Homestead
Advisers | Funds

Our Perspectives: **How to Improve Your Saving This Year**

Your spending and saving habits are in the here and now as much as they are in your future. Your spending/saving split either lands you in debt or builds a nest egg for your security now and later.

How Much Should I Save?

Many of us have heard the "10% rule" when it comes to savings: Put away 10% of your income, and you'll be in good shape. But is that enough? After all, we rely on savings for a lot of crucial support: emergency savings, retirement funds, long-term health care expenses, paying for education, weddings, home maintenance. In practice, it's hard to see 10% covering all of those needs.

Upgrading to a healthy 20%

Many financial planners urge a higher savings rate of 20%. Indeed, the 50/20/30 rule is popular guidance, where a household uses 50% of income for necessities such as housing, insurance, transportation and groceries; 20% for savings; and the remaining 30% for discretionary purchases such as dining out, entertainment, vacations, gifts and other nonessentials.

Rules of thumb to establish good habits

Within the 50/20/30 framework, some helpful rules can guide your day-to-day decisions.

The 50/20/30 rule is a simple way to allocate your money and use it wisely.

Set savings goals right away. For most, saving 20% is aspirational, not a current reality. But progress often starts with a clear goal. Putting aside 20% for your future needs is a great overall goal, but it should be broken down even more. Some of that — say, 10% — is for retirement. Financial professionals recommend that amount should be deducted from your paycheck and put straight into a workplace plan, if you have one, or an IRA account.

Pay yourself first. If you tend to all your other financial priorities first, you'll never save. That's why it's so important to "pay yourself first," making your savings deposits before you do anything else with your money.

Don't underestimate one-time expenses. Many people tend to underestimate expenses that should have been expected, but weren't when they made a budget: the special occasion dinner out, the vet bill, the car repair. Understandably, people are better able to predict their regular and reccurring expenses such as the mortgage. Consider giving a specific budget amount for one-time expenses each month to plan for these things properly.

Work toward a strong credit score. Credit scores matter a lot because they determine whether you can get loans when you need them and how much you'll pay in interest.

Choose your debts carefully. Loans are a very useful tool but one you have to use carefully. A simple rule is, don't take on debt for anything that declines in value — clothes, electronics, furniture, vacations, even cars — if you can help it. Mortgages and student loans, on the other hand, both finance things that can grow in value. Be mindful about how much debt you take on.

Four Ways to Capture Tax Benefits by Saving

Each of these accounts offers tangible advantages compared with saving in a regular taxable investment or savings account. The devil is in the details; there's more to the rules and guidelines for each option than we cover here. Want to learn more? Give us a call or visit homesteadadvisers.com.

RETIREMENT ACCOUNTS

Tax-free growth on contributions and earnings plus the benefit of compound interest with a **ROTH IRA**	A Roth IRA is retirement-savings account where your investment gains from dividends, interest income and capital gains are not taxable on a yearly basis. You use after-tax dollars to contribute to a Roth. Withdrawals in retirement are tax-free, if you are at least age 59½ and the account has been open for at least five years.	**INTENDED FOR:** Anyone saving for retirement whose annual income is under the limit **INCOME LIMIT:** Contributions phased out for incomes between $150,000 and $165,000 (single) and $236,000 to $246,000 (married filing jointly) in 2025 **MAX CONTRIBUTION:** $7,000 across all IRAs; those over 50 can contribute an extra $1,000
Lower income taxes and defer investment-gain taxes with a **TRADITIONAL IRA**	A traditional IRA is another retirement-savings account where your investment gains are not taxable on a yearly basis. If you qualify, you can also deduct the amount of your contribution from your current-year taxable income (i.e., you can use pre-tax dollars).	**INTENDED FOR:** Max benefits for those who don't have a 401(k) or similar plan through their employer, plus lesser benefits for anyone else under the income limit **INCOME LIMIT:** If you participate in a retirement plan at work, the tax-deductible contribution is phased out when modified adjusted gross income is between $79,000 and $89,000 (single) and $126,000 and $146,000 (married filing jointly) in 2025 **MAX CONTRIBUTION:** Same as Roth IRA

EDUCATION ACCOUNTS

Grow education dollars untaxed in **EDUCATION SAVINGS ACCOUNTS** (ESAs, also known as Coverdell)	ESAs have low yearly limits, but every little bit helps. Like a Roth IRA, they use after-tax dollars, while investment gains and withdrawals are tax-free if they're within the guidelines for usage. Notably, expenses for K-12 education can also qualify, and the account owners can change the named beneficiaries as long as they stay within the same family.	**INTENDED FOR:** Anyone who wants to contribute to a child's education savings; often popular with grandparents and/or within estate plans **INCOME LIMIT:** Phase out is $95,000 to $110,000 (single) and $190,000 to $220,000 (married filing jointly) in 2025 **MAX CONTRIBUTION:** $2,000 per year per beneficiary (not per account)
Unlimited contributions in tax-advantaged **UGMA/UTMA ACCOUNTS**	Named for the Uniform Gifts/Transfers to Minors Act, these accounts are a unique setup meant to allow large gifts to minors with tax benefits if the gift is used for education expenses. They're unusual in that the account balance is considered the property of the child, and investment earnings are taxed to the child, though a significant amount is considered tax-exempt.	**INTENDED FOR:** Large transfers, gifts or inheritance meant for a minor and intended to be used for education expenses; while anyone can contribute, this is popular with grandparents and estate plans **INCOME LIMIT:** None **MAX CONTRIBUTION:** Unlimited, but beneficiary must be under 18; anyone can contribute up to $19,000 (single) or $38,000 (married filing jointly) per child annually free of gift-tax consequences in 2025

First the Goal, Then the Strategy

The old adage to save 10% may not be quite sufficient, but another adage still holds: Pay yourself first. The idea is that saving is such an important part of your life that you should treat it the same way you treat your mortgage or utility bills: pay that first, before you move on to optional expenses. You may have to get resourceful about your other spending habits, but in this new year, you can rise to the challenge.