills. A general rule of thumb is to have enough money in this "rainy day" fund equal to at least two months of living expenses. If your employment outlook is especially uncertain, consider setting aside enough to cover six or more months of anticipated expenses.



Also, keep your emergency savings in an account that will be fairly liquid — such as a savings account, money market account or a short-term certificate of deposit (CD) — so you can withdraw the money relatively quickly, if necessary.

Try to save money for long-term goals, such as your retirement, especially if your employer matches a portion of your payroll contributions to a tax-advantaged retirement savings plan. Pay yourself first. That means each month, before you're tempted to spend money, put some into a savings account. You can write out a check to be deposited into your savings account, but it's much easier to arrange with your financial institution to automatically transfer a

certain amount from your paycheck or your checking account into savings. And as you pay your bills, your mortgage and other obligations, take satisfaction in knowing that some of your hard-earned dollars are already saved...for you!



Turn a debt payment into a deposit. If you pay off a debt, such as the outstanding balance on a credit card, or if you make that last loan payment on your car, put that money to work as part of your savings. Save, don't spend, a financial "windfall." If you receive a large sum — perhaps from an inheritance, an insurance payment, a tax refund or a bonus at work — deposit that money into a savings or investment account before you're tempted to spend it.

ISU Extension's Managing Tough Times website, www.extension.iastate.edu/answers, features help lines, interactive websites, experts and publications that address financial issues. Look under the heading "For Families and Households." Continually updated to meet changing needs, Managing Tough Times provides the best available resources from Iowa State University Extension, land-grant universities, and other reliable resources.

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