

How to Save \$1,000 or More a Year

Denise M. Matejic, Ph.D., Extension Specialist in Family Resource Management

The following are tips to help you put aside \$1,000 or more in less than a year without too much effort or discomfort:

Don't let your money sit idle.

Make every dollar you own work for you. To do that, you need to keep your money in interest-bearing accounts. Check the minimum balances required to earn a certain rate of interest. Ask yourself whether this specific account fits your situation. By doing this, you will avoid any unnecessary service charges, a lowering of interest, and even a negative interest rate.

Shop for and compare financial services.

Relate this information to your own personal needs. For example, you can choose among regular savings accounts, money market savings, and money market checking accounts. Short-term Certificates of Deposit (CDs) are another option as are money market mutual funds. If you check with one institution, these accounts will earn varying rates of interest and at different terms, such as frequency of compounding.

In addition, different institutions will offer varying rates of interest on tiered accounts. This means that they require specific minimum balances which, in turn, will earn staggered rates. When you have the minimum balance specified, you earn a certain amount of interest. When you drop to the next lower threshold, you may earn a lower interest rate and at the next lower threshold, you may earn no interest.

When your balance drops even lower, you may need to pay a service charge. This is sometimes referred to as a negative interest rate.

Stagger maturities.

For example, you can do this with certificates of deposit (CDs) in a way that you don't incur a penalty when you withdraw funds prematurely. This will save you money. This is also referred to as time diversification. To do this, you merely need to anticipate possible financial needs.

Put your savings program on automatic pilot.

In other words, establish an automatic plan for savings such as a payroll deduction. Money can be routinely deposited into your credit union share account or bank account. Modest amounts of money can also be used to buy U.S. Government Savings Series EE Bonds monthly or bi-weekly. These plans give you the advantage of saving regularly and not having to make a decision about all of the money coming into your household, because the decision about a particular sum has already been made. Try to increase the amount you put aside when you get a raise. Vacation clubs and holiday (Christmas, Hanukkah) clubs are additional examples. Most of them are interest bearing if you adhere to the stated schedule.

Prevent impulse buying.

This tip will help you to do just that! Decide on an amount above which you (and others in your household) will not spend until you've discussed it at



home. If you still wish to purchase the item(s) or service the next day, think seriously before going ahead. To cut down on spending, follow this procedure for however long you feel it might be helpful.

Examine your gift-giving style.

Gifts can be a large financial drain. Some of us buy gifts we cannot afford either to keep up with other family members or to “buy” love and friendship. Sometimes you just need to be firm and decide to spend less for a year or two or for whatever period it takes to put you on your desired financial path.

Make do with what you have.

For example, keep your car one year longer. Consider postponing any large purchase for one year or so.

Project major expenses in the next 12 months.

Is there a large expense looming such as the automobile insurance payments to be made in June and December? Divide those expenses by 12 or 24 or 26, depending on your paycheck schedule. Deposit those smaller sums in an interest-bearing account from which you pay those twice yearly expenses.

You can use the same method with vacations or other large periodic and/or irregular expenditures. You will earn interest on the money as you accumulate it. There are other added benefits. For example, your insurance costs will be less if you pay them once a year instead of in monthly installments. Utility companies offer a budget plan you might want to utilize for an easier payment schedule (it doesn't save you money but contributes to better budgeting).

Plan Ahead.

Is a special occasion coming up next year such as a wedding, graduation, or other festivity? By planning your time carefully, you can shop early, and choose a very personal gift at possibly a lower cost.

Pay yourself first.

This means that you allocate a certain amount of savings as a fixed expense within your budget just as you make your mortgage or rent payment a fixed expense. You will avoid monthly decision making,

such as whether to spend or save that amount, because you have already made a decision to save it.

Examine your credit cards.

First, examine all of your credit cards. As the second step, compare how much you pay in interest charges on each of them. Third, check the annual fee(s). Ask yourself whether you can pay off some unpaid balances and perhaps dispose of a few cards. Can you combine your remaining debts with a lower cost loan?

Consider skipping costly luncheons.

Work-related business lunches or other types of recreational lunches can become expensive. For example, if you were to save \$7.00 three times a week (the cost of an average luncheon), and you do that for 50 weeks, you would save \$1,050 on this one item in your overall budget. Can you imagine \$1,050?

Reduce food costs.

Use coupons when appropriate; avoid purchase of convenience foods; shop with a list at a specific time each week instead of on impulse; and compare prices at competing stores and select the best buys.

Reduce clothing costs.

Avoid fads and selecting “classic designs”; shop at sales and discount stores, and make do for another year with what you have. Dry cleaning can be a large expense. Explore ways to make do with fewer dry cleaning expenses.

Stretch the life of everything in your household.

You can do this by repairing, maintaining, cleaning properly by yourself, and reusing and recycling whenever possible. Be creative in your thinking. This includes items such as furniture, carpets, curtains, appliances, and clothing.

Use “money substitutes.”

Effectively by investing your time, energy, skills, and knowledge instead of just money. Save the allocated money instead. For example, make your own drapes, reupholster your own chair, and make your own gifts such as arts and crafts items or baked food items.

Explore and use community resources.

Reap savings by using your public library extensively. You can borrow tapes and books instead of buying them, and you can utilize it to research good solid consumer information to help you stretch your dollars. If you own any older books, you can sell or exchange them as well. Adult education classes are available to learn skills from reupholstering to sewing. Use your skills to save money.

Be a wise consumer of health and fitness services.

You might search for free public parks, playgrounds, or community services instead of an expensive health club membership. This can be done for an extended period until you can really decide on the best purchase for you and whether you will seriously utilize the health club's services. Searching for used and discounted equipment might unearth some possible treasures. Note: Examine service contracts carefully and beware of hidden costs.

Search for "leaks" in your budget.

One way of doing it is to record everything in a booklet for a certain period of time. After a week or so, underline (with a red pencil) those items which are unnecessary or were purchased in haste. Thus, you will notice a certain trend, or even preference, in your spending. By identifying them you recognize yourself (and any possible weakness) better. This helps to gain control over your money.

Learn to say no to yourself.

For example, cut back on daily "losses" while spending in dribs and drabs on snacks, lunches, newspapers and magazines, phone calls, and other items bought without a plan and without thinking.

Save any loose change you have left at the end of the day.

100 cents make up a dollar! Your savings can add up to hundreds of dollars in a year. For example,

place your change at the end of every day in a special jar or special place. If you just save \$1.00 a day for a year you will have saved \$365. If there are two of you and, for example, you save \$2.00 a day for a year, you would have saved \$730 without much headache and sacrifice.

Explore Saving on Insurance costs.

By taking higher deductibles as well as paying premiums annually rather than in monthly installments; also by avoiding duplication or an overlapping of coverage.

Use the "Rule of 72."

To find out how long it will take for your savings to double in value, divide 72 by the annual stated interest rate you are paid. For example, \$1000.00 invested at 6 percent annual interest will double in 12 years, at 8 percent in 9 years, and at 7 percent in 10 years. Interest is paid annually and the funds are kept in the account for the entire (stated) period, or reinvested annually in the same account.

This is a quick, approximate rule.

Act now. You can save!

Save \$20 a month for 5 years at 7 percent annual interest and you will have \$1,440.00 after 5 years.

To accumulate \$1,000.00 in 1 year, save \$80.65 a month at an annual interest rate of 6 percent.

Use the table on page 4 to find out how long it will take to reach *your* financial goals and how to achieve them.

Saving \$10 Per Month Can Help You Reach Your Goal

Interest Rate

Year	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
1	\$121	\$122	\$122	\$123	\$124	\$125	\$125	\$126	\$127	\$127	\$128
2	244	247	249	253	256	258	261	264	267	270	272
3	370	376	382	389	399	402	408	415	421	428	435
4	499	509	520	532	544	555	567	580	592	605	618
5	630	646	663	683	701	720	740	760	781	802	825
10	1327	1397	1472	1559	1647	1741	1842	1950	2066	2190	2323
15	2097	2270	2461	2684	2923	3188	3483	3812	4179	4589	5046
20	2948	3283	3668	4128	4644	5240	5929	6729	7657	8736	9991
25	3888	4460	5152	5980	6965	8148	9574	11295	13379	15906	18976
30	4927	5827	6940	8357	10095	12271	15003	18445	22793	28302	35299

By saving \$10 a month (or multiples thereof) an individual can accumulate \$100s and even \$1000s over a reasonable period of time! Can you save \$10 a month, or more? If you are determined to increase your savings, start small and let the regularity of your deposits become a "habit!" You can use the table to determine how long it will take to reach your financial goals. It shows the growth of monthly \$10 deposits invested at various interest rates. For example, putting aside \$10 a month for 10 years at 5 percent interest will give you \$1,559 - the figure at the intersection of 10 years and 5 percent interest. If you invest \$30 a month, multiply \$1,559 by 3 (3 X \$10 = \$30) and you will have \$4,677. If you invest \$50 a month (at 5 percent interest) multiply \$1,559 by 5 which will result in \$7,795 in savings.

You can also use the table to determine much you need to save to reach a specific amount by a certain date in the future. Say you want \$25,000 for the downpayment on a home in five years and think you can reasonably expect to earn 9% on your mutual fund investment. Find the figure in the table where the year five and the interest rate 9 percent meet. It's 760. That's the amount each \$10 will total. When dividing \$25,000 by the \$760, you will discover that your goal is 32.9 times the total generated by the \$10 monthly deposits. That means you must save \$329 each month to reach your goal on time. If you don't think that is possible, you might do any one or a combination of different things: lower your sights, save more, get a higher return (usually involves more risk), or stretch out your deadline.

For example, if you decide to scale down your desire and settle for a place you can get for a \$20,000 downpayment and are willing to wait 10 years instead of 5, how much will you have to set aside each month? The figure where year 10 and 9 percent interest rate meet is \$1950. Dividing \$20,000 by that amount indicates that you need to save 10.26 times the \$10 monthly amount or \$102.60—significantly different from \$329.

Adapted by Denise Matejic and Deborah Pankow from "How \$10.00 Per Month Will Grow—Dollar-Sign Realism in Goal Setting" from *Changing Times*, The Kiplinger Magazine, by the Kiplinger Washington Editors, Inc., 1990.

Rutgers Cooperative Extension, 55 Dudley Road, Cook College, New Brunswick, NJ 08901 and North Dakota Extension Service, P.O. Box 5016, Fargo, ND 58105, 9/95.

© 2004 by Rutgers Cooperative Research & Extension, NJAES, Rutgers, The State University of New Jersey.

Desktop publishing by Rutgers-Cook College Resource Center

**RUTGERS COOPERATIVE RESEARCH & EXTENSION
N.J. AGRICULTURAL EXPERIMENT STATION
RUTGERS, THE STATE UNIVERSITY OF NEW JERSEY
NEW BRUNSWICK**

Revised: September 1995

Distributed in cooperation with U.S. Department of Agriculture in furtherance of the Acts of Congress on May 8 and June 30, 1914. Rutgers Cooperative Extension works in agriculture, family and community health sciences, and 4-H youth development. Dr. Karyn Malinowski, Director of Extension. Rutgers Cooperative Research & Extension provides information and educational services to all people without regard to race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, or marital or family status. (Not all prohibited bases apply to all programs.) Rutgers Cooperative Research & Extension is an Equal Opportunity Program Provider and Employer.