

# **10 Step Guide To Saving Money**

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Saving Money Is Not Spending It

By

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## Introduction

It's hard to believe that 20 years ago I was so far in debt I could barely make my mortgage payment. I made a good living, but all I had to show for it was a lot of "stuff." I had nothing in the bank for that proverbial rainy day.

I went through my checkbook and discovered that I couldn't even determine what I had purchased – you know, all those checks made out to "cash." It was a rude awakening. I had to put a stop to it and fast. My outstanding debt was over \$20,000.

I put myself on a strict budget and was able to pay off all of my debts in less than two years. Does that tell you something? To look at it another way: If I had not been spending so foolishly, I could have SAVED \$20,000 in less than two years!!! That's an incredible \$800 per month.

I vowed then and there that I would never let myself get into that kind of mess again. I can't say that I've never ran up a credit card balance beyond what I was comfortable with since then, but at least I know my comfort level and go to work immediately to eliminate the debt. **Spending is a very difficult habit to break.** Unless, however, you learn to stop spending, you will never be able to save.

**Saving is a difficult habit to get into**, especially if you've been a spender all your life. Yet, there is no greater feeling than knowing that all the rough spots along the road of life are just minor inconveniences when you have savings to fall back on. You don't panic when the car unexpectedly breaks down. You don't go to pieces if you get laid off from work. Money definitely isn't everything, but it sure helps in a pinch.

Because I have been to the brink and back, I thought it would help visitors to my web site – [101WaysToSaveMoney.com](http://101WaysToSaveMoney.com) – if I put together a simple guide on how to start saving money. This guide is designed to help **establish saving as a habit.**

Best of Luck,

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## Step 1 To Saving

**Every day for 21 days** – the minute you walk through the door at the end of the day, before you take off your coat and put your purse or wallet away – **EMPTY ALL YOU LOOSE CHANGE INTO A JAR.**

There is a psychology in this. It takes time to break a habit; it doesn't happen overnight. It is a fact that most people can break a habit in 21 days. **You need to break the habit of spending and create a habit of saving.**

This is a simple exercise that everyone should be able to do. If you're single, you are accountable only to yourself, so don't cheat because guess who you're cheating? If you're a couple, hold each other accountable if you're trying to achieve a common goal. Both need to commit and participate.

If anyone "forgets" to deposit their coins on any day, add one more day to the original 21. If you forget again, keep adding one more day for every time you forget to clean your purse, pockets or wallets of loose change.

This exercise might seem trite, but it works. I learned this from a friend many years ago. Every day he came home he would deposit all his change in a cigar box (he smoked cigars). He was a wealthy man. It was a habit he formed as a young man whose parents had gone through The Great Depression.

He said he never wanted to be caught without a dime in his pocket as his father had so many times which meant that some days he went hungry.

At the end of a month, he would sometimes have \$100 in that cigar box. The habit was so ingrained that anytime he left the house, even if it was three or four times in one day, he would never fail to empty his pockets whenever he stepped back in the door. It would have been easier for him to stop smoking than it would have been to stop saving.

Unless you can complete this first step successfully, there is a high degree of probability that you will fail at your savings effort.

## Step 2 to Saving

Hopefully, you've managed to save your change and now feel what it's like to accumulate money. (If not, go back to Step 1 and try again.) Now you want to put your money to work for you.

Head down to your bank or credit union and open a savings account with the change you've saved. If it's only \$5.00 or so, you might want to start a Christmas Club since many financial institutions require minimum deposits of \$100 or more on certain types of savings accounts. Don't fret about an interest rate of 2%-3%. It's better than nothing (which is what you've probably had for a long time now). And besides, it's a great time to get a head-start on next year's holiday season and continue the momentum you've developed over the last three weeks.

*If you're saying to yourself that these steps are silly, you're wrong. Chances are you're here because you haven't been able to save and might be looking for a quick fix. There isn't any. As in all things in life, you must learn how to crawl before you can walk. My guess is that you are looking for a way to save money on all sorts of purchases, but turn right around and spend those savings on something else. The 10 Steps are designed to help you learn HOW to save money — actually put it away — and not spend it. That is what saving money is all about. There are many **ways** to save money, but the pure art of **saving money** is not spending it.*

## Step 3 To Saving

### Find Out Where Your Money Is Going

Whether you do your banking online or still use a checkbook, your task this week is to find out where you are spending your money. Ideally, you should add up your spending habits over a year's time so that it includes all seasons. *This is why it is particularly good to have your accounting online even if you don't want to pay your bills electronically. You can easily track your spending over weeks, months or years. I personally use [Quicken](#), but you may find Microsoft Money to work just as well.* If you use a checkbook, you need to go back for three months to get a picture of your spending habits. It won't be as accurate as a full year, but it will do for starters.

Whether you use a spreadsheet on your computer or a simple piece of paper, create basic categories with a column for each: Mortgage or rent, taxes, insurance, utilities, groceries, transportation, clothing, doctor, dentist, medicine, investments, credit card payments, miscellaneous. Make the "**miscellaneous**" column extra wide.

Record each check you have written over the past three months in the appropriate column. For any check that does not fit in one of the columns, record it under "miscellaneous" and write down what it was for. If you are purchasing any of these items with a credit card, you will need to go back to each credit card statement for the last three months and enter each purchase in the appropriate column. In the case of checks or ATM withdrawals for "cash", simply enter under "miscellaneous" without a notation of what it was for.

Once you have made entries for all your checks and credit card purchases, add up each column and divide that figure by 3. This will give you a rough idea of what you are spending each month in each basic category. Please note that with the exception of "miscellaneous" and "credit card payments" the basic categories are what most of us NEED to survive — food, shelter, clothing and transportation.

When I first did this, my eyeballs popped out of my head when I saw how much had accumulated in the "miscellaneous" category. What was worse was that I couldn't even remember what I had bought.

Now that you have some idea of **where your money is going**, you will be in a much better position to start saving money.

## Step 4 To Saving

### Determine Your Saving Goal

With pennies, nickels, dimes and quarters in a piggy bank or dollars in a savings account, you are beginning to see the effects of not spending just your pocket change. Now it's time to set up a specific **attainable** saving goal.

This goal will be different for everyone. Some will want to save for retirement. Others may want to save for a family vacation. If your car has only a few good years left on it, you may want to save in order to be able to pay cash for a car. Your goal may simply be to save \$50 per month with no concrete idea of what it might be for at this point in time.

Whatever your goal is, it has to be **attainable**. Better to set the goal a little lower and exceed it than to set it too high and fail at attaining it. The psychological rewards of reaching and/or exceeding a reasonable goal will have a long term effect.

For example, let's say you will need a car in 5 years. You set a budget of not more than \$15,000 for the purchase of a car. You estimate you will be able to get \$3500 for your present car when you sell it. Therefore, you will need to save \$11,500 over a 60 month period ( $\$15,000 - \$3500 = \$11,500$ ). This means you will need to save nearly \$200 per month to reach your goal ( $\$11,500$  divided by 60 = \$191.67). For some this may be an **attainable** goal. For others it will only be **wishful thinking**.

*We will not figure in the effect of compound interest. The extra money that it brings will be your reward for attaining your goal and will allow you a little bit of breathing room.*

Don't be concerned about accuracy at this point. Later you will be able to make adjustments in your goal. For ease of estimating, you might want simply to set your goal of 5-10% of your gross income,

## Step 5 To Saving

It's finally that time — time to create a **budget**. I don't know why, but this seems to be the hardest thing to do when it comes to saving and the step that most people dread. Perhaps it's because people buy so much "stuff" today that there are so many categories in a budget it scares them.

In Step 3 you discovered **where** your money is going. Use this information to create your budget.

In my world, there are only 7 Budget categories — Income, Savings, Food, Shelter, Clothing, Transportation and Miscellaneous. How much more simple can it be?

**Income** is any money you receive by way of work, gifts, part-time jobs or any other source.

**Savings is at the top of the expense list.** In Step 4, you created a saving goal. This is where you plug that amount in. If you don't learn to pay yourself first, you will never learn to save.

**Food is your groceries including sundries** like detergent, bleach, shampoo or anything else you purchase at the supermarket, drugstore, meat market, farmer's market, etc., for basic uses and consumption in the home. It does **not** include prescription meds, dining out or the daily Starbucks. (If you use prescription meds on an ongoing basis, you might want to create a separate category for them.) Everything else comes under "Miscellaneous."

**Shelter** is rent, mortgage payment, homeowner association fees, if any, home insurance, utilities, maintenance and repairs. If you own your own home, don't forget to include reserve funds for house painting and roof and gutter replacement. Most wood homes need to be painted every 5 - 7 years. Roofs need replacing every 20, 30 or 40 years. Some roofs, like cement or tile, can last more than 50 years. If you won't be in your home long enough to require roof and gutter replacement, you won't need a budget for this.

**Clothing, including shoes,** is only what you absolutely **NEED**. Usually children are the recipients of a clothing budget because they outgrow their clothes so quickly. As adults, you probably have enough clothes to last more than a few years without having to spend one dime on another sweater, coat, jeans, etc. I personally could probably go 5 years without having to buy a thing to wear, except maybe pantyhose, so my personal clothing budget is very small.

**Transportation** is car payments, auto insurance, gas, oil, tires, windshield wipers, anti-freeze, car washes, repair, parking, bus or train tickets. It **does not** include vacation travel, maintaining a boat or jet skis, a motor home or the like.

**Miscellaneous** includes anything that does not specifically fit into any of the other categories. Rented DVD's or videos, the movies, eating out, vacations, leisure-time activities like skiing, bowling or yoga, bird seed, general "stuff", trinkets, tschotkes or whatever you call dust collectors or anything else for the home all fall into "Miscellaneous."

I lead a relatively simple life, so using only these few categories works fine for me. This may not work for everyone, but there is still a need to keep things as simple as possible. Here is a good [sample budget](#) that I feel will suit any situation. However, please plug your saving goal into first place instead of after all expenses.

If you want to go online to pay bills, and I do recommend online bill-pay for security reasons, then a program like [Quicken](#) with bill-pay through Intuit or Microsoft Money which is included software with many PC's has built-in budgeting tools that makes the process a snap.

I've tried to keep this post somewhat short although I could certainly take up a foot or more of this page. If anyone has questions or comments, please post.

## Step 6 To Saving

Hopefully you got through the budget process without too much trouble. A budget is the basis for any savings plan. Without it is like crossing the country on back roads without a roadmap.

The next step is to begin using saving strategies to help you reach your saving goal. Choose ten saving strategies from the many suggestions at:

[101WaysToSaveMoney.com](http://101WaysToSaveMoney.com)  
[Save-Money-On-Groceries.com](http://Save-Money-On-Groceries.com)  
[SaveMoneyOnAutoInsurance.com](http://SaveMoneyOnAutoInsurance.com)

Implement them for the next 30 days. That's 10 different ways to save money. Choose the ones you can realistically adhere to. You don't just have to use these tips. If there are others not on my lists, feel free to use them.

The objective here is the same as in Step 2. You want to create a saving habit. ***Doing something once does not a habit make.*** That's why it's important to choose those things that won't lead to failure.

For example, if you want to try taking your lunch to work every day, but you aren't prepared to tell co-workers that you can't have lunch at the local eatery with them, you're setting yourself up for failure. Try taking your lunch to work for two days instead. You can make up an excuse for not going to lunch with the gang, or you can tell them the truth – that you're trying to save money – and maybe get them on the same bandwagon.

Refer to your budget and record everything you spend with a notation for what the money went for. You're allowed to round up an expense, but do not round down. For example, if you bought a bagful of groceries for \$15.23, record your entry as \$16.00. If you're using online bill-pay through Quicken or Microsoft Money that downloads all your transactions and automatically calculates your expenses within the budget you created within the software, this technique won't work. Don't worry about it. The non-techie way simply allows you to save a few more pennies each month by rounding up.

Remember to keep throwing that loose change at the end of the day into a jar.

## Step 7 To Saving

After nearly four weeks, hopefully you are closer to becoming a chronic saver than you were when you started. At this point you want to take stock of what you have achieved to date.

First of all, how much pocket change have you accumulated since the day you began to save? If it's \$1.00 or \$100.00, it's better than nothing. The fact that you have managed to save your pocket change is an achievement. Be proud of yourself.

Secondly, compare what you have spent during the last four weeks to the budget you made up. How much did you manage to save? If you saved anything at all, it's an achievement. Be proud of yourself.

If you came in "over budget," take some time to see where you overspent. These are areas that need addressing. Did you overspend on dining because you couldn't stop having lunch with your friends? Did you overspend on someone's gift because you just couldn't resist or thought he/she might think you cheap? Did you buy a new pair of shoes just because they were on sale even though you have at least 3 pairs of shoes in your closet that you haven't worn in six months? These are psychological barriers that you have to overcome, and that's another subject entirely.

Perhaps you had an unexpected expense — like a trip to the dentist that you didn't anticipate. Establishing an emergency fund for just such events may help cushion the financial trauma. You might want to allocate all that loose change towards an emergency fund.

Measuring your achievements can be done daily, weekly or monthly. It's like dieting. You need to step on that scale every so often to make sure you're still on track. If you haven't met your goals, you need to start tweaking. If you've plateaued and are happy about it, stick with it for the long haul. If you've met your goal but still want to save more, keep digging. You will find more ways to save than you can imagine.

In fact, saving can become quite obsessive. I love to sit and count my saved money at the end of each month. Watching the dollars accumulate is much more fun than watching them disappear.

## Step 8 To Saving

No savings plan is complete without a solid path to retirement. Current statistics indicate that only 25% of Baby Boomers will retire in relative comfort — not luxury - but not wanting. Over 60% will have only Social Security to depend on, and 15% will be living in poverty in their old age. For those who are not Baby Boomers there is no guarantee that Social Security will still be around.

Take the time right now to help secure your future. Does the company you work for have a 401K or other retirement plan that you can contribute to. By age 40 you should be contributing the maximum amount allowable to this plan. In fact, it is best if you always contribute the maximum amount. If you don't have a company plan, the least you should have is a traditional or Roth IRA. In addition, there a number of tax-deferred savings options for self-employed individuals.

It is never too early to seek the advice of a good financial planner. You can find one at [The Financial Planner Network](#) or look for a [Certified Financial Planner](#) here. One word of caution: It is best if you can find a financial planner who is not employed by either an insurance company or a stock brokerage company. They usually tend to suggest the product that makes them money — insurance or stocks — both of which are part of a diversified portfolio but not at the exclusion of the other. An independent financial planner tends to build a plan that includes all assets that will pave the way to a secure future. A committed financial planner will not scoff at how little money you have to work with, but will help as best he/she can with an eye to the future in mind.

And if you think you can't afford to invest in stocks, check out [MyStockFund](#). I have been investing between \$90 - \$105/month here for the last five years and have accumulated over \$8000. The money comes automatically out of my bank account, so I never miss it. There is also a lot of information about investing on their site that is simple and easy to follow. It's a great way to get your feet wet in the stock market without a lot of risk.

Whatever you decide to do, please include this very important step in your saving program.

## Step 9 To Saving

### Review and Repeat

You started the saving process in Step 1 by putting loose change in a jar in order to form a saving habit.

In Step 2 you opened up a saving account in order to put your money to work earning interest.

Step 3 was designed to find out where your money is being spent. You really don't know where to save money unless you know where it's going.

Step 4 asked you to create saving goals that were attainable. The psychological rewards of reaching a goal have a long term effect and help propel you to continue.

In Step 5, you created a budget. It's the basis for any savings program.

Step 6 required that you begin putting saving strategies to work by selecting at least 10 different ways to save money and employing them for 30 days.

In Step 7, you took stock of what you have achieved in the way of saving to date.

Step 8 zeroed in on saving for retirement. Social Security may or may not be around, so retirement planning is an absolute necessity to include in any saving plan.

**Now for Step 9.** Employ as many tips as you can find to maximize your savings. It's time to turn on the electricity and jolt yourself into a real saving machine. Strive for incremental savings that show progress week after week. For example, if you managed to save \$50 this week, try for \$60 the following week. Do this until you have maxed out your savings using ideas and tips that you can continue with for a very long time. When you have found a level of saving that you feel comfortable with, just put it on cruise control and enjoy the ride.

More divorces are caused by money problems than almost anything else. Drugs, alcoholism, crime and much more are the products of not having enough money. You don't have to be rich to enjoy life without money worries. In fact, you'd probably be surprised at how many wealthy people are actually living on the edge of financial disaster simply because they can't

control their uncontrollable urge to spend. You do have to take responsibility for your own financial condition. Better sooner than later.

## Step 10 To Saving

### Living A Frugal Lifestyle

**Creating a saving habit** has been the purpose of the first 9 steps to saving. The final step is to take all you have learned and play it forward into living a frugal lifestyle.

Frugality is about living well on less. It doesn't mean being cheap. It does mean living within your means so that you'll have the resources to achieve all your goals. You will often times have to make decisions on what you have to DO WITHOUT in order to HAVE WHAT YOU WANT.

For example: Is that big screen plasma TV more important to you today than putting money aside for a secure retirement or your kids' college education? If it is, you can pay cash for it and it doesn't affect your budget, go for it. But before you do, think about what \$2000 would be worth in 10 years at a compound growth rate of just 5% — approximately \$3258. What will the plasma TV set be worth in 10 years or 5 years or 3 years if it even lasts that long? Frugal people might say that they need a new TV because the old one is pretty much shot. They have the money saved to buy a big screen but decide that \$500 is all they want to spend and would have to do without their Netflix subscription for a time to recoup the expense. That still leaves them with \$1500 working on their behalf for their retirement. They have a new TV, have not upset their budget and still have money working for their goal of retirement.

Frugality is about finding clever ways to save money. It is always being mindful of how and where your money goes and making conscious decisions about how to spend it. Frugality is about buying and not being sold, about asking questions and finding less expensive alternatives, about taking care of what you have so that it lasts longer even if it means buying higher quality in the first place. The list of "frugal is better" is exhaustive.

If you learn how to save, get out of debt, and embark on a frugal lifestyle, you are guaranteeing yourself a richer, fuller, happier life that you might ever have thought possible. Share this with others and you may help them to enjoy the same kind of life. Most of all, don't fail to share this with your children to ensure their future happiness.