Unbiased Financial Information Provided by Financial Wisdom.

Use Automatic Savings Programs to Reach Your Financial Goals

One of the simplest and most effective tools you can use for almost any saving goal is an automatic savings plan. Automatic saving programs generally come in two forms – either your employer deducts a certain amount from each paycheck and deposits it into a specific account or your financial institution moves a certain amount from your checking account into a savings account on a regular basis. Either way, these automatic transfers add a discipline to your saving. Once people use them, they often find they do not even notice the smaller amount they have to spend each month.

Putting automatic savings plans to work

1. Fund your IRA contribution. The contribution limit for 2020 is $6,000 for both regular and Roth IRAs ($7,000 if you are age 50 or greater). Decide which type of IRA you want to fund, open the IRA account and then have $500 ($583.33 if you qualify for the extra $1000 contribution) automatically transferred each month into the IRA account.

2. Fund an even larger amount for your retirement. If you are already taking advantage of your employer's retirement plan and an IRA, you can transfer even more into a savings account each month. When the balance reaches a certain level, say $5,000, transfer the funds into a Certificate Deposit to earn higher rates.

3. Save for your children's college educations. Determine the amount you want to set aside for each child, establish a custodial account for the child and have that amount transferred each month. Transferring $250 each month will accumulate to almost $39,000 over 10 years at a 4% earnings rate.

4. Combine an automatic savings plan with a Section 529 college savings plan. This would work similar to transferring the funds into a custodial account, but would also have the benefit of the earnings not being subject to current taxes. Earnings within a Section 529 plan are tax deferred and can be withdrawn tax free if used for qualified educational expenses.

5. Combine an automatic savings plan with your investment strategy. Dollar cost averaging is a method of buying a constant dollar amount of an investment on a regular basis that works very well with mutual funds. Dollar cost averaging eliminates the risk of "buying at the top of the market" and over time reduces the average price you pay for the mutual funds purchased. Most mutual funds and brokerage firms can establish these plans very easily.

6. Use an automatic savings plan for estate planning purposes. Older and wealthier individuals often want to transfer funds to their heirs during their lifetimes to reduce their ultimate taxable estate and to provide their heirs with more immediate funds. For 2020, the annual amount is $15,000 for individuals and $30,000 if both a husband and wife want to make the maximum gift. If this is something you want to consider, be sure to talk to your tax advisor.

Over a relatively short period, one couple can transfer a great deal of money to their children (and grandchildren) to help manage their estate.

Taking actions to regularly save or transfer money can be easily delayed or forgotten. Using a little bit of automation by having your financial institution do it for you can make the process easier and more effective.