Federal Deposit Insurance Corporation (FDIC)

Pay Yourself First

Use this tip sheet to help you in the process of setting and reaching your personal savings goals. This tip sheet covers the following topics:

- Identifying steps you can take to save
- Deciding which type of savings account is best for you
- Weighing risks and rewards associated with investments
- Preparing a personal savings action plan

Tip #1:

Identify Steps You Can Take to Save

The following tips will help you to save your flexible income.

1. *Consider your needs vs. your wants.* Think about 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?

2. *Set up a direct deposit and an automatic transfer to your savings account.*
   - 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 don't miss!
   - U.S. Savings Bonds can be purchased through payroll deduction.

3. *Pay your bills on time.* This saves the added expense of:
   - Late fees
   - Extra finance charges
   - Disconnection fees for phone, electricity, or other services
   - Fees to reestablish connection if your service is disconnected
   - The cost of eviction
   - Repossession
   - Bill collectors

4. *If you use check-cashing stores regularly*, you might be paying $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.

5. *If you get a raise or bonus from your employer*, save that extra money.

6. *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.

7. *If you receive cash as a gift*, save at least part of it.

8. *Avoid debt that does not help build 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
    - Buying a car to get to work

9. *Save your change at the end of the day*. Take that change and deposit it into the bank (every week or month).

10. *When you get a tax refund*, save as much of it as possible.

11. *If your work offers a retirement plan*, such as 401(k) or 403(b) plan that deducts money from your paycheck, join it! Most employers will match up to $.50 on each dollar you contribute. The matched amount is free money!

12. *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 2-6 months of expenses in case of emergency. Make sure you have an emergency savings account before considering investing in nondeposit products.

13. *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 faster, similar to compounding.

Tip #2:

Decide Which Type of Savings Account is Best for You

Use the following chart to decide which type of savings account best suits your personal financial goals. After reading the description and purpose of each type of savings account, determine which features are most attractive to you.

Type of Savings Account	*Description/Purpose*
Statement Savings Account	This account earns interest, and you will usually receive a quarterly statement that lists all of your transactions—withdrawals, deposits, fees, and interest earned.
Passbook Savings Account	With this account, you must go to the bank to make transactions. The teller will update your account information when you go to the bank.
Club Account	This is an account that you join to save money for a special reason, such as a holiday, family vacation, or college. These accounts usually require you to make regular deposits.
Money Market Account	This account usually pays a higher rate of interest and usually requires a higher minimum balance to earn interest. This account pays a higher rate for higher balances.
Certificate of Deposit (CD)	This is an account where you leave your money for a set period of time, such as six months, one, two, or five years, called a term. You usually earn a higher rate of interest. The longer you promise to keep your money in the account, the higher the interest rate. There is a penalty for withdrawing your money early.

Special Accounts

There are special accounts offered at some financial institutions that will help you to save your money:

Type of Special Account	*Description/Purpose*
Individual Development Account (IDA)	IDAs are matched savings accounts. This means another organization, such as a foundation, corporation, or government entity agrees to add money to your account.
Electronic Transfer Account (ETAs)	ETAs are low-cost savings accounts that allow individuals that receive federal payments to receive those payments through direct deposit.
Section 529 Plan	A Section 529 Plan is a prepaid savings program for higher education. The money grows tax-deferred and is taxed at the child's rate when withdrawn for education purposes. The savings can be applied to any college in any state.

Tip #3:

Weigh the Risks and Rewards Associated with Investments

An investment is a savings option that you purchase for future income or financial benefits. There are three major types of investments: stocks, bonds, and mutual funds. Use the following chart to weigh the risks and rewards associated with each of the types of investments and decide which investment option may be the best for you:

Type of Investment	*Description*	*Risk*	*Reward*
Stocks	When you buy stocks or shares, you own part of the company.	If a company does poorly, you might lose your money. Buying stocks is not a good investment option if you cannot afford to lose your money.	If the company does well, you might receive periodic dividends. Dividends are part of a company's profits that it gives back to you as a shareholder. Another way to make money from stocks is to sell them at a profit. If the company does well, others may be willing to buy your stock at a higher price than you paid.
Bonds	When you purchase a bond, you are loaning money to a corporation or to the government for a certain period of time (term).	Bond terms can range from a few months to 30 years. Buying bonds is not a good investment if you need your money in the next month. The company may not have the ability to repay the loan. Corporate bonds have varying degrees of risk.	Buying savings bonds is an easy and safe way to save small amounts of money and are frequently purchased for a child's education; however they may be used for any purpose. US Savings Bonds are a long-term investment option backed by the US government.
Mutual Funds	A professionally managed collection of money from a group of investors. A mutual fund manager invests your money in some combination of various stocks, bonds, and other products.	Because you can diversify your investment, there is usually less risk than buying stocks and some bonds.	By combining your resources with other investors in a mutual fund, you can diversify even a small investment, which should reduce risk. Mutual funds generally have a higher return over the long term than a regular savings account.

Tip #4:

Prepare Your Personal Savings Plan

Use the following questions and the information on this tip sheet to prepare your personal savings plan:

Your Savings Action Plan

Meet Your Personal Savings Goals

1. What will I do now to save for my goals?

2. What will I do by the end of the month to save for my goals?

3. What will I do by the end of the year to save for my goals?

Consider…

1. How much do you want to accumulate?

2. How long can you leave your money invested?

3. How do you feel about risking your money?