stockpiling six-months' worth of living expenses may seem daunting. If you're burdened with debt and large expenses, aim for a month's worth of expenses. Then, as your income and spending allow, beef up your cash reserve to cover a longer period of time.

Identify your goals, then choose savings vehicles that serve those goals.

Pay yourself first

NACHA, the Electronic Payments Association, Herndon, Va., surveyed 1,505 people by telephone. The survey revealed that those using direct deposit save $390 a month, $90 more than those saving manually. At a 6% yield, those direct depositors could save an additional $22,867 in 10 years by contributing to a savings vehicle such as a money market account. It's not magic—it's being consistent instead of random in your savings patterns. Direct deposit is convenient, safe, timely, and environmentally smart.

Pair direct deposit with automated transfers from checking to savings and you'll really make progress. The Consumer Federation of America (CFA), Washington, D.C., commissioned a national survey of 1,000 adults to explore attitudes about saving:

- More than half (52%) say they save automatically through regular transfer of funds from checking to emergency savings;
- Close to a third (31%) say they save automatically through direct payroll deposits into emergency savings;
- Half (50%) deposit a portion of tax refunds;
- One-third (33%) deposit loose change periodically; and
- One-quarter (25%) pay down expensive debt and then deposit the equivalent of monthly debt payments into emergency savings.

The study noted that there was almost no difference among demographic groups—by income, education, gender, age, and ethnicity—in using these strategies.

Make saving a habit and you really will be ready for any financial challenge that comes your way.

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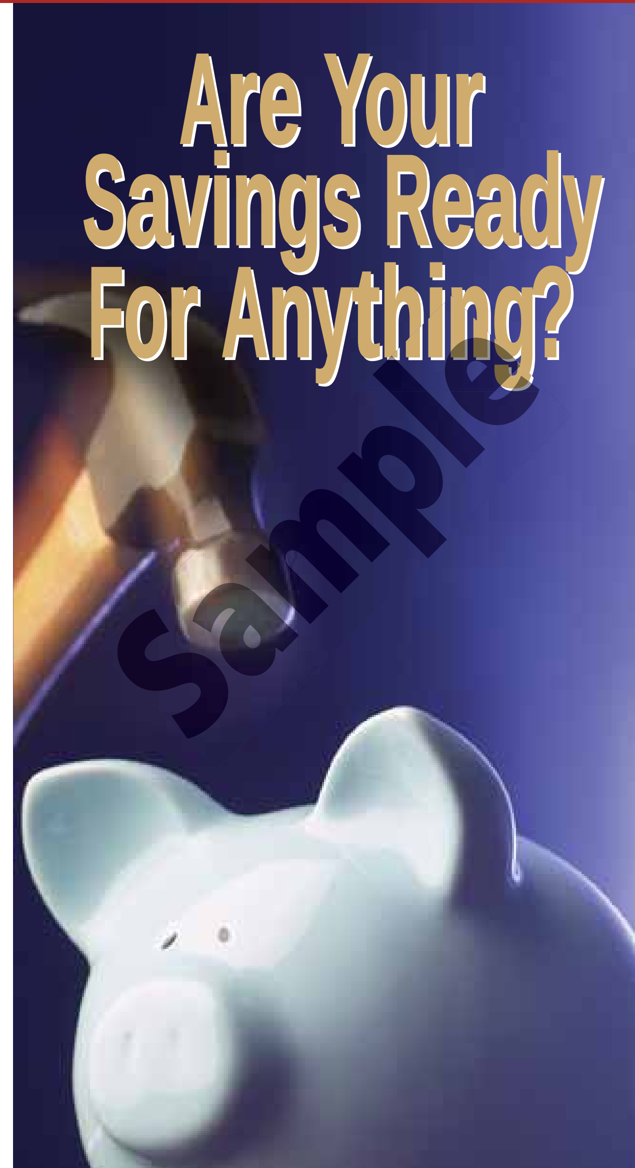
Are Your Savings Ready For Anything?



For many people, taking the first step toward planning requires a life-changing event such as job loss or a divorce. "A significant chunk of the United States population believes on some level that things will always be fine. They are the ones who think they can always repay the debt," says Connie Kilmark, a financial counselor and consultant in Madison, Wis.

Experts agree that the vast majority of people do not have adequate reserves to cover an emergency such as illness, layoff, or a natural or civil disaster. They advise saving at least 10% of your income; however, a 2008 survey conducted by American Savings Education Council (ASEC) revealed that only 28% of Americans set aside this much.

"People who have a comfortable cash position—a reserve fund—can ride out the bumps in a variety of situations. Cash is what gets you through the hard times," Kilmark says. "The flexibility and security that it offers is not replaceable."

How much cash?

The amount of cash you need depends on your circumstances, but it's a good idea to save enough money to cover basic monthly expenses, including mortgage, car payments, food, tuition expenses, and insurance payments for about three to six months. That includes any medical deductibles or co-pays you might incur.

"That doesn't mean you hold your breath until you get there, but you want to gradually accumulate several months' worth of savings. If something major comes up—you lose a job or become temporarily disabled—this is the money that allows you peace of mind," Kilmark explains.

But for anyone facing large debts, the prospect of ▶

Explore the ways to save

Identify your goals, then choose savings vehicles that serve those goals. Here are possibilities:

Savings Accounts

Savings accounts are the most basic, familiar savings vehicles and, while they carry lower dividend yields than other types of savings, they help you build an easily accessible reserve for emergencies.

- Highly liquid; no restrictions on when you can withdraw funds
- Low minimum balance required to earn dividends

Money Market Accounts (MMAs)

You need a fairly substantial sum—typically several hundred dollars—to open an MMA, but you're likely to earn more dividends than on a standard savings account. MMAs are best used for short-term financial goals.

- Readily accessible
- Higher dividends than regular savings accounts
- Fees incurred if you exceed monthly check and withdrawal allowances

Share certificates/certificates of deposit (CDs)

Share certificates come in various maturity periods (such as six, 12, 24, or 36 months) and should be used for short- to mid-term goals or to save for sure income. They offer limited risk and slightly better yields than standard savings or MMAs, but you're penalized if you withdraw money early.

- Generally pay higher dividends than savings accounts
- Must leave money in account for specific amount of time
- Low minimum investment required

Individual retirement accounts (IRAs)

IRAs help workers and spouses save for retirement while offering a somewhat higher dividend return than regular savings accounts.

- Different types of accounts available, depending on income levels, age, employment, and other investments in your portfolio
- Sometimes tax-deductible, depending on type

Federal insurance protects your money at your credit union in share savings, share draft/checking, money market, share certificates, trust, and retirement accounts. Your money in every federally insured credit union is backed by the National Credit Union Share Insurance Fund, a fund maintained by the U.S. Treasury. The fund—which is to credit unions as FDIC is to banks—is administered by the National Credit Union Administration, an agency of the federal government, which insures your savings up to at least $250,000. And funds can be insured to amounts even higher than $250,000, depending on how you set up your accounts. IRAs and Keogh accounts are separately insured up to $250,000 as well. Federal insurance coverage applies separately at each credit union and at each bank where you have your money.

401(k)s

401(k) accounts (not insured) help employees save for retirement while deferring income taxes on saved money and earnings until withdrawal. Employees elect to have a portion of their paycheck deferred into their 401(k) account.

- Choose from different investment options, usually an assortment of mutual funds that include stocks, bonds, and money market investments
- Possible employer match
- More risk especially in a volatile economy