How The Economy And The Fed Impact Savings And What You Should Do About It

Almost everyone knows that saving money is the key to a more stable financial future, free from stress and worry. Unfortunately, almost everyone also knows that these days, saving is a lot easier said than done.

Two of the main reasons why saving is such a challenge today, are the current state of our economy and the impact decisions made by "The Fed" have had on consumers like you and me. Many financial experts agree that while the economy has recovered somewhat since the recession, the repercussions of the recession are still alive and well.

The unemployment rate is still high. Employers have instituted hiring freezes. Wage increases are almost nonexistent. Stock prices have only returned to the highs reached in year's past. And home prices are still well below expectations. And when you add to all of that, the fact that returns from savings accounts and investments are at record lows – not to mention a significant decrease in disposable income, it's easy to see why trying to save money can seem like an exercise in futility.

Which brings us to The Fed.

The Federal Reserve cut interest rates in back in 2007 to try to deal with the national financial crisis that resulted from the dramatic drop in housing values – lowering the rates from 5.25 percent in August of 2007 to zero at the end of 2008. It has remained at or near that level ever since and The Fed has made it clear that they plan to keep short-term interest rates at this level through 2014.

What impact did this decision have on the first generation of Americans who were already far less likely to save than the generation that preceded them?

Its zero rate policy was intended to keep interest rates lower than inflation, to encourage lending and spending but the exact opposite happened, diminishing the true value of savings. It has wreaked havoc on the retirement plans of everyday Americans, yet has had the exact opposite effect on the wealthy – ironically those who are least like to need savings in the first place. Its zero rate has forced people who otherwise would not choose to do so, to invest stocks, which are very risky, destined to crash and for most people, the wrong approach to take to save money for retirement.

So why should you save when the economy isn't doing you any favors and the actions of The Fed are suspect at best?

It may not seem like it now, but simply put, whether it's a simple savings account, a company 401K plan, or a meticulously planned stocks and bonds portfolio orchestrated by a trusted financial advisor, in the long run, saving your money is the best decision you'll ever make.

Long story short – after your working days are done, you'll be much more likely to have the financial resources you need to live until you're a ripe old age than you will if you don't.

– Kevin Miles