[IMAGE]

Saving for a Rainy Day

By Stanley Greenfield, RHU

Nowadays, most people aren't as familiar with the stuff you can carry in your wallet to pay for things. No, I'm not talking about credit cards; I'm referring to those pieces of paper with pictures of dead presidents on them. Occasionally, you might see someone getting it out of a machine, but it is quickly spent for a specific item or items and then forgotten.

In many ways, we have become a cashless society. You can swipe your credit card at most stores and get an easy pass for your car so you can go through a toll booth and have it billed to your credit card. I can't wait until the referee flips a credit card before a football game to see who receives and who kicks off!

We all need cash. Cash is still king (I hope that doesn't offend any Elvis fans). I think everyone needs to have a cash fund, which I refer to as a cash/emergency/opportunity fund. There are times when, with a wad of cash in hand, you can pick up some great buys. There also are those times when "Murphy's Law" takes hold and you need some cash - and need it fast - to deal with an emergency situation.

How much should you have in a cash fund? I would start with a goal of at least $10,000. I suggest you work on establishing this first, before you start any investment plans. Once you get there, you need to set your sights higher and strive for an amount to cover at least two months of personal expenses. These cash accounts should not be kept in your checking account(s). Strangely enough, they have a way of disappearing when they are that accessible. They should be kept in a separate money market account so your money can earn a little interest and also be available when needed. It's a great feeling to know you can get your hands on that much cash without calling a bank or selling something.

image - Copyright â Stock Photo / Register Mark Benjamin Franklin said, "In this world nothing is certain but death and taxes." You always need cash to pay taxes, so while you're setting up this cash account, you should consider establishing a tax account as well. This should be set up in a separate money market account to be used only for taxes. If you are self-employed, the next goal is to establish a cash fund for your office to cover the expenses of the office, minus your salary for one month.

How much do you need to put into this account? Again, if you own your own business and are not incorporated, every time you write yourself a check out of your business account, you need to write a check to be deposited in the tax account. For example, if you write yourself a check for $1,000, at the same time, write a check for 20 percent or $200 and deposit it in your tax money market account.

Some might wonder if 20 percent is enough since the tax brackets can be higher than that. Remember, most of the bills you pay out of your business account are for deductible expenses and you will not pay taxes on that money. The checks you write to yourself for personal expenses are not deductible. Twenty percent should be more than enough. The good news is when your estimates are payable, you will have the money to pay them out of this tax account. When the final tally is done and you owe additional amounts, it will be in your tax account. No more scrambling around looking for money you don't have to cover your tax bill. And if there is any left over, you get to keep it.

Accountants have a way of not knowing how to add up what you make and they seem to always underestimate what your actual tax bill will be. With a money market account strictly for taxes, you will end up with a commodity that in years to come will be seen only in museums and on old television shows: money.

Money Market Account Basics

The first thing to understand is the difference between a traditional savings account and a money market account. A savings account is defined as an account offering a competitive rate of interest in exchange for larger-than-normal deposits. The difference with a money market account is that it offers a higher interest rate than a traditional savings account. However, many accounts have restrictions on the amount of transactions you can make in a month (such as five or less) and you usually have to maintain a certain balance to receive the higher rate.

image - Copyright â Stock Photo / Register Mark As with bank accounts, money in a money market account is insured by the Federal Deposit Insurance Corporation (FDIC). The money in a credit union money market account is insured by the National Credit Union Administration (NCUA). Both of these are federal agencies, which means even if the bank or credit union goes out of business (very rare), your money will still be there.

The best thing about a money market account is that it puts your money to work for you. Here's how a basic money market account works:

- You open a money market account at a bank or credit union.
- The bank or credit union pays you interest on the money you deposit and leave in that account.
- The bank or credit union loans that money out to other people, but charges a slightly higher interest rate for the loan than what they pay you for your account.

Interest from most money market accounts is compounded daily and paid monthly. Be careful when choosing a money market account because interest rates can vary significantly from bank to bank. Another thing to be mindful of is that you might find that particular money market accounts will give you a higher interest rate based on the amount of money you have in the account. Always check with the bank to see how interest rates might change.

Just like a basic savings account, money market accounts let you withdraw your money whenever you want. Keep in mind you usually are limited to a certain number of withdrawals each month. Banks might charge you a fee if you don't maintain a certain balance in the account. They also might charge a fee for every withdrawal in excess of the maximum the bank allows each month.

To be safe, when considering opening a money market account, ask questions about the following:

- Are there fees and service charges for using the account?
- What are the minimum balance requirements?
- What is the interest rate paid on your balance?

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