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Reformed Spenders

Americans Save More And Have Reason To In a Tough Economy

Aging Population Is Worried And More Cost Conscious; Banks Hawk Savings Plans

No More 'Shop Till You Drop'

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One day six years ago, William McCormick sat at a table with 10 other New Jersey residents and talked about his saving and spending habits. It was all spending, and no saving.

"Pretty impulsive" is the phrase Mr. McCormick used to describe his generation, back in June 1985. The salesman, 31-years-old at the time, said he and his friends were buying bigger houses than they could afford. His family, he said, ran up huge credit-card bills. And they didn't have much money to spare. They counted on income-tax refunds, for instance, to pay their auto insurance premiums. As for savings, he said, "It's almost impossible, really."

Today, Mr. McCormick still sells dairy products to supermarkets and lives in the same house. His wife has an office job now, and their income has about doubled since 1985, to $60,000 a year. But when he talks about money, Bill McCormick sounds like a new man.

'Time to Get Real'

"We're making a concerted effort to put something away—even if it's only a few dollars," the Iselin, N.J., resident says. Why? "I'm 37 years old, not 22. It's time to get real. I was always living on the edge. I'm off it now."

So are many of the other middle-income Americans who got together in a New Jersey conference room six years ago at the request of the Gallup Organization and The Wall Street Journal. A profound change has occurred in most of them, or so it seems. The shop-till-you-drop ethic, so in evidence in 1985, is all but dead. The mood is one of caution, of conserving cash. There is new emphasis on saving, on putting away rainy-day money for an uncertain future.

It may be too early to declare the 1990s The Savings Decade, and some experts doubt that significant change really is afoot. But evidence of a new mood is apparent in recent conversations with baby boomers and young adults, as well as with financial planners and marketing executives at such places as American Express and Citicorp, which are trying to serve the savings ethic at a profit.

Some economists say that demographic shifts are tilting the saving/spending balance more heavily toward saving. The bulge in the population that began after World War II—the baby boomers who are now in their 30s and early 40s—is entering the highest-income years. So, economists figure, these will be the highest saving years as well. All contributing to the saving trend: widespread anxiety about the economy, about depressed real-estate prices and unemployment.

"There has been an extraordinary change in the way we live," says Fabian Linden, executive director of the Conference Board's consumer-research center. "Demographics, society and economic currents of change in the 1990s should be more conducive to savings than [they were] during the 1980s."

Some economists believe that the change in personal financial habits is real and will endure. After dipping to a postwar low of 2.9% in 1987, the personal savings rate (as a percentage of disposable income) rose to 4.5% last year. Some predict the rate will double, to 9%, by the end of the decade.

Skeptics believe that won't happen. Some say higher taxes will hinder savings. Others look at history and say that savings can rise only if incomes rise, and real incomes in the U.S. are falling not rising. Some economists argue, in effect, that saving is un-American.

"Americans like to consume," says Richard Peterson, chief economist at Continental Bank, in Chicago. "People will continue to spend what they earn."

Signs of Change

Maybe so. But in an informal, impressionistic survey, this newspaper has found considerable evidence that consumer attitudes *are* changing. And striking change is very much in evidence among the New Jersey residents who gathered around that conference table six years ago to talk about spending and saving.

Things were different then. The U.S. economy was expanding. And around the table, men and women ranging in age from 28 to 68—sales reps and homemakers, a key-punch operator, a systems analyst, a construction worker, an attorney and several others—all expressed optimism about the future, and confidence in their own financial security.

Abe Ash, the systems analysts, told the story of how he and his wife had lost their jobs in 1976 but still qualified for a home mortgage. So they bought a house, and it tripled in value. Others at the table nodded knowingly.

Panelists talked of trading up to bigger houses, of expensive vacations, of proliferating credit cards. The moderator asked the group at one point what everyone would do with a $5,000 windfall. Most of the panelists said they would blow a lot of it on a vacation.

Barbara Eadie, today an articulate 34-year-old housewife, was part of that 1985 panel, and what she said spoke volumes

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Reformed Spenders: Personal Savings Rates Increase As an Aging Population Worries About the Future

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about prevailing attitudes toward debt. She and her husband, a computer-programmer, borrowed money for the down payment on their house. They borrowed from her parents, too, and were making payments to them as well as to the mortgage company, while building equity in their home.

"We didn't have enough saved yet, but we thought it was an investment," said Mrs. Eadie six years ago. She acknowledged that it was hard to save, and when her husband got an annual bonus, the bulk of it went to pay bills.

Today, six years later, Mrs. Eadie has a new attitude toward family finances. She was converted to saving during the lean years when her husband gave up his job and, for a time, struck out on his own. "It made us think about having something to fall back on," she says. Today, funds are deducted automatically from each of her husband's paychecks and deposited in a retirement account.

The Eadie family has some new thoughts about real estate, too. After witnessing a sharp decline in house prices in the Northeast, they have decided to fix up the house they are living in and have abandoned for the time being plans to buy a bigger place.

Mrs. Eadie says the family isn't saving for anything in particular, "just for some emergency."

The Eadies have revised their view of credit-card debt, too. In the early 1980s, they were actively using six or seven different cards. They have whittled that down to two now, and they try to pay off the entire balance every month rather than make minimum payments and let the debt increase.

"It just felt as if we were sinking all the time," says Mrs. Eadie. "Having been there before, we aren't going there again."

Even those panelists who in 1985 were casual about work and indifferent to saving now say they are taking a different tack.

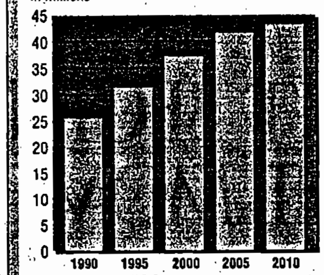
Six years ago, Joseph Steitz sniffed at individual retirement accounts and other long-term saving schemes. The 47-year-old construction worker in Verona, N.J., still says he'll take a day of fishing over a day of work anytime. But he has begun thinking about the future. It started after his union and his employer negotiated a mandatory retirement plan a few years ago. Each worker must put 18% of his paycheck into an annuity fund. "I could never do it on my own. But it's a great thing," he says. Now he even has a specific savings goal: "I want to retire as soon as possible," he says.

Seven of the 11 original focus-group participants now express a more conservative approach to spending and new determination to save. (The other four members didn't participate in the recent discussion.)

Mr. Ash, the systems analyst admits to having been one of the "spending pack"

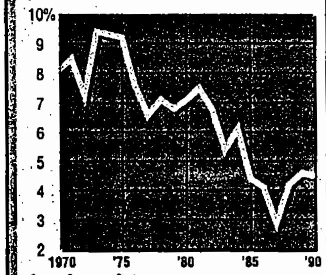
Rainy Day Saving

Will an Aging Population ...
Number of Americans aged 45 to 54, in millions



Source and estimates: U.S. Census Bureau

Save for the Future?
Personal savings, as a percent of disposable personal income



Source: Commerce Dept.

before. Today, he says, "I've toned down a bit." He hasn't taken what he considers a real family vacation since 1987, and he and his wife, a teacher, are earnestly trying to put as much of her income as possible away for retirement.

Several others say that, in contrast to the mid-1980s, they are taking fewer vacations, thinking ahead to retirement and waiting until they can afford to pay cash for what they buy rather than go into debt.

One who fits that description is Andrew Bruner, a retiree who was a member of the 1985 group. "I'm not a penny pincher, but I just don't do as much anymore," he says.

Even some young adults in their 20s—typically big spenders on furniture, appliances and cars—are showing a propensity to save these days. Take the unusual case of Kim and George Norris, of Columbus, Ohio, who together earn roughly $50,000 a year. (They were not in the 1985 group.) They seek out $2 movie theaters, avoid expensive restaurant-meals and budget just $40 per week for gasoline and entertainment. They put 40% of their take-home pay into savings.

"We save more than the Japanese," says Mrs. Norris, a 26-year-old nurse, whose husband is 25. "Our friends are also aggressively working on saying," she says.

The economic shocks of the past few years are probably behind much of the new caution. Texas, particularly, was devastated in the mid-1980s by the collapse of oil prices. An economy built largely on debt came undone as developers went belly up, housing prices plummeted and deeply indebted homeowners sometimes abandoned houses they couldn't sell or pay for.

Joan Peurifoy, a personal financial planner in Dallas, sees a sharp change in how her clients regard money. Many are two-income couples 35 to 45. Several years ago, when she warned people that they were overspending, many shrugged off her admonitions. No longer.

Ms. Peurifoy says that, nowadays, many of her clients have the same response to a financial problem: "How can we fix it?"

Mindful of the new mood, financial institutions are trying to profit from the new cachet saving seems to have. American Express has begun encouraging card members to remit a little more than they actually owe on their monthly statement.

Under the plan, called Membership Savings, the extra money goes into an FDIC-insured savings account paying half a percentage point more than the average rate paid by commercial banks and thrift institutions. After testing the plan in seven states, American Express is branching out into 20 others. The most enthusiastic response has come from customers in their 20s and 30s.

"Financial responsibility is the thing that is going to play in the 1990s," says Philip Riese, executive vice president and general manager of the consumer card group at American Express.

Citibank is extolling the wonders of savings plans at seminars in 140 branches in and around New York City. And the educational approach is paying off, according to Matthew Kissner, a Citibank managing director in charge of marketing in the New York City area. From January 1990 to January 1991, sales volume of annuities, unit investment trusts and zero coupon bonds offered through Citibank rose eightfold, while mutual-fund sales doubled.

High in the glassy Citicorp office tower in Long Island City, N.Y., Mr. Kissner pops a cassette in a tape player and says: "Listen for the educational tone." A radio spot pitches zero coupon bonds, explaining both benefits and pitfalls. The Citibank strategy: Offer lots of different savings instruments and take time to explain them.

"It was unheard of for banks to be doing this five years ago," says Mr. Kissner. "People are learning you can't count on real-estate values' rising by double digits every year. People are coming out of this recession naturally more inclined to go back to basics."