Savings Plans

Establishing a savings plan will help you to attain your financial goals.

It is important to save enough money while you are working to allow for a comfortable retirement.

In the short term, planning major purchases in advance can allow you to pay in cash and eliminate the need to accumulate debt.

Short Term Saving

Saving money in the short term allows you to plan for major purchases, such as a vehicle, or pay for things like vacations.

Example 1

The Smith family is planning a vacation to Florida one year from now. They estimate the trip will cost $3000. They have found a long term savings account that pays 3% per year, compounded monthly. How much would they need to deposit into the account at the end of each month to reach their goal?

Suppose the Smith family fails to plan ahead. They end up using credit cards for most of the expenses on their trip. If they have a credit card balance of $3000 by the end of the trip and they hold the debt on the credit card for 1 year, how much interest will they owe? (Assume an interest rate of 22% annually on the credit card.)

Long Term Saving

As a general recommendation, 10% of your net income should be placed into long term savings to allow for future financial security.
Very few people actually do this.
There are many different options available for saving money on a long term basis. There are a number of factors to consider when choosing the best savings plan:

- How much risk are you willing to take?
- How old are you?/ How long will you leave the money invested?
- How much money are you investing?
- Are there tax advantages to a particular plan?
- Will you need to access the money before the "date of
- maturity"?