Your personal earnings, expenditures, and savings are the most important determinants of your family’s long-term financial wealth

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Your personal earnings, expenditure budget, and personal savings are the most important determinants of your family’s long-term financial wealth

Summary: How much you earn, spend, budget, and save are by far the most dominant determinants of your long-term financial well-being. Self-control in your financial decision-making regarding budgeting and consumption is far more important than clever investing. Expenditure control and budgeting works, while attempts to be clever about investing usually are counter-productive. You always should consume currently at rates that are sustainable across your lifecycle. During their lives, the vast majority of people must convert their human capital into investment portfolio assets through their savings. They must do this before their ability to earn slips away with increasing age or disability.Short of receiving a substantial inheritance, marrying very “well,” or having unusually good luck in the lottery, all you have to rely upon in life is your personal human capital or your ability to earn, budget, and save. There are no other shortcuts. You probably already know whether inheritance or marriage could relieve you of the burden of working, budgeting, and saving. As a wealth planning strategy, lotteries are highly improbable. Regrettably, lotteries and casinos tend to attract many people of limited means and poor math skills.You should focus the great majority of your personal finance time on financial planning efforts that will enhance your personal earnings, control your expenditure budget, and increase your personal savings. To understand your family’s ongoing financial planning situation, you should budget for and measure all your income and all your expenses preferably quarterly or monthly.Valuable investments that many people will never have can slip through their fingers at the checkout stand every day. Simply put, most people should save much more than they do now. The ability to distinguish between consumption needs and wants and to budget for, evaluate, and control current expenditures will determine the financial success in life for the vast majority of people. Recently in the United States, however, the national personal savings rate has turned negative. The Bureau of Economic Analysis of the U.S. Department of Commerce has tracked the national personal savings rate since 1952, as part of its "National Income and Product Accounts" and "Flow of Funds" reporting. From the 1950s through the 1980s the national savings rates fluctuated around the 9% to 10% range. In the early 1980s, these rates began to decline. In 2006 and 2007, they have turned slightly negative. The last time personal savings rates were negative was in the early 1930s at the depth of the great depression.This decline in the personal savings rate is ominous. On average as a nation, we are no longer personal savers. While many people continue to save, others are liquidating investment portfolio assets and/or incurring debt to maintain their consumption. This is not a recipe for long-term personal finance success. A slightly negative national personal savings rate does not mean that the country overall is not saving. The personal savings rate does not include the aggregate positive net income of U.S. businesses. Nevertheless, only those who already possess equity securities and debt securities can benefit from the net income growth of private and public businesses. If the average net personal savings rate is negative, then on average, people have no excess current income to invest.

Therefore, they cannot increase their ownership in business equity and debt. Some individuals continue to save and invest, while the average personal savings rate is near zero or negative. Therefore, others are doing the opposite and are divesting their personal assets. Some commentators have attributed the decline in the personal savings rate to the "wealth effect." The argument is that increasing asset values in the stock markets, in real estate, and for other personal assets make some people feel richer, and therefore they spend more. While the wealth effect may be a plausible explanation for some of the downward slide in the personal savings rate, this does not mean that this trend is wise or sustainable for the vast majority of Americans. Among those who possess at least some investment portfolio assets, the great majority have not amassed enough investment assets to meet their long-term financial planning needs. For those without investment assets, the wealth effect explanation is meaningless. For many of them, the real explanation can be found in the erosion of real dollar wage rates combined with an inability or unwillingness to reduce expenditures. Controlling the growth of expenditures, when real wages are rising, is relatively easy to do, if a family commits to do so. In contrast, to cut back on customary consumption, when real wage rates fall and inflation rises simultaneously, is far more difficult to do. The decline in the national personal savings rate is emblematic of major problems in personal financial planning. For many decades, the U.S. economy has been incredibly productive and generous. Nevertheless, can our economy sustain itself in the long-term on a zero or negative domestic personal savings rate? New investment capital for U.S. business expansion increasingly has been supplied from overseas and not domestically. High personal consumption and negative personal savings rates cannot be sustained in the end. If Americans cede asset ownership to more thrifty residents of other countries, any wealth effect will also be transferred overseas. Something must change. While you personally cannot solve this national problem, if you have a personal savings problem, you can take immediate steps to address it. You can budget and plan to meet all expenses and debts across your lifecycle, and you can adjust your current financial behaviors and your current financial planning accordingly. You can consume and save across your lifecycle in a balanced and conservative manner. Because the future offers neither guarantees nor any predictability, you should further restrict your current expense consumption to build substantial investment portfolio assets that can provide asset buffers for times of future difficulty, to fund your retirement plan, and to provide for an estate, if desired. You cannot do this with a negative personal savings rate.

You need a means to evaluate whether your current consumption rate is sustainable across your lifecycle. If you are interested in an automated personal financial planning toolset with sophisticated financial calculators that can measure your own needs, see this article: VeriPlan helps you to understand your lifetime personal savings requirements and whether you current savings rate is sufficient

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