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Buy Prada and save for your Retirement!

So if you are like me, you have good intentions about money. But sometimes those good intentions get thrown by the wayside. It might be because you haven't budgeted for the air conditioning in your house to stop working in the middle of a heat wave and need a new unit. It could be because of a faulty battery in your car that causes you that unexpected expense. Or it could be because you enjoy a little too much retail therapy and those shoes just called your name. Whatever the reason, there are ways to save money and reach toward your financial freedom that cost you little effort and in fact a little money at a time.

Now, if you are financially responsible and can meet your expenses, I would never tell you to stop buying those great pumps or a great classic handbag. But I would ask you if you have six months worth of your expenses saved up in case of an emergency. I would ask if you have a retirement fund set up. And I would ask you what you are going to do in the case where you need a new air conditioner for your house or if your car breaks down.

I just saw the Sex in the City movie and loved it. I was a big fan of the television show as well. One of my favorite scenes from the show was when Carrie realized that she had purchased so many designer shoes that if she had saved that money she could have bought a house. On television… hysterical. If you are my best girlfriend - I would not be the slightest bit amused.

So how do you buy those items that you want and may not need but make sure you are being financially responsible? You follow the old adage that goes along with learning to handle your finances and it is "pay yourself first". Ok, so what does that mean?

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The idea of “pay yourself first” is that before you pay your bills each month you would write a check to yourself first. You would need to determine an amount that you can commit to paying yourself every month for at least six months. You would then immediately pay that amount or “bill” to yourself by depositing that amount into a savings account, mutual fund, money market or retirement account. You then go on and pay your other bills as usual.

This is a wonderful and simple way to get you on the right financial track. However, there are two down sides to this way of paying yourself first. One, what do you do when you run short to pay your actual bills? Two, what if you aren’t that disciplined to write yourself a check each month and then run to the bank to deposit it?

Either one of these scenarios does not mean you are not a good person or that you couldn’t follow through with a simple process. What it might mean is that you have a busy and hectic life between work, shuttling the kids around and other activities you need to attend outside of the home, so adding one more thing to your to do list just might mean one more headache you don’t want to think about.

But, what if we could automate this process and you literally had to set this up once and forget about it? Let’s talk about that scenario instead.

First, you will need to determine how much money you want to save. Do you already have an emergency fund? If so, does it just need a little extra padding? If it is already funded and the amount is within your comfort level, then do you have a retirement account? These are the questions you will need to answer before you go any further.

Once you determine how much money you want to save you need to determine what time frame you want to save that money in. For example, if you determine that you need to set up an emergency fund, and you are starting from square one with no savings, how fast can you save that money? Or if you are already situated with an emergency fund and want a retirement account set up you will have a lot more time to build that account over a longer time period.

The next step, how often are you paid, or if you are self – employed, how often are you paying yourself?

Now we do some simple math. You want to save **X** dollars, over the course of **X** months and get paid on an **X** frequency. So for example, I want to save $6000.00 for an emergency fund, I want to save it over a six month period and I get paid weekly. I want to break out the $6000.00 into a weekly figure for six months. So $6000.00 divided by 26 (the number of times I get paid in a six month period) equals $230.77. I want to save $230.77 a week to meet my goal.

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So now you have a number that you have worked out using this formula, what do you do next?

You will next need to find out if your payroll company offers what is called split direct deposit. This means that you could deposit your net pay each check date into several different bank accounts. So in our case, part of your pay would go into your regular checking account and part would go into your emergency account or a retirement account.

Now, without having to figure out your monthly bills, without having to come up with lump sums of money and without having to run to the bank once a month you can save money and do with it what you will. If that money was saved for an emergency fund, don't touch it.

Ok, to sum up; if you have your emergency fund in place, started a retirement account, don't have credit card debt and your bills are paid off than maybe that money is for shoe buying! Prada is my favorite designer, who is yours and how are you going to save the money to buy what you want as well as what you need?

About the author

Meg Eynon is the Vice President of The Payroll Factory and has over sixteen years of experience working with businesses to help them come up with simple ways to make their employees' lives easier through the process of producing payroll.

Meg loves to read and business books are on the top of her piles to be read. This month Meg recommends the book Women & Money: Owning the Power to Control Your Destiny, by Suze Orman. "This book is a great basic guide to help you figure out what steps you need to take to get your financial house in order", states Meg. "This book is a really good how to guide for women."

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