A Million And The Savings Crisis

A Million is Not What it Used to Be

One lesson we need to remember is that today a million dollars is not what it used to be.

Do you remember the show *The Millionaire*? This dude, John Beresford Tipton, Jr., had about a gazillion dollars and every week he picked somebody that he gave a million dollars to. Then this really ugly guy delivered the money with the caveat that you couldn't tell anybody. The thing is each show had a moral. Basically it was something like "A million dollars (tax free) won't solve your problems". (Bet me!) In fact it usually caused more problems. As a kid I dreamed that the ugly dude would come knocking on our door. It never dawned on me that in our neighborhood the guy would get the stuffing beaten out of him just for being ugly. In March 2011, ABC premiered a show called *The Secret Millionaire* where some rich person goes undercover in poor neighborhoods and lives like a poor person for a week or so, while volunteering at charities. At the end a "Big reveal" unmasks the millionaire who then gives money to the charities. The message is a bad one. It glorifies being a millionaire and demeans being poor. ABC could have saved a bundle in production costs by donating to the charities directly. But that wasn't ABC's point. The charity donations are just a byproduct of the main mission which was for ABC to make money from advertisers. That's not charitable and it's not entertainment either.

So fast forward to today. A million is not what it used to be. Not that long ago, the word "millionaire" conjured up visions of chauffeured limousines and extravagant shopping trips and elegant yachts. These days, a millionaire is more likely to be the person next door who saved carefully -- and perhaps benefited from the sharp run-up in housing prices, and then bailed out before the 2008 crisis. Today's millionaire still worries about covering the exploding costs of children's educations, caring for aging parents and funding their own retirements. Tom Stanley, author of *The Millionaire Next Door*, said the car of choice for millionaires is a Chevy Suburban. The businesses which foster more millionaires than others include dry cleaning, service stations and car dealers.

To people living paycheck to paycheck or who haven't saved much -- which is the bulk of the U.S. population -- a million dollars seems very far out of reach. About 10 million people in the country today have a million dollars in net worth (assets minus liabilities, including primary residence).

But, $1 million doesn't go as far these days as it used to. For one thing, it's vulnerable to inflation -- someone who bought $1 million worth of goods in 1957 would need $7.3 million to buy the same goods today, according to Federal Reserve figures. Most Americans don't have a million dollars -- and to them, a million dollars is a fortune.

Take a baby boomer who has less than $50,000 in savings -- which is what the average baby boomer has -- and tell them they need $1 million. You might as well give them a gun and tell them to go duck hunting with Dick Cheney.

So, here’s the deal. You may be a millionaire or have a millionaire next door. The term “Millionaire” doesn’t mean much today. You have a home or property that is worth less in 2011 than it was in 2007. You have personal household goods, electronics, automobiles, furniture and art that totaled over a million at cost. Can you spend a million dollars in your lifetime? Suppose you are 68 and married. Say you averaged $50,000 per year together and you have worked since you were 18. So far you have made $2,500,000. Where did it go? If you had an $80,000 legacy in 1943 when you were born, it would be worth more than $1,000,000 today. For most people today, an additional $50,000 to $100,000 would change their lives for the better, if they were smart about it. Therein lies the problem.

Boomers, Consumers and the Savings Crisis

There are over 300 million consumers in the United States. Their median age is 36. There are more than 76 million baby boomers, (born between 1946 and 1964). Two thirds of the boomers will retire by 2023, between the ages of 65 and 72. Retirees rely on personal savings and investments, social security, defined benefit plans, defined contribution plans and other sources for their living expenses. For many, their primary life goal is having enough money to retire.

Nearly half of retirees currently utilize social security as their biggest source of income and 60% of consumers believe they are behind schedule either in planning for or saving for their retirement years, and think that it won’t be there when they need it. Consumer household personal savings and net financial investment have been negative since 2001.

While the needs of the baby boomer generation expand, the consumer savings rate continues to hit new all time lows. Almost half of consumers believe that they do not have enough money to live comfortably in their retirement years. These consumers admit that the most common method for determining the amount of savings needed for retirement by consumers is <u>guessing.</u> Yet, while many middle-aged consumers have serious concerns about their preparedness for retirement, they haven’t taken action for a variety of reasons, including a lack of confidence in their financial planning abilities, aversion to risk, confusion about where to turn for help, and a lack of unconflicted education.

There is a boomer savings crisis, and it is due to seven factors:

- the concentration of consumer wealth
- the decline in pension plans & retiree benefits
- social security & medicare challenges

- the stagnant savings rate
- the lack of World War II generation wealth transfer
- longer life expectancies
- A general lack of understanding of the financial and investing world

For today's worker, the risk of dying too young has been replaced by the risk of living too long, with life expectancies now averaging 78 years and the average life expectancy of a 65 year old consumer, 85. The number of years spent in retirement will increase to over 25 years by 2012. Almost half of consumers worry that they may run out of money during retirement. Consider these staggering asset numbers in light of an under educated investing populace.

Consumer households have $35 trillion in financial assets.
$27 trillion in personal assets.
$14 trillion in credit debt

At Money Culture, we can’t solve any financial crisis alone. We can try to improve financial literacy one investor at a time. Please have a look and let us hear from you.