Building Your Financial FOUNDATION

What is a financial foundation?

It's built from pockets of money earmarked for things that, if left unplanned, could cause you to "shake" or "crumble."
Think of your home, if it were on a weak foundation.

Here are some pockets I suggest:

EMERGENCY SAVINGS

This fund is for any unforeseen emergency, including paying rent/mortgage if you're laid off from your job. Experts agree that you should have a minimum of $1,000.

MEDICAL EMERGENCY SAVINGS

With all the high deductible health insurance plans out there, many of us need this fund just to see the doctor or dentist on a regular basis! But it's a must-have for that unexpected trip to the emergency room or a prolonged sickness.
Hint: if your deductible's more than $1300, a Health Savings Account (HSA) may provide relief from costly charges. It's been a godsend for my family!

CAR MAINTENANCE SAVINGS

Eventually something will go wrong with your car - out of the blue. Wouldn't it be nice to already have the money to cover it? OK, perhaps it doesn't happen so unexpectedly, you'll still need money for regular maintenance; minor services like oil changes and tune-ups, to larger costs new tires or a new transmission will bring.

NEXT CAR SAVINGS

You know you're going to have to get a new car eventually, so start planning now! This would be toward your down payment. Of course, if you can save enough to pay completely out of pocket, even better! It'll save you a ton in interest!

HOME SAVINGS

At some point you'll need new furniture, appliances, utensils or knick-knacks around the house.

HOLIDAY/BIRTHDAY SAVINGS

If you're like me, the holidays come out of nowhere every year and put a huge dent in the checkbook! Why not start a holiday/birthday savings account? That way, when Christmas or those months that have three of your best friends celebrating milestone birthdays come around, you can afford to celebrate with them the way you choose, not how your checkbook dictates!

CLOTHING SAVINGS

I don't like to shop, so it doesn't happen very often. Yet, when I need something, but don't have the money for it, I'm annoyed. A clothing savings is a way to make sure you can afford it when you need it. And if you're a clothes horse, this is a great way to keep yourself from going overboard with the shopping! If there's money there, use it, if not, wait until it builds up again!

VACATION SAVINGS

Let this build over time and enjoy a guilt-free vacation, ***when you can afford it!***

Of course, there are many things you can, and probably should save for, especially if you have children. I've tried to outline basics everyone will encounter, and the most common expenses that trip us on the road to financial freedom.

Some are obviously of higher importance than others, but all are important because we all spend money on these things. While a high-ticket emergency will have a bigger impact on your finances today, using your credit card again and again for small purchases you can't afford can be just as detrimental over time, because of the money wasted on interest payments. Plus, when you are accustomed to the "charge it" mentality, it's easy to stop caring whether it's in your budget and how much it will increase your minimum payment – until one day, your minimum payment is out of hand.
Don't let your credit card debt become another emergency you have to deal with!

Again, you may not be able to cover the entire expense of an emergency or car repair with your savings, but any amount you've saved will cut down on finance charges, helping you incur less debt. Plus, it gets you in the habit of saving and builds your financial foundation!

You'll notice that retirement was not on my list of things to save for – that is by design. In this article, we're talking about your financial foundation. These are the building blocks that need to be laid out, cemented together, before you start saving for retirement. Here's why.

When we talk about saving for retirement, we're talking about investing. Investing must be part of your retirement savings plan, because just saving your pennies and letting them sit in a bank will never give you enough money to live a comfortable retirement. Investing is how you grow the money you're saving. But investment savings vehicles often have tax implications attached to them, or you may have illiquid investments like real estate. This means that your money is not easily accessible – and that's good, because it's meant for your retirement – years from now. You shouldn't touch it now.

But, if you don't have a strong financial foundation and you're maxing out your 401K, you're likely putting yourself in a bind. When the car breaks down or you have a medical emergency, you can't access the money in your 401K without a huge financial penalty.

If you put your savings into your 401K, you'll have to use a credit card or take a personal loan to pay for the emergency. The chances of your 401K garnering the same percent of growth that the credit card company will charge you is slim to none.

So if you've spent a lot of time trying to get out of debt, build your financial foundation in order to avoid going back in. Once you're done, move on to investing.