17 PRACTICAL WAYS TO SAVE YOUR MONEY

1. Develop new habits.

Become a skillful shopper. Regional retail centers are exciting places. In supermarkets, thousands of goods line the shelves and invite attention. It takes skill and determination to pass down the aisles and resist temptation. The skillful shopper prepares a shopping list before going to market and buys only those items needed.

Learn to read labels and interpret them. Make substitutions for the higher priced items, judge the value of the week's bargain offerings and decide whether the best buys are best for the family. Careful shopping can save many dollars a week in the budget.

2. Get rid of credit card debt.

Here is a good way to save some big money fast. There is one great investment that is sure to pay off, yet we fail to recognize it, even though it's right in front of us every month. Pay off your credit cards! Let's say for example that you owe $2,000 on a Visa card. Many charge cards still have an interest rate in the neighborhood of 19 percent.

Instead of taking that $2,000 bonus check and investing it into some low-interest-paying bank account, pay off that credit card and get a great return on your money! By paying off the outstanding balance, it is the same as getting a check for $570 tax-free! And one more thing: be a real friend to yourself by cutting up the card and canceling your credit. You'll be glad you did! It's the best financial investment you can make. If you're in the 30 percent state and federal tax bracket, paying off an 18 percent credit card debt provides the same return as an investment that yields 26 percent! If you're in the 17 percent bracket, paying off credit cards is the same as earning 22 percent. Why keep money in a 5 percent (or less) savings account when it can earn 22 percent paying off your credit cards?

3. Use installment credit sparingly.

Recognize that any installment purchase or loan means one more fixed expense in the budget. Although credit is readily available and most anything can be obtained, be wary of the low-down, low-monthly-payment offers. There may be times when installment purchases are unavoidable, but this kind of spending, if excessive, can become a costly way of providing for family needs or for achieving family goals.

4. Take good care of your assets.

Clothes last longer and remain better looking if they are kept clean and pressed. Food lasts longer when it is properly stored. Equipment lasts longer and gives better service when used according to the manufacturer's instructions. It makes sense to prolong the use of one's possessions by taking care of them. The longer we can use an article, the more we are getting for our money.

5. Update your homeowner's policy.

As a rule, you need to be covered for at least 80 percent of the cost of rebuilding your house. Otherwise you won't get full reimbursement even if a fire destroys only one room. Ask your insurance agent how to estimate the cost. If you rent, get tenant's insurance to cover furniture and other valuables. Many renters fail to do this, thinking losses will be covered by the landlord. Not so!

6. Update your life insurance policy.

You need only enough to take care of your dependents if you die. If there is a non-bread winner in the family, generally stick with low-cost term insurance; then cut it back or cancel it when the children grow up. Primary breadwinners, by contrast, often have to provide for an aging spouse, so they may need some cash value insurance whose premiums won't rise as they get older. If you have no dependents, you don't need life insurance. Put cash into retirement funds or disability insurance instead. Disability insurance is overlooked by many people.

7. Start a retirement fund.

If you work for a corporation which has one, use the 401(k) plan. If employed by a firm with no pension plan, open an Individual Retirement Account. As a rule, both the contributions to these plans and the earnings are untaxed until you withdraw the money, so tax savings help pay the cost. If you leave your job, you can take 401(k) savings with you. Do not fail to use these plans! They're the best route to independence in old age.

8. Get the best health insurance possible.

If you aren't covered at work, try to participate in a group plan through an organization you belong to or can join. Alternatively, call Blue Cross/Blue Shield or a Health Maintenance Organization (check the yellow pages). If you can't afford what they offer, talk to an insurance agent about a high deductible policy that covers only major medical costs. (You pay the small bills, but the huge ones are covered.) Today's buyers often take deductibles of $1,000 to $5,000, which greatly lowers costs. Whatever you do, never buy insurance advertised by celebrities on TV; it's not worth the cost.

9. Pay off your home mortgage faster.

All over America, homeowners are taking 15 year mortgages or making extra payments on long-term mortgages, which has the effect of shortening the term. Any homeowner who has taken a look at an amortization schedule realizes that a large part of their monthly payment merely covers the interest charges on the outstanding debt, instead of paying down on the original loan.

Faster payments do lower interest costs and allow you to own your home free and clear sooner. A paid-up home is the cheapest way to live in retirement. By making slightly larger monthly payments than your loan requires, you'll significantly reduce your total interest cost and pay off your mortgage years early. For example, send in $50 extra in advance every month on a $150,000, 30-year, ten-percent mortgage and you'll save $68,325 and reduce the term of your loan by more than five years.

While it is true that mortgage interest can offset your taxable income, this has limited value. The offset does not reduce the tax itself, rather it reduces taxable income. If you are in the twenty-eight percent tax bracket, a $100 mortgage-interest deduction will save $28 in federal taxes, $31 for you if you are in the thirty-one percent tax bracket and so on. The remaining part of that $100 mortgage ($72 or $69) interest payment is lost. Additionally, people with adjusted incomes well over $125,000 may not be allowed to deduct all of their mortgage interest.

Instead of making only the minimum payment required by a lender, many people today are repaying their loans more quickly. One way to do this is to use a fifteen-year rather than a thirty-year amortization schedule. Another way is to prepay the mortgage either by making extra payments or by increasing the size of the regularly scheduled payments and specifying that the surplus should be applied to principal. According to Spirit Magazine, adding a mere $10 a month to each payment, beginning in the third year of a $100,000 thirty-year mortgage at eight percent, can save $8,515 in interest charges and will pay off the debt sixteen months early.

David Ginsbury, president of Loantech, says, “Making just one prepayment of principal a year can make a tremendous difference over time.” He goes on to note that starting with the same $100,000 loan at eight percent for thirty years, a prepayment of $500 each December will cause the mortgage to be paid off twenty-nine months early, while one-time annual prepayments of $1,000 and $2,000 will retire debt in twenty-two years, seven months and eighteen years, eight months, respectively.

These results are so dramatic that it might seem as if every homeowner should begin prepaying immediately. But don’t forget to first have about six months of income set aside as an emergency fund.

10. Use non-money resources.

It is very easy to rely entirely on financial resources for all the goods one wants and needs. But this kind of thinking and living places a very heavy burden on the family income and often postpones the day when a goal can be achieved. However, by developing skills among family members and by substituting one’s time, energy and skill in place of money, many services can be provided at home without dipping into the family funds. This kind of planning and achieving often provides far greater satisfaction than does the routine of shopping and buying.

11. If you want it to last, choose quality over price.

Do you look for quality rather than just cost or appearance when you buy something that you want to last a long time? Do you save sales slips, guarantees and other records of purchases so you know where to find them? Do you buy at reliable stores that stand behind their merchandise? Read the labels on boxes, packages or other purchases to determine the real quantity or quality you are getting for your money. Instead of purchasing your wants immediately, put money aside to save for something you want but can’t afford at the moment.

12. Pause before purchasing.

Before spending your hard-earned resources, pause a while to ask yourself three simple questions.

- Can I really afford it?
- Do I really need it?

Whether or not you can afford it may be a simple matter of addition and subtraction—you either have enough money or you don't. But more often it will be a matter of deciding how important this particular purchase is compared to other purchases you may want to make.

There are many things we might like to have which would make life easier and more fun. Don't think you must always deny yourself all of these; after all, life is supposed to be fun as well as work. Many things that would have been considered luxuries in past years are now considered necessities. But you are going to have to pick and choose according to whatever your particular desires are. The more limited your budget, the more picking and choosing you are going to have to do. This is one of the harder facts of life.

- Is it worth what I'm paying for it?

This is where spending money becomes a real skill. Worth or value is often hard to determine. Value in this case means the quality of the product itself; it also means the usefulness of the product for your particular purposes. You have to think about both. In determining value, price alone can be misleading. The lowest price may be the best value for your money, but then again it may not be. The highest price doesn't necessarily mean the best value either. Usually, you will find the best value somewhere in between.

Generally, when you are buying a product where length of service and performance are important, quality—how well it is made, how well it functions, how long it will last—is first consideration. Price is, within budget limits, a second consideration. Appearance may or may not be a consideration. If it's a suit or dress, yes; if it's an electric drill, probably not.

If you are buying a product where length of service is not so important—soap or paper plates, for instance—the lower price is usually the better value for your purposes. Quality is not as important, as long as what you buy does the job to your satisfaction. A lot of hard work and a little luck will stretch your dollars a little more. (The unit cost is most important here—how much does each paper plate cost?)

13. You can save by putting yourself to work:

- Always switch off the lights when you leave a room.
- Borrow books from your local public library instead of buying them.
- Buy a used car rather than a new one.

- Buy holiday cards and decorations after Christmas at half price or less and save them for next year.
- Eat out at lunchtime rather than at dinner—it is usually at least 40 percent cheaper.
- Learn to give yourself haircuts and experiment cutting your family's hair.
- Look for a package when planning a trip.
- Practice the art of trading down: one step down in suits, in travel arrangements, in size of rental cars, etc.
- Put aside gifts that can't be used or returned with the name of the giver and later on give them to someone else as a gift. Important: Catalog each gift to be sure not to give it to the person who gave it to you! (But don't save unused fruit cakes until next year!)
- Return empty bottles to the supermarket and get back your deposit.
- Reuse paper clips.
- Review insurance policies to avoid overlapping coverage.
- Save the plastic or paper bags from the supermarket to use as garbage bags.
- Take advantage of all free or low-cost offers: snacks at the supermarket, free visits to try out a health club, two-for-one meals at a restaurant, etc.
- Take up walking or jogging in the park or the street and avoid the cost of joining a health club. Use free city parks and tennis courts, instead of paid recreational areas.
- Wash your car yourself instead of taking it to the car wash.
- Wear a sweater at home during cool months, so that you can keep the thermostat turned down.
- When eating out, take advantage of the special fixed-price early dinners.
- When you become tired of some article of clothing, instead of disposing of it, put it aside for a season or two, then take it out again and it will look new.

- With relatives or friends, arrange for children's hand-me-downs to be saved and passed on from child to child.

14. Understand inflation.

The rise in the price of goods and services, better known as inflation, can steadily erode the purchasing power of your income. That's why it's important to invest a portion of your savings. Inflation has been relatively tame in recent years. Since 1960, inflation has averaged 4.5 percent per year. Since 1988, it has averaged 3.5 percent per year. Still, no one can predict the direction of inflation rates, which could decline even more or return to the double-digit rates of the late 1970's and early 1980's. Even if inflation holds steady at 3.5 percent per year for 20 years, consumer prices will nearly double, as illustrated in the following table.

Item Purchased Today	Cost in 20 years (4.5% Average Annual Inflation Rate)	Cost in 20 years (3.5% Average Annual Inflation Rate)
Coffee & Scone - $7.00	$16.88	$13.93
Steak for 1 - $20.00	$48.23	$39.80
A Weekend Away - $500.00	$1,205.86	$994.89

15. Understand the power of compounding.

Inflation can steadily erode the value of your income. Long-term investing offers the best antidote to inflation through the power of compounding.

Year after year, any money that you invest may earn interest, dividends or capital gains. When you reinvest those earnings, they help generate additional earnings. Those additional earnings help generate more earnings and so on. This is called compounding.

For example, if an investment returns 8 percent per year and its earnings are reinvested annually:

- After one year, your total return will be 8 percent.
- After five years, your cumulative total return will be 47 percent.
- After ten years, your cumulative total return will be 116 percent.

Best of all, the sooner you begin investing, the greater the compounding effect.

16. Begin saving while you are young.

Consider the example of Dick and Jane, both 65 years old. They worked for the same company for 35 years and both invested in their employer sponsored retirement plan. Jane started contributing at age 30. She invested $1,000 each year for ten years until the age of 40 and earned 8 percent per year. Then she stopped contributing; her investment continued to earn an 8 percent annual return. When she reached age 65, her $10,000 had grown to $107,100.

Dick postponed making contributions until age 40 and then invested $1,000 each year for 25 years. He also earned 8 percent per year. At the end of the period, his $25,000 investment was worth $79,000.

As you can see, although Jane contributed to her company plan for 15 fewer years than Dick and invested $15,000 less, she accumulated $28,100 more than Dick—simply because she started investing ten years earlier.

17. Learn how to invest.

Saving and investing are often used interchangeably, but they are somewhat different. Saving is storing money safely—such as in a bank or money market account—for short term needs such as upcoming expenses or emergencies. Typically, you earn a low, fixed rate of return and can withdraw your money easily.

Investing is taking a risk with a portion of your savings—such as by buying stocks or bonds—in hopes of realizing higher long-term returns. Unlike bank savings, stocks and bonds over the long term have returned enough to outpace inflation, but they also decline in value from time to time.