

MANAGING IN TOUGH TIMES

FAMILY FINANCIAL MANAGEMENT

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THIS MONTH'S TOPIC: Pump Up Your Savings

Have you noticed the price at the gas pump recently? Many consumers have not only noticed the price, but have also noticed more money in their wallets, as the national average for a gallon of gasoline has dropped nearly 40% in the last twelve months. In addition to the drop in gasoline prices, home heating fuel prices are also predicted to be 15 percent lower than last year.

The national average for a gallon of gas has been over \$3.00 since late 2010, and at times has reached nearly \$4.00 per gallon. After such a long period of high gas prices, lower gas prices can make us feel like we have "found" or "free" money in our pockets. Lower gasoline prices tend to be a boost to the overall economy. As people save at the pump they have more money available to spend in other ways. Similar to a tax return or bonus check from work, anytime you find yourself with extra money, it is important to develop a plan for the money. Gasoline prices will

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continue to fluctuate up and down; however, it is estimated that consumers will save, on average, \$400 to \$550 this year at the gas pump. Since the weekly savings seem somewhat small, at approximately \$8.00 to \$11.00, without a plan in place, it will be easy to spend the extra without thinking. However, with a plan, the positive financial impact can be substantial.

Consider the following scenarios to maximize your benefit from saving at the pump:

Pay extra on your credit card bill.

Let's assume you currently have a credit card with a \$1,000 balance and 14% APR. If you make only the minimum monthly payment, it will take over 19 years to pay off the debt, and cost an additional \$1,122 in interest payments. If you paid an extra \$10 per month, it would reduce the repayment time to just over five years, and you would save \$762 in interest. However, if you used the extra \$40 per month that you saved at the gas pump, and applied it to your credit card debt, it would take less than two years to pay back \$1,000, saving over \$1,000 in interest payments.

Make an extra mortgage payment.

Making one extra mortgage payment can significantly reduce the amount of interest paid on your home loan. Let's assume you currently have a \$100,000, 30-year home loan and six percent APR. One additional \$500 payment will result in an extra \$2,123 in savings on interest. If it was possible for you to make an extra \$500 payment each year, the length of your loan would be reduced by over four years and you would save nearly \$18,700 in interest payments over the life of the loan.

Make an extra student loan payment.

Student loan debt does not have to hang around for years. If you currently have \$25,000 in student loans at six percent interest with ten years remaining, the total amount paid would be \$33,306, including \$8,306 in interest. If you increased your monthly payment by \$40, you would pay off your loan nearly two years sooner and save \$1,452.56 in interest. If you make only one \$500 extra payment over the life of the loan, it would be paid off three months early,

and you would save over \$300 in interest payments.

Make an extra car payment.

Car loans are typically lesser dollar amounts, and have shorter loan terms than home mortgages or student loans, so the savings may not seem as dramatic. However, by applying a one-time extra \$500 payment to a \$20,000 four-year car loan at six percent interest, the loan would be paid off one month earlier with a savings of nearly \$150 in interest.

Build your emergency fund.

An emergency fund provides a safety net for unexpected expenses such as car repair or medical bills. A fully funded emergency fund is typically three to six months' worth of household expenses. It can take time to build an emergency fund; however, a mini-emergency fund of \$500 to \$1000 is a good start, which can help you avoid a large credit card bill when unexpected events occur.

All scenarios are examples of potential savings; your specific amount of savings may be different. There are numerous online calculators that can help estimate the savings in your specific situation. When making extra payments, check with your lender to make certain the additional payment is properly applied to principal.

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