

Karen Telleen-Lawton: Resolve in 2014 to Nurture a Savings Habit

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I'd give up new year's resolutions if they weren't valuable. But I can't pass up the opportunity to start out fresh each year. This year, one resolution is for my BFF.

In previous new year's columns (**Financial Planning Tips Parts 1 and 2**), I've listed 10 financial planning tips and detailed the first couple: 1) Live within your means, and 2) pay down debt and maintain credit. The third tip, perfect for a 2014 resolution, is to nurture a savings habit.

If you had money-savvy parents as I did, you may have learned the habit early, as a child. My cash came from a small allowance and babysitting. Part of my allowance was destined for the church collection plate, and part to savings. At my highest pay level, I babysat the three Bradshaw boys (the Bratshaws, to my sister and me) for 75 cents an hour.

I'm dating myself with the pay scale, but at whatever age you find yourself, today is the best day to begin saving, second only to yesterday. Savings is an essential part of your budget. You can create a budget by listing your regular and irregular expenses. Check online under "budget categories" for helpful lists. Better yet, download free budget software such as **Mint.com** to help you through the process.

Pay your future self first: She (or he) will be eternally grateful for what you set aside for her now. For instance, if you save \$150 a month for her beginning at 25, at age 65 she'll likely

have more than \$300,000. This isn't enough to retire on, but it will help you develop the habit of sharing with her.

There's an order to savings. Start with an emergency fund, which should be three to six months of expenses, kept in a bank account. If your job or the economy is precarious, you may want more.

At the same time you're building your emergency fund, make sure you're taking advantage of any employer-sponsored retirement plan. When your employer contributes along with you, these can be great deals.

If your employer doesn't have a plan, do it yourself by opening your own IRA. In 2014, you can put up to \$5,500 in an IRA or Roth IRA, plus an extra \$1,000. Catch up if you're over 50. Surprisingly, only about 15 percent of workers over 50 take advantage of catch-up provisions.

After funding your emergency fund and retirement plan, you can start saving for special purchases you plan to make, over and above your budget, over the next five to seven years. This money belongs in relatively liquid and stable investments such as savings accounts, CDs, money market funds and laddered short-term bonds. That's a bummer now, when savings accounts offer very low interest rates. If you're tempted to place some of this money in the stock or long-term bond market, be willing to risk not achieving that goal.

Nurturing a saving habit is the single most important way to ensure the security of your future self. If you have trouble empathizing with her, check out some [age-progressions software](#) and post her photo on your bathroom mirror. Nurture a savings habit for your true BFF!

— Karen Telleen-Lawton’s column is a *mélange* of observations spanning sustainability from the environment to finance, economics and justice issues. She is a fee-only financial advisor (www.DecisivePath.com) and a freelance writer (www.CanyonVoices.com). *Click here to read previous columns.* The opinions expressed are her own.