



Managing Money

Ways to Save

Managing Money:

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Saving money is an important part of building your financial future. This section will give you some tips to help you get started. It will also show you how your money can grow when you save.

Ways to Save

Paying yourself first means that when you get a paycheck, you first put away the money you want to save for your goals. There are many reasons to pay yourself first. Some of the benefits of paying yourself first include:

- Learning to manage your money better.
- Increasing your savings.
- Improving your standard of living.

Many people spend all the money they make, but saving money is important. Also, many people don't think they have enough money to start saving.

Some major expenses people save for include:

- Unexpected events such as loss of job, car repair or hospitalization
- Down payment for a house, car or other large purchase
- Vacation
- Retirement

Savings Tips:

1. Consider needs vs. wants. Think about the items you purchase on a regular basis. These add up. Where can you save?

- Do you eat out at restaurants a lot?
 - Can you cut back on daily expenses, such as coffee, candy, soda or cigarettes?
 - Do you have services you do not really need, such as cable television or a cell phone? Are you constantly going over your cell phone minutes or not using all of them? Are there channels on your cable service that you never watch? If so, check to see if you have the appropriate plan. Can you apply for a less expensive plan?
 - Do you know how much you are paying in fees for your bank account?
 - When was the last time you called your home and car insurance company and asked if you could qualify for a lower premium?
 - When was the last time you called your credit card company and asked if you could qualify for a lower APR?
 - When you travel, do you go online and look for hotel and car coupons?
2. Direct deposit or automatic transfer to savings.
- When you get paid, put a portion in savings through direct deposit or automatic transfer.
 - If you have a checking account, you can sign up to have money moved into your savings account every month. What you don't see you won't miss!

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- U.S. savings bonds can be purchased through payroll deduction.
 - Make savings a habit!
3. Pay your bills on time. This saves the added expense of :
- Late fees
 - Extra finance charges
 - Sudden APR increases on your credit cards
 - Disconnection fees for phone, electricity or other services
 - Fees to reestablish connection if your service is disconnected
 - The cost of eviction
 - Repossession of cars or other possessions
 - Bill collectors

Other ways to save:

- If you use check-cashing stores regularly, you might pay \$3-\$5 for each check you cash. This can easily add up to several hundred dollars in fees every year. Consider opening a checking account at a bank or credit union.
- If you get a raise or bonus from your employer, save that extra money.
- Check your credit report at least once a year and make sure the information stated is accurate. A good credit rating lets you qualify for the lowest interest rate when you apply for credit. Comparison shop for credit just as you would any other consumer item.
- Before you purchase an item, ask yourself do I really need this?
- If you go out for lunch every day, put yourself on a weekly budget and gradually reduce the amount you spend.
- If you have paid off a loan, keep making the

monthly payments to yourself. You can save or invest the money for your future goals.

- If you receive cash as a gift, save at least part of it.
- Avoid debt that does not build up long-term financial security. For example, avoid borrowing money for things that do not provide financial benefits or that do not last as long as the loan. Examples include a vacation, clothing and dinners out in restaurants. Examples of debt that helps build long-term financial security include paying for a college education (for you or your child), buying or remodeling a house, and buying a car to get to work.
- Save your change at the end of the day. Take that change and deposit it into the bank (every week or month).
- When you get a tax refund, save as much of it as possible.

Earned Income Credit

Low-income individuals and families may have difficulty saving for long-range goals such as buying a home. Earned Income Credit (EIC) refunds can make it possible to save for these goals.

The EIC is a special tax benefit for working people and families with low or moderate incomes. You can get back some or all of the federal income tax deducted from your pay. You also might receive extra cash back from the Internal Revenue Service (IRS). You can get the EIC even if your income was too small to owe any income tax. You have to qualify to get the EIC and must file a federal tax return even if you did not owe any tax. To claim the EIC, make sure you are eligible for the credit before sending in your tax return.

The EIC generally has no effect on certain welfare benefits. In most cases, EIC payments do not count as income in determining eligibility

for Medicaid, Supplemental Security Income (SSI), food stamps, low-income housing or most Temporary Assistance for Needy Families (TANF) payments. Income eligibility limits and the amount a worker can qualify changes each year. The IRS publishes the limits and any other rule changes. Eligibility and EIC amounts shown below are for 2005.

Eligibility

Your eligibility for EIC depends on several things including your filing status. Single or married people filing a joint return who worked full or part time during the year can qualify. How much income you have and the number of qualifying children you have, if any, also determine eligibility.

- With no qualifying child, a single unmarried worker is limited to an income below \$11,490; a married worker is limited to an income below \$12,490. Workers must be between the ages of 25 and 64.
- With one qualifying child, a single worker is limited to an income below \$30,338 and married worker is limited to an income below \$31,338.
- With more than one qualifying child, a single worker is limited to an income below \$34,458 and married worker is limited to an income below \$35,458.

EIC Amount

- Workers with no qualifying children can receive up to \$390.00.
- Workers with one qualifying child can receive up to \$2,604.00.
- Workers with more than one qualifying child can receive up to \$4,300.00.

Filing for EIC

If you do not have a qualifying child, you can get the EIC by filing any federal tax form: 1040,

1040A or 1040EZ. Just write “EIC” on the Earned Income Credit line on the tax form.

If you have one or more qualifying children, you must file either a 1040 or 1040A form (you cannot use Form 1040EZ) and must attach Schedule EIC. You must file a joint return if you are married.

Whether you have children or not, you must provide the correct name and Social Security number for every person listed on the tax return and Schedule EIC.

Free help

Paying for tax preparation takes away from the value of the EIC. You do not need to pay someone \$55 to \$100 or more to prepare your return. “A quick or instant tax refund” can cost even more since it is really a loan. They simply deduct the interest and finance charges from your refund amount. Low-income families can get free help with tax preparation through the Volunteer Income Tax Assistance (VITA) program.

You do not have to calculate your EIC refund. You can choose to let the IRS do it for you by:

- Putting “EIC” on the dotted line next to line 65a (Form 1040), to the left of the entry space for line 41a (Form 1040A), or in the space to the left of line 8a (Form 1040EZ). Then, if you have any of the types of income described earlier under Inmates, Deferred compensation plans or Clergy, follow the instructions given there.
- Complete all other parts of your return that apply to you (including line 60 (Form 1040) or line 37 (Form 1040A) to report advance payments of the EIC). Do not fill in lines that relate to your total payments, overpayment, refund, or amount you owe (lines 70, 71, 72a and 74 (Form 1040), lines 43, 44, 45a and 47 (Form 1040A), or lines 9, 11a and 12 (Form 1040EZ)).

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- If you have a qualifying child, complete Schedule EIC and attach it to your tax return.
- If you received nontaxable combat pay and are electing to include it in your earned income for the EIC, enter the amount on line 65b (Form 1040), line 41b (Form 1040A), or line 8b (Form 1040EZ). For details, see Nontaxable combat pay election in chapter 1.
- If your employer offers a retirement plan, such as a 401(k) or 403(b) plan that deducts money from your paycheck, join in! Some employers will match up to \$.50 on each dollar you contribute. The matched amount is free money!
- If you decide to make investments, do your homework. Know what you are investing in. Get professional advice if you need it. You should have enough money in savings to pay for two to six months of expenses in case of emergency. Make sure you have an emergency savings account before considering investing in non-deposit products.
- If you own stocks, reinvest the dividends to purchase more stocks. Some companies offer an easy way to do this called a Dividend Reinvestment Program (DRIP). This process increases your investment more quickly, similar to compounding.
- If you are interested in learning about investing, you might want to consider taking a course. “Investing for Your Future” is an online course for beginning investors. It is located at www.investing.rutgers.edu.
- Use the *Create an Action Plan Work Sheet* to create a plan for paying yourself first.

Create an Action Plan Work Sheet

1. What can I do now to save?

For example: If you cut down on the number of sodas you drink each day and save that money—saving just \$.50 a day adds up to \$182 by the end of the year! For additional ideas check the section on spending leaks.

2. What can I do by the end of the month to save?

For example: You could pay off a loan and continue making the loan payments to yourself.

3. What can I do by the end of the year to save?

For example: By the end of the year, you could buy a U.S. Savings Bond.

*This resource is one in a series on **Managing Money** which include:*

Making your Money Work:

Determining What Is Important to You
Where Are You Now? (Net Worth Statement)
Stop Spending Leaks
Developing a Spending Plan

Using Credit:

What Is Credit and How Much Credit Can I Afford?
Types of Credit: What Are Your Choices?
Credit Cards
Credit Reports

Building Savings:

Ways to Save
How Your Money Can Grow
Where to Save
Investment Options

Selecting Financial Institutions:

Selecting a Financial Institution
Checking Accounts
Savings Accounts

Creating a Record System:

Keeping Records in Order
Where to Keep Records

Determining Readiness:

Financial Readiness
Benefits and Challenges

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