

## Good salary, no savings

BY WALTER UPDEGRAVE, MONEY MAGAZINE — 01/22/09

**Q:** I make a decent salary, but I can't seem to save any of it. By the time I'm done paying my bills, there are only a few dollars left over. I have no car payments or credit cards, but still can't save. Help!

*Mike J.—Manalapan, NJ*

**A:** Can't save? Back at good old St. Leo's, the grade school I attended in Philadelphia in the 1960s, the nuns who taught us had a quick rejoinder if you said you can't do something. "Can't means won't," they would automatically retort.

And, if you didn't want to feel the crack of a metal ruler across your knuckles, you found a way to do whatever needed to be done.

I'm certainly not advocating corporal punishment as an inducement to save. And I'll admit that there may be instances when people really can't put money aside. If you don't make enough to cover basic expenses like food and shelter, then saving isn't an option. Similarly, if you find yourself out of a job, then you have no income from which to save.

But barring such extremes, most people don't lack the ability to save. It's the will or discipline that's missing. And given that you make a decent salary, you, my friend, fall into that large group of people who can save, but need some help to get started.

So the question is what can you do to get into the habit of regular saving?

Well, one way is to give your spending and expenses a thorough going over with an eye toward looking for areas to cut back. You can do this by revving up any number of budgeting software packages or online programs that allow you to organize your expenses into various categories and track them.

If in doing this you find that that you're spending upwards of \$10 a day, or \$300 each month, on lattes, \$100 every month on music downloads, video games, etc. and \$250 a month eating out, right there you've got a \$7,800 annual expense you may be able to cut back on significantly to free up some bucks from saving.

If you want to see whether your outlays in specific areas, such as food, shelter and entertainment, are out of whack compared with what your fellow Americans spend, you can check out the Bureau of Labor Statistics' Consumer Expenditure Survey. It breaks down the spending of more than 100,000 "consumer units" -- basically households -- into 17 major categories and many more subcategories.

But I think there's a better way. I'm a proponent of what I like to call the Two-Line Budget. On the first line you write in how much you make. On the second, you insert the percentage of salary you would like to save, at least initially. I'd say 10% is a good place to start. You can always change it later. You then save that percentage of your salary from each paycheck and do whatever you have to do to live on the rest

Maybe that means cutting out lattes altogether, or going to Dunkin' Donuts instead of an upscale cafe. Or perhaps it means driving a car that gets fewer admiring glances but more miles to the gallon.

The point, though, is that in this approach, instead of first looking at your spending to see whether you can cut back, you force yourself to live on less by committing to a level of saving. The idea is you can't spend it if it's being saved.

### **Make it automatic**

Whichever route you take, the key is making sure that the money actually gets saved. Good intentions aren't enough. You've got to follow through.

I think the key is setting up a system so that the saving occurs automatically. If putting money away depends on you sitting down each month and writing out a check to your savings account or mutual fund, it may not happen. There will always be some pressing demand preventing you from saving -- an unexpected bill, expenses you didn't foresee, an extravagance you decided to fund "just this once."

But if you can set up a process where the savings goes on in the background so that you're not required to make a conscious choice each time you save, then your chances of success increase immeasurably.

That's what makes the 401(k) such a great savings tool. Once you sign up for your company's plan -- or, increasingly, once your employer signs you up -- money is automatically deducted from your paycheck. That's a huge plus (as is the fact that you're investing pre-tax dollars and that your employer is often matching a portion of what you save.)

So if you have a 401(k) or similar plan at work, sign up for it. Now. That's the single most effective step you can take to begin saving.

If you don't have such a program at work, you can create an approximation of it on your own by signing up for a mutual fund firm's automatic investing plan. You simply direct the fund company to transfer a certain amount each month -- say, \$100 -- from your checking account to your mutual fund account where your money buys shares of one or more funds. You might feel the pinch of having less money to spend the first few months. But you'll be surprised how quickly you adjust.

Ideally, you'd want to set up your automatic investing plan with an IRA account, assuming you're eligible. If you're not, then just have the money go into a mutual fund or two that you hold in a regular taxable account.

Once you've started saving regularly you can always improve your effort. You can go to a tool like our What You Need To Save calculator (<http://cgi.money.cnn.com/tools/saveyoung/index.html>) to see how much you should be putting away to have a decent shot at retirement. Initially, though, just focus on saving the money. You don't want to make things so complicated that you end up doing nothing.

One final note. It appears that, after years of free spending, Americans may finally be reacquainting themselves with the joys of saving. I'm not talking about a major turnaround. But the latest figures from the Bureau of Economic Analysis suggest that we may at least be moving in the right direction.

National figures are another story, though. You should concentrate on what you have some control over: your own spending and savings habits. Do that and I'm sure you'll find a way to save.

But if you persist with this "I can't save" excuse, I just might have to turn your name over to Sister Marie Francis.

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