Personal Finance

Growing Your Savings

Everyone needs a nest egg of savings in case a quick influx of cash is needed or simply to ease financial worries down the road.

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Unfortunately, most everyday bank accounts don't accrue very fast because of low interest rates. That's why people who meet certain criteria may opt instead for a money market or high-yield checking account.

These accounts provide the same secure place for your money, and you'll still be allowed access to these funds as needed. But you'll typically be given higher interest rates compared to the national average — meaning your savings will grow at a much faster rate.

DIRECT DEPOSIT

Money market and high-yield checking accounts typically require that holders fulfill certain additional criteria to enjoy these high rates. One common requirement is setting up a monthly direct deposit.

Failure to do so within the specified timeframe could result in a monthly maintenance fee.

Additionally, you may lose out on the associated interest boost, instead earning a significantly lower rate or no interest at all.

MINIMUM TRANSACTIONS

There are usually other pre-conditions with these accounts, beyond direct deposits. Another requirement often found is a minimum number of debit card transactions each month. This figure can be quite substantial with some high-yield checking accounts, often representing 10 or more transactions. Before opening any new account, carefully consider your current spending habits to ensure you meet this kind of debit card transaction requirement. Otherwise, you won't earn the hoped-for interest.

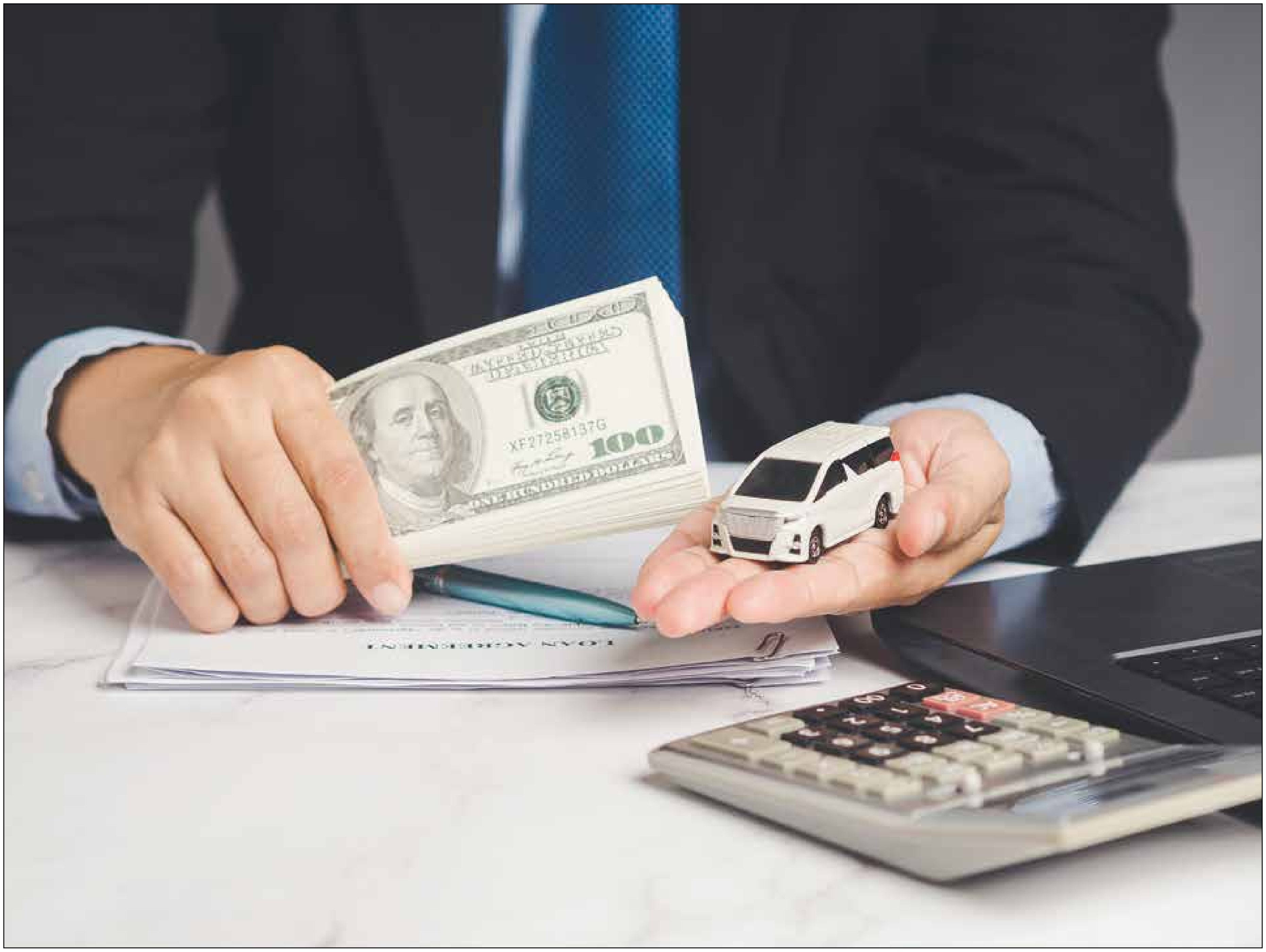
MINIMUM BALANCES

High-yield checking and money market accounts often have minimum balance requirements that can be higher than those of traditional bank accounts. Some of these accounts limit the amount of money that can earn the highest rate of interest. For example, the highest rate may only apply to the first $25,000 in deposits, while balances above that amount would earn a lower rate.

Note that failing to meet the requirements outlined in the account agreement can result in a sharp drop in your interest rate – or no interest earnings whatsoever. So carefully review the fine print so that you fully understand all the details before signing up. Talk to a financial advisor or trusted banker if you have more questions.

Avoid These Loans

Borrowing money is oftentimes much easier than paying it back — and that's particularly true with some risky loans.



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TITLE LOANS

Those with immediate cash flow problems or poor credit may resort to vehicle title loans to gain access to fast cash. These loans are secured by using the borrower's car or truck as collateral. Terms may vary depending on the state and the lending company, but most loans are associated with outrageous interest rates — and they must be repaid within 30 days.

If a payment is missed, most companies will either repossess the vehicle or extend the due date — but with additional interest charges. At one point, this became a huge issue among service personnel who were struggling financially, so the Military Lending Act of 2006 was enacted to safeguard those who serve and their families from predatory lending practices.

STUDENT LOANS

If you're worried about paying for school, you're not alone. The total student loan debt in the United States already amounts to trillions of dollars. But private loans should only be considered as an absolute last resort for financing your education. They're presented as an alternative to federal loans, but they often come with higher interest rates and lack the flexible repayment options the government provides.

DO YOUR HOMEWORK

Thoroughly research lenders and their terms before accepting a loan. Consider the consequences before you make a financial error that's detrimental to your credit score or, worse, puts you in a position where it's difficult or even impossible to fulfill your monthly obligations.

Give yourself some breathing room by signing up for overdraft protection. It's crucial if you want to avoid incurring fees for withdrawing funds when your account balance is low. Overdrafts typically come with a hefty fee and that can quickly add up, so it is important to manage your finances responsibly.

In the meantime, short-term loans may seem tempting — especially for impulse buys that are not immediate necessities — but exercise caution. These loans typically come with high interest rates, so be cautious when signing any agreements. Financial advisors strongly advise consumers to steer clear of these risky loans, because they can make a bad situation much, much worse.

Teaching Good Habits

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There's more to teach your children than ABCs and 123s. Money is an essential aspect of life that they should become knowledgeable about from an early age.

Unfortunately, however, that isn't happening.

Recent studies have shown that the vast majority of currently enrolled college students wished they'd had more financial guidance while growing up. School likely won't help, since personal finance seminars and related classes and workshops are not typically integrated into primary and secondary education.

As a result, the responsibility falls on adults outside of the school system to educate children on the importance of money management. Here are a few methods to teach your kids about money so they can grow up to be financially responsible adults.

LEARNING HOW TO SAVE

One effective way to teach children how to manage their money is to establish a savings account where they can deposit any money they earn or receive as gifts. Start with a transparent container like a glass jar that allows them to watch as their savings grow. Encourage them to count the coins and bills daily, since this will help them understand the effort required to save.

THE VALUE OF MONEY

Demonstrate the value of a dollar to children in everyday settings. When you bring them to the store and they spot a toy, point out the price tag. Educate them on the significance of these numbers by describing how many hours the average person might have to work to pay for this item. If they've saved the amount of money required to purchase something, offer them the hands-on experience of counting out the money together and then handing the money to the cashier.

INVESTING IN THE FUTURE

Introduce kids to the concept of opportunity cost by evaluating different purchasing choices together. Guide them through the options, discussing their specific value, then empower children to make the final decision. Teach them about the cost of investment.

If your kids earned $10 at a lemonade stand, have them reimburse you for the lemons and sugar required to make the sale. You could also ask for a small fee for using the front yard. This will help them better understand the larger concepts of costs, pricing and profit.

Inside Index Funds

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Looking to get into investing? When it comes to the stock market, there are several options available.

One is to buy individual stocks, but this can be quite risky for individual investors – especially for those who are inexperienced. Another option is a managed mutual fund, but this can come with high costs. You might also experience substandard performance with the wrong mix of investments.

A third option is to invest in an index fund. You won't be trying to beat the market or meet the moment during the next bull or bear market. Instead, a fund manager will simply buy and hold stocks in an agreed-upon index. The fund will perform in line with the overall stock market, rising when it goes up and falling when the market goes down.

That might not sound like the most exciting investment, but index funds can be a smart choice. One of their often-overlooked advantages is that they tend to have very low expenses. If, for instance, a large index mutual fund charges 0.18 percent as an expense ratio, that indicates that an investor with $10,000 invested in the market would only incur $18 in expenses over the span of a year. Compared with the more common 1-2 percent expense ratios found in many managed funds, it becomes evident how an index fund can save an investor lots of money.

Index funds offer both a broad and diversified investment in the stock market, and you don't need to purchase individual stocks. They often come with low costs and low tax burdens, too. Saving money on taxes is an important element since every dollar saved can be further invested for more long-term gains. Over time, the value of these additional savings can accumulate to hundreds of dollars.

Do your homework to find out whether a specific index fund suits your needs, or reach out to trusted mutual fund companies or local investment advisors. They can provide additional advice or a prospectus with more details. Remember that the costs associated with index funds generally remain low, but they may vary depending on the individual investment firm. Be sure to ask about the fund's costs and its long-term performance before you decide to invest.

Student Debt and You

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Financial stress among college graduates has become widespread, and not just because of the pressure of starting adult life.

Many are struggling to pay off overwhelming student loans. Thankfully, there's a way to ease your journey toward a debt-free future.

One critical step is understanding your loan. Familiarize yourself with all the details, including the names of the lenders, the amount owed and the terms and conditions. Note that there may be varying interest rates associated with each individual loan. Some graduates have private loans, federal loans or a combination of both. Some may be eligible for income-based repayment or deferment options during times of financial hardship. Your credit score may determine eligibility, in some cases.

PAYMENT PLAN

Next, select a suitable payment plan. Don't wait until your grace period is over before initiating payments. If you have a significant amount of debt or if your total debt exceeds your annual salary, you will likely qualify for an income-based repayment plan. Consolidating your loans is an option to potentially reduce your interest rate. Talk to a financial advisor to find out more.

LOOK TO THE FUTURE

It's easy to become overwhelmed once college is over and the reality of your student loan debt becomes clear. Try not to dwell on past financial mistakes you may have made and look to the future. You pursued a second education to better position yourself for a rewarding career. Secure that coveted first job, and focus on living within your means while meeting this new obligation. Make all payments in a timely manner and, if possible, consider making extra payments a few times a year. You'll be pleasantly surprised by the positive results.

LOAN FORGIVENESS

If you're still having financial difficulties, look into loan forgiveness. There are various options available, depending on your eligibility and flexibility. In recent years, the federal government has enacted wide-ranging loan forgiveness, with certain stipulations.

Some state or government employees are offered debt relief. There are volunteer programs that offer partial forgiveness of student loans in exchange for your service. Certain employers include student loan payoffs as part of their compensation package, depending on your chosen profession.

Managing Health Expenses

Worry over unforeseen health expenses only intensifies if you have a high-deductible plan.

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Consider opening a health savings account, which allows you to save a portion of your income to put toward medical expenses.

HSAs have become increasingly widespread as more people struggle with managing growing out-of-pocket responsibilities. With a health savings account, you won't have to empty your savings account to cover these bills – and there are some associated tax advantages, too.

TAX RESPONSIBILITIES

Typically, medical expenses must exceed 7.5 percent of an employee's income to qualify for a tax break from the IRS. With a health savings account, however, you can contribute money toward qualified medical expenses every week on a pre-tax basis.

The IRS currently allows individuals to contribute up to $8,550 annually for family coverage and deduct the entire contribution from their reported income. For individual coverage, the maximum contribution is $4,300. (Both represent a roughly 3 percent increase from 2024.) You can deduct all medical expenses as long as they do not exceed the contribution limit.

EXPIRING FUNDS

Another significant advantage of an HSA is that deposited funds do not expire at the end of the year, unlike the flexible spending accounts some insurance companies offer. Both HSAs and flexible spending accounts offer tax advantages, but any unused money in a flexible spending account is forfeited on Dec. 31. With an HSA, you can accumulate money over several years, and all of it will remain available in case of a medical emergency.

EMPLOYER RESTRICTIONS

Health savings accounts are not tied to an individual employer. If you have an employer-sponsored HSA, you are not obligated to continue working for that company to enjoy the benefits of the account. Some employers even contribute funds to your HSA monthly, providing free money to save for future needs. Talk to your manager or HR representative about HSAs and requirements to qualify.

If you decide to leave for any reason, your HSA will go with you, along with its associated benefits. Even if your new health plan does not qualify as a high-deductible health plan, you can still use funds already in your HSA to pay for medical expenses — and it's still tax-free.

Investing in Retirement

These days, pensions are increasingly rare. Even if one is in place, regular job changes or smaller employer contributions may leave workers without enough money to comfortably move forward into retirement.

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Most don't have this sort of nest egg at all.

That's why so many workers have chosen to supplement their retirement income by investing in an IRA or 401k plan. Whether you anticipate a substantial pension or none at all, augmenting your retirement savings with other investments will provide peace of mind during your golden years.

401K PLANS

Explore the options offered by your employer, preferably before accepting the position. Many provide a 401k plan, while government employees may have access to a 403B plan. By establishing a 401k, you can contribute money without paying taxes. When you withdraw these funds during retirement, you will be required to pay income taxes on the initial contributions and earnings. However, the money that would have been allocated toward taxes can remain in your account for many years, growing your savings through capital gains and dividends.

MATCHING CONTRIBUTIONS

Some companies also sponsor a program where they will match a certain percentage of your contributions to a retirement account. This is done to incentivize savings for retirement, so don't miss out on an opportunity for free money. If your employer offers a matching program, consider contributing the maximum amount to your 401k. Once you've reached that limit, then it's time to look into an IRA – or individual retirement account.

INDIVIDUAL RETIREMENT ACCOUNTS

There are two types of individual retirement accounts: a traditional IRA and a Roth. A traditional IRA is similar to a 401K, but there are key differences. You contribute pre-tax dollars and pay taxes on everything when you withdraw money during retirement. However, there is no opportunity for an employer match. One advantage is that you can invest in any mutual fund of your choice, rather than being limited to the company-selected fund.

A Roth IRA operates differently. Contributions are made with after-tax dollars, meaning you pay Uncle Sam beforehand. So, when you withdraw the money during retirement, you won't owe any taxes. Another benefit is that you can withdraw your contributions penalty-free before retirement as needed — since you've already paid taxes on them.