Overview of Saving

SAFA Financial Literacy Lesson

What is saving?

Saving is not using some of your income, instead keeping it to use in the future. This money can be used in the future for various expenses, including achieving long term financial goals.

Why should you save?

By saving money, you can make your future brighter. This is because you will have money to use for future expenses, and you will be able to achieve major financial goals that will leave you satisfied and accomplished.

How to Save: Savings Accounts

A good rule of thumb for how much of your taxed income you should save is the 50% rule. Essentially, you should save 20% of your income after taxes. Some types of Savings Accounts are regular deposit, money market, and Certificates of Deposit.

Savings Accounts: Regular Deposit

Regular Savings Account are typical savings accounts, in which you can earn interest on your money. You can withdraw 6 times in a month, and the Federal Deposit Insurance Corporation(FDIC) insures $250,000 in the case of a bank failure.

Savings Accounts: Money Market

Money market accounts(MMAs) take elements from regular deposit savings account and checking accounts. They offer better interest rates than regular savings accounts, and banks can make you pay a fee or even close your account if you withdraw money more than 6 times a month. The downside is that you will need a greater minimum deposit, and in order to reap the most benefits(get the best interest rates), you need to deposit more money.

Savings Accounts: Certificate of Deposit

Certificates of Deposit are savings accounts that require you to not withdraw your money from your account for a particular time period. During that period, your savings accrue interest, and when the time period is over, you can withdraw your savings. They offer above-average rates, have no monthly maintenance fees, and require lower minimum deposits. However, withdrawing money from a CD before the time period is over can lead to an early withdrawal penalty.

Saving for Retirement and a House

It is absolutely crucial to save for your retirement, as you can be comfortable during retirement. You will have to pay less taxes once you reach retirement due to the provision of a tax-deferred retirement account, and Social Security alone cannot provide the entirety of your income. Generally, Social Security payments function as 40% of the typical person’s income, so you must provide at least the remaining 60% with savings so you can pay off expenses. In addition, for many, their life goal is to buy a house. This is for good reason, as generally, your net worth is far higher than if you pay rent, in fact, more than 40 times greater. However, in order to buy a house, you must save up money for the initial down payment, which usually is about 20% of the house’s value to reduce how much you pay. The rest you will pay over time monthly as a mortgage loan.

Emergency Fund

It is crucial for your financial security to establish an emergency fund. This will help you be prepared for an emergency, like an unexpected repair, medical bill, or even if you lose a source of income. Usually, you should create an emergency fund that can handle three to six months of expenses. We will discuss how to manage your money later in this workshop to establish this fund.