A National Tragedy

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The Bureau of Economic Analysis just released the total of last year's national savings statistics. You'd think that personal savings would have increased considering people's awareness that their investments went south in the past couple of years. By now they should be convinced that they aren't going to be building retirement resources just on the growth of what they had already saved. Instead, 2001 was the second worst saving year in modern history. (See www.bea.doc.gov/bea/dn/nipaweb/TableViewFixed.asp.)

During the third quarter, things looked like they might brighten with the $600 tax checks because much of that went into savings. But the fourth quarter absolutely went to pot with only 0.5% of personal disposable income saved. The whole year 2001 savings rate ended up to be only 1.6% of disposable personal income. This is far too low to support the retirement of all of the baby-boomers coming up.

The long-term historical value has always been around 10% until the rate started to show signs of weakness in 1983. Then it gradually reduced to 4.8% in 1996. In 1999, it dropped to 2.4%, and in 2000 hit a bottom of only 1%. Some people tried to pass this off saying that there had been so much growth in security values that we didn't have to worry about how much new money was going into savings. Baloney!

I believe that the past 10% historical value is no longer adequate considering the shift from employer pension plans to savings plans. This makes the penalty for lack of savings even more severe.

The way in which the government calculates the savings rate hides other problems. These savings rates include interest and dividends. That's OK for the smaller part of the population that is already retired, but for working folks, interest and dividends are not new savings. They are return on investment. To say that they are savings, and then base projections on returns which also include interest and dividends, is double counting. You can't have it both ways.

Another problem with the 10% historical savings rate is that the calculation is based on disposable income, that is income after tax deductions. This is the equivalent of about 8% savings of GROSS wages for a large part of the working population. That would never be enough without the traditional pension—which is quickly fading into the sunset.

The only offsetting thing that I can see of any significance is that the numbers include all people, both working and retired. Few retired people save; instead they are consumers of savings. However, there are many more working people than retired people, so the effects above have to be alarming.

I made a simple calculation of what would happen to a person who saved 10% a year from 1983 through 2001 and invested it at 5% real return. I then compared that to the actual savings rates during those years. The result was that the person with the actual savings rate had lost five years worth of savings up till now. The national tragedy is that it is unlikely the individuals involved will be able to make up for this. The baby-boomer generation will be hardest hit. National statistics show that the average 401(k) is only about $41,000 and the average credit card balance is over $8,000. We're looking at real trouble from the combination of all of these effects.

What is likely to happen? I think that people will have to work longer—a lot longer. The aging population will push hard on the government for special considerations for basic needs.

Retirement activities will favor very low cost past times. Children will have to provide more parental support. Tax rates on the ever diminishing part of the working population are likely to increase greatly to support the every increasing part of the non working population. Tax offsets for savings programs will become more popular, but those tax savings will be someone else's tax increases. Care for the elderly has been increasing at an alarming rate, so the money must come from somewhere if the retirees can't get it from their savings. It's not going to be pretty.

I know the President would like to see us all spending more. But you can't spend more without saving less. At the same time, the congress is trying to make it easier for people to save with special tax breaks. Looking at the national savings statistics, it looks like the President's desire to have people spend more is winning. It's going to take a VERY long time to get savings rates to where they should be.

Although my focus is usually on saving for retirement, most younger people have to save for many other things as well including a first house, a new car, children's education, repayment of debts, etc. All of this has to come out of the 1.6% before any savings go to retirement.

It might be tempting to blame the recent low savings rate on the recession, but I have the feeling that it isn't the main problem. Only a couple of years ago, things were booming, and the savings rate wasn't much higher and still far below the 10% mark. The saving rates now are actually lower than many of the years in the Great Depression. (See the BEA Web site I referenced above.)

Also, this recession has been a boom to those who are still employed. Prices are lower, so they can get the same goods for less money. They should be able to save more. Relative to the unemployed (and percentage wise there aren't a huge number that would dominate the statistics), many of them have unemployment compensation and a spouse that works. Since they already have so little savings, there is not much to dip into and many have maxed out on credit.

I think the real problem is attitude. Some of the people I know who have lost their jobs at Boeing still won't get rid of their cell phones, cable TV, internet service, multiple cars, etc. It might be interesting to take a look and see what the "recession" has done to communication utilities. If people are truly hurting, this should be one of the first things to go.

The fact is that people today want big homes and all of the latest technical gadgets. When people were young during my lifetime, we had only one car, a small house with no family room, kids sharing bedrooms, no TV, etc. Many people had party phone lines. Several things were better: families spent more time together, the phone seldom rang, and we had more time to pursue simple things like making airplane models from scratch or playing games in front of the living room fire.

In those days we had no credit card debt much less multiple cards, we didn't buy home and automobiles with almost zero down, or borrow on the little equity we had. We had parents who had lived through the Great Depression and, now grateful for their employment, felt loyal to their employer. They were conservative people who knew the real value of money and saved what little they could by avoiding things that truly were extravagances then as contrasted with "necessities" today.

So in my view, saving is an attitude problem that may be aggravated a little by a recession. For the vast majority of today's working people, they could save a lot more just by saying, "No!" to the many temptations presented by keeping up with the Jones.