

Car Replacement Fund

Here's how you can save enough money to pay cash for a new car.

Let's say your initial plan was to buy a \$20,000 car with a 20% down payment (\$4,000) and \$380 in monthly payments for four years. Instead, follow these steps:

Step One: Hold onto your old car and wait six months before buying another car. Put the \$4,000 down payment into a savings account. Add \$380 a month to this account. This is the money you would have been paying on a new car. At the end of six months you will have \$6,280.

Down payment	\$4,000
Monthly payments	
\$380 x 6 =	<u>\$2,280</u>
Total saved	\$6,280

Step Two: After six months buy a used car for \$6,280.

Step Three: Continue to put aside \$380 each month into the savings account (a short term bond fund earning 2% interest per year). This is the money you would still have been paying on a new car. At the end of 5 years you will have \$23,970 in your account (\$1,170 of this is earned interest). Here's how much you will have at the end of each year:

	\$380 month x 12 months		Previous Year's Balance		Interest	Total at end of year
Year 1	\$4,560	+	0	+	\$46	= \$4,606
Year 2	\$4,560	+	\$4,606	+	\$138	= \$9,304
Year 3	\$4,560	+	\$9,304	+	\$232	= \$14,096
Year 4	\$4,560	+	\$14,096	+	\$328	= \$18,984
Year 5	\$4,560	+	\$18,984	+	\$426	= 23,970

Step Four: After saving for five years, pay cash for your new car with your savings of \$23,970.

Step Five: Continue depositing \$380 a month into your car replacement savings account. You will be able to pay cash for a \$23,000 car in another five years.

Note: If you keep your car for eight years (instead of five), you will only have to save \$200 a month to pay cash for a \$20,000 car.

