

College is a great time to establish a habit of saving money, and it is important to understand the basics before getting started.

## Pay Yourself First

Establishing a new habit can be challenging. A rule of thumb to make saving a habit is to pay yourself first. If you receive a regular paycheck, the easiest way to pay yourself first is to automatically deposit a set amount from each paycheck into an account that you use solely for savings. Regularly contributing to a separate account makes it easier to save money over time.<sup>1</sup>

## Start Small

It can feel daunting to save money, especially if you do not have much to set aside. However, even a little can add up. Saving \$30 a month results in \$360 of savings in one year without interest. If you save in an interest-bearing account, you could have even more at the end of the year.<sup>2</sup> The U.S. Securities and Exchange Commission (SEC) provides a [compound interest calculator](#) to help you estimate.

Regardless of how much you can save right now, developing the habit of saving is most important and will serve you well when you have more to set aside in the future.<sup>3</sup> Refer to the [Budgeting Tip Sheet \(PDF\)](#) for guidance on how to create a budget, which includes saving a portion of your monthly income.

## Common Types of Savings Products

### Savings account

- Generally earns relatively low interest
- Funds are easy to access, but there may be limits on how many withdrawals you can make
- Setting up a savings account is a good way to separate money you can spend from money you do not want to spend<sup>4</sup>

### Checking account

- Generally earns low or no interest
- No limit on withdrawals<sup>5</sup>

### Money market account

- Often requires a higher deposit than a checking or savings account
- Withdrawals are limited
- Generally earns relatively low interest but could be higher than a savings account<sup>6</sup>

### Certificates of deposit (CDs)

- Often higher interest than other savings vehicles
- Restricted access to money for a set period of time (you pay a penalty if you cash it in early)<sup>7</sup>

## Importance of Emergency Savings

Emergencies can happen any time, and having a designated amount of savings set aside for them can make an emergency much easier to weather. Aim to have emergency savings to cover at least a few months of expenses in an easily accessible account.<sup>8</sup>

1. Office of Investor Education and Advocacy, *Saving and Investing for Students*, January 2011, 6, <https://www.sec.gov/investor/pubs/savings-investing-for-students.pdf>.

2. “Lessons: College,” Practical Money Skills, accessed January 30, 2024, [https://www.practicalmoneyskills.com/en/teach/lesson\\_plans/college.html](https://www.practicalmoneyskills.com/en/teach/lesson_plans/college.html).

3. Office of Investor Education and Advocacy, *Saving and Investing*, 8.

4. “Lessons: College,” Denisse Quintanilla, “How College Students Can Start Investing – and Making – Money,” *CNBC*, April 8, 2022, <https://www.cnbc.com/2022/04/08/how-college-students-can-start-investing-and-making-money.html>.

5. “Lessons: College.”

6. “Chapter 4: Savings and Investment Vehicles, What is the Difference?,” *MoneyCounts: A Penn State Financial Literacy Series*, accessed July 7, 2022, <https://psu.instructure.com/courses/1806581/pages/chapter-4-savings-and-investment-vehicles-what-is-the-difference>; “How College Students Can Start Investing.”

7. “Lessons: College,” “How College Students Can Start Investing.”

8. Office of Investor Education and Advocacy, *Saving and Investing*, 11.