

## **How To Prioritize Your Savings**

By Tom Norton, CPA, CDFA

Saving money for the future is the bedrock upon which all financial plans are built. But what should you save for first? What next?

Your first savings goal should be an emergency fund equal to three to six months worth of expenses. So if your expenses are \$4,000 per month, you want \$12,000 to \$24,000. This should be in a money market or similar account that is easy to get to in case of an emergency. Even though it won't earn much interest, that's not the point. This money is a safety net.

Your next savings goal should be retirement. Your 401(k) or similar plan at work is the best place to start. You get a tax deduction for contributing, and you may even qualify for an additional tax credit besides. And often, your employer will match part of what you put in, which is like free money!

If you own a business, you can start any one of a number of different retirement plans. They give you great tax advantages in addition to the retirement benefits. Talk to your CPA or financial advisor for details.

Once your retirement savings plan is in place, you'll want to start saving for college for your kids (assuming you have any). The best way to save for college is in something called a 529 plan (named after the tax code section that created them).

You invest the money in the plan (usually in mutual funds), and the money grows tax free. When you take the money out to pay for qualified educational costs (tuition, fees, books, room and board, etc.), you pay no income tax. While you don't get a federal tax deduction for contributing the money, many states will give you a state tax deduction.

Talk to your financial advisor about these great plans, and make sure you get in the one sponsored by your state. That will ensure that you don't have to pay any state income tax when you withdraw the money for educational purposes, and may allow you to get that state tax deduction, too.

The last category of saving is for whatever you want: Vacations, cars, boats, furniture, etc. While there are no special plans for this type of saving, there is no shortage of banks and brokerage houses eager to give you the best deal on your money. Shop around and do business with someone you trust.

For more information:

[The Divorce Financial Survival Series](#)