

# Five Ways to Save

You work hard for your money. Now make it work hard for you.

By Derrick Lilly

The economic turmoil that has become part and parcel of your everyday existence should have taught you something: You need to plan ahead. The following steps can get you on the fast track to a bigger paycheck and firmer financial footing.

## 1. Get the Most Out of Your Employer

“When people think of salary they often don’t include their total compensation package. Not only should you look at the paycheck, you also need to look at retirement and insurance offerings,” says Jeff Rozovics, CPA/MST/CFP®/CVA/AEP®, partner at certified public accounting and consulting firm Rozovics & Wojcicki P.C. in Park Ridge, Ill. “The point is that you have access to potentially very affordable coverage for you and possibly your family through your employer rather than paying for it out-of-pocket.”

Perks like retirement accounts and pre-tax payroll deductions also can trim out-of-pocket expenses and save more of your salary. “You want to maximize all the benefits an employer gives,” says Sid Blum, CFP/CPA/ChFC/PFS, founder of GreatLight Fee Only Advisors LLC in Evanston, Ill. “A 401(k) is one of the best because you get a tax deduction and you get to keep the match money. You can’t get much better than that.”

Aside from the up-front tax benefits of utilizing a 401(k), it’s also one of the easiest ways to save for retirement. And if you’re lucky enough to receive a company match, it’s free money. “I think a 401(k), regardless of the type of investing you’re doing, is really a no-brainer. The more you can knock down your taxable income, the better it is for you. Deferring your taxes or lowering your tax-bracket right now is how you’ll get the most benefit when it comes to take-home pay,” Rozovics explains.

It may be years before you can use your 401(k) funds without penalty, but other pre-tax payroll deductions will put money in your pocket now. “If you want to stretch your paycheck, you want to take advantage of as many of the pre-tax deductions you can actually use,” says Rozovics. For example, having a portion of your salary deducted before payroll taxes for the purchase of transit fares or for funding a health savings account immediately reduces your taxable income.

“The point is to know the array of benefits so you can take advantage of them. As your career develops and you start looking more into your financial plan, employer benefit offerings do come into play in helping you achieve your objectives,” says Rozovics.

## 2. Tap into IRAs

Utilizing employer retirement savings plans can stretch your salary, but most employers put limits on 401(k) contributions, what their match (if any) will be, and how long it takes for the funds to be vested.

This is where Roth IRAs come in. “A lot of financial planners and people in the investment community believe Roth IRAs are very valuable investment vehicles,” Rozovics explains.

While your 401(k) offers an upfront tax deduction, you’ll be taxed at redemption. Since your paycheck is already taxed, you need to be tax-conscious when investing what’s left of it. By utilizing a Roth IRA, your contribu-



tions and earnings grow tax-free. Although not necessarily an upfront salary-saver, a Roth IRA diversifies your tax liabilities and spares you from future tax-induced depreciation.

### 3. Plan for the Near Term

"We see a lot of clients that want to buy a house or do something where they are absolutely going to need the money within three to five years. That money should be invested where it will actually be there in the end and earn something over that time," says Blum.

Consider building a ladder of safe, FDIC-insured Certificates of Deposit (CD) with this money. With a CD, you can lockup funds over variable timeframes to guarantee income for your future needs. CD interest rates are commonly higher than standard savings accounts because you are securing it for an extended period of time. BankRate.com is a great resource for locating the most competitive interest rates on a variety of CDs and other accounts.

Also, set aside a portion of your paycheck for emergency reserves. "Normally we say six months of emergency money is ok, but in this crazy environment where someone may be laid off, a little more should be saved," says Blum.

Stash your emergency money somewhere where you won't be tempted to spend it, but where it's still easily accessible—perhaps a money market, checking or savings account. If your employer qualifies you, try looking into a credit union. "Historically credit unions have paid higher interest rates on their accounts compared to what you could get at a local bank," Blum explains.

Regardless of the account type, shop around for an insured account that pays a decent yield so your money works while it waits.

### 4. Break Free of Debt

"Right now cash is king, but you can't accumulate cash when you're incurring fees and finance charges on the side," Rozovics stresses. "If you want to dig yourself out of a hole, you can't just make the minimum payment."

"In today's environment, paying down the highest interest rate debts first will provide a fairly significant savings benefit," says Blum, adding that "Mortgages should be refinanced if your loan is at a high interest rate."

Keep a watch on payment dates too, since late payment fees quickly add up. If at any point you can pay off the entire balance of a bill or loan, do it. Being free of debt or maintaining a manageable amount of it can work wonders for your financial and emotional well-being. And, not having your paycheck constantly dedicated to bills will make reaching your financial goals a whole lot easier.

### 5. Build an Honest Budget

"You need to understand what your budget is," says Rozovics. "Being honest with yourself is a hurdle that becomes an issue for many when designing a budget." Establishing a budget and putting measures in place to keep you living within your means will help you avoid future strains and build a foundation for future wealth.

"People should buy what they need," adds Blum. "But I'm always a firm believer in spending less than you make so there is something available for savings." With a budget in place, you will have a better chance of achieving your financial goals and controlling your discretionary spending.

"If you get a raise at work, instead of getting used to the bigger paycheck and spending more, try taking part of it and depositing it into your 401(k) or other savings or paying down a bill," adds Rozovics. "Having a structured plan in place is one of the most effective ways of accomplishing your goals. If you can do that early in your career, it will pay dividends down the road." □



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