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Savings to Spend: the Missing Piece of your Budget Puzzle

Have you ever tried to assemble a puzzle without seeing the picture on the cover of the box? Have you ever tried to complete a puzzle with pieces missing? Well Americans do this all the time in their personal finances when building their budgets.

What we as Americans fail to do as a group is to include future, non-routine expenses into our budgets. The solution (missing piece) is to include our Pay-Yourself-First (PYF) Savings-to-Spend (STS) as the first item in our budgets. "Build Wealth – not debt."

We need to account for three types of money in our Monthly or Bi-Weekly Spending Plans. Remember the Three Christmas Ghosts in "A Christmas Carol" by Charles Dickens? Ghosts of Christmas: Past, Present, and Future – Well, money is spent the same way:

Money Past = creditors and accounts for which we pay interest. We know these expenses as our "pen pals" never let us forget by writing to us with a bill every month.

Money Present = routine expenses: gas in the car, milk in the refrigerator, cable TV, rent or mortgage. We know these expenses as they are routine.

Money future = future, non-routine expenses: birthdays, anniversaries, car services and repairs, going back to school in the fall, and vacations. We tend to ignore them until they are here – ouch!

So you need a spending plan that covers all three of your expenses.

So your best budget plans include:

- ✓ Income: what monies come from what sources at what time during the month that are "spend-able," your net income (not your gross).
- ✓ Savings-to-Spend for future expenses (money future) by Paying-Yourself-First. Set aside every paycheck monies for future non-routine expenses.
- ✓ Routine expenses (money present): rent, mortgage, food, cable TV, child care.
- ✓ Creditors (money past): credit cards, car loans, student loan.

The formula or steps you can use to calculate your Savings-To-Spend (STS) could be this simple.

- ✓ What is the event?
- ✓ Date of the event?
- ✓ How much do you plan to spend on the event?
- ✓ How many months or pay periods do you have until the event?
- ✓ How much do you save-out each month or pay period to pay for the target event?

Some examples of Savings-To-Spend Planning Steps:

Event	Birthday	New Tires
Date of the event	4 months from now	5 months from now
Planned cost of event	\$150	\$500
Months or Pay Periods until Event	4 months = 8 pay periods	5 months = 10 pay periods
Amount to save-out each month or pay period	$\$150/8 =$ \$18.75 per pay period	$\$500/10 =$ \$50 per pay period

So the person starts saving out \$68.75 each pay check first to get ready for these events.

It is sort of like a Christmas Club Account – but do it for every non-routine expense. Think for a moment about all of the non-routine expenses that occur during the year!

<u>Family</u>	<u>Holidays</u>	<u>Maintenance</u>	<u>Work Related</u>	<u>Other</u>
Birthdays	Christmas	Cars	Travel	Vacations
Anniversaries	Chanukah	House	Office Parties	Funerals
Weddings	Kwanza	Heater	Clothes	Conferences
Graduations	Easter	Air Conditioner	Gifts	Subscriptions
Mothers Day	4 th of July	Washer & Dryer	Transitions	Fairs & Hobbies
Fathers Day	Thanksgiving	Plumbing	Moves	School events
Gatherings	Valentines Day	Electrical		Down Payments
Back-to-school	New Years	Garden		Halloween
Winter Clothes		Roof		Doctors
Summer Clothes		Pets		Dentists
Other family “Stuff”				Insurance Premiums & Deductibles

Now think big: college, retirement, long term care, emergencies. Are *all* of these non-routine events (and others you think of) stated in your budget? Time to start with PYF STS!

Where can you save the money? What is your range of options?

- Envelopes or cookie-jar. While they do not earn interest, they are a place to start.
- Savings accounts at a bank or credit union. At a credit union, you can have numerous savings accounts. For just \$5 each you can start accounts for the categories mentioned earlier.
- Bank or Credit Union Certificates of Deposit (CD) and Money Market Funds.
- Savings bonds.
- Mutual Funds: Money Market Accounts, Bond and Stock Funds.

You can choose multiple methods based upon your time frames, tolerance for risk, and comfort level with the various banking and commercial products. But you need to start, now. You can start small and then build in more. PYF – it is best to save automatically and routinely. You will never save what is left over at the end of the month: there is nothing left over. Either you do the deposits first, or have your financial institution do an automatic electronic funds transfer.

Are there disadvantages to this PYF STS? Yes, you will have some immediate objections.

- First, you are invited to use your ability to “defer gratification.” You can’t spend all your money now and have money later. You have to defer some of your money to future, non-routine expenses. No more: “I want it now, no matter what!” The secret of wealth accumulation is: “spend less than you make.”
- Second, you politely decline all of the easy credit offers. The American marketing and credit business do not make money if you do not borrow – so they think this PYF STS stuff is stupid. But whose side are they on? Yours or theirs? It’s pay YOURSELF first, not them - PYF.
- You may have to pay a little tax on the interest and dividends you accumulate. I desire that you have a Schedule B or 1 “problem” where you list your taxable interest and dividends. I bet that the tax you may pay will be a lot less than the interest you will pay if you borrow the money; you will be ahead in the long run.
- “How do you expect me to pay my expenses and my creditors – and save money also? Get Real!” You are right – you will initially have a conflict as you have allocated all of your money to present and past. Decision time: you will either need to increase income or decrease expenses to be able to save more. Is it time to negotiate with some of your creditors? Is it time to get serious about tracking routine expenses?

So what are the advantages of PYF STS?

- ✓ You can afford your non-routine expenses! You can actually do them!
- ✓ You pay cash (or pay the credit card bill in full when it comes in) – what a sense of satisfaction.
- ✓ You save on the interest not paid.
- ✓ You own the item or receive the service out-right, free and clear.
- ✓ You earn the interest and dividends. You actually can save a little less for your goals as some of the cost is paid with earned interest and dividends.
- ✓ You increase your net worth.
- ✓ You can better time the purchases and have more options from which to chose.
- ✓ You have more flexibility as the savings can be diverted to major emergencies.
- ✓ You can sleep better at night and feel more pride during the day.

How to start PYF SYS? **Military Saves** is part of the nationwide campaign, America Saves, and is sponsored by Consumer Federation of America, the Department of Defense, the NASD Investor Education Foundation, and a nationwide network of Defense Credit Unions and Military Banks. Go to the web site “www.MilitarySaves.org” and take the pledge. You are more likely to meet an objective if: it is written, you plan your steps, and are held accountable. Military Saves can help you start.

ACS gives you the missing piece and the picture on the puzzle box. Please go to the Army Community Service (ACS) at web page at www.riamwr.com/acsnew.htm and look under the Financial Readiness (FR) program (on the lower left of the home page). This page has these MS Excel (.xls) spreadsheets for you.

- ✓ The missing puzzle piece: “Yearly Spending Plan – Enhanced.” This spreadsheet can help you forecast your PYF STS save-outs as described above.
- ✓ The picture on the cover: “Monthly Spending Plan.” This spreadsheet lets you integrate your net income with Future, Present, and Past expenses – and your expenses should not exceed your income – or you are going deep into debt. Stay in the budget plan.
- ✓ Your score card: “Net Worth Statement.” It is not the money you make; it’s the money you get to keep” (a quote from Financial Planner Ric Edelman). Your Net Worth Statement is your actual score card on how well you are doing in your personal finances.

You can left-click on the .xls file to open, read and use it on the internet; you can also right-click on the .xls file to download the file for your personal, future use.

The Military Saves Campaign slogan is “Build Wealth – not debt!” PYF STS is a way to meet your financial objectives. So now you can have all three pieces of your budget puzzle, the picture on the cover of the box and your score card.

This article is courtesy of Jon Cook, AFC, a contractor with Army Community Service (ACS) at U.S. Army Garrison, Rock Island Arsenal (RIA); POC phone at (309) 782-0815 or e-mail at jon.c.cook@conus.army.mil . Please do send your comments on what helped you, examples, and how you think this article could be improved. (Edition of February 1, 2007 jcc)