

- [Home](#)
- [My Blog](#)
- [The Gail Way](#)
- [Articles](#)
- [Resources](#)
- [Gail's Tips](#)
- [Q & A](#)

## The Lost Art of Saving

### If you aren't saving, you're asking for trouble

Despite all media' warnings, financial planners' tut-tutting and the popularity of books such as David Chilton's Wealthy Barber which made it's fame telling a simple story - "Save ten percent" - we are a spendthrift bunch.

We haven't always been. We saved ten percent or more for twenty years, from 1973 to 1993\* -- more than enough time to have established the habit. Our savings rate reaching a peak of 18.5 percent in 1982 (In our enthusiasm, did we over-do a good thing?), we bounced around the ten percent mark for about a decade, and then in 1993 we began our great slide. By 1999 we'd hit a low of 3.6 percent and in April of 2007, we finally made it into negative territory: our savings rate was -1.4 percent. Yes, we were officially spending more money than we made.

Negative 1.4 percent is a long way off ten percent, and an even longer way off the RRSP contribution limit calculation, which is based on putting aside 18 percent of earned income.

You could blame our higher taxes and you'd be somewhat justified. Taxes as a percentage of our total incomes rose from 18.43 percent in 1973 to 23.9 percent in 1999. But you would also have to take a close look at our spending habits. What we spend on goods and services has gone up steadily since 1982. And we've availed ourselves of more credit. Liabilities - what we spend on our credit cards, loans, mortgages and the like - rose from .67 percent of our annual income in 1982 to over 4.9 percent in 1999.

Consumer credit - the money we borrow to feed our passion to consume stuff - makes up a big chunk of that as it rose from -.06 percent in 1982 to 1.34 percent in 1999. And according to a report entitled Canadian Economy: Personal Savings Rate put out by Industry Canada, in 1998 total accumulated debt per household in Canada was equal to 114 percent of after tax income. Whew! How could we possibly save anything when we're spending more than we're making servicing our debt?

These figures seem to fly in the face of most of the predictions for how the baby boomers will behave as they age. In Boom Bust and Echo, David Foot asserted, "When you are young, you are a borrower. In your 40s and 50s, you are trying to build a nest egg for retirement." Financial advisors are standing by, holding their breaths, waiting for the money to come pouring in as boomers hit their peak earning years. Yet since 1993 as we watched the first of the baby boomers turn the corner to middle age, Canada savings rate has plummeted despite a healthy economy, low inflation and more being written about money than every before in history.

So why aren't we saving? It really doesn't matter what reason we give... too much debt, high cost of living, taxes; the real reason we aren't saving is because we've forgotten how important it is to save.

Perhaps the gloomiest part of the Savings Picture is the legacy we are leaving our children. Not only are we teaching them how to be avid consumers: spending their money on everything from trading cards at \$5 a pop to horrendously expensive video gaming toys; we are, by omission, teaching them not to save. And we're willing to allow credit purveyors to entice our children into a world of debt with nary a lesson on how to keep a balanced financial picture. For while credit card companies wouldn't dream of issuing a credit card without an adult meeting significant credit criteria - they'd have to have a job, for example - students in university are assaulted

by easy credit, making it easy for them to dig debt ditches they must subsequently struggle out of.

## Why Save

Saving gives us a sense of security and mastery over our finances. As our savings grow - be they in a run-of-the-mill savings account or invested in equities - we can take pride in our sense of discipline and increased ability to weather a storm.

The more we've accumulated in savings, the harder those savings work for us. It can be truly rewarding to see substantial sums of money generated solely by our savings.

Saving takes us closer to our goals. It also creates a strong sense of independence by putting us squarely in a position of control. We have the resources to cover unexpected expenses without incurring debt at high rates of interest. We have the flexibility to take advantage of investment opportunities as they arise. We can change jobs, change homes, change countries without the sense of anxiety that comes from existing paycheque to paycheque.

## How to Save

This is perhaps the area in which we are the most confused. If we sock away \$5,000, \$10,000 or \$15,000 a year in a retirement savings plan, we're doing a great job of saving, right? Well, not exactly. If we had to borrow the money to make that RRSP contribution, we won't actually have saved a nickel until that loan is paid off. And if we stuck \$2,500 away in an RESP for junior and then promptly upped our line of credit balance by a similar amount, we haven't saved a cent.

People playing games... stealing from Peter to pay Paul. But they're not saving. To actually save a dollar you have to take that dollar out of your cash flow. Putting it in a GIC and then spending it on a credit card doesn't count. You must make the commitment that current expenditures will not exceed current income. You've got to spend less money than you make.

The you-don't-have-to-think-about-it way of saving is to use an automatic debit from your chequing account to your savings account, so the temptation to spend the money is removed. Yes, it's a bit of a head-game to trick yourself into saving. But hey, if it works! Not everyone is a born saver, after all. Some people must play the game to achieve their goals.

Back to David Chilton's *Wealthy Barber*. The advice was sound in this short-but-sweet bestseller. Basically it boiled down to pay yourself first; put savings in a separate account; and be consistent. If you wait to see what's left over after your expenses you'll be justified in not saving because you won't have much left. That's the way it is with money. Smart savers do it the other way around. They take the money they want to save and hide it before they can spend it. Sure it may mean cutting back a little, but that usually doesn't hurt as much as most people think it will.

This all sounds like pretty basic information, nowhere near as exciting as a discussion of the stock market, technical analysis or long-term projections for the economy. But as simple a concept as saving appears to be, it's the one that is being missed. And if you're not talking about saving at home, there's little to motivate your child to develop this life-long habit. So start talking about it.

## Teaching Children to Save

One of the most effective ways of motivating a child to get into the savings habit is with a savings-matching program. You offer to match every dollar your child saves within a specific period of time with a dollar of your own. "Molly, here's the deal. If you can save sixty dollars by the end of the summer, I'll match that amount so you can begin investing."

If watching your money grow in a savings or investment account doesn't turn you on you'll have to find some other motivation for saving. How about this: Just for one moment be a pessimist.

What if you lost your job, got sick, smashed up your car, or had a tree fall on your house? Those are all good reasons to save. So is putting aside enough so you don't have to depend on anyone else - be it the government or your children - to take care of you when days of heading into the mines are over.

\*All figures based on Statistics Canada National Economic and Financial Accounts unless otherwise stated.

---

[Back to Top](#)

[Return to Main Articles Page](#)

[Print this Article](#)

[Bookmark this Site](#)

© 2012 [Gail Vaz-Oxlade](#) Graphic Design by: [Indyzign](#)