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Why it’s so hard for most people to save money — even the wealthy

by Maria Lamagna • Sept. 21, 2016 • 4 min read • original

Despite an improving economy, Americans still have trouble saving — a shocking number of adults have less than $1,000 in a savings account, even when their incomes are more than $150,000.

Although people with different incomes have unique obstacles to saving money, a recent survey of more than 7,000 people from personal-finance website GoBankingRates found that people at all income levels had very little saved in savings accounts.

“Clearly people who are earning a lot are still struggling to get by, which sounds crazy, really,” said Cameron Huddleston, a life and money columnist for GoBankingRates. “If you’re earning that much, why are you struggling?”

Of those whose incomes were less than $25,000, 38% had $0 saved, and 35% had less than $1,000. People who earned more fared better, but still reported low amounts of savings in savings accounts. Of those with incomes of $100,000 to $149,999, 18% had $0 saved in a savings account, and 26% had less than $1,000. And for earners of $150,000 annually or more, those numbers dropped slightly to 6% and 23%, respectively.

It’s important to note that GoBankingRates didn’t ask those surveyed if they had money saved or invested in another format, besides in a savings account, and it’s probable that some of these low savers have money with brokerage accounts.

But the survey’s results mirror previous research about saving in America.

Americans are some of the worst savers in the developed world.

U.S. adults currently save just under 6% of their disposable incomes, according to the most recent data from the Federal Reserve Bank of St. Louis. That number includes savings in retirement accounts.

Almost half of American adults could not cover an emergency expense of $400 without selling something or borrowing money, according to the Federal Reserve. And about 31% of non-retired adults have no retirement savings or pension at all; among those who were employed but not enrolled in a retirement savings plan, 19% said they weren’t even sure if their workplace offered a savings plan, such as a 401(k) or something similar.

And student debt remains a large expense for many families; not only are recent graduates paying their loans, but parents may still be paying their children’s loans, impacting their ability to retire, Huddleston said.

Much has been written about apps that can help people keep track of their finances. But technology has also made it easier for people to spend more money. As companies compete for consumers’ loyalty, they’ve made paying for items as easy as sending a Facebook FB, +0.25% message, talking to Apple’s AAPL, -0.13% voice-powered virtual assistant Siri or clicking one button.

“Our issue is we’re spending before we even save and then never look back,” said Brandon Hayes, a financial planner and vice president at oXYGen Financial, a financial services firm based in Georgia, in GoBankingRates’s report. “With a cashless society, it’s tough to appreciate a dollar when you never see one.”

And subscription services, such as music and video streaming, meal delivery kits or monthly clothing delivery, which have become commonplace, also can add up, and can be difficult to cancel — or difficult to even remember you signed up for in the first place.

And of course, you can show off all those purchases on Facebook and Instagram; almost 40% of adults with a social media account said seeing other people’s purchases and vacations on those networks encourages them to look into buying something similar, according to a survey by the American Institute of Certified Public Accountants.

“Social media can be the modern day version of ‘Keeping up with the Joneses,’” and some people “feel inferior if someone they know has a shinier or bigger toy than they do,” said psychologist and author Nancy Irwin in a previous interview with MarketWatch.

Here are several other factors that are likely to blame for the lack of savings.

Paying off credit-card debt is the primary cause of financial stress in many U.S. states, according to a separate GoBankingRates survey. Americans have a collective credit-card balance of $729 billion, according to the Federal Reserve Bank of New York; that's below the peak $866 billion reached in 2008, but still a high number.

(Of course, there are also ways to use credit cards to your advantage, as long as you pay your bill in full and on time.)

But the answer to why Americans aren't saving more may be simpler.

The amount that individuals were saving in GoBankingRates's survey remained fairly consistent across all age groups, showing that saving behavior may indicate more about someone's personality than stage in life, Huddleston said.

"Even those people who are high-income earners find themselves living paycheck to paycheck because as their income increases, so does their spending."

Despite income levels, it seems that "many people fall into one category or the other, spenders or savers," said Rachel Podnos, an attorney and financial planner based in Washington, D.C. "A spender is always a spender."

In her work, she sees some people who have high incomes but struggle to save for retirement, and similarly, people who remain frugal their entire lives, and can't bring themselves to spend money, even when they receive unexpected funds, like an inheritance, Podnos said.

She tries to encourage some people to enjoy their money more. "We asked one client, 'What do you enjoy?' to figure out where he could spend, and he said, 'Nothing.'"

Typically, her advice is to achieve some sort of middle ground, Podnos said. Saving about 20% of one's income is a good general guideline, she said.

Although everyone’s circumstances are different (for example, someone with a high income may still be paying off a large amount of student debt), she typically recommends having at least three months worth of expenses stashed away, and have it be liquid and not exposed to financial market volatility. For people with dependents or an unstable income, that number should be closer to six months or one year of expenses, she said — far more than many who answered GoBankingRates’s survey said they have.

The same idea that makes spending so easy can make saving easy, too, she said; the more one can automate the process and make it painless, the better.

If possible, Podnos recommends clients automatically have savings taken from their paychecks, to go into retirement savings and additional savings accounts.

“You don’t have to think about it,” she said.

It’s also a good idea to up those percentages when one’s income increases; saving 50% or more of a raise is a good idea, she said.

Particularly for people with lower incomes, “You really need to live within your means and cut expenses wherever you can.”

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