



Carolyn Washburn, DCS Agent
Washington County
Darlene Christensen, FCS Agent
Tooele County

Saving VS Investing

Saving

What's the difference between saving and investing?

Saving is setting aside money for use -- in a commercial bank, savings and loan or credit union. You get some return on your money, but you're mainly looking for absolute safety and easy withdrawal. There's not much point in saving for a rainy day if you can't get your money out when it's most needed.

Investing

Investing, on the other hand, means putting money to work to earn more money. There's always some risk involved when you invest.

So, how much should you save?

Regular and planned savings require an appreciation of the value of saving. It requires constant sacrifice and self-denial *now* with the expectation of greater satisfaction *in the future*.

How much of your income goes into savings will vary with your income, goals, responsibilities, needs, habits, interests and family size. Set up a habit of saving money

on a definite percentage basis. Five to ten percent of your take-home pay is a good beginning. Can't do 5-10% right now?

**The important thing is to
START SAVING - no matter how small
of an amount.**

Save More by Paying Yourself First!

Get in the habit as a couple to PAY YOURSELF FIRST. What does pay yourself first mean? Imagine yourselves as someone as important as any other creditor. Make payments to your own accounts on a regular basis just as you do other bills. Set up a savings amount a good rule of thumb is at least 10% of earnings and stash it in a savings account each month. Another term for this activity is "tithing yourself" and is a great habit to develop. Although Paying Yourself First may be difficult at first, as time goes on since you will find yourself doing it out of habit.



Easy and Effective Tips for Saving & Investing

Take advantage of retirement accounts.

When retirement accounts are matched by an employer, such as in the case of a 401K account, it is a great incentive to participate in such programs. Take advantage of it! Keep in mind that early withdrawals from a retirement account can potentially trigger penalties so if you open an account, make a commitment to give this fund a chance to grow with time.

Automate your savings.

Direct deposit is one way of making sure you get money safely into your account without worry. Direct payroll deductions are a great way to put money into savings if you make sure that part of your paycheck is automatically earmarked for a savings account and not your daily expenses.

If you own a home, make extra mortgage payments.

By making an extra payment towards your mortgage, you will be contributing to your equity. Checkout the website <http://www.eastwestbank.com/English/java/MortgagePayoff.html> to see how much you can save. By putting your payment information into the calculator, you can see how many years you can cut off from your mortgage by making extra principal payments.

Save your windfalls after paying down debt.

If you receive a windfall, pay down your debts first. If you don't have any debt, save that entire windfall and better yet, invest it. Take the opportunity to invest any "unexpected" monetary amount (e.g. gift, raise, inheritance, etc) that you may be fortunate enough to receive.

Pretend you didn't get a raise.

If you are lucky enough to get a raise, pretend you never received it and instead put this additional money away especially in an investment account that compounds with time. You may surprise yourself further down the road with a substantial nest egg.

Pretend you haven't paid down your debt even if you already have.

If you have been working hard to pay down your debt and not charging any new debt, you will eventually be successful. When this time comes, don't allow yourself to spend the money you've used in the past to pay down debt. Use this "newly found" money towards a savings account or investment.

Bank the savings you receive from coupons, sales and discounts.

Big sales can save you a lot, so when this happens, try to take the money saved and put it into savings or an investment. Keep track of money you've saved throughout the year. For example, if you thought you'd have to pay full price but find a savings of 10%, put the 10% you save into your savings account. This could be a painless strategy of building up your nest egg that you incorporate into your daily shopping habits.

Cut down on impulse buying and avoid unnecessary purchases.

When you want to purchase something on impulse, give yourself a few days to mull over your buying dilemma. Talk it over with your spouse. You may realize fairly quickly it's not something you really need and you'll forget about it in a few days.





The Power of Compound Interest

As a couple, how important is it to begin putting aside money for savings right now, as opposed to sometime later?

This chart illustrates the effect of compound interest on savings over the course of 40-plus years. It shows that now is the time for saving.

The sooner you start to save, the greater the benefit of compound interest. Compound interest is the interest earned on reinvested interest, in addition to the original amount invested.

Here's an example: Two different couples, The Smiths and The Browns, have an extra \$2,000 a year to invest or spend as they choose. The Smiths open an Individual Retirement Account (IRA) to start saving. The Browns choose to spend their \$2,000. Both couples, wives and husbands, are 22 years old.

In this example, The Smith's IRA earns 12% per year. The Smiths save \$2,000 per year for six years, then never put another cent into his IRA.

On the other hand, the Browns spend their \$2,000 per year for six years. After that time, they invest \$2,000 per year until they are 65 years old. The Browns earn the same 12% interest per year that the Browns do.

The chart shows the value of The Browns' and The Smiths' respective IRAs, from the time they are 22 years old all the way to 65. Keep in mind, The Browns total investment is \$12,000 (\$2,000 per year for the first six years), while The Smiths total investment is \$74,000 (\$2,000 per year for the last 37 years).

As you can see, with compound interest, the earlier you start saving, the greater the accumulated interest on your original investment. The important thing is to start saving your money no matter how large or small the amount. It's never too late to start.

Age	Browns	Smiths
22	\$2,240	\$0
23	4,509	0
24	7,050	0
25	9,896	0
26	13,083	0
27	16,653	0
28	18,652	2,240
29	20,890	4,509
30	23,397	7,050
35	41,233	25,130
40	72,667	56,993
45	128,064	113,147
50	225,692	212,598
55	397,746	386,516
60	700,965	693,879
65	1,235,339	1,235,557
TOTAL INVESTED	12,000	74,000
TOTAL for RETIREMENT	1,223,339	1,161,557

Difference: \$61,782





Common Investing Errors Couples Can Avoid

1. Too many accounts

It's easy for things to get out of control if accounts are in several different banks, financial institutions and brokerages.

2. Only one person makes all the decisions and deals with financial advisors

Think about it if something happens to one, the survivor needs to know about the investments made. Knowing and trusting the investment advisor will be important also.

3. No shared goals

Discuss your goals and how you want to work towards them together.

4. Not Putting Aside Enough Money for Retirement

Experts advise saving 10% of your take-home paycheck each month. If employers offer matching funds for retirement sign up for it.

5. Too much money tied up in cash or one type of investment

For long-term goals, many couples tie up too much money in cash or low-risk/low-return investments. Spread your money over several different types of investments.

Reference: www.bankrate.com



USU Extension
44 N. 100 E.
St. George, UT 84770



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