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A penny earned is a penny spent

Credit used to be only for durable items - homes and cars. Now credit supports American lifestyles. No wonder savings hit a historic low. What can be done?

By Marilyn Gardner | Staff writer of The Christian Science Monitor

If Americans could be divided into savers and spenders, Courtney Davis knows exactly where she would fit. "I am a spender, through and through," she says. "I see how much is in my account, and that is how much I have to spend on a new outfit, a night out, or a great meal."

But last month, Ms. Davis, a manager for a Boston think tank dealing with food issues, grew tired of having nothing in the bank. A broker arranged to have 20 percent of her salary deposited automatically into savings and investments. As she says, "It's the only way I can save, by not even getting a chance to get my mitts on it."

As a nonsaver, Davis has plenty of company. Americans' personal savings fell to -0.5 percent last year, the first time since the Depression that the savings rate has been negative for a year. Although that is just one measure of economic stability, it reflects how irresistible consumerism has become in the American psyche.

"Other countries are not wrapped up in consumption as much as we are," says Larry Frank, author of "Wealth Odyssey." "They like to have nice things, but it doesn't seem to be the benchmark where society is measured as a success. Having something saved is also part of that benchmark in other countries."

A new report from the Federal Reserve bank finds that only 41 percent of Americans save regularly. Three-quarters of households carry debt.

Americans' long journey on that road to debt began gradually after World War II.

"Baby boomers' parents had access to credit, but in a responsible way, using it to buy durable goods - a house, a car, a washing machine," says Shira Boss, author of "Green With Envy: Why Keeping Up With the Joneses Is Keeping Us in Debt," to be published in May. "As baby-boomers grew up, they gradually started to see debt not as a way to get these durable goods but as a way to increase their lifestyle. They started sacrificing any future security for present-day comfort and entertainment."

In 1981, Ms. Boss says, families saved an average of 11 percent and owed 4 percent of their income on credit cards. By 2000, the average savings rate had already fallen below zero, and credit-card debt had gone up to 12 percent of income. Today, she says, "boomers have a bigger problem with debt than anyone else. Half of them do not have a retirement account."

For consumers as a whole, Boss sees a collective psychology prevailing. "We ask, 'What

are others doing, and what can I get for myself?' Nobody wants to admit that there's anybody they're keeping up with, but we do collectively keep up with one another."

Financial experts cite varied reasons for the lack of savings. Some are economic. Average weekly earnings decreased by 0.4 percent in 2005, according to the Bureau of Labor Statistics. Housing, healthcare, and education costs have skyrocketed.

Other reasons are cultural and attitudinal. "People don't remember the Depression," says Lewis Mandell, professor of finance at the University at Buffalo School of Management in New York. "People who are younger just really believe that nothing bad can happen to them. Either they think Social Security is going to be there for them when they retire, or they may feel that the government will never let them starve."

Losing a tactile sense of money

Another culprit involves the changing idea of what money is. "We have lost a tactile sense of money," says Rakesh Gupta, associate dean of the School of Business at Adelphi University in Garden City, N.Y. "We're using plastic now. It doesn't seem like money. When we have a roll of money that gets smaller and smaller, we think about where we should spend it. Now that we can whip out a credit card or debit card, the pool of money seems endless."

Popular culture plays a part as well. "People watch TV and think they have to live the life of characters on their shows," says DebtSmart.com creator Scott Bilker. "They start spending a little more."

That spending often marks a generational shift. "What our parents saw as luxuries, people our age see as little indulgences," Davis says. "My mother would never spend \$5 on a coffee. Some people do this every day." She adds, "My parents are appalled at the way I justify my spending. I think, 'Why work and make money unless you're going to enjoy it?' That's a fine theory until you're 60, homeless, and with no money in the bank."

People intend to save, Mr. Bilker finds. "It's everyone's goal. They just don't do it. People are confident. Their home price has increased. They feel it's safe to spend. They're banking on future earnings."

Cindy Lenox has good intentions. She runs a women's fitness center in Shrewsbury, N.J. She opened a savings account last month, hoping to deposit even \$5 a week. It hasn't happened yet. "I own my own business, and there are weeks out of the month that I don't get a paycheck. For me, retirement is nonexistent. I think I'll be working for the rest of my life."

Gail Cunningham, a vice president at Consumer Credit Counseling Service of Greater Dallas, sees varied attitudes among her clients.

Some tell her it's impossible to save. They rely on credit cards. Others defend their spending, even in a financial crisis. "They have to have cable TV, a cellphone, and their nails done," Ms. Cunningham says. Others open savings accounts but pull out money faster than they put it in. Without a nest egg, they cannot plan. "When they're worried about their car being repossessed tonight, the last thing they want to talk about today is their retirement savings."

Cunningham has watched people's definitions of "need" and "want" change. When they get a raise or bonus, the first thing most think about is how to spend it, not how much they can earn through savings and investment.

Changing attitudes is essential, retirement experts warn. As Social Security and defined-

benefit pensions become less certain, and as life expectancies increase, the need for personal savings, including 401(k)s, will grow.

"People just do not have any idea what it takes to retire," Mr. Frank says.

One solution: mandatory 401(k)s

Most companies offering 401(k)s make participation voluntary. Some experts want enrollment to be automatic, although workers could refuse. Businesses using this format find that few people opt out.

"I don't think we have the political will to make it coercive, but switching 401(k) from opt-in to opt-out really takes care of a good deal of the problem," Dr. Mandell says. "People are very grateful. When you give them a structure, they're going to save."

Jeff Seely, CEO of ShareBuilder.com, an online brokerage firm, offers other ideas to promote savings: "Do not let people borrow against their 401(k). This is your retirement money. Don't touch it." Those who change jobs should roll over their 401(k) into an IRA or the new employer's plan. Fifteen percent of people who leave jobs cash in their 401(k) when they leave, Mr. Seely says.

Claire Celsi, a supervisor for an advertising firm in Des Moines, Iowa, also wants changes in banking practices. A single parent, she lives from paycheck to paycheck.

"The people who already have money are the only ones who get advantages - free checking, better interest rates on credit cards," she says. "The fragile consumer, which I consider myself to be, gets kicked when they're down. Missing one payment can take your whole balance and charge you astronomical interest forever."

A late credit-card payment could raise the interest rate to above 30 percent, Bilker notes. Some late fees now cost \$40.

Even lawmakers could help. "If the federal government continues to be in debt, to borrow to live today, why should the citizens not emulate the government?" Gupta asks. "They need to set the example by putting their fiscal house in order and encouraging citizens to do the same thing."

As in many areas of life, education is crucial and can begin at home. Greg Turner, a vice president of an audiovisual company in Denver, saves 4 percent of his salary, beyond his investments and retirement plans. "I inherited the attitude about saving from my parents," he says.

Although the negative savings rate is bad, Boss says, spending is healthy for the economy as a whole. "Nobody is trying to say we should hoard money or lock it up. You want money to circulate. You just don't want to spend more than you're making."

Bilker offers his philosophy: "Living modestly and being happy with what you have - therein lies the success of saving."

For Davis, having a nest egg provides peace of mind. "Saving is one less thing I have to think about or worry about. Any money I spend is money that I *can* spend, and not money I should be putting away."

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