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# Client Update

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## Short-Term Emergency Fund

Expect the unexpected. It may be impossible to predict when the hot water heater will finally give out, but it's good, basic planning to have a budget that covers irregular expenses. Specifically earmark some savings to include regular payments into a money market account, certain certificates of deposit or short-term government bond funds. This money is kept "liquid," or immediately available, without any penalties for withdrawal. If you must use money from this fund, make repaying it your top priority.

Short-term emergency funds should contain approximately three to six months' living expenses. Consider depositing a portion of each paycheck directly into your cushion savings account. If your goal is to have three months' of living expenses and you are currently living from paycheck to paycheck, you could reach that goal in 30 months by saving approximately 10% of each month's pay, or 15 months by saving 20%.

So how can you save when you feel you barely live on what you earn? Get creative. A fairly painless first step is to take any extra chunk of change and save it. Squirrel away all cash holiday gifts, income tax refunds, bonuses or raises in your emergency fund.

Secondly, shop wisely for necessities. When you become a good comparison shopper, you realize that most retailers will drop their prices to avoid losing your sale. From computers to mattresses, know what the competitor's lowest rates are and then negotiate for your best possible price.

Also, review agreements with household vendors, such as long-distance providers. Evaluate your phone

bill and see how much you are spending per minute. Look at your cable coverage. Are you using the movie packages you pay for each month? If you are not using the value of your premiums, consider opting for a less expensive service.

If you are confident that your cash crunch is short-term and will be resolved in less than 60 days, you might siphon money from an individual retirement account (IRA). People with IRAs can withdraw funds at anytime, but any amounts withdrawn and not re-deposited within 60 days are income taxable and subject to a 10% premature withdrawal penalty tax unless an exception applies.

<http://planning.yahoo.com/cc1.html>

## Longer-Term Emergency Funds

If you know you are going to need a major home renovation in a few years, first determine how much you need to save. For these longer-term expenditures, consider keeping funds in something that has a higher potential return than most money markets, such as mutual funds. When you are close to the date you need the money, transfer it to a money market account. Of course, mutual funds are not FDIC-insured and may be worth more or less than their original value upon redemption.

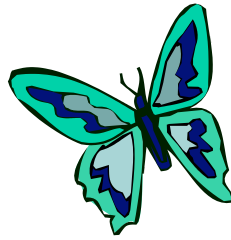
You may also want to consider lowering your mortgage costs and saving the difference in your longer-term emergency fund. First, look at the rate you are currently paying. As interest rates have dropped considerably, you may save hundreds of dollars each month just by refinancing. Next, look at the private



mortgage insurance you may have been paying if you didn't have a 20% down payment. If the equity in your home is now greater than 22%, the law says you can demand that your lender cancel the private mortgage insurance.

<http://planning.yahoo.com/cc2html>

## Ten Ways to Find the Fat in Your Budget



In a matter of a couple of years, you can change your entire lifestyle to the better by simply adhering to a few budgetary constraints. Here are the top 10 ways to trim up your budget:

1. **Focus on fixed expenses:** Just because they're "fixed," doesn't mean they're not negotiable. Many items are fixed only in that they come out of your paycheck every month or you write checks for them automatically – like rent and life insurance. So start at the top. Each budget item deserves a full airing.

2. **Rent or mortgage:** your home is your castle. But can you afford the one you have? Moving is not something you're going to do tomorrow. But if your castle is eating up more than 25% of your income, start making long-term plans. Add extra money to pay down your mortgage. Think about moving to a cheaper home or apartment. Tax law provides an incentive to trade down: \$500,000 in tax-free capital gains on a home, no matter what your age.

3. **Utilities:** Turn down the heat and air conditioning. Analyze your phone needs. Do you need so many lines? Is your cell phone essential?

4. **Insurance:** If your term life insurance policy is five or more years old, you're in for a pleasant surprise. Term rates have been heading straight down over that period. You can almost certainly get a better rate. Increase the deductibles on your auto and homeowner's policies, too, to save money, and drop collision insurance if your car is paid for. Don't skip disability insurance, though. If you can't work due to a disability, you could jeopardize everything without insurance.

5. **Groceries:** Think about the foods that are

pleasurable to you. Don't cut corners there. But how about bottled water? Is there any difference between the brand for \$1.99 and the one for \$3.99? Do you really enjoy the prepared foods you buy? Could you make something fresh and simple – and cheaper?

6. **Clothing:** What can we say? The biggest enemy of a clothing budget is impulse. You need a strategy. Make a list of what you need. Shop from your list. Buy the best you can afford. Think about all the stuff you have hanging in your closet.

7. **Transportation:** This item can eat up 50% of a budget. Don't tell yourself you're going to stop visiting your girlfriend or significant other on the weekends. But take a hard look at where you can save. Set a budget for transportation. Negotiate for bargain airfares. Cars are better made and last much longer than they used to. Get one you like. Take good care of it. And keep it two years longer. Or three. Walk instead of taking a cab.

8. **Household and babysitting help:** It's tough cutting corners here. If you've found a good caretaker for your children, don't cut his or her pay. Supportive people to help in your business and home can make your life run much more smoothly.

9. **Credit:** This one has lots of opportunities for reductions. Pick up two months' worth of credit card bills and total up the interest you paid. If you pay off your credit cards, you will save that much every month.

10. **Taxes:** Contribute to your 401(k) and make use of health-care and dependent-care spending accounts at work.

Of course you must focus on discretionary spending as well. Think of positive lifestyle changes. Vacations, too, can be thrilling without being costly if you do some research and plan a trip that allows you to explore and further an interest. You can find the fat in your budget. It just takes a little creativity and willingness on your part.

<http://moneycentral.msn.com/content/Savinganddebt/Learntobudget/P36154.asp>

