

20 years of spending saps savings

By [Henry K. Hebeler](#) • Bankrate.com



In inflation-adjusted terms, we spent 40 percent less 20 years ago per capita than we do today. How did this happen?

Investing was winning the battle over consumerism until about two decades ago.

Then, consumerism started to take over and the national savings rate began a steep downhill slide. Instead of saving about 10 percent per year as a nation, we started spending more and saving less.

Part of the problem is that industry and the government want us to buy, buy, buy. Financial firms, too, benefit from increased consumer spending. Meanwhile, state and federal governments benefit from runaway consumerism by taking in more taxes on goods as well as corporate earnings.

The good old days

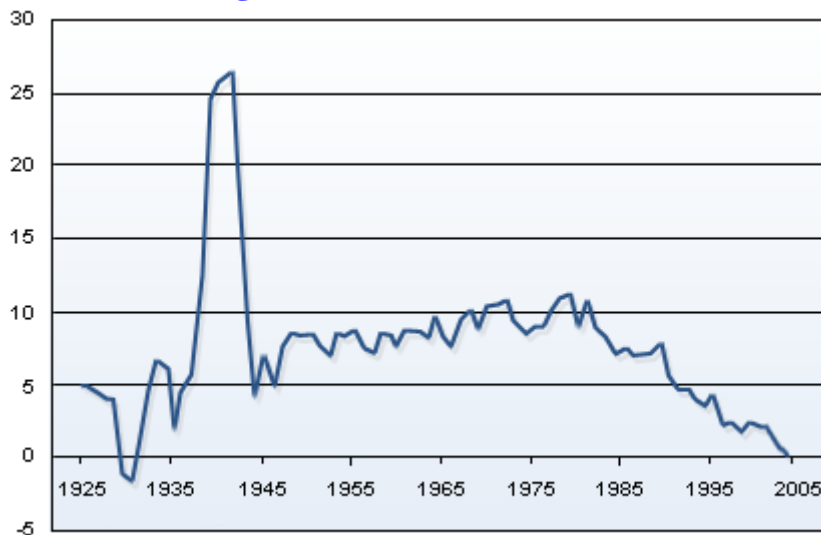
Some things really were better back in the day. Discover how our values have changed in the last two decades.

A spendthrift nation

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Alas, we've been only too happy to oblige this demand for increased spending. This graph reveals that our national savings rate has plummeted over the past two decades.

Personal savings since the 1920s



Source: Department of Commerce, Bureau of Economic Analysis

We've accelerated our purchases of consumer goods like laptop computers, cell phones,

digital cameras, DVD players, PDAs, iPods, game consoles, flat-panel televisions, large-screen displays, global positioning devices, and on and on. We eat out more, take more time off and buy vacation time shares.

Other costs have increased in our daily lives. Our utility bills have soared for cable, Internet services and multiple phones. We've helped the dot-com companies flourish and made the owners unbelievably wealthy.

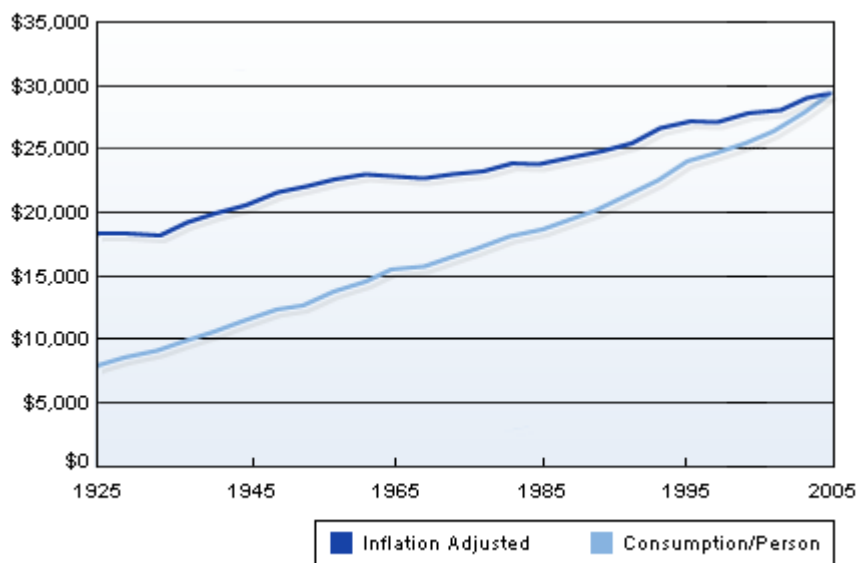
America in arrears.

During this same period, there has been increased demand for medical services. We've purchased larger houses financed by loans with adjustable rates or conditions favoring lenders. We've indulged our children with their own automobiles accompanied by even larger insurance costs.

In the past 20 years, we've increased our spending by reducing savings and adding debt at almost every level: mortgages, credit cards, automobile loans, industrial debt, financial leverage, national debt, unfunded obligations for Social Security, Medicare, Medicaid, federal and state pensions, and wherever else we can find available cash. We're so enamored of cheap consumer goods that we're willing to buy like crazy, even though this frenzy results in a lopsided global trade imbalance -- which is a principal reason for the inflation threat.

As a result, consumption has increased at an alarming rate. In just 25 years, consumption per person has increased by more than 60 percent.

Annual consumption



Source: Department of Commerce, Bureau of Economic Analysis

Making up for lost savings

At first, we paid for this consumption by dipping into our savings. Once we depleted that money, we fueled our spending by accumulating ever-increasing levels of debt.

How much would an average person have to save over the next 20 years to offset the decline in savings over the past 20 years?

To find out, I calculated what the per capita savings investment would have to be if individuals had saved 10 percent per year over the past 20 years, as well as if they were to save that much over the next 20 years. I assumed an 8 percent after-tax return and 3 percent wage growth.

To accumulate this amount, a person who had saved at the paltry "average" savings rate of the past 20 years would have to save 23 percent of disposable income annually over the next 20 years!

There has been only one time in our history where the average person has saved at that rate. That was during World War II.

During that time, every capable person was either working or in the military. You could only buy necessities, and often precious few of those were available because of rationed gas, meat, butter and sugar. People grew their own food in "victory" gardens.

You couldn't buy automobiles, radios or even silk or nylon stockings because those industries were supporting the troops with tanks, communication equipment, silk parachutes and nylon for tires.

There wasn't any way to spend much money, so you saved. Besides, it was popular to support the war effort by buying savings bonds. Children would buy 25-cent savings stamps and paste them in a book until they had enough to get an \$18.50 savings bond.

That's the kind of environment it took to save 23 percent of disposable income per capita.

Break the spending cycle

Today, the environment is very different and encourages us to spend whether or not we have the money to pay for our splurges. There are several ways to tell if you are caught in the consumerism trap. The most obvious is if you have more debt (excluding a home mortgage) than savings.

It's surprising how many ways there are to save more. Simply reducing spending on daily lunches and eating out may save \$50 a week. You can also save by resisting the temptation to get the latest electronic device, software, music or a more expensive car.

Other ways to save include thinking long and hard before purchasing that cute pet, borrowing or renting tools instead of buying them, skipping pricey entertainment expenses, and so on.

A 30-year-old making regular deposits of just \$50 a week adjusted upward for 3 percent inflation each year could amass close to \$700,000 in 35 years with a low-cost life-cycle or target fund that earns the average historical stock market return. If an employer matches the deposits, that total jumps to \$1.4 million.

Inflation eventually will cut those values by two-thirds, but even then, getting an inflation-adjusted \$250,000 to start retirement just from saving \$50 a week would put this saver far ahead of the average person.

Those who are approaching retirement age can draw on another tool to boost savings -- working a few years longer. Social Security benefits will grow, especially if you can delay taking your Social Security benefit until age 66 or even 70.

If you are entitled to a pension, working longer will help it grow because pension values are determined by length of service and your highest-earning years. Working longer also provides more opportunities to save. But perhaps the greatest benefit from additional work will come after the death of a spouse in the form of survivor's benefits -- both from Social Security and pensions. That's because by working longer, you provide a higher benefit to your surviving spouse.

There are other ways to save money or cut corners.

More ways to save

- Get a part-time job.
- Downsize your home.
- Rent out a room.
- Share living accommodations.
- Reduce the number of automobiles in your household.

Plan to be financially solvent

It's crucial to get out of debt quickly and start building savings that will be adequate for your older years. Remember: A credit card that maintains a balance from month to month is a financial killer.

Those who pay some attention to diversification and allocation of their investments will do far better than others who just let things go. Rebalancing investments gets you to buy when stocks are relatively low and sell when they are relatively high. You only have to do this once a year, perhaps after completing your 1040 tax return.

By contrast, the average person typically fails to rebalance and gets only a small part of the returns reported by mutual funds. This is because the investor tends to buy after the prices have already gone up and sell after they have gone down.

Finally -- and perhaps most important -- prepare yourself for growing medical costs as you get older. These are likely to be the biggest single cost we face. Consider that much of eye, ear and dental care is uninsured after age 65 -- the age when such problems often peak.

In addition to saving more for these expenses, remember that every age group can benefit by taking better care of their bodies. Eat healthy foods, exercise daily and improve your own personal economy by saving more money.

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