Personal Finance

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Creating a Personal Savings Plan

Your nest eggs offer protection when life gives us little surprises. Set a series of achievable goals and you won't find yourself in a difficult spot financially.

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It's important not to make lofty plans that become a source of frustration, instead of a comfortable fallback position in times of need. The National Endowment of Financial Education offers a series of helpful suggestions for those looking to create a personal savings plan.

GETTING STARTED

Begin by making your savings a listed and fixed element of monthly spending. We often plan on getting around to creating this needed safeguard, but never do. Earmarking certain funds to be put away for later makes you less likely to spend them. Take advantage of your bank's automatic savings tools, online or through your phone. Money will be funneled out of your checking account where daily transactions are happening and into a savings account for later. Even funneling spare change into this effort can help build up your reserves more quickly.

Dedicate any windfall to savings, if you can. If not, then pledge to save most of any bonuses, your tax refund, an extraordinary night in tips or unexpected freelance opportunities. The recommended goal is to have three to six months of your possible expenses saved in order to buy time if you or your family experiences an unexpected cash-flow problem— including job loss, injury or extended medical issues.

BANKING OPTIONS

Savings accounts are great places to stash away extra cash, but your return on that investment is often very low. They bear interest, but often not very much. If you'd like that money to work harder for you, consider talking to a qualified financial advisor about investment options like CDs. Just make sure you focus on safe choices, so that you don't unnecessarily risk everything you've worked so hard to build up.

BE ACCOUNTABLE

In particular when you are just getting started, savings require discipline. You won't be able to buy those extra items you may want, but do not need. Eating out may need to be replaced by a few home-cooked meals, which can be prepared far more cheaply. If you're having trouble getting and staying on track, make saving a team effort. A spouse, trustworthy friend or financial professional can serve as an accountability partner. If you're not saving at the recommended pace, they'll be there to have difficult discussions about how to move forward.

How To Choose a Credit Card

They're an inevitable part of life, but credit cards can also put you at risk financially.

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Charging items is a great way to build credit, and credit can be critically important when the unexpected happens.

But relying on credit for unneeded items instead of saving toward these purchases can quickly build up a mountain of debt. In some cases, the specific card and its rules for buying can play a big role in how that debt accrues.

Here's what to look for, whether you're aiming to expand your credit portfolio, returning to credit buying after some time away or just starting out.

EVALUATE YOUR NEEDS

Begin with a frank conversation with yourself about how this credit card will be used. If this credit line is meant solely for emergencies, then look to major card providers, since their limits will be higher and they'll be accepted in a vast array of stores and situations. If you're simply trying to build credit, consider applying for a specific store card. You can make smaller purchases, then quickly pay as soon as your statement arrives. The limits will also typically be low, and that will work as a guard rail against overspending.

AVOID INTEREST CHARGES

It may not be possible to pay in full every time, whether because of a medical emergency or other unexpected issues. Understand, however, that this is the quickest way to creating insurmountable debt. What you owe will be compounded with additional charges based on the card's annual percentage rate — and that APR can go up if you carry a balance long enough. Some cards even tack on additional tax charges for unpaid bills. Pay close attention when applying, since some offers feature very high introductory rates that make it more difficult to pay off carried balances. Avoid any cards with an APR of more than 20%.

LOOK FOR DISCOUNTS

Most cards these days offer cash back offers of some sort. Investigate before you apply in order to find the ones that fit into your personal lifestyle. So, if you travel a lot, look for cards that feature frequent flyer bonuses. If you are a faithful shopper at certain stores, then consider getting a card associated with that brand. They will typically offer reward programs that can save money on everything from clothing to gas. Just remember to promptly pay, so accumulating interest doesn't offset these savings.

Umbrella Policies

You may need more than individual policies for your home and car. Are you prepared if someone sues for an amount exceeding your present coverage?

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Umbrella policies make sure you're covered in the event of any unexpected liability, taking over where your existing policy coverage may end. But they also cover things a typical policy can't — and that may come in handy when the unexpected happens.

FILLING IN THE GAP

There are a variety of situations in which your insurance may unexpectedly come up short. For instance, a lengthy illness could lead to huge medical expenses. You could also be on the hook if someone is injured in your home or on your property. Car accidents sometimes lead to judgments for pain and suffering that may also outstrip your coverage. A policy might be limited to paying out only $250,000, and these type of court-ordered damages might end up going much higher. An umbrella policy would absorb whatever remaining penalties are levied.

MORE COVERAGE

But an umbrella policy does more than provide excess liability coverage. They can also provide protection in situations that aren't always covered by standard home, car and other policies. For instance, that may include libel, negligence or slander judgments. These policies can fill gaps created by unusual circumstances like a downstairs neighbor's water damage caused by your leaky plumbing, or when your pet injures someone else. Those who participate in potentially dangerous sports like skiing, hunting or surfing can also enjoy extra coverage. Some policies extend to other family members or entire households, and they may protect you while traveling abroad, as well.

SIGNING ON

These umbrella options will have certain exclusions, like any other insurance policies. Intentional or criminal damage, for instance, wouldn't be covered. Read any policies carefully to determine which exclusions apply before signing on. Umbrella coverage is strongly recommended for those with a long list of assets and those with jobs that put them at an increased chance of lawsuits. That would include landlords, board members and politicians, among others. But premiums are typically quite affordable for people at most income levels. Some everyday situations that may require umbrella policies include installing a pool or trampoline, regularly hosting parties, owning dogs or guns, and the parents of inexperienced drivers.

Avoiding Dangerous Loans

Beware of irresponsible lenders who can leave you even more deeply in debt. Those in a pinch will sometimes agree to dangerous loans that end up doing more damage.

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Depending on the terms of the loan, you may be subject to interest rates that make it impossible to meet your payments. This could lead to an inability to make other monthly payments, tanking your credit score and putting your future at risk.

So make sure you know what you're signing before accepting a loan, paying close attention to the lender's reputation and the terms and conditions. Some widely offered types of loans should be avoided if at all possible, according to the website Debt.org.

CAR TITLE LOANS

People with poor credit who are in need of a quick infusion of cash will sometimes turn to these predatory lenders. The borrower uses their car title as collateral in order to secure the loan. Terms differ depending on the location and company, but many will include an astronomical 25% interest rate and a commitment to repay the loan within a month. If not, these lenders will either repossess the vehicle or offer to extend the loan with an even higher interest rate. At one point, so many underpaid service members were caught in this loan trap that the federal government stepped in to protect them through the Military Lending Act in 2006.

OVERDRAFT PROTECTION

This is a tempting offer for those who struggle to manage their monthly expenses, since banks promise transactions will still process even if you don't have enough money in your account. That typically includes checks, debit card and ATM transactions, and can be particularly helpful in the event of an emergency. But there are typically regular fees associated with this service, and there may be penalties for each overdraft covered. Overdraft protection can also tempt people to overspend, putting themselves in a deeper hole. Terms and fees vary from bank to bank, so read the fine print.

PRIVATE STUDENT LOANS

Student loans are typically handled through federally backed lenders, but some people with funding gaps turn to private lenders. But, as with any other private loan, there are varying interest rates — and in some cases, they may be much higher than the traditional loan. Federal loans are also paired with various flexible repayment plans that may not be available through another lender.

Had a Financial Windfall?

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There are critical decisions to be made when receiving a financial windfall, and they must be made quickly. Remember, lump-sum income isn't necessarily limited to winning the lottery.

You might be on the receiving end of an unexpected inheritance from a relative or a settlement in a lawsuit. More conventional instances where money arrives in a huge chunk might include getting a big bonus at work or selling your home.

How you manage this kind of financial windfall will ultimately determine how much of it you get to keep — and how much good it does for you and others.

The best bet is to rely on the guidance and advice of a professional financial advisor, in particular if you have never dealt with this kind of income before. Here are some key things to discuss.

GETTING STARTED

Financial management firms recommend putting lump-sum income into a short-term investment situation during a so-called cooling-off period. These options include a savings account, CD or money-market account. This will give you space to develop a strategy for moving ahead. Set aside a portion of the proceeds to address any taxes you may owe on this windfall. Next, consider using some of it to pay down or complete payments on personal debt, then create the recommended six-month savings cushion in case of emergencies. After that, you're ready to consider investment strategies that may lead to future growth, other near-term financial goals and your retirement.

LONG-TERM PLANNING

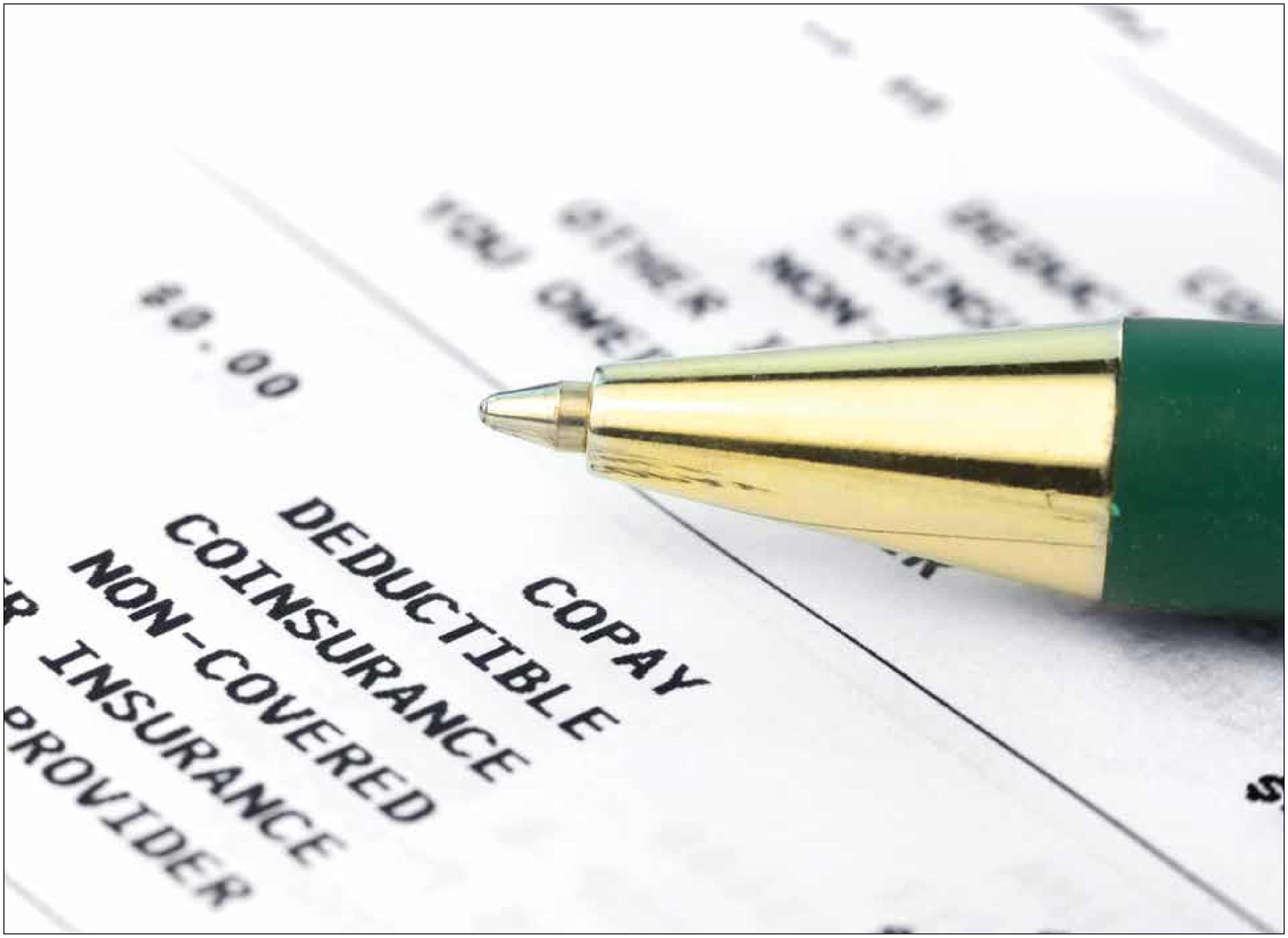
Beyond retirement, it's a good time to consider updating your will and other end-of-life financial planning. Depending on how large this lump-sum payment is, your assets may be impacted to a degree that they need to be divided up differently. Employ both a financial planner and attorney when drawing up these critical documents.

PERSONAL SPENDING

It's OK to set aside some portion of these funds for yourself, as long as you employ a pre-set limit so that your spending doesn't get out of hand. Consider buying something small that once seemed out of reach, or a special indulgence. You should also consider sharing the wealth with those who are less fortunate. Talk to your financial advisor about the best strategy for charitable giving. In some cases, there are available tax savings or marching-gift options that allow your money to do even more good. Use the rest to secure your financial future.

Dealing With Health Expenses

If eligible, sign up for a health savings account to offset unexpected expense. You can save money from each paycheck so you don't have to dip into savings.



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In an era of insurance plans with higher and higher deductibles, a health savings account can help offset the kind of surprise out-of-pocket expenses that may create a huge bind. There are also other notable financial benefits for those who qualify.

TAX BENEFITS

Typically, your medical expenses have to exceed a certain percentage of your gross income in order to earn a tax break from the IRS. Health savings accounts allow you to put away money for qualified medical expenses before paying taxes on it. The IRS allows you to deduct the full amount of these weekly HSA contributions from your reported income, which can add up to thousands and thousands of dollars. The end result is a deduction of your entire medical expenses, as long as you don't exceed the prescribed contribution threshold.

PEACE OF MIND

One of the notable benefits of health savings accounts is that your contributions carry over from year to year. Many companies offer flexible spending accounts that offer some of the same benefits, inflicting the tax benefit. But any money that goes unused disappears at the end of each year. In some cases, it's possible to lose more of your contributions than you saved through the tax break. HSAs allow you to continue accumulating these funds, creating even more peace of mind should an unexpected medical issue arise.

TAKE IT WITH YOU

Though they are employer sponsored, health-savings accounts are not connected to your company. Should you leave this job, for any reason, an HSA will travel with you to the next position, along with all of your benefits. This is particularly helpful if your new employer also has a high-deductible health plan, but you can continuing drawing down these funds for medical expenses either way — and it remains tax-free.

DOLLARS AND SENSE

If you have a high deductible, sooner or later you and your family are going to end up shouldering some out-of-pocket expenses. Depending on the medical issue, these bills can pile up very quickly, putting your financial future at risk. HSA can fill the gaps, and in some cases, employers may make their own contributions. Your eligibility is based on whether your company offers what is considered a high-deductible plan.

Supplement Your Retirement

Even those lucky enough to earn a pension may still need to save more. Setting aside some extra cash will help make the transition to retirement go more smoothly.

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Though they used to be quite common, pensions may not be part of your benefit package. Even if pensions are offered, many change jobs so frequently over the course of a lifetime nowadays that a large sum never accrues.

But those with pensions and those without can benefit from supplementary income options that provide peace of mind in our golden years.

How much will you need? Most people, quite frankly, have no idea. But a good rule of thumb is to have banked some 25 times your annual spending by the time you hit retirement age.

EMPLOYER OPTIONS

Explore complimentary retirement accounts made available through your company, whether that's 401(k), Roth or other investment options. Payments into 401(k) accounts are made before taxes, so money that would have gone to the federal government ends up in your account. Many employers will also match your contributions up to a set amount. This is meant as an incentive to invest in your own future, and results in free money for you to enjoy later. Taxes are deferred until you are ready to withdraw upon retirement.

Financial professionals typically advise employees to contribute the maximum amount matched by your company, then set up an Individual Retirement Account to build an additional nest egg.

IRA ACCOUNTS

Individual Retirement Accounts come in either the traditional or Roth formats. Traditional IRAs resemble 401(k) accounts, but with a few notable differences. You also make pre-tax contributions, and then pay Uncle Sam when you withdraw it all at retirement. Traditional IRAs don't include an employer match, but you can invest in the mutual fund of your choice rather than being limited to a narrower range of employer-selected funds.

With Roth IRAs, you're not making pre-tax contributions. Instead, you pay taxes as you go, so there is no tax bill when you withdraw at retirement — even on your earnings along the way. In both cases, there is a chance to make a large return on investment. The choice comes down to how and when you want to take care of the associated taxes. Roth IRAs also allow you to withdraw your contributions before retirement age without penalty, unlike other similar accounts.