



Extension News Column

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Re: [Pinching Pennies to run Mondays on page A-3](#)
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Is there such thing as being too frugal? In such tough economic times, it makes sense to be careful with your money. But, can saving money actually backfire and cost you in the long run? Going too far in your attempts to save money can have a big impact on your financial security and actually leave you worse off later on.

It makes sense to be wise with your money, but it's also important to look at the big picture. Interest rates on savings accounts are extremely low right now so many consumers feel it doesn't make sense to put money into savings. Savings accounts may not be the money maker they once were, but they are still important to our financial well being. Consider it an emergency fund that is there to help you cover bills if you go through tough times like a job loss or natural disaster. The money you will save by using these funds and not having to go into debt for emergencies has an impact on how you will be able to use future income. Even saving just \$10 per paycheck can help pay emergency expenses and reduce your debt level.

When it comes to saving for retirement, you want to put enough money in your 401(k) at the level that provides your employer's full company match. Not taking advantage of this is like turning down free money that will allow you to build a bigger retirement nest egg.

Let's talk about all that money in retirement funds. Many consumers are deciding to raid their retirement funds to pay debts instead of paying those high interest rates. But this strategy can backfire. Research shows that people most often find themselves right back in debt within 30 months.

Now these individuals still have debt and their retirement account is diminished. In addition, taking money early can result in a 30 to 40 percent loss because of tax penalties. Tax penalty plus spending your retirement funds can really hit those accounts hard. The best plan is to reduce current spending and devote all these savings to reducing the debt instead of raiding your retirement funds.

Another area where consumers may skimp in order to save money is insurance. While insurance can be expensive, it is not as costly as not having it. Insurance on your home, car, life and health are important enough to sacrifice in other areas in order to afford it.

One major illness, car accident, fire, tornado or unexpected death can easily send many consumers and families into bankruptcy if they aren't insured properly. It simply isn't worth taking that chance. One of my sons ended up with an unexpected \$30,000 bill for a medical emergency. It is a good thing he had a college health insurance policy. Think how long it would take a student to pay that one off.

Also, don't pick a policy based solely on the premium. Going the cheapest route may end up costing you more down the road if you don't get the coverage you and your family need. Ask questions to make sure the policy covers what you need covered. Car insurance is required by law and home insurance is usually required by mortgage lenders. But if you are a renter, consider renter's insurance. These policies can be purchased quite inexpensively. When my kids went off to college, I added a renter's insurance policy for them. What did they have that was so expensive? Lots of tech gadgets that are very expensive to replace. It was a bargain for my peace of mind. Make sure that you are covered in case of an emergency.

When we think about saving money, consider your own attitudes about saving. Don't be unrealistic when you set up your savings plan. It's a bit like going on a diet. If you restrict yourself too much, you're likely to fall off the wagon and go on a spending spree. Most people then abandon the plan completely because they don't believe they can stick to it. You must be flexible in order for your savings plan and budget to be successful.

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