
Posted on Wed, Feb. 28, 2007

Big savings can start with small amounts

EILEEN ALT POWELL
Associated Press

NEW YORK - The nation's savings rate has fallen to the lowest level since the Great Depression, a negative 1 percent last year. That means many Americans are spending more than they take home in wages from their jobs.

For many, the problem may be not knowing how to get started saving - and not understanding that putting just a bit of money away now can go a long way toward making sure a family has an emergency fund, will be able to buy a home and can fund a comfortable retirement.

"I have always argued that saving just \$5 a day can change your life," said David Bach, a financial adviser who is author of "The Automatic Millionaire" and other investment books.

Put \$5 a day - about \$150 a month - into an account that yields a 10 percent annual return and after 40 years, you've got more than \$940,000, Bach said. Put away \$10 a day, and the nest egg can grow to nearly \$1.9 million.

But there are many Americans who think they don't have even \$5 to spare.

Bach says they've got it; they just need to find it.

"It's what some people spend in a day on coffee or bottled water or cigarettes," Bach points out. He's dubbed it "the latte factor" and argues that if people cut back on their spending just a bit - that is, forgo a latte a day - they can get on a savings track.

The America Saves campaign, a program backed by more than 1,000 nonprofit, government and corporate groups, each February renews its efforts to get more people to save, especially low- and middle-income families.

The goal, said Nancy Register of the Washington, D.C.-based Consumer Federation of America, is to convince families "that you don't have to be rich to build wealth." To that end, the campaign's Web site at <http://www.americasaves.org> has strategies to build an emergency fund, buy a car or accumulate the down payment for a home.

America Saves makes it clear that it's OK to start small. Among its "found money" tips are:

- _ Cutting soda consumption by a liter a week saves \$6 a month, or \$72 a year
- _ Bringing lunch to work saves \$3 a day, or \$720 a year
- _ Eating out two fewer times a month saves \$30 a month, or \$360 a year
- _ Paying credit card bills on time to avoid late fees saves \$25 a month, or \$300 a year

Ronald W. Roge, who heads a wealth management firm in Bohemia, N.Y., says people often overlook the obvious when they're trying to start saving.

"I throw my change at night into a jar, an old pipe tobacco jar," he said. "By the end of the month, it's often filled up - and there's \$40 to \$60 in there."

Or, people living paycheck to paycheck might try to get a savings program going when they get their next raise, Roge said.

"Say you get a 5 percent raise so you're going to get an extra \$100 at the end of the month," he said. "Put at least half

of that into savings."

If it doesn't sound like a lot, he points out that it's \$50 you weren't saving before - and \$600 a year toward that nest egg.

Both Roge and Bach emphasize that saving is easier if it's automated - that is, if people automatically have money taken out of their paychecks or checking accounts every month and put into a savings account.

"It's a habit not to save," Roge said. "Try putting the money aside for three or four weeks, and it will become a habit to save."

Bach encourages people to "pay yourself first." That is, transfer money into your savings account at the beginning of the month, not at the end, when there may be nothing left to save.

If it's for retirement, have it automatically transferred into a company-sponsored plan, like a 401(k), Bach said. If it's for other purposes, have it moved regularly into one of the high-interest online accounts, such as those run by EmigrantDirect.com or INGDirect.com, he said.

And Bach emphasizes that people shouldn't let debt keep them from starting to save.

"If you pay down debt only, it's a negative thing," Bach said. "People get disillusioned and they stop."

Instead, he suggests, people should take the money they free up each month and put half toward debt and half toward savings.

"As you start building savings, you get to take advantage of compound interest, so it starts to grow sooner," he said. "And you also get the psychological boost of seeing yourself make progress."

ON THE NET

Bach's site: <http://www.finishrich.com>

Roge's site: <http://www.rwroge.com>