



Joan E. LeFebvre  
Family Living Agent

# Parenting the Preschooler

<http://www.uwex.edu/ces/flp/pp/>

## Reduce Stress: Save Money

Finances are often a source of stress for young families who have many financial demands on them. An effective way to reduce financial stress is to save some of your income for future goals and to meet unexpected expenses.

One way to create financial security and reduce stress is to have several layers of savings.

### First Layer

The first layer includes save items and emergency savings. Save items are non-monthly recurring expense items such as insurance or taxes. For example, if your car insurance is \$400 every four months, you would set aside \$100 monthly in a savings plan. That way, you have \$400 when the bill is due. Emergency savings is money set aside for unplanned one-time, unexpected financial events. When the car battery dies or water heater springs a leak, easily accessible emergency savings allow you to meet the crisis.

### Second Layer

Short terms savings are the second layer of savings. This is money you set aside for short-term goals such as a vacation, special purchase, or protection from unexpected loss of income. Financial experts suggest that families save enough money to cover three to six months of expenses and debt payments. Savings bonds, treasury bills, or certificates of deposit are ways to save for these short-term goals.

### Third Layer

The third layer is money that is placed in long term savings plans such as for a car, house or your

child's college education. The main purpose of this savings is to grow. Investments in securities, property, and/or business investments are typical savings instruments.

### Fourth Layer

Retirement savings, the fourth layer, is money that is placed into a long term, tax-deferred account for retirement. The intent is financial security during retirement. All of the other saving layers help protect your retirement savings.

### Finding Money to Save

Even though finances are tight, saving some of what you earn will help to reduce financial stress. Here are some tips for "finding money" to save:

Tip:	Monthly Saving
Save 50¢ a day in loose change.	\$ 15
Cut soda/pop consumption by 1 liter a week.	\$ 6
At work, substitute 1 coffee for 1 cappuccino.	\$ 40
Bring lunch to work (save an estimated \$3/ day).	\$ 60
Eat out 2 fewer times a month.	\$ 30
Borrow, rather than buy, one book a month.	\$ 15
Creatively use phone cards and cell phones for long distance.	\$ 15
Maintain checking account to avoid overdrafts.	\$ 30
Pay credit card bill on time to avoid late fee.	\$ 25
Pay off \$1,000 of credit card debt, reducing interest.	\$ 15

## Key Savings Strategies

The most important way to create wealth is to build savings while reducing debt.

- **Set up a regular savings plan.** Watch your savings grow with every deposit. Keeping your money in a secure location is one benefit of a savings account and it's a little further from your pocket.
- **Pay off high cost debt.** The best investment most borrowers can make is to pay off consumer debt with double-digit interest rates. For example, if you have a \$3,000 credit card balance at 19.8% interest, and you don't charge anymore to the account, this is how long it will take to pay off the card

<u>Monthly payment</u>	<u>Years to Pay Off Debt</u>
\$ 50	20
\$ 65	8
\$ 80	5

- **Buy a home and pay off the mortgage.** Most families largest asset is their home equity.
- **Participate in a work-related retirement program.** A 401(k) plan provides tax shelter benefits and many employers match savings.

## Time Value of Money

For young families, time is on your side. Three factors determine how much money will be available to meet your specific financial goals. These three important factors are time, money and rate of interest.

1. The more **time** you have to save, the more money you will have at the end of the time period.
2. The more **money** you have to save, the more money you will have at the end of the time period.
3. The higher the **rate of interest** you can earn, the more money you can earn, the more money you will have at the end of the time period.

To help you begin the habit of saving money, Northwoods Saves (a local chapter of America Saves) is ready to help you. Northwoods Saves has savings coaches to help you reach your savings

Prepared by: Joan E. LeFebvre, Professor, Department of Family Development, University of Wisconsin-Extension  
 Reviewer: Gayle Rose Martinez, Financial Counselor, and UW-Extension Family Living Agent, Clark County  
 Layout: Penny Otte, Program Assistant III, Family Living Area Office, Vilas County

## Impact of Time Value of Money

Age	Contributions		Age	Contributions
22	\$ 2,000	Total of \$18,000 invested at 4% Interest.	31	\$ 2,000
23	\$ 2,000		32	\$ 2,000
24	\$ 2,000		33	\$ 2,000
25	\$ 2,000		34	\$ 2,000
26	\$ 2,000		35	\$ 2,000
27	\$ 2,000		36	\$ 2,000
28	\$ 2,000		37	\$ 2,000
29	\$ 2,000		38	\$ 2,000
30	\$ 2,000		39	\$ 2,000
31	\$ 0		Continue to invest \$ 2,000 a year	40
↓	↓	↓		↓
65	\$ 0	65		\$ 2,000
<b>Amount Available at Age 65</b>				
<b>\$ 240,059</b>				<b>\$ 153,197</b>

goals, free information on savings accounts, free support from financial counselors and planners, and a free subscription to the quarterly newsletter, *American Saver*. Call the toll free number 1-877-675-4673, email [nwsaves@newnorth.net](mailto:nwsaves@newnorth.net), or go to [www.americasaves.org](http://www.americasaves.org) for more information.

**Manage your financial stress  
by saving money, building  
wealth, and reducing debt.**

### Sources:

Gayle Rose Martinez. (2002). *Financial Counseling Training Workshop*.  
 NEFE High School Financial Planning Program. (2001).  
 Greenwood Village, Colorado: National Endowment for Financial Education.  
[www.americasaves.org](http://www.americasaves.org) (information retrieved June 2004).

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by contacting your county Extension office. (TTY 1-800-947-3529)

For more information on Parenting and Child Development, contact: Joan E. LeFebvre, Area Family Living Agent, University of Wisconsin, Extension, 330 Court Street, Courthouse, Eagle River WI 54521-8362, 715-479-3653, FAX 715-479-3605, E-Mail [joan.lefebvre@ces.uwex.edu](mailto:joan.lefebvre@ces.uwex.edu)  
 January, 2005