URL: http://www.tampabay.com/news/business/personalfinance/19-things-you-should-know-about-saving-money-in-your-20s/2221348

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saving: a checklist

The money struggles today's 20-somethings face are bigger and scarier than those of past generations: crippling student debt, an overly competitive job market and an economy still recovering from a recession. A focus on savings can be a huge leg up for millennials. A well-padded savings account will enable you to achieve your most important goals and dreams, and keep you free of financial nightmares like debt, bankruptcy, back taxes and bad credit — if you do it right. Here are 19 things you should know about saving money in your 20s.

1 Saving money is a habit you have to practice

Even if you start with saving just $1 more a week, it's important to establish a savings habit while you're young. You'll be building your discipline to save money — and it'll motivate you to find more money to sock away. Heard the advice "pay yourself first"? That that means putting a bit of each paycheck into your savings account before bills and expenses even get close to your money.

2 You have to live below your means to save money

Simply put, make sure you have more money coming in than going out. Overspending is the biggest financial problem for many, which can be addressed by creating a budget, living a lifestyle that's realistic for your income and working toward healthy spending habits. For others, low income might be the problem; if you're in this boat, get proactive and look for professional opportunities, like promotions, networking, vocational training or more education.

3 Saving money is key to having the life you want

Whatever you envision for your life, more often than not you'll need money to make it happen. But money to cover those expenses doesn't just materialize — you have to save it.

4 An emergency fund is a must

Saving an emergency fund will protect you when life hits with unexpected or big expenses, instead of having to use money saved for other goals, or worse, go into debt.

5 Start with an emergency fund of at least $1,000

Personal finance expert Dave Ramsey advises starting out with a $1,000 emergency fund, while other personal finance experts suggest saving a month's worth of expenses. Once you have that baseline started, work your way up to having three to six months' worth of expenses saved to cover troubles like unemployment or emergency medical bills.

6 Successful savers set short- and long-term savings goals

They set goals, like paying for a trip or buying a home five years from now, and break those into smaller steps. Savers know how much they have to save each month to achieve long- and short-term savings goals, from this year all the way to retirement, and they use those goals as motivation to stay on track and avoid unnecessary expenses.

7 They also have a system to track and manage funds for different goals

Some people track savings for different goals using a spreadsheet, while others might actually create different savings accounts or sub-savings accounts to easily keep track of funds slated for different purposes.

8 Shoot to save 10 percent of your income.

Other guidelines suggest saving as much as 20 percent of your income, like the 50-30-20 rule that says 50 percent of income should cover needs (like rent, groceries and transportation), 30 percent should cover wants (dining out, vacations or donations), and 20 percent should go to savings or debts.

9 Savings have to be balanced with other financial goals.

Saving money is not the answer to every money question. At times, your financial situation might call for paying down debt, covering education or medical costs, investing or even covering day-to-day expenses when money gets tight.

10 Start saving for retirement now.

Money you save in your 20s will be worth more in retirement than money you'll save in your 30s or 40s. For instance, a LearnVest study found that a saver who starts putting away $600 a year in a retirement fund at age 25 will have $72,000 by age 65, while a 45-year-old who starts saving $1,200 a year will have only slightly more than half that amount by the time he retires.

11 Employer matching for retirement savings is free money.

If your employer offers a contribution-matching 401(k) or similar retirement savings plan, you should absolutely take advantage of this benefit. While it will make your paychecks a tiny bit smaller, claiming that contribution will also mean you're automatically upping your yearly compensation.

12 There are a lot of savings products out there, beyond just savings accounts.

Here are the most common savings accounts banks offer:

• Traditional savings accounts typically offer lower interest rates than money market accounts but might carry fewer fees and be more suited to lower balances.

• Money market accounts have traditionally offered better rates in exchange for higher balance requirements and a few more restrictions.

• Certificates of deposit keep funds locked up for a set amount of time, usually from a month up to 10 years, and offer better rates than savings or money market accounts.

There are also various other savings accounts built for specific goals, like holiday savings accounts, health savings accounts, retirement accounts like 401(k)s and IRAs, 529 college savings accounts, and even vacation savings accounts.

13 Some savings vehicles are liquid, or easy to turn into cash, while others aren't

A liquid account keeps money readily accessible and easy to transfer into cash — like a checking account. A savings account is slightly less liquid, as these are federally required to limit withdrawals to six per month, with each withdrawal above that carrying a fee. Some of the least-liquid savings vehicles are CDs, which incur an interest penalty for early withdrawal of funds, or retirement accounts like 401(k)s and IRAs, which will also penalize early withdrawals.

Liquid savings accounts are great for emergency savings and short-term goals, while use of less liquid accounts makes more sense for long-term or retirement savings.

14 Compound interest will grow your money faster than simple interest

Rumor has it Albert Einstein named compound interest as the most powerful force in the universe, and he may have a point. There are two main types of interest: simple interest and compounding interest. Simple interest pays you only on your balance and not on the interest earned. When interest is compounded, however, the interest earned is added to your balance, and future interest is calculated on the balance just boosted by the added interest.

That's the magical force that makes it so advantageous to start saving early, as it will give your money a longer time to earn interest — and then earn interest on that interest.

15 The annual percentage yield (APY) makes it simple to compare savings rates

Comparing rates between banks is easy when you look at the annual percentage yield offered on an account. The APY takes the rate and how it will be compounded, simplifying it into a neat figure of the interest that would be earned on money deposited in the account for a year.

16 But you could (and should) find a much higher savings account rate

However, GOBankingRates' survey of savings account rates also revealed much better rates exist at both credit unions and online banks. The average savings account was almost double at credit unions, 0.14 percent APY, while online banks offered APYs that were eight times higher on average.

17 Saving is even easier when you automate it

Most banks provide an automatic transfer option that can be set up to send an amount set by you to your savings account at a predetermined time. Alternately, you can also set up direct deposit through your employer to automatically funnel a portion of each paycheck into your savings account.

18 Saving: There's an app for that

If you need to create a budget that matches your financial reality, try You Need a Budget (YNAB). For tracking daily spending and savings goals progress, try Mint. If you have a hard time finding the extra funds in your budget for saving, try money-saving app Digit, which tracks your finances and adjusts savings accordingly, funneling money into your savings account in such a way that you never miss it.

19 There's also a tax break for that

The IRS offers the retirement savings contributions credit. You can take advantage of this credit if you have an adjusted gross income of $30,500 or less in 2015 (the income limits are greater for heads of households and married couples filing jointly). The saver's credit helps cover the cost of the first $2,000 contributed to a retirement plan, with the maximum credit set at $1,000.