

The 2011 Savings Plan

Building savings is your best defense against unexpected events. It can help you prepare for expenses that vary from month to month, but it can also help you accomplish your long-term financial goals, whatever they may be. This article is not just for people who are starting their savings plan – there are a lot of good suggestions for those who want to give their plan a boost.

There are three basic tiers of a successful savings plan.

Money for periodic expenses: The first thing you need to do when designing a successful savings plan is to make sure your budget is in order. Expenses that vary from month to month can be a budget killer. For example, your utility costs probably change significantly from one season to the next. You may also have a number of family birthdays bunched together that you need to buy gifts for. By averaging these items over the course of a year and setting aside an appropriate amount of money to handle them, you will bring a measure of predictability to your budget. This should allow you to determine exactly how much you can put toward the next two tiers of your savings plan.

The emergency fund: Once you've set aside money for things you know and expect, it's time to prepare for the unexpected. The conventional wisdom is to create an emergency fund that covers at least 6 months' worth of expenses. Many financial experts, however, have been encouraging people to create larger funds, covering up to 10 months of expenses. The reason is - you guessed it - the economy. It's taking longer for the unemployed to find new jobs, in some states the average is approaching a year. To create an adequate emergency fund, you'll have to identify essential expenses – those you would need to survive (food, shelter, etc.) and determine those budget items that would be reduced or eliminated if an emergency occurred.

Building toward the future: It will probably take a long time to finish building your emergency fund, but once you've done so, you can use the money you were contributing every month to achieve your short- and long-term goals. You may want to save for a new car, a vacation, child's tuition, retirement, or some other investment product. Chances are, you'll have multiple goals, but to achieve them you must determine how much you'll need to accomplish your short-term goal (the vacation) without hindering the long-term goal (retirement). You must prioritize your goals, keeping within your budget, to give yourself the best chance of success.



Of course, you can't have a savings plan without savings. You need to recognize how much you can reasonably save every month, which means tracking your expenses and creating an adjusted budget. If you follow every dollar – every penny - you may be surprised to discover where your money is actually going. For instance, downloading two albums on iTunes every month can cost you almost \$300 a year. Instead, you can borrow CDs from the library or from friends. For even more music choices, websites such as www.pandora.com and www.radio.com offer free music streaming services on personal computers.

Food and home-supply costs can also be budget killers. To reduce their impact, check the flyers from several supermarkets before you start your shopping. Always plan your meals in advance and shop with a list. Bring a calculator with you to the store in case you're unsure which deals are better. If you can't decide between two products, calculate the cost for an individual unit or per ounce. Try the generic or store-brands of the products you usually buy. And finally, use coupons. If you save just \$5.00 each week when you shop, you'll save \$260 that you can put in your emergency fund. If you don't have a coupon for a certain product, check online – sites such as www.coupons.com, www.smartsources.com, and www.couponcabin.com offer many coupons you won't find in the Sunday paper.

A savings boost can be a big psychological motivator. Holding a tag sale, for instance, can net you some extra money (not to mention creating space in your basement or garage). Whatever you can't sell, donate to a tax-deductible charity. Then there is the tax refund. If you receive a large refund every year, you should designate at least a good portion of it to your savings plan. And speaking of taxes, if you receive a big refund perhaps you can look at changing your claims. If too much money is being taken out of your check every month, you're essentially loaning that money, interest-free, to the government. As long as you put the extra money aside every month, you won't miss that big check in April.

There are countless other savings tips for every type of lifestyle. For more details, please visit our Financial Wellness Center, www.goodpayer.com. The most important thing you can do is stay committed to your savings plan and make adjustments if your situation changes. If you experience a financial setback or hardship, our counselors will always be available to offer assistance.

The Cambridge Quarterly

Winter 2011

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The Dangers of Keeping up with the Joneses?



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The Dangers of Keeping up with the Joneses?

We've all heard about "Keeping up with the Joneses," a phrase that refers to a lifestyle notable for its measurement of success against our neighbors' achievements and, unfortunately, their possessions. You may be surprised to learn that there really was a Mrs. Jones, who happened to be the author Edith Wharton's aunt. That Mrs. Jones made up for her years of isolation spent battling serious illness by splurging later in life. In 1852 she built a 24-room villa in Rhinebeck, New York, that quickly became the envy of her well-to-do neighbors, who began to build equally opulent mansions of their own.

"Keeping up with the Joneses" can produce positive results, that is, if we're striving to earn the same good grades in school, or to advance within our profession the same way our neighbors are. But if we're merely struggling to duplicate our neighbors' lifestyle, and purchasing the trappings of that lifestyle with money that's not really within our budget, that's a style we won't sustain for very long. In that scenario, Keeping up with the Joneses will lead to predictably disastrous results.

The desire to live beyond our means and keep up with the Joneses is one of the genuine root causes of America's current financial woes. As our neighbors buy newer and better and bigger things, the temptation to keep pace is irresistible for many of us. When we engage in this kind of spending, it's not the possessions we're after, of course. It's social status. Unfortunately, most people can't actually afford to live that way forever. As they increase their social status, they also increase their debt beyond their ability to keep up with the monthly payments that result. Credit card delinquencies, lawsuits, foreclosures, and bankruptcies are among the



penalties that people pay for this kind of lifestyle, but the good news is, if things haven't gotten that far yet, we don't have to wait for an economic recovery to stabilize our situation. If you suspect that you're trying to keep up with the Joneses, there are a few steps you should take right now to begin turning things around.

One of the first things you need to do is determine precisely what it is that motivates you to spend the way you do. Begin by journalizing your spending for a few weeks – that is, create a list of everything you buy over that time. Next, examine your list and ask yourself whether each particular product or expense was entirely necessary, or was that specific product bought just to have it? And please understand that we're not talking only talking about expensive cars or appliances. People who spend to achieve social status will often pay more for every item in their budget – for sneakers and shampoo and lawn services, for hot dogs and household cleaning products and wrist-watches, even when perfectly acceptable, less-expensive items are readily available. Look again at each item on your list and put a check mark next to each that you may have bought without considering whether it actually fit in your budget, or because there was some social cache that came with it.

As you might expect, the next step is to look for alternatives to each of the small items on your list that you overspend on, at least in part for status reasons. Replacing these products usually doesn't require much in the way of sacrifice, but you'll need to be on guard for feelings of depression or anxiety. Some people become upset at having to face the realities of their budget, at having to settle for the second-best ice cream or the store-brand trash bags. Don't worry if you experience this sense of regret. In time, you'll probably re-discover the sense of satisfaction that comes from spending wisely.

After you tackle the small items, it's time to examine the bigger purchases you make. Technology is one area of discretionary spending that is easily reduced. For example in 2007, one popular computer company introduced a cell phone that has revolutionized communication. In less than four years, the manufacturer released four different versions of the popular phone, each considered an upgrade, of sorts. Have things really changed so much in those four years, or was the company simply practicing Business 101? If there is a need, it must be filled. If there is no need, create one. In

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times like these, there are always going to be newer versions of our current phones or laptops or televisions hitting the shelves, but that doesn't mean we have to drop everything and get one. Resisting the urge to buy the latest and greatest edition of a product we already own will, in time, allow us to begin to feel a bit proud of our frugality. That's not a word that was in the Jones's vocabulary.

Finally, like the social-status fixated neighbors of the original Mrs. Jones, it may be necessary to look at your housing situation. Of all our bills, those connected with the home are often the most expensive. Americans currently devote 34.1% of their budget to housing costs. This includes rent or mortgage, utilities, housing supplies, and furnishings. Shelter is important, of course, and committing such a large portion of our income to housing may seem logical. But did you know that in the 1960s, Americans spent only 14.5% of their budget on housing? Granted, there were plenty of variables that led to this dramatic rise, but one of the largest contributors has been the expectation that we need to own a house, that renting is inconsistent with living the American Dream. And it's not just any home we're encouraged to buy, but the biggest home possible, based on our gross monthly income – you know, the money we never actually have because taxes and other deductions are made before the paycheck is cut. When you get a moment, you owe it to yourself to ask what may be the toughest question of all – do I need this much house, or is there something less expensive that satisfies my actual housing needs? In today's housing market, you may find there are plenty of more affordable alternatives. Contact a certified housing counselor, and a local realtor, to determine if this is a good option for you, and let the Joneses worry about themselves for a change. Otherwise, your possessions will end up owning you.