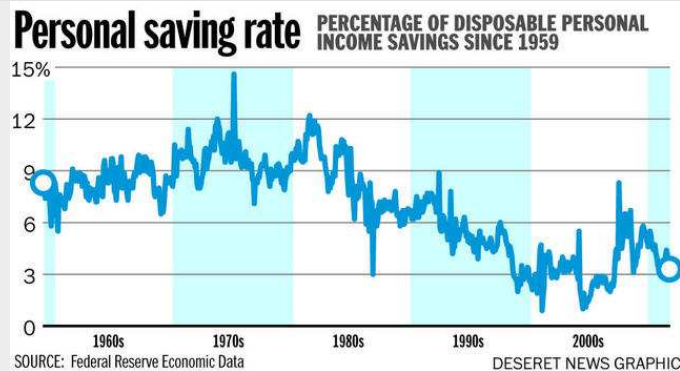


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Why people do not save money, and how to change that

By: Michael De Groote - December 3rd 2012



Poor Denis Diderot couldn't help himself.

The 16th century philosopher was given a beautiful scarlet dressing gown as a gift — a casual robe to wear around the house. Unfortunately, the fancy dressing gown made everything else in his life look shabby. So Diderot replaced artwork, bookshelves and furniture to match the gift's level of luxury. It was as if the new dressing gown had taken over his life.

"I was absolute master of my old dressing gown," he said in an essay published in 1772, "but I have become a slave to my new one."

Dave Chilton, author of "The Wealthy Barber" and its recent sequel, "The Wealthy Barber Returns," thinks Diderot's story rings true.

"Spending begets spending," Chilton says. "I've seen that a thousand times in my career."

But spending does not beget wealth. Sixty percent of workers say the total value of their household savings and investments (not counting their home) is less than \$25,000, according to a study by the Employee Benefit Research Institute.

The National Foundation for Credit Counseling found 64 percent of Americans couldn't rely on their savings account to pay for a \$1,000 financial emergency.

People do not have enough in savings to weather the common emergencies that life throws them. A study by Doorways to Dreams of families with \$20-60,000 in annual income found that 62 percent of households experienced at least one financial shock in

the last year and 51 percent of households lacked any emergency savings to help them cope.

Experts say there are many reasons why Americans are failing to take the most basic steps of financial responsibility. But there are also ways that people and organizations have found to increase savings and, they say, to even make it fun.

Nobody wants to save

"Nobody out there really wants to save, truthfully," Chilton says. "Your kids want you to spend. The government wants you to spend. ... Even your inner self wants you to spend your money. It is not a fair field of competition. Everyone wants you to spend and overcoming all that pressure is quite difficult."

Jim Yih says there are different cultural reasons why people don't save.

Yih, a financial educator and author in Edmonton, Alberta, Canada, says school is considered the main source of financial education, but there is just not enough of it.

Another problem, he says, is a consumption attitude.

"We are a spending society," he says. "We've taken every major holiday and turned it into a big sales event."

In times past people would delay gratification. And many stores would only accept cash. Now, Yih says, his kids won't believe him when he says he can't afford something. They just tell him to use a credit card.

Governmental blocks to saving

Daniel J. Mitchell, a senior fellow at the Cato Institute, a non-partisan libertarian think tank headquartered in Washington, D.C., says if people save or invest money instead of just spending it, they may be subject to more taxes. It is as if the government is saying, "Save and pay more taxes. Spend and pay less."

Andrew Schrage, co-owner of Money Crashers Personal Finance (MoneyCrashers.com), explains some of those taxation layers: income taxes, capital gains taxes if a purchased stock does well, taxes if the stock issues dividends and, after a person dies, inheritance taxes.

Mitchell says the middle class do not save as much as they did in the past because of government spending programs. They don't save for retirement because of Social Security. They don't need to save for health care, unemployment, education and so forth, he says. The incentives to save are not there.

Encouraging savings

Timothy Flacke, executive director of "Doorways to Dreams" or D2D Fund, says there are two categories that block savings.

First is simply access.

"If you don't have a savings tool, you are not going to save," he says.

Second, savings is considered a form of self-denial or self-sacrifice. It just isn't fun.

"People have a tendency to look at savings the same way they look at dieting," Flacke says. "They do not look forward to it."

One way D2D has worked on the fun aspect of savings is to look at prize-linked savings. The more money people save, the more chances they have to win prizes.

Similar programs have been operated in the United Kingdom and other countries for decades with success, he says.

D2D's save to win program has worked with credit unions in Michigan and other states (Rhode Island, Nebraska, Washington, North Carolina and Maine) are in the process of implementing similar savings programs. The difference between the program and a lottery is in the save to win program, people keep their money. The difference between the account and a regular credit union or bank savings account is the interest rate is lower to pay for the possible prizes.

The whole point is to get people to save who otherwise would not save — and, Flacke says, it has had a broad appeal across socio-economic groups.

D2D has also worked on the access end of the savings problem. Flacke says every year billions of dollars come back to people through tax refunds and the earned income tax credit.

"This is a huge financial event in the lives of people who do not make a lot of money," he says. "This is the moment you want to make it easy to save money."

D2D is trying to educate people about the U.S. Savings Bond option on income tax forms where people can choose to get a part of their refund in inflation-protected savings bonds.

Unlike the U.S. Savings Bond program through banks, this method still gives people paper savings bonds — enabling people who do not even have a bank account to save.

A parent can also place a child's name on the bond. "This is powerful for a child to know that a parent is putting aside money for them in their own name," Flacke says.

D2D has other initiatives as well, such as online financial games and emergency gift cards.

Deciding to save

"You can beat people all you want, saying, 'You should save more,'" says Mitchell with the Cato Institute, "but if you don't have any incentive or reason to save because of the government, (it isn't going to work)."

And avoiding expensive dressing gowns may help as well.