

## ***Fund Your Vacation***

***Save now for a short-term goal and have more fun later.***

By [Mary Beth Franklin](#)

After long, cold Michigan winters, Chuck and Monique Thiel of Northville look forward to an annual spring getaway to soak up the sun and wiggle their toes in the sand. But unlike millions of Americans who routinely say "Charge it," the Thiels save in advance to pay for their vacations. By the time they headed to Key West, Fla., with their 13-year-old son, Kyle, this year, the Thiels had more than \$5,000 in their money-market account earmarked for vacation expenses.

Chuck, a sales manager with Hewlett-Packard, is mindful of his tenuous job situation: His company has laid off more than 17,000 people since it merged with Compaq in 2002. "I'm always looking over my shoulder," says Chuck, 35. "My goal is to be six months ahead of that potential curve and to have no debt other than our mortgage." That's why he has \$30,000 in cash stashed in an emergency fund -- in addition to the vacation money.

Although there is no shortage of information about how to invest for long-term goals, such as college or retirement, through IRAs, 401(k)s and 529 plans, there is little consensus on the best way to save for short-term goals, such as a family vacation, a home renovation or next year's holiday gifts. That may be one reason so many Americans simply don't, choosing instead to use credit cards or home-equity loans, says Steven Smith, author of *Money for Life* (Dearborn Trade Publishing, \$14.95).

"Our inability to save for these things has created the consumer-debt problem of today that now exceeds \$2 trillion," says Smith. "We are so accustomed to spending 100% of our monthly cash flow that when the next month comes around, we can't pay off the credit-card balance."

**Where to save.** The Thiels' financial adviser, George Papadopoulos, in Ypsilanti, Mich., says it doesn't matter if his clients mix emergency funds with money for other short-term goals -- as long as they don't raid the crucial emergency cash for other purposes. As for where to save, Papadopoulos likes ING Direct's [online money-market account](#), which pays one of the highest interest rates in the U.S. In early March, the federally insured ING Orange Savings Account paid 2.6% interest, well above the 1.99% national average for traditional money-market accounts. A recent entrant into the online-banking arena, [EmigrantDirect](#), was paying an even-higher 3% on its American Dream Savings Account. Neither account has minimum-deposit requirements.

Dan Foley, a member of Sleeping Giant Financial Services, in Steamboat Springs, Colo., encourages clients to set up separate accounts for their short-term goals. Watching the dedicated balance grow provides a psychological boost, he believes. To ensure that goals are funded on a regular basis, Foley urges clients to set up automatic deposits each month. "Otherwise, despite their best intentions to save," he says, "they don't."

**Saving by default.** Gregory and Katherine Garnes of Carmel, Ind., are accustomed to living below their means and saving for big-ticket items. But this spring, they found an unexpected source of cash: their tax refund. As a result of larger tax breaks for families and Katherine's reduced work schedule since the birth of their twins, James and Emily, the family got a whop-

ping \$7,000 tax refund.

Greg knows that a big tax refund is evidence that he paid too much tax during the year, but he's not disappointed that the cash arrived in one lump sum. He and Katherine plan to use it to replace the crumbling deck on their house. Otherwise, Greg says, he would have set up a specific payroll-deduction savings plan to fund the project. Letting Uncle Sam squirrel away the cash for him simplified matters, even if it did cost the Garneses some forgone interest.

Another way to save is with a flexible spending account, which is normally used to pay out-of-pocket medical expenses with pretax dollars. Some people prefer to pay their medical expenses throughout the year on their own and to save the FSA reimbursement claims for year-end, creating, in effect, an old-fashioned Christmas-club account. (This strategy won't work if your FSA is linked to your health-insurance plan for automatic reimbursements.) Although interest-free savings may not be the most efficient way to save, for some people hiding money from themselves is the only way.

--Research: *Jessica Anderson*