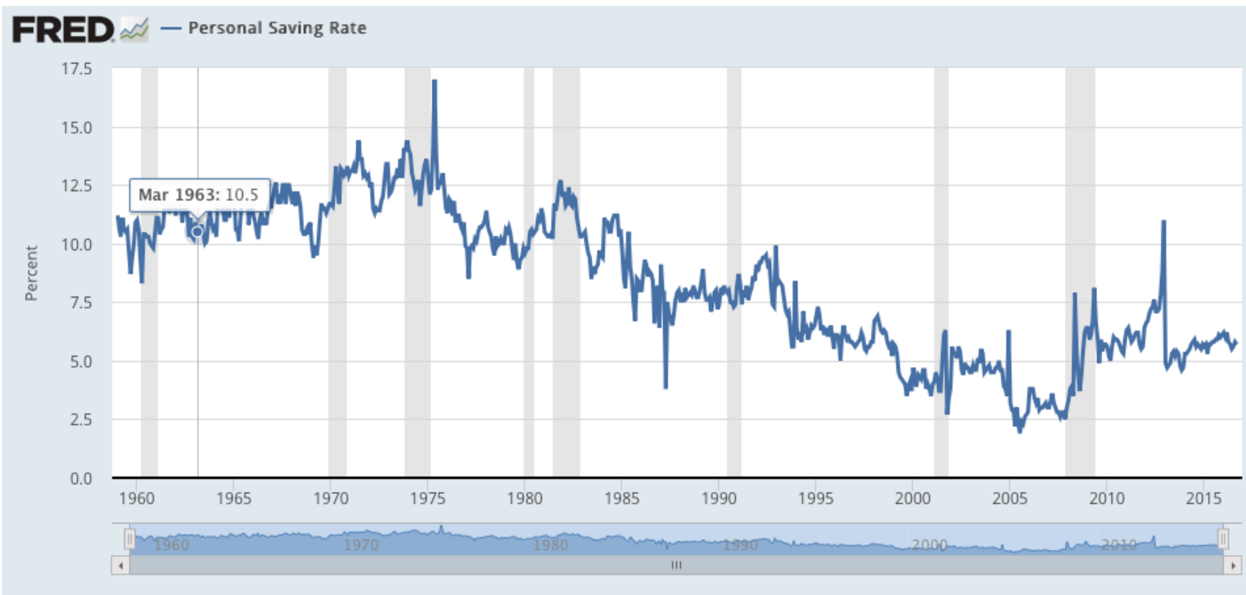
Are Americans Saving Enough?

Only fifty years ago, thrifty Americans were saving more than 10% of their income according to the US Bureau of Economic Analysis. It was a way of life: you spent what you needed and saved the rest. Even before the advent of tax-advantaged saving in 401ks and IRAs, the prior generations socked away money for emergencies and retirement.

But saving habits begin to erode in the 1980s. Mass consumption, planned obsolescence and easy credit helped deteriorate the average saving rate almost to zero. The chart below shows the steady decline until the great recession of 2008 awakened folks to the concepts that perhaps it wasn't such a good idea to have limited reserves on hand and spend everything they had.



So the question today is, after our short experiment with thrift (savings rate rising above 10% in 2013), are we again headed toward survival at the edge of economic disaster? From the chart above, the answer seems clear. There is evidence that we're returning to retail therapy and credit card borrowing.

Rick Newman, a financial writer for *U.S. News & World Report,* reminds us of some pertinent statistics.

Stagnant income: The median income today, after adjusting for inflation, is more than 20% higher than it was in 1967. However, during the last 15 years, the inflation-adjusted income of the average American has been flat. Translation - an increase in spending may be funded by a decrease in savings.
More debt: Adjusting for inflation, the average debt load today (including car loans, student loans, credit card balances and other typical consumer borrowing) is about 140% higher than it was in 1960. Translation – an increase in spending may be funded by an ncrease in debt.
Sporadic savings: Saving dramatically fell out favor during the 1990's. Economists thought the Great Recession would reverse the tide, reminding consumers of the need to fix their finances, but that hasn't happened. The savings rate climbed as high as 11% in 2012, but has since fallen to less than 6%. Translation – convincing the average consumers to save is a hard sell.

Economists love hearing the news that consumer spending is up. We like it when production increases and new, exciting products are available. We are especially happy when we hear the stock market is going up, reaching levels not seen since 2008.

But there could be a dark side to positive economic news. If spending is being fueled by increased borrowing or decreased savings, then we are again increasing risk, both for ourselves and for our country.

Obviously, you can't change the economic landscape by yourself, but you can control your own actions. Are you saving for retirement at 10% or more? Do you have an emergency fund of six to nine months living expenses? Do you really need the newest car or phone?

Hopefully, the economy will continue to grow and expand. But no matter what happens, be sure you are doing your best to manage your personal financial future.