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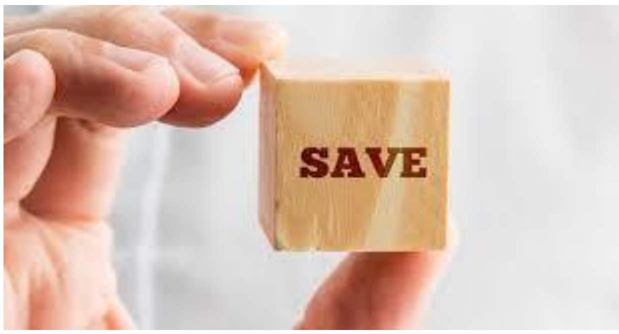
Kick-Start the Savings Habit

"Save Now or Pay Later…Let go of the mentality of spending money for immediate gratification to protect yourself in the long term."
– **Jeanette Bajalia,** founder of Women's Worth

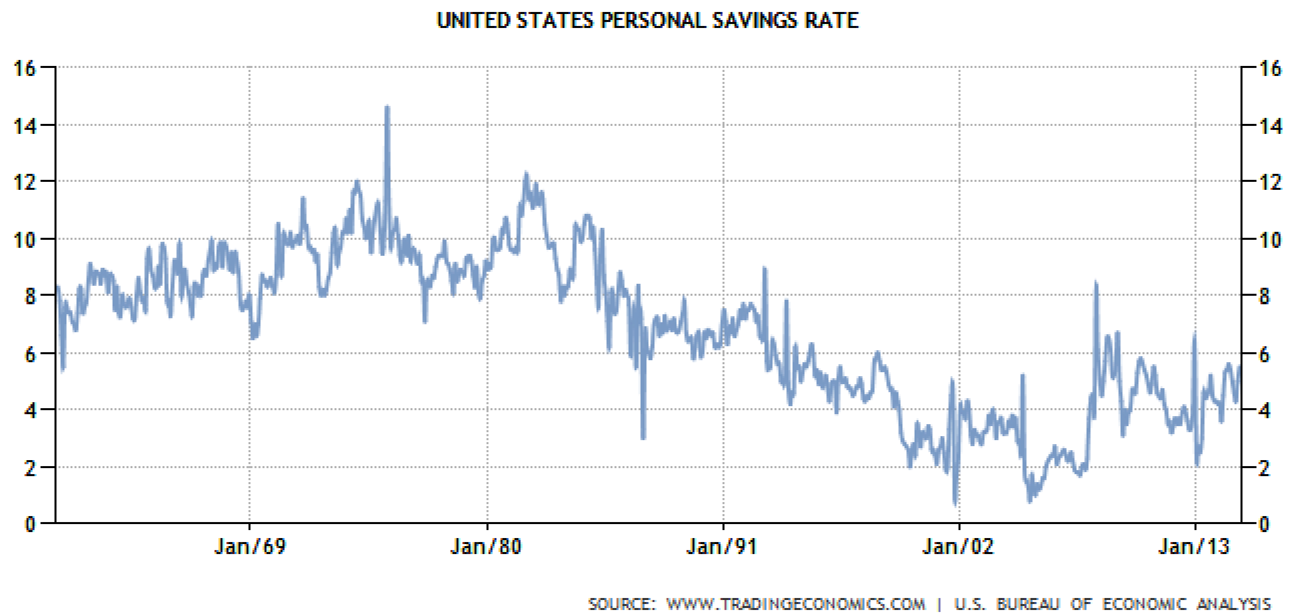


Believe it or not, there was a time not long ago when Americans tracked their savings instead of their credit card debt! Now saving money seems like a memory from yesteryear. To be sure, many Americans set aside money, but it goes straight into mutual funds, often by way of 401(k)s and other qualified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

In these "high speed" days, we are so eager to run that we forget to walk first! We neglect to save in order to "invest" when both are necessary. Saving money provides the crucial foundation that allows us to 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." According to Kim Butler of Prosperity Peaks, "Paying down debt is NOT a form of saving money." 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. Be sure to have 50% (six months of salary) of your Gross Income in liquid "savings" type accounts.** If we get into the habit of counting on credit to get us through a sudden financial jam, ultimately that will become a dead end. If you must borrow from your 401k account (limited to 50% of your account value to a maximum loan amount of $50,000), you will incur high monthly payments at an inopportune time as most 401(k) loans must be re-paid over five years. BTW…loan payments are after-tax and are taxed again when withdrawals take place upon retirement thus making for a very expensive loan scenario. Further, upon termination of employment, the outstanding loan must be re-paid in full, or you are

subject to penalty and tax. Bottom line: it is essential to have a liquid source of funds. Ample cash reserves allow 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. **Being liquid for financial opportunities...that once in a lifetime opportunity!** We often think of saving money as something we do “in case of an emergency,” but actually, we should also be saving “in case of opportunities!” Typical financial advice instructs people to put money in the stock market, but there are many kinds of investment opportunities: real estate, business, and collectibles are just a few. 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 present challenges, but those with cash can weather the storm with confidence.
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 savings will have more 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. **Saving saves the economy.** When people save rather than depend on credit, the economy has greater stability. Spending fueled borrowing ebbs and flows with interest rates and will likely halt suddenly when credit standards tighten. An economy fueled by credit is susceptible to instability and economic “bubbles” that eventually crash.

Time to Start Saving!

Inside World versus Outside World

Robert Castiglione, Creator of LEAP Systems Inc., explains "Inside World Versus Outside World"…The inside world is where you control your living expenses (Lifestyle) based on your earnings. This is the world you control…you set your lifestyle. The Outside World is made up of eroding and deteriorating forces (factors) such as Government Taxes, Inflation, Illness, Disability, Law Suit, Technological Change, Corporation, Planned obsolescence, Theft. The Outside World has one purpose and one purpose only…to attack your inside world every second of every day for your entire life

It is a natural human tendency to spend more as we earn more...propensity to consume. 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. Unfortunately, this often leads to living above one's means.

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 your Inside World, you need to save as much as 20% of your gross income to defend against the forces of the Outside World. By growing that reserve, you are likely to be in a position to meet all of your financial obligations throughout your life…Home Purchases, Children's College Education, weddings and other lifetime events, Retirement, financial emergencies and overall lifestyle.

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 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 – represented by your bank statements.

3. **Focus on changing habits, not deprivation.** By adding home-cooked meals with friends (instead of eating out) or buying the more affordable car (instead of the more expensive one).

4. **Make saving automatic.** Set up a "Wealth Coordination Account" (WCA) to create a central savings account for systematic savings.

5. **Out of sight, out of mind.** Consider opening a savings account at a separate bank or credit union, or establish a cash value Whole Life insurance policy…forced savings with tax-benefits.

Where to Save?

Savings accounts at a bank or credit union are a good place to start. Another savings vehicle is cash value whole life insurance. Some of the benefits of Whole Life:

- increases long-term savings and financial stability with Guarantees
- shields your privacy (the IRS doesn't receive a 1099 on your Cash Value or Annual Dividend)
- A Death Benefit protects your family permanently (why get only term insurance that becomes cost-prohibitive when you need it most?)
- Offers competitive returns compared to bank rates on a tax-favored basis
- Builds liquidity
- Offers a self-completing savings plan in the event you become disabled (Waiver of Premium rider)
- Cash Value is protected from creditors (State Dependent)

It is never too late to start saving…Let's get started!

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