Prince, Pauper or In-between: How Long Can You Live on Your Savings?

If you lost your job, could you cover your bills? When consumers were asked that question in a survey this year by RetailMeNot, the discount coupon site, nearly half (48%) confessed that their savings would last for just one month. At the other extreme, those with an emergency fund (52%) estimated it would tide them over for eight months without any additional income. The root of this great savings divide may be simple: Many people just don't know how to save. And, almost half (49%) of the surveyed consumers lacked confidence in their understanding of their personal finances.

But learning how to save isn't difficult. "I started very young with my kids—about 10 or 12—teaching them the value of saving money now to prepare for their future goals," says Michael, a physician at the University of South Florida. He's used his financial knowledge to advise healthcare organizations, as well as his family, in the importance of saving. "You don't have to be rich to save," says Michael, noting that anyone with an income can stash away a substantial cushion—if they follow some common-sense advice.

Here are six tips to pursue a stress-free financial future:

1 CREATE A BUDGET

Track your expenses, figure out how much you need to cover essentials and identify where you can make cuts. For example, by not eating out as frequently, you might be able to save $30 or more a week.

2 PRIORITIZE YOUR SAVINGS

With your budget in place, calculate how much is left for savings, and set priorities.

- Stockpile an emergency fund that covers bills for at least six months – or, better yet, have two to three years worth in cash or short-term investments.
- Make regular retirement fund contributions. Be sure to take advantage of an employer's matching contributions—otherwise, you're throwing money away.
- Save for your kids' college tuition.
- Sock away money for a vacation, entertainment and other splurges.

3 MAKE SAVINGS A HABIT

Pay yourself first with every paycheck by contributing to your savings account. The easiest way to do so is with automatic deductions.

4 CAPITALIZE ON COMPOUNDED INTEREST

Albert Einstein called it the "eighth wonder of the world." Put your money in accounts paying interest, leave it there and watch your money potentially grow. Michael convinced his children to start saving with an example like this one: If a 20-year-old saves $30 each week, that adds up to $1,560 a year. With a 6% annual return, just that one year in savings will grow to $21,472 by the time they're 65. If you continue to make annual contributions of $1,560 for the next 45 years, you would have the potential for a grand total of $373,265.47 minus fees and other investment-related charges. Keep in mind that your results will vary. The hypothetical rate of return used here isn't guaranteed, and the example isn't representative of a specific situation. And remember, all investing involves risk, including the potential loss of principal.

5 PAY OFF CREDIT CARD DEBT EVERY MONTH

Paying high interest rates on your balance is money you could otherwise be investing.

6 SAVE YOUR RAISE

Painful as it may seem, one way late starters can play catch-up is to put most of that extra money into savings.

For Michael, a lifetime of disciplined savings will come full circle when he retires this summer. As he travels the country in his energy-efficient camper van, the frugal doctor will be living out his motto: *Worry now, relax later.*

Start planning now. Work with your financial advisor to plan for your financial future.

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