Kick-Start the Savings Habit

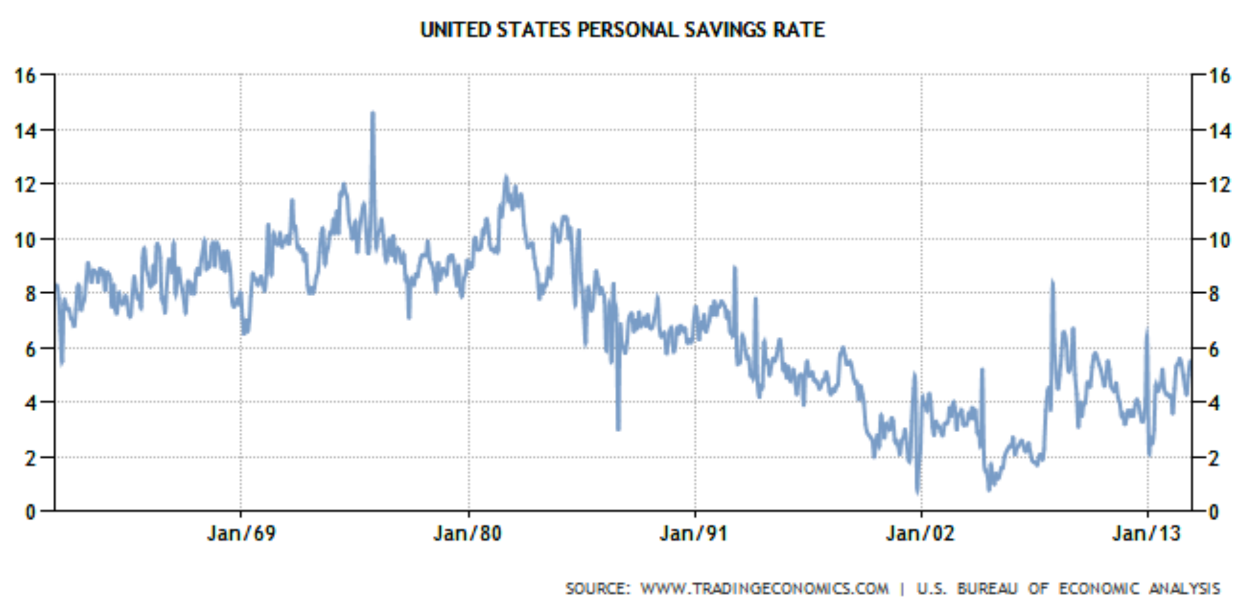
"As important as I think (saving) is, national savings has always been relegated to the B list of economic measures."
- Edward M. Gramlich, Board of Governors of the Federal Reserve from 1997 – 2005

Believe it or not, there was a time not long ago when Americans tracked their *savings* instead of their *credit card debt!* Now saving money seems like a memory from yesteryear. To be sure, many Americans set aside money, but it goes straight into mutual funds, often by way of 401(k)s and other qualified retirement accounts, where it is no longer liquid, guaranteed, or under their control.

These days, we are so eager to run that we forget to walk first! We neglect saving in order to "invest," when both are necessary. Saving money provides the crucial foundation that allows us to then invest successfully.

In his book *Pound Foolish*, Steve Utkus points out that before the rise of the financial planning industry in the 1970s, the cornerstones of personal finance were "savings accounts, whole life insurance, and the home mortgage." Most people's number one fear was speaking in public, not running out of money.

However, personal savings peaked in 1975, when the average household socked away 14% of their earnings. That's a stark contrast to the average post-2000 family, who set aside as little as 1% of their yearly income, as the following chart from TradingEconomics.com shows:



Credit may have driven the economy for a few decades, but it came at a steep price. Consumers got used to having lines of credit and abandoned the concept of savings. According to Jonas Emmerraji, contributor to Investopedia.com and *Entrepreneur* Magazine, “As the credit market seized, and consumer credit lines began to shrivel, people started to realize that the credit limits on their accounts weren’t the same as cash in the bank.” By 2008, the trap door of credit caught the whole country off-guard as the economy crashed, foreclosures soared, and many found themselves unemployed and/or insolvent.

Personal Savings: A Foundation of Prosperity

An active and consistent savings strategy is KEY to our economic health. It provides a number of short- and long-term benefits, such as:

1. Having a robust emergency fund available. If we get into the habit of counting on credit to get us through a sudden financial jam, that option is a dead end. Even if you think you can draw on a 401k account, you will still incur large penalties and taxes - when you can afford it the least. Oftentimes employees are only able to access funds under certain conditions or for certain reasons, and even then, they must be paid pack on strict schedules (or all at once should they leave their employment).

The bottom line: it is essential to have a *liquid source of funds*. Ample cash reserves allows us to weather emergencies. The alternative is to sink into debt. Even if the credit is available, interest rates can be double-digit and a cycle of credit dependency can be created.

2. Having liquidity for opportunities. We often think of saving money as something we do "in case of emergency," but actually, we should also be saving "in case of opportunities"! Typical financial advice instructs people to put most of their money in the stock market, but there are many kinds of investment opportunities, from real estate to business to lending money at interest. The key to taking advantage of such opportunities is having the *liquidity* to do so.

3. Weathering economic downturns. Cash reserves can be relied on if (or when) the bottom falls out of the financial markets. Economic cycles can still present challenges, but those with cash can weather the storms much more easily.

4. Saving triggers an *upward spiral* towards financial security. Here is how that upward spiral works. According to a 2013 article in *Forbes*, there are four top factors in upward mobility: education, dual incomes, continuous income generation and savings. A household that is in the habit of setting aside cash will have more ability to invest in education and training. Better training leads to better career or business opportunities. A higher income is achieved, with more to save or invest wisely. This is a pattern that builds upon itself in the best possible way!

5. Save more money, save the economy. When people save rather than depend on credit, the economy has greater stability because it is not fueled by spending that ebbs and flows with interest rates, or spending that will halt suddenly if credit standards tighten up. An economy fueled by credit is susceptible to instability and economic "bubbles" that can pop later.

Ultimately, by saving money we are also saving and protecting ourselves in the long run. As Jeanette Bajalia, founder of Women’s Worth urges, *“Let go of the mentality of spending money for immediate* *gratification to protect yourself in the long term."*

Time to Start Saving!

It is a natural human tendency to spend more as we earn more. This approach doesn't move us ahead as much as put us in a perpetual holding pattern, running ever faster to keep from backsliding into poverty.

Saving, on the other hand, is a progressive action rather than a defensive action. It is necessary to assert self-discipline in order to shift from subsistence living to comfort. In *Busting the Retirement Lies*, Kim Butler recommends a discipline of setting aside as much as 20% of your earnings for long-term saving. By growing that reserve (especially at the 20% level), you will progress towards comfort, then on to prosperity, while creating a cushion that will help break any financial fall.

Says Butler, *"Saving money is something we can control. It may not be easy…but saving money is possible."*

There is a good reason that living within your means is a time-honored concept – in the long run, it pays off... literally!

5 Tips to Jump Start Your Saving

1. Track what you're spending now. Once you know where your money is going, you can determine where you can afford to adjust your spending.

2. Align your spending with your priorities. Are you spending more at Starbucks than on your future financial freedom? Does your bank account reveal what's really important to you? Look to see where your values are - or aren't – detailed in your bank statements.

3. Focus on changing habits, not deprivation. This can be done by *adding* home-cooked meals with friends (instead of eating out), or *adding* to your Netflix movie queue instead of dropping $40 on a theatre and snacks for two.

4. Make saving automatic. Set up automatic withdrawals so that money doesn't sit in your checking account.

5. Out of sight, out of mind. Consider opening a savings account at a separate bank or credit union, or beginning a cash value insurance policy so that you have liquidity without making access to your cash *too* easy.

Where to Save?

Savings accounts at a bank or credit union are a good place to start. As your liquidity grows, we don't recommend keeping 6 or 12 months of living expenses in a bank because of low interest rates and also privacy issues, taxation and other issues.

If you hate to have your savings accounts earning a measly 1% or less, there is a better option! Find out why the wealthy often utilize high cash value whole life insurance, and how it can help you

- increase long-term savings and financial stability
- shield your privacy (the IRS won't know what you have stashed away)
- protect your family permanently (why get only term insurance that becomes cost-prohibitive when you need it most?)
- beat bank rates (internal rates of return are currently around 4%, depending on age and health), and
- build liquidity that can be used or borrowed against for any reason.

Typically you'll want the ability to be able to save for more than ten years to achieve returns that "beat the banks." However, the ability to put permanent life insurance benefits in place can also be a strong deciding factor!   Life insurance is *more* than just a savings vehicle.

For more information, contact Kaye Lynn, by phone (916) 806-1214 or by e-mail, ff@kayelynn.com to find out whether or not it would make sense in your situation.