Our Perspectives: Talking to Yourself About Money

This article was prepared in June 2017 and first appeared in the Q2 2017 issue of *Horizons*, Homestead Funds' quarterly newsletter.

Stephen Kaszynski, CFA®

Steve is the director, president and CEO of the Homestead Funds and its related money management entity RE Advisers. Prior to joining RE Advisers in 2015, he was a vice president of Eaton Vance and a portfolio manager for the company's large-cap value strategy. He also served as head of U.S. equities at Credit Suisse Asset Management, while leading the portfolio management teams for both small-cap value and large-cap value strategies. Steve served as lead portfolio manager for INVESCO's large-cap value strategy and was a co-founder and managing partner of D.A. Capital Management, LLC.

"The national personal savings rate in the U.S. has hovered around 5 – 6% since the financial crisis — better than the pre-crisis low of 1.9%, but still far below the level needed to sustain our citizens in old age."

Homestead Funds client services team would be happy to talk with you about your goals and current investment program. Give us a call at 800.258.3030.

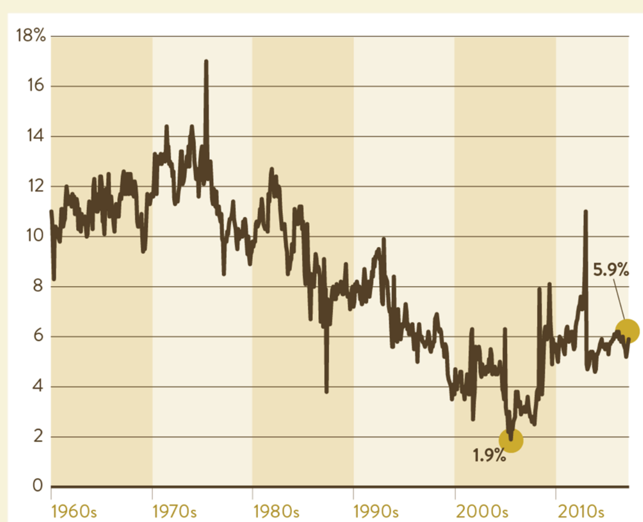
As the behavioral economist and personal finance author Sarah Newcomb explored in her 2016 book LOADED, our money stories are a powerful force behind our money habits. These stories are the internal dialogue behind our financial decisions. Without realizing it, they insert themselves into our thinking constantly. They may be good stories or bad, and they may be true or untrue. The most important point to realize is that we all have stories that shape our perspectives on wealth, status and self-worth.

Brené Brown, a social work professor and expert in the emotions that drive behaviors, notes that our money stories are often rooted in vulnerability, courage, worthiness, guilt and shame — a lineup that represents some of the most powerful human emotions.[1]

An Urgent Matter

As individuals become responsible for providing their own "pension," they must become masters of saving and investing. Most financial planners estimate that people should save 10 – 15% of their income each year to accumulate sufficient savings by retirement.

The Personal Savings Rate in the U.S. Falls Short



Source: Federal Reserve Bank of St. Louis.

By that measure, we're all falling woefully short. The national personal savings rate in the U.S. has hovered around 5 – 6% since the financial crisis — better than the pre-crisis low of 1.9%, but still far below the level needed to sustain our citizens in old age. The rate of saving among Americans is also generally below that of earlier generations — the national personal savings rate was north of 10% for most of the 60s and 70s — and below the current rate of most other developed nations, according to the OECD.[2]

Only the Top Earners Are Saving

Approximate Savings Rate by Income Bracket, 2010 – 2012

Top 1% of earners	39%
Top 10-to-1% of earners	15%
Bottom 90% of earners	0%

Source: Emmanuel Saez and Gabriel Zucman, "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data," National Bureau of Economic Research, Working Paper No. 20625, 2014.

Middle-Class Woes

The matter is even more urgent than the average savings rate suggests. Research shows that savings rates vary widely among income brackets — and only the richest people are saving much at all.[3] In fact, from 2010 – 2012, the average savings rate for the "bottom 90%" — that is, all but the top 10% of earners — was about 0%. In the 2000s, this cohort, which represents the majority of Americans, had a negative savings rate. Instead of saving, they were going into debt.

These patterns are unfortunately nothing new. The highest earners have perpetually higher savings rates, while the rest of the population hovers in the 0 – 5% rate over the long term.

This entrenched difference in savings rates is one of the reasons that the "rich get richer," as they say.

Our Cultural Values Matter

Americans enjoy one of the highest standards of living in the world. But for better or worse, our free market and individualistic society is quite status-driven. And material goods are a reliable indicator of status — we may be "keeping up with the Joneses" just to demonstrate our worth to ourselves and our peers, without ever realizing it. In a culture filled with nonstop advertising, celebrity worship and now the 24/7 online access to shopping, the drive to consume is overriding the need to save.

The young people in our society may be the biggest victims of this consumption-first culture. In a 2009 study by a Notre Dame sociologist, well over half of "emerging adults" — those aged 18 to 23 — agreed that their "well-being can be measured by what they own, that buying more things would make them happier, and that they get a lot of pleasure simply from shopping and buying things."[4]

Put Your Stories Under the Microscope

As you evaluate your own finances, take time to consider the stories behind your choices and habits. Both your personal experiences and your cultural setting can be powerful drivers of your big and small decisions. Consider this a matter of great urgency — your savings depends on it.

[1] www.forbes.com/sites/jeanchatzky/2016/08/22/has-money-ever-made-you-feel-confused-frustrated-guilty-shameful-read-this/#1bc0cae61ee6
[2] data.oecd.org/natincome/saving-rate.htm
[3] www.hoover.org/sites/default/files/research/docs/chapter_6_-_kevin_murphy_and_emmanuel_saez.pdf, page 19
[4] www.wsj.com/articles/how-to-raise-an-american-adult-1493995064

Homestead Funds