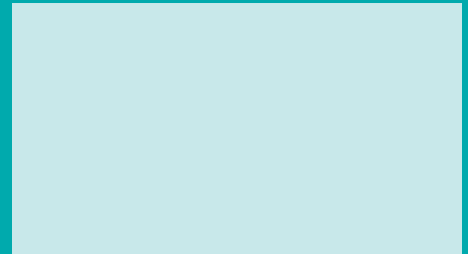




# MONEY WISE

VALUING PEOPLE. VALUING MONEY.  
MANAGING IN TOUGH TIMES INITIATIVE



## VOLUME 9 ISSUE 7

### THIS MONTH'S TOPIC:

## SAVING FOR MAJOR PURCHASES

Have you been thinking about making a significant purchase recently, such as a new washer and dryer or a new SUV? Making major purchases can be challenging because there are so many factors involved: The price, the options, the value, and the pressure to make the best decision. That is why it is necessary to carefully plan how you will go about spending a substantial some of money. Consider the following suggestions to help you make major purchases while also being smart with your money.

### Begin saving early

The best strategy for making major purchases is to begin saving far in advance. This has a number of advantages. First, it will make saving hurt less. In other words, you won't feel the impact of having to cut spending nearly as much if you give yourself plenty of time to save because you will only need to save a little at

a time. Second, saving early allows you to be deliberate. By taking your time and planning far in advance, you can rest assured that you won't make any rash decisions. Instead, you can be careful about weighing your options, comparing prices, and can make the right choice to suit your needs.

### Do not use emergency savings

Hopefully, you have already solidified a precautionary savings fund. This is the money





you have tucked away in case of an unexpected emergency such as needing to install a new radiator in your car or needing to repair the air conditioning in your home. It is important to leave this fund intact as you are saving for a major purchase. Do not jeopardize your emergency savings!

#### **Cut discretionary spending**

Instead of borrowing from your precautionary savings fund, which you need, cut spending from what you do not need. For instance, food and drink is an easy place to begin saving dollars that will accumulate over time. Eat out two less meals per week, make your coffee at home instead of buying that cappuccino, and cut alcohol consumption to save extra bucks.

#### **Do not use a credit card**

Credit cards can be a useful tool for fixed or monthly expenses that you are confident you will pay on time. However, using a credit card to make a major purchase can introduce a lot of trouble because interest on major purchases can get really expensive really fast. For instance, if you put \$1,200 of new furniture charges on a credit card with a 15% interest rate, and make only the minimum monthly payment

(\$27/month), it would take you 124 months or more than ten years and cost you an additional \$980 in interest to pay off the cost of the furniture. If you are able to increase your monthly payment to \$100/month it will still take 14 months payments plus over \$100 in interest. Instead, you could simply save \$100 for 12 months and pay zero interest.

#### **Use an automatic savings plan**

Most financial institutions now offer an automatic savings plan, which will take a predetermined amount of money out of each paycheck and deposit it in an account that is dedicated to your savings goal. Often if you do not see the money sitting in your checking account, the temptation to use the dollars you have earmarked for saving is less, helping you work toward reaching your goal faster.

#### **Stay motivated to save**

In addition to financial tips, the field of psychology also offers tips to help individuals progress toward reaching their saving goals. Post a picture of the item you want near the computer or work area where you reconcile your finances or inside your wallet. Now, every time you go to spend money either online or from your wallet, you will be prompted to reconsider whether you want to make that immediate purchase or to save for your major purchase.

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