Set goals to create long-term savings plans

We have little debt except for our mortgage, but don't have any plan for saving money for the long term. How do we start?

You've already begun by recognizing the need to set financial goals. But this is nothing new: In 1996, the Consumer Federation of America and NationsBank (now Bank of America) found households with a financial plan accumulate twice as much wealth as those that don't.

The first thing you need to do is figure out what you're saving for. Most family-finance experts say to break down your goals into short-term, intermediate and long-term goals. A common breakdown of those time periods is less than three years for short term, three to 10 years for intermediate, and more than 10 years for long-term. Examine your circumstances -- you might decide that compressing those time frames might make more sense for your particular situation.

Then, make some decisions about what you want to save money for. A common short-term goal is to build an emergency fund, which would contain three to six months of living expenses. Such a fund would prevent you from going deep into debt if you experience a sudden loss of income. Common intermediate goals include saving for a home down payment, a car or a dream vacation. Long-term goals often include saving for retirement or a child's college education.

Financial goals must be specific to be workable. For example, instead of "save for a car," state your goal with an amount and a time period: "Save $15,000 in the next five years for a new car." Then, do some math. To save $15,000 in 60 months (five years), you would need to save $250 a month. That doesn't include any interest the money would earn, but you can use this simple formula to get you started. Each year, revisit your goals to see how you're doing.

The trick is to save for short-term, intermediate and long-term goals all at the same time. While it may be tempting to put off long-term goals for later, you could lose big doing so: Saving even a small amount regularly and letting it earn compound interest pays off in the long run. For example, let's say you save $100 a month in a college fund beginning when your child is born. You would invest $21,600 over 18 years, but at 5 percent interest, that account would grow to nearly $35,500. If you waited until your child was 10 and tried to catch up by saving $250 a month, your money would build only to barely over $30,000 by the time your child was 18 — even though you invested more money — a total of $24,000 — in that time.

At this point, many people get overwhelmed and decide financial goals aren't for them. Don't let yourself take that path. If your initial financial goals don't fit your current fiscal reality, readjust. Start small and take the long view. Today's savings — no matter how small — will get you that much closer to tomorrow's financial security.

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Dear Subscriber: Dear Subscriber: This column was reviewed by Lois Clark, county director and family and consumer sciences educator for Ohio State University Extension in Auglaize County.

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