Why Do We Save So Little?

What's good for the economy isn't necessarily good for our future.

Provided by Harry D. Toro

Our parents & grandparents saved much more than we do. Most people who have read up on the economy for any length of time have heard of the personal saving rate (PSAVERT), which the Commerce Department calculates as the ratio of personal saving to disposable personal income. The January personal spending report released by the Commerce Department in early March showed the PSAVERT at 4.3%.[1]

As recently as January 2013, households were saving just 2.3% of their disposable incomes – so this can be labeled a short-term improvement. It still pales in comparison to the way Americans used to save.[2]

The "greatest generation" had a culture of saving. Its thrift was reinforced further by hard times and a call for personal sacrifices as the economy endured the Great Depression and stateside rationing during WWII. The Commerce Department began measuring household saving in 1959, and as unbelievable as it may seem today, households saved 10% or more of their disposable incomes through nearly all of the Sixties. In May 1975, the personal savings rate reached a historic peak of 14.60%.[1,2]

From 1959 to the present, the PSAVERT average has been 6.84 percent – but the 21st century shows evidence of a significant decline. The savings rate fell into the 1-3% range, dropping to a record low of 0.8% in April 2005.[2]

To some analysts, a declining personal savings rate signals a stronger economy. It implies more spending, and consumer spending has the biggest impact on GDP. You can't have it all, however; more spending means less saving, and Americans are plagued by insufficient retirement reserves.

Are credit cards the problem? We borrow greatly, but there are other factors in play. You may have heard about America's "shrinking middle class." That is no exaggeration.

The most recent Census Bureau data shows the median U.S. household income for 2012 at $51,017. By comparison, median U.S. household income in 1989 – when adjusted for inflation – would work out to $51,681 today. From 1989-2012, annualized consumer inflation was mostly in the 2-4% range. All this illustrates a slow but notable erosion of purchasing power.[3,4]

During the same time frame, the cost of college went up dramatically, health care costs increased, and real estate values fluctuated. People saved less and borrowed more, and not simply on impulse; they wound up borrowing more to maintain a middle-class standard of living.

Real incomes aside, we are often lured into unnecessary spending. Advertising can convince us that we have unmet needs and desires, and that we must respond to them by buying goods and services. Urges, emotions, ennui, living without a budget – these can all lead us to spend more than we really should, especially given how much money we will need to adequately retire.

Our parents and grandparents really knew how to pay themselves first – and while economic pressures make it harder for many of us to do so today, that doesn't make it any less of a priority.

It might be useful to think about future money when you think about making a discretionary purchase. Are those dollars you are spending at a mall or restaurant today better off saved or invested for tomorrow?

Think about your big dreams and goals, the ones you have looked forward to realizing for years. How many dollars are you putting toward them? Is your spending aligned with them, or in conflict with them? Could you spend less here and there and devote more money to those priorities?

Sometimes we have to borrow and spend more than we would like, but often we have a choice – and the choice we make may affect our ability to retire sooner or later.

Contact Information:
Harry D. Toro
600 1st Avenue North, Suite 304
St. Petersburg, Florida 33701
727-914-4904
HarryToro@HTFinancial.org

Citations.

1 - research.stlouisfed.org/fred2/series/PSAVERT/ [3/3/14]
2 - tradingeconomics.com/united-states/personal-savings [3/6/14]

3 - billmoyers.com/2013/09/20/by-the-numbers-the-incredibly-shrinking-american-middle-class/ [9/20/13]
4 - tradingeconomics.com/united-states/inflation-cpi [3/7/14]