

SAVINGS AND LIQUIDITY FOR DEBT REDUCTION, RETIREMENT, CONTINGENCIES AND PEACE OF MIND:

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Revised March 31, 2010

There are three reasons to free up monthly income that exceeds your income, and to save money:

1. To have the funds available for emergency contingencies, whether they be unexpected expenses or unplanned-for loss of income;
2. To have the funds available to reduce debt by paying more than the minimum payments;
3. To save for retirement, when your income will drop.

Your mortgage is a type of forced savings because the principal you pay off increases your equity in your home. That equity can be borrowed against, but it is not always particularly liquid. That is, it is not always available on short notice. There are also times, such as now, when it may be difficult to turn equity into cash.

You will help your own peace of mind if you can save up real cash at least equal to a month of your total average monthly living expenses (in addition to saving for your retirement and fiscal emergencies). Eventually, you would be wise to accumulate savings equal to 3-6 months of your average monthly expenses. Except in rare instances, that savings buffer will cover most contingencies.

Do you think you can't save, or save more? Do you think you cannot cut expenses, so that they are less than your income, without feeling impoverished? You can do it if you budget and follow some, or all, of the following suggestions. They are some of the techniques that almost anyone can do to reduce expenses and increase savings. It is estimated that these items will save the average, single person over \$4,000 per year (\$6,000-\$8,000 if you also save to an IRA). These same methods can also provide you with a substantial amount of money toward home purchase closing costs, and/or the down payment, for a home purchase, in as little as 6 months to a year. Yes, these techniques may take a bit of personal discipline, but you can do it if you try and it all adds up quickly. Just the first 2 of the following items will equal nearly \$2,000 in yearly savings:

- Bring your lunch to work instead of ordering out. At \$2.00 per day, versus \$6.00, that is a monthly savings of over \$85 per month.
- Get a "piggy-bank". Fill it with the hard change that you generate each day. Daily expenses, when paid with cash, generate, on average, about \$80 of change every month...and we suggest you start using real money, not cards, for daily expenses. *Be cautious of using change-counting machines, often found at supermarkets, to count that new-found treasure. They charge huge fees. Some banks provide these machines that charge no fee at all.*
- Why not drop all of your "ones" into your piggy bank also? You won't miss them and, at \$10.00 a week in "ones", that equals another \$500, for your "kitty", during the year.

Total savings so far -- \$2500!

- Establish direct deposit for your paycheck rather than cashing it. Establish an automatic withdrawal from your check for savings. You won't starve if your check is \$20 or \$25 less per week. You probably won't miss it. \$20 a week will give you another \$1,000 in one year.

Total savings so far -- \$3,500. That is more than enough cash saved in one year to get a \$100,000 FHA loan, especially if the seller will pay your closing costs. It is enough to replace a furnace for cash or put new windows in your entire house!

- Start an IRA or 401K-retirement fund, as appropriate. If you have a family, a Roth IRA may be appropriate. Ask your accountant/tax preparer. You can save \$5,000, or more, every year and you don't pay taxes on that money until you withdraw the funds in the future. Ask your accountant or check IRS Publication 10 or the IRS website for details, because the annual limit may change each year.

- Make sure your payroll deductions cover, but do not exceed, your annual income taxes. Annual tax refunds are often spent frivolously. You are better off having more money each month, because of lower weekly withholdings, as opposed to “investing” the money with the government, for nothing, and then “blowing” the lump sum refund once a year.
- Find and use a competent, reasonably priced accountant. Except for those who can file the shortest tax return (which can be prepared personally or inexpensively), tax services rarely charge less than most CPA's. That's because the tax services charge for every form they prepare and file for you. It adds up. You can also use tax preparation software and file online, but the advantage of having a financial professional “on call” is a big advantage for most people. Beyond tax planning, they can advise you on financial planning and much more.
- In addition to a normal savings account, you should open a number of accounts, including an investment account, a retirement account and a home emergency account. As money collects up at home or in your main savings account, transfer the money to the other accounts, as appropriate. Don't use the money in each account for anything but the allocated purpose: (Make sure the accounts charge no fees OR require the lowest account balances in order to avoid fees.)
- Limit cash withdrawals for your daily expenses to one per week or one per pay period if you are paid less frequently than weekly. Figure out what “allowance” you need until you get paid again, withdraw that amount and stick to it. You will keep better track of the “miscellaneous” funds you spend each week if you deposit your whole check, and then make a withdrawal of your “pocket money”, rather than cashing your check and only depositing part of it. Most employers now offer direct deposit...a good way to ensure that it all hits your bank account.
- As an extension of the above suggestion...stop using bank debit cards or credit cards to get cash, except for the periodic withdrawal of your “allowance”. The charges for cash withdrawal from cards, or credit card cash advances, can equal 10% of the withdrawal and amount to several hundred dollars per year. If you must use a "MAC" card to obtain cash, try to find a place that charges no fee. Also, make sure you enter any withdrawal or debit card payment into your checkbook as soon as possible. You can't afford to pay a bank \$30 for a “bouncing” a check because you kept poor records of your account withdrawals and remaining balance.
- Many people have resorted to having only a cell phone and no “land line”. But, remember that you pay for incoming and outgoing calls on most cellular phones. It isn't smart to save the minimal cost of a regular phone if you blow your money by using a cell phone for idle chat, to local numbers, that would be free on a landline. Limit your cell phone use to important calls only and keep your calls short. Do you really need to call home to find out what brand of water to buy? Also, consider finding a cell phone provider that offers unlimited calling, texting, Internet, etc, such as Metro PCS.
- Remember that continual mortgage late fees can add up to a big expense. Besides risking spoiling your credit if you should go beyond 30 days, late fees represent money you could be saving. A year of late fees will add up to a full mortgage payment. You have to pay the bills sooner or later, so you might as well pay them on time.
- Make a budget and stick to it. But, before you make a budget, try this: Get and carry a small pad and pen with you at all times. Record every single penny you spend for four weeks, or a month, and analyze how much money you really “blow” on miscellaneous, frivolous purchases. These little items quickly add up to some serious spending. Then, make up your mind to save that money and draw up your budget. But, don't just put the budget away and forget it. Keep tuning it and studying how well you keep to it.
- Get a travel mug and make your coffee at home, for 10 cents a cup, rather than buying take-out coffee on your way to work, for more than a dollar per cup. Even if you buy gourmet beans for home use, it will cost nowhere near the price of “take-out” coffee. And, nothing personal,

but you should consider getting counseling if you regularly spend \$5.00 per cup of gourmet coffee...and then complain about how "poor" you are!

- Have you ever compared fresh-baked bread to supermarket prepackaged loaves? It is a whole different world. Yet, making bread the old fashioned way is time consuming and can be messy. I know I don't have the time to bake bread like I used to. But, there is an easy way:

Buy a bread-maker. These used to cost \$300. Now, I have seen them, on sale, for \$25-50. Now, I do not like how bread-makers bake bread. But, the dough setting is wonderful: You add the ingredients, with no fuss or mess, and walk away until it beeps to say the dough is ready to bake...mixed, kneaded, risen, "punched down", kneaded and risen again. You just pop the dough into a bread pan, let it rise one more time and bake. It probably takes five minutes of total attention. Or, you can make bagels, pizza, rolls, French baguettes, desert breads, Challah, etc, from the dough. Amaze yourself, please your family, and save money! My bread-maker has a Teflon-lined mixing "bowl" and I never wash it...just wipe it clean with a paper towel. Only the little mixing blade ever needs any washing. I've seen loaves of bread sell for as much as \$4.00 a loaf. I make the best bread for fifty cents, or so, per loaf.

- Determine whether your car NEEDS premium fuel. Most no longer do. Switch to regular gas and bank the savings into your "kitty". Shop by required minimum octane rating as much as by the price per gallon.
- Refinance your home, or get a home-equity loan, to buy your next vehicle. No, you do not need to turn a 5-year car loan into a 30-year loan and pay a huge amount of interest. You can pay the normal finance cost of the same vehicle as accelerated prepayments on the home loan, and save interest by paying it off in a shorter amount of time.
- Consider doing your own financing (or pay all-cash) by keeping the car for a year, or more, after it is paid off, but continuing to bank the same payments as savings in a car-purchase account. This will allow you to buy the next car for a smaller amount of financing. Do this for 2 or 3 cars and you will be able to pay cash for the next vehicle. Wouldn't you think that your car dealer will negotiate a better deal with you if you walk in with a bag of cash in your hand? I do!
- Consider...do you really need an absolutely new car? There are always plenty of 1-year-old leftovers or trade-ins that significantly less than the almost identical, brand-new vehicle.

On the average, cars lose 70% of their value in 4 years from new. Because warranties often extend for 5 years now, your used car will still be under full factory warranty. Buy the slightly older vehicle, spend \$100-200 to have it professionally detailed, spend another \$5 for a can of "new car spray" and save many thousands of dollars on your vehicle. You won't know the difference from the new car and your ego will not have cost you thousands, or tens of thousands, of dollars.

- Don't avoid routine maintenance on your house, car or body. The cost, in the long run, from letting things go, can be tremendous.
- Get and keep automobile road insurance, such as AAA. Basic coverage is very reasonable. Emergency road service is outrageously expensive without it, but you will be "over a barrel".
- Do not carry full comprehensive insurance on an older car that will likely be "totaled" by the insurance company as opposed to them paying for large repairs.
- Save gas by planning shopping trips to minimize multiple runs. When you get gas for the car, buy your milk, cigarettes, etc. at the same time instead of getting home and then having to run out again for those routine items. While convenience stores at gas stations have high prices, they are often owned by dairies, that charge no more than any food store for milk/dairy items.
- If your car has this feature, observe your "instant gas mileage per gallon". You will see that it is much lower when you are accelerating vs coasting. Save gas by accelerating moderately rather than making "jackrabbit" starts, take your foot off the accelerator when going downhill or slowing down. Keep your distance from the car in front of you so that you don't constantly find yourself braking and then speeding up. Where does all of that extra gas go when you accelerate wildly and brake madly? It goes out your tailpipe, or gets converted to heat by your brake pads! Remember that cruise control will save gas "on the flats", but will use up extra gas when climbing steep hills.

- If you cannot afford full-coverage medical insurance, at least obtain catastrophic coverage. It is quite inexpensive because it has a high deductible. Certainly, paying that deductible will be a hardship, but it could still be a small percentage of the cost of a medical catastrophe that could ruin you financially, for the rest of your life, if you have no insurance at all.
- Convert whole-life insurance to term insurance and invest the savings. Shop carefully for life insurance as rates vary widely between companies.
- Save for your vacations, rather than putting vacation expenses on credit cards. Budget your vacation and spend only what you have saved.
- If you smoke, and can't stop, start rolling your own at a cost of a dollar a pack. That is the cost of "stuffing" pre-rolled filter tubes with tobacco, both purchased online, resulting in cigarettes that are indistinguishable from factory cigarettes. It takes 5 minutes to "roll" a whole pack. Look for "roll your own" sites on the Internet, such as Lil' Brown Smoke Shack. Buy tobacco that is sold as pipe tobacco, such as "The Good Stuff", and you will save over specific cigarette tobacco. The only difference is that the pipe tobacco is a slightly rougher cut, but it "rolls" fine.
- When shopping, use store coupons and take advantage of coupon doubling offers when you can find them. But, don't be a snob by buying "name brands", even with a coupon, when you honestly cannot tell the difference from the generic store brand. Unfortunately, even a doubled coupon will usually not reimburse you the difference between the name brand and the generic.
- Price-shop on the Internet for anything you plan to purchase. It is rare to not be able to find lower online prices than available at a local store. Be cautious, however, to consider the price of shipping and handling to ensure that the total online price is really a savings.
- Check out the charities you support at charitywatch.org and charitynavigator.org to make sure that your charity uses donations efficiently, rather than burning up most of the money in overhead. Choosing the right charity may not directly reduce what you contribute, but, at least, you will know that the money you donate is not being wasted. Of course, since you are saving so much money elsewhere, you can be even more charitable and feel good in the process.
- If you choose to pay bills electronically, rather than by mail, check for an Internet option first. This is often free, while bank wires or Western Union, pay-by-phone or ATM bill-pay options can charge a lot in fees. When paying bills through your bank account, online, determine whether the bank pays electronically/instantly. (You could think that the payment is instant, but miss a payment deadline because the bank is simply printing and mailing a check for you.)
- Check the Internet for the new services that allow you to bid on and prepay for food market, or other items, such as PriceLine.com. You may save 40% to 60%. Figure the money you saved up and deposit that in your piggy-bank also.
- When planning a trip, use a service like Priceline.com to book your air fare, hotel and rental car. While you do not pick the exact airline, hotel or car model with priceline, you do get to pick the quality and fairly exact location, etc...and you will usually save at least 50% of the normal cost of flights, lodging or car rentals.
- Don't carry lots of credit cards. Keep them in a bank safe deposit box, freeze them inside a package of ground beef, etc. No kidding! You may need to do something drastic, like that, if you are prone to maxing out your cards because they are readily available for needless, impulse purchases.

Making it harder to use the cards on credit may make you realize you don't really need the item. But, you still have the credit available when a purchase is really appropriate and you are willing to go through the hassle of retrieving the card. If you do choose to carry a credit card for emergencies, especially if you have more than one card, carry only one card on your person and carry the card with the lowest spending limit.

- Better yet...use a bank debit card that must have the supporting funds in your bank; or get a debit card, like American Express, that requires full payment at the end of the month. Only

charge items for which you know you have the cash. When you get home, segregate the cash needed to pay for the items charged, and pay off the card before the interest-free grace period expires.

- When buying a home, ask for a seller-concession toward all or part of the closing costs. This gives you a lump-sum of money at settlement compared to a small monthly payment reduction from a seller concession to the sales price. For most persons, it is more helpful to save \$5-10,000 now, than to save \$30-50 a month on the mortgage payment.
- Speaking about home ownership, remember that your real estate taxes and most home interest are tax-deductible items. Certainly, there are people who are better off renting. But, for most people, home ownership means more savings each and every month. Have your accountant determine what your employment tax deductions should be so that the benefits of home ownership result in more money each week, rather than a big annual tax refund.

Hopefully, after reading this list, you will realize that you can scrimp a bit, save a lot of money and still not feel like a pauper. If anything, you will feel better with money in the bank and a feeling that no one is going to "rip you off" ever again for items or services that you can buy much less expensively with only the addition of a little bit for forethought.

Now...Do you really think it is impossible to save money and cut expenses? It probably isn't. Read the following paragraph and then rethink what is possible and what is not:

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ALMOST ANYTHING IS POSSIBLE IF YOU TRY!
