



MONEY MATTERS\$


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\$ \$ Financial tips you can use \$ \$ \$ \$ \$ \$ \$ \$ \$ \$

Five Strategies to Saving

1. **Pay off high-cost debt**— Most credit cards charge double digit interest, and one of the best investments you can make is paying this type of debt first.
2. **Save for emergencies**—Learn more in this issue of Money Matters.
3. **Participate in a work-related retirement program**—Many employees turn down free money from their employer by not signing up for a work-related retirement program such as a 401 (k) plan. In addition to helping you save for retirements, these plans can also qualify you for certain tax credits.
4. **Save money automatically**— Ask your financial institution about setting up an automatic monthly transfer from your checking account to savings.
5. **Buy a home**—The largest asset of most middle-income families is their home. Once families have made their last mortgage payment, they have far lower housing expenses.



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Do You Have an Emergency Fund?

Having an emergency savings fund may be the most important difference between those who manage to stay afloat and those who are sinking financially. That's because an emergency savings fund of \$500-\$1000 allows you to easily meet unexpected financial challenges such as:

- Car repairs
- Traveling to see a sick relative
- Paying for a speeding ticket
- Paying for a visit to the emergency room
- Repairing a broken washer, dryer, refrigerator or furnace



The emergency fund allows you to cover these expenses, and gives you piece of mind that you can afford these types of financial emergencies. Each year, those without emergency funds borrow \$2 billion from payday lenders who charge 300-500 percent interest.

Many experts suggest that the size of an emergency fund should equal 3-6 months of your salary so that you could continue to meet your monthly expenses if you lost your job. This is an excellent long-term savings goal, but can seem like an overwhelming task if you are just starting to build your fund. Start with a goal of \$500-\$1000, but once you've reached that goal, keep saving until you reach that bigger goal.

Where Should You Stash Your Cash?

An emergency fund should be easy to access in case of an emergency, but not so easy that you'll be tempted to dip into it for non-emergencies. A savings account offers easier access to your money than a certificate of deposit, U.S. Savings Bond, or mutual fund. Emergency funds kept in a checking account or cash hidden at home may be tempting to use for non-emergencies, and won't earn interest like a saving account will.

You may need at least \$100 to open the savings account and a \$200 minimum balance to avoid monthly fees. In most areas, however, there are financial institutions with lower minimums. Be sure to keep your cash in a secure location until you've saved up enough to open a savings account. Once you've opened the account, you'll need to make regular deposits until you've reached your savings goal. See page 2 for tips on finding money to save.

Finding Money to Save

There are many places to find money to save, we just need the willpower and encouragement to put our money towards a savings goal rather than some other purchase. Consider these strategies for finding money to start your emergency savings fund.

- ❏ Collect loose change. Americans typically save more than \$100 in loose change each year.
- ❏ Save a portion of your tax return.
- ❏ Pay bills on time to avoid late fees.
- ❏ Bring soda from home rather than purchasing from a vending machine or convenience store.
- ❏ Buy one less expensive coffee per week.
- ❏ Pack your lunch instead of eating out.
- ❏ Do your nails at home rather than paying a salon.
- ❏ Buy store brands instead of name brands.
- ❏ Switch to basic cable.
- ❏ Walk or bike to save on fuel expenses.
- ❏ Borrow books, CDs and movies from the library rather than renting or buying.
- ❏ Cut back on phone features.
- ❏ Maintain checking account minimum to avoid overdraft fees.

Building an emergency fund may be easier if you involve your whole family in meeting this challenge. After you've explained the importance of emergency savings to your spouse or children, they may even help build the account and help find ways to save.

Another way to accumulate \$500 to \$1,000 of emergency savings is to ask your bank or credit union to automatically transfer funds from checking to savings monthly. Automatic savings is the easiest savings. What you don't ever see, you may never miss.



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Payday Loans=Big Fees

Individuals and families without enough emergency savings often resort to using payday loans when cash gets tight. These loans are known as cash advance loans, check advance loans, post-dated check loans, or deferred deposit loans. The Federal Trade Commission, the nation's consumer protection agency, says that regardless of their name, these small, short-term, high-rate loans by check cashers, finance companies and others all come at a very high price.

Here's how they work: A borrower writes a personal check payable to the lender for the amount they want to borrow, plus the fee they must pay for borrowing. The company gives the borrower the amount of the check less the fee, and agrees to hold the check until the loan is due, usually the borrower's next payday. The fees on these loans can be a percentage of the loan or a flat fee based on the amount borrowed. The borrower is charged new fees each time the same loan is extended or "rolled over."

A payday loan is very expensive credit. How expensive? Say you need to borrow \$100 for two weeks. You write a personal check for \$115, with \$15 the fee to borrow the money. The payday lender agrees to hold your check until your next payday. When that day comes around, either the lender deposits the check and you redeem it by paying the \$115 in cash, or you roll-over the loan and are charged \$15 more to extend the financing for 14 more days. If you agree to electronic payments instead of a check, the company would debit the full amount of the loan from your checking account electronically, or extend the loan for an additional \$15. The cost of the initial \$100 loan is a \$15 finance charge and an annual percentage rate of 391%. If you roll-over the loan three times, the finance charge would climb to \$60 to borrow the \$100.

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