

Money and Marriage: Saving for Future Use¹

Contact Author: Michael S. Gutter²

There are a lot of good reasons why you should save money. For one thing, it's a critical step toward reaching your goals, planning for a rainy day, or making large purchases. You may already have a well-defined saving plan, or you may be saving what is leftover by just sticking your dollars in a shoe box at home, which is not the best way to treat your hard-earned cash. Saving money is crucial to financial stability, so it is important to discuss this together as a family.

First, you should understand the difference between saving and investing. Saving is setting aside money for future 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. This does not lend itself to increasing the purchasing power of your money but there is not much point in saving for a rainy day if you can't get your money out when it's most needed.

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

In order to decide we will need to:

1. Set a goal
2. Make a plan
3. Save automatically (especially for longer term goals)

Saving for a Purpose Saving Leads to Financial Success

When your income is low and the cost of living is high, it is not hard to get into a habit of living paycheck to paycheck. You are likely to neglect saving.

An important step towards changing to a more stable situation is to discuss as a family the importance and value of saving. Saving requires constant discipline and self-denial *now* with the expectation of greater satisfaction *in the future*. It can be challenging in the short term but very rewarding in the long term.

People usually save with a purpose in mind (set a goal). It might be for a short-term goal such as a vacation, a car, a refrigerator, or a smartphone. Money put aside today is used tomorrow for specific goods, services, or pleasures. This kind of saving is necessary for financial security and serves as a way to avoid building unproductive debt.

How much of your income goes into savings will vary with your income, goals, responsibilities, needs, habits, interests, and family size (make a plan). Set up a habit of saving a fixed amount of money. One way to start is to dedicate a fixed percentage of your take-home pay to savings (save automatically). Five to ten percent of your take-home pay is a good beginning. Automating your saving is a key

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2. Original by Nayda I. Torres, former professor and chair; and Vervil Mitchell, former family economics specialist, Department of Family, Youth and Community Sciences; revised in 2005 by Lisa Leslie, Extension agent, UF/IFAS Extension Hillsborough County; and Josephine Turner, CFP, professor, Department of Family, Youth and Community Sciences; revised in 2011 by Michael S. Gutter, assistant professor, Department of Family, Youth and Community Sciences; UF/IFAS Extension, Gainesville, FL 32611.

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approach by having this money transferred to savings accounts automatically each paycheck.

At some period in the life of a family, emergencies make demands on the money income, such as sudden illness of a member of the family or damage done to the house by a storm. In order to be prepared to meet life's emergencies, try to reserve at least three months of expenses.

Saving can be fun if you look forward to some greater future pleasures. A regular plan for saving shows good money management. Are you willing to make a plan that will help you reach a desirable and a pleasant long-term goal? It could be a college education for the children, a mortgage-free home, or even financial security after retirement.

Investments for Financial Security

When we speak of investing, we usually think of *securities*. This usually refers to stocks, bonds, mutual funds, notes, or other. There are also investments made in real property and other assets—the traditional net-worth items.

The next investment category is *durables*, such as furniture, works of art, and silver and china. These are less marketable and should not be relied upon for important goals.

The third category is family health and education, and that which contributes to the cultural and social improvement of the community. It is not the purpose of this leaflet, however, to discuss these types of investments.

A family usually should not make investments in securities, such as stocks and bonds (except government saving bonds), until after it has established an emergency savings fund equal to at least three months of take-home pay. In addition, take measures to protect your family from catastrophic risk by having health, automobile, and homeowner's insurance. If you have dependents, it is also important to consider term life insurance.

Saving for a Reserve or Emergency Fund

Many families look at saving as an impossible challenge. Setting money aside from each paycheck can be difficult, but often possible if priorities are set and money is managed carefully. The traditional way of saving (that of putting money aside) is harder, but not impossible.

In fact, many families can start building their savings and net worth by taking small steps. Automatically deducting a

fixed amount from each paycheck and sending the money to a savings account is a good way to start building an emergency fund. Families may be building up financial security in several ways, such as paying into Social Security or some other retirement fund. If you have a retirement plan at work, you can also deduct a fixed amount towards retirement. Automating savings for long- and short-term goals is a good strategy for building financial assets and increasing net worth.

Simple strategies such as using resources wisely in order to avoid waste can help us find money to save. This year's winter coat is saved to wear again next year. Leftover food is saved for another meal. This type of saving can be accomplished by any family regardless of income.

Reserve or Emergency Fund

Most, if not all, families need a reserve or emergency fund. Establishing this fund should be one of the first things a family does. The purpose of the reserve or emergency fund can include anything from holiday gifts to illness. The reserve fund will probably be used a great deal and should be in holdings that can be turned into cash quickly and without loss.

The reserve fund should be considered as only one part of a family's protection plan. However, for many families this may be the only form of financial reserve.

A Reserve Fund Can Help

A reserve fund can help you in a number of ways. A reserve fund will give you peace of mind. Most families experience a major crisis every few years when they need extra funds to tide them over. It could be reduction in work and/or pay, or perhaps unemployment or crop failure. It could be large dental or medical bills that insurance covers only in part. Someone once observed that when you have a reserve fund, there never seems to be an emergency; but without such a savings account, the financial crises seem to arrive daily.

A reserve fund provides earning power. Benjamin Franklin said, "Money begets money and its offspring begets more." He meant that money left in a savings account will grow. Franklin proved this. In 1791, he gave \$5,000 to the residents of Boston, with the provision that the money be allowed to accumulate for 100 years. By that time, the fund had grown to \$400,000.

A reserve fund can be used as security. You can use your reserve fund as security to borrow money at favorable interest rates.

How much is needed?

There are no hard and fast rules about how much money you should set aside for your reserve or emergency fund. How much you can and should set aside for your reserve or emergency fund depends on your family size, income, level of living, spending habits, job security and outlook, and your particular financial needs.

Most money management authorities agree that an amount equal to three to nine months' income is a desirable and realistic goal for most people. In times of low interest rates, you may need more money set aside in an emergency fund. An amount equal to six months' income can be accumulated in five years by saving 10 percent of your pay every payday. Some people may need a larger reserve fund than others. People who, because of the nature of their work, can expect job layoffs need larger funds than those on salaried jobs.

When trying to decide how much you need in a reserve fund, ask yourself some questions. You might start with these:

- How much protection is provided by my health, accident, and disability insurance policies, government aid (such as unemployment compensation), accumulated sick or annual leave, and other resources?
- How many members of my family are working?
- What are my family's essential financial needs?
- Could non-working family members go to work?
- How many fixed obligations do we have?
- How much available credit do we have? Are our credit cards maxed out?
- What financial help could we expect parents or other relatives or employer to give?
- How close do we live to parents or siblings?
- Are we near retirement?
- How old are the children?

The amount you put into your reserve fund is important, but it is not as important as the *regularity* with which you save. Small, but regular, savings can add up to a significant amount over a period of years.

When you reach your goal for a reserve fund, the amount usually added to the fund can be used for other wants and needs. Remember, as money in the fund is used, replace it.

Commercial banks, savings and loan associations (S&Ls), thrift companies, and credit unions are the most common places to open a savings account. The funds you put in savings accounts provide the necessary cash that enables banks and other financial institutions to provide loans to other people. In a sense, this money is "rented out" in the form of loans used for construction, to buy a house, to make home improvements, to buy a car, and so forth.

Interest Can Be Interesting

When you open a savings account, the bank agrees to pay interest on the amount of money (deposit) you put in it. Say, for example, you deposit \$100 and the interest rate is five percent a year. Twelve months later, you will have \$105 in the account. The more you save and the higher the interest rate, the more money your original deposit will earn (Table 1).

Banks can afford to do this because they charge more interest on a loan than they pay on a savings account. In short, savers earn money from the amount borrowers have to pay to use their savings.

Money invested at five percent interest will double itself in just over 14 years. It will double itself in 12 years at six percent and in just over 10 years at seven percent. Dividing the rate of interest into 72 will give you approximately the amount of time it takes money to double.

Suppose You Save at Six Percent Interest

The actual amount you earn on your account depends on how frequently the bank or savings and loan compounds the interest. Here is an example of interest earned on a \$1,000 deposit saved for one year at six percent interest (Example 1).

If you do not already have a savings account, start one today. And even if you do have one, check around to make sure you're getting the most for your money.

Table 1.

Save this much monthly (at 5% interest, compounded quarterly)	and you will have this much at the end of							
	1 year	2 years	3 years	4 years	5 years	10 years	15 years	20 years
\$5	61.66	126.47	194.58	266.15	341.38	779.04	1,340.13	2,059.48
\$10	123.29	252.86	382.03	532.13	682.53	1,557.56	2,679.38	4,117.59
\$15	184.95	379.33	583.60	798.29	1,023.91	2,336.60	4,019.51	6,177.07
\$20	249.58	505.71	778.03	1,064.27	1,365.06	3,115.12	5,358.76	8,235.19
\$25	308.24	632.18	972.63	1,330.42	1,706.44	3,984.16	6,698.89	10,294.66
\$50	616.44	1,264.28	1,945.13	2,660.66	3,412.65	7,787.80	13,396.89	20,587.97
\$100	1,232.88	2,528.56	3,890.26	5,321.33	6,825.30	15,575.59	26,793.79	41,175.94

Example 1.

Method of Compounding	Interest Earned
semiannually (every 6 months)	\$60.90
quarterly	\$61.36
monthly	\$61.68
daily	\$61.83