

Financial Capability in the United States

Report on the National Survey Component of the National Financial Capability Study – December 2009



INFORMING TODAY'S INVESTORS

Presenters

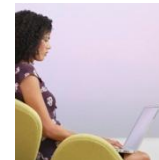
John Gannon

President, FINRA

Investor Education Foundation

Annamaria Lusardi

Dartmouth College, Financial
Literacy Center, and U.S.
Treasury

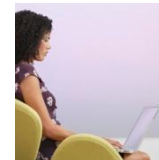


Objective

Establish a baseline measure of the ability of Americans to manage their money.

Multi-Disciplinary Team:

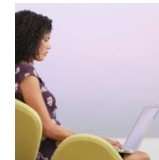
- Annamaria Lusardi (Dartmouth College)
- Applied Research & Consulting LLC (ARC)
- FINRA Investor Education Foundation
- Office of Financial Education, U.S. Treasury Department
- Additional input from:
 - Craig Copeland, Employee Benefit Research Institute (EBRI)
 - American Institute of Certified Public Accountants (AICPA)
 - Bob Willis, Univ. of Michigan, past PI of U.S. Health and Retirement Study



Study Methodology

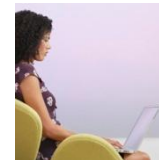
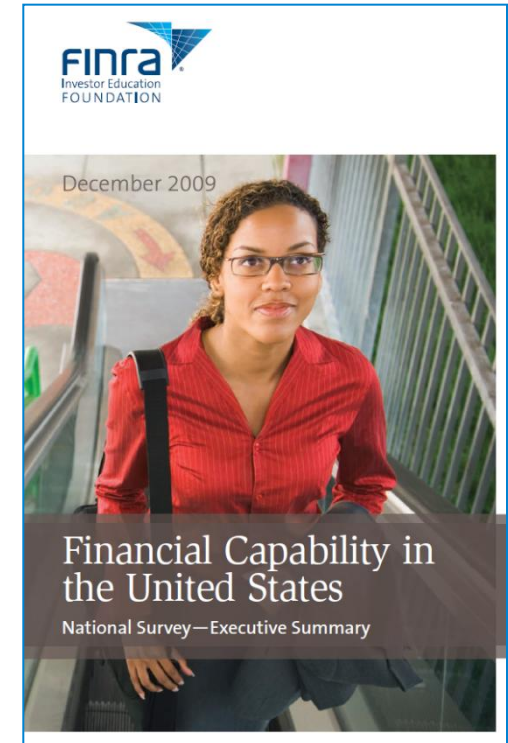
National Financial Capability Study includes three linked surveys:

1. **National Survey**: Nationally-projectable telephone survey of 1,488 American adults
2. **State-by-State Survey**: Online survey of approximately 25,000 respondents (roughly 500 per state + DC)
3. **Military Survey**: Online survey of 800 military personnel and spouses



Four Key Financial Capability Components

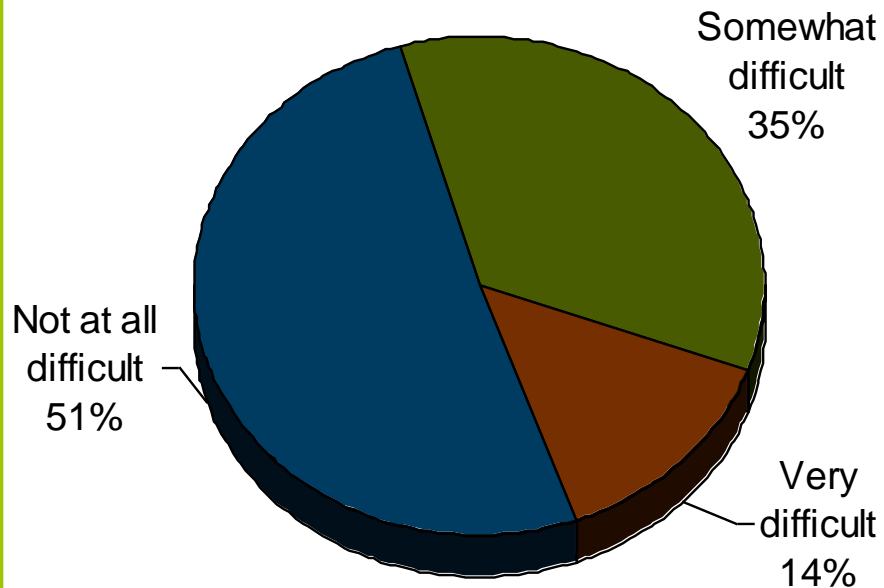
1. Making Ends Meet
2. Planning Ahead
3. Managing Financial Products
4. Financial Knowledge and Decision-Making



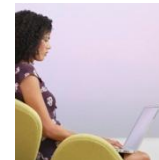
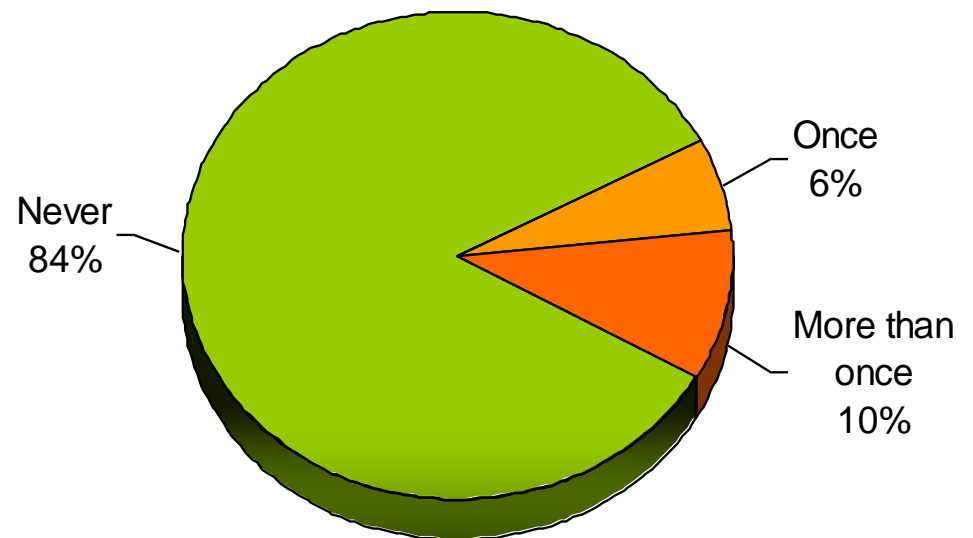
Making Ends Meet

Signs of Financial Strain

In a typical month, how difficult is it for you to cover your expenses and pay all your bills?



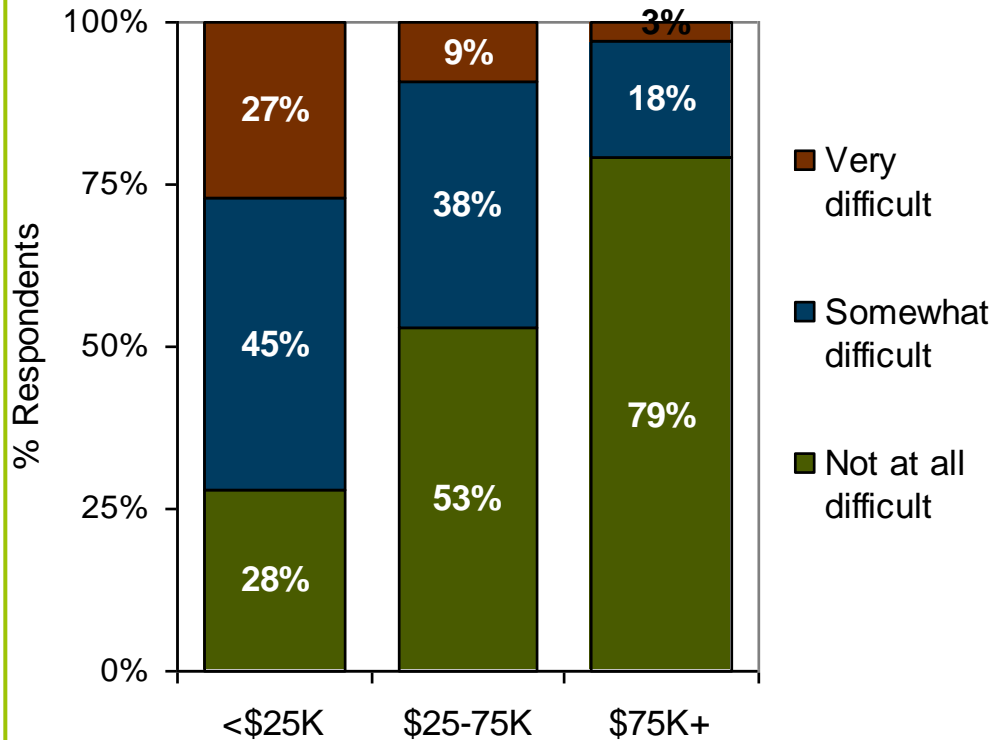
Late mortgage payments in the last 2 years



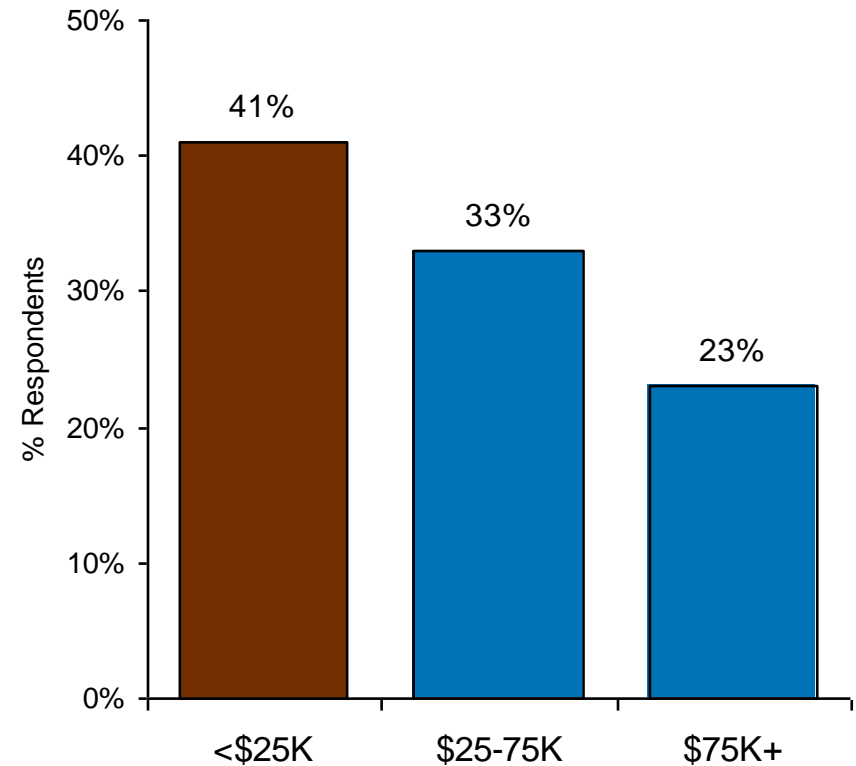
Making Ends Meet

Low Income Households Under Greatest Strain

In a typical month, how difficult is it for you to cover your expenses and pay all your bills?

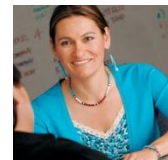
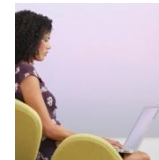
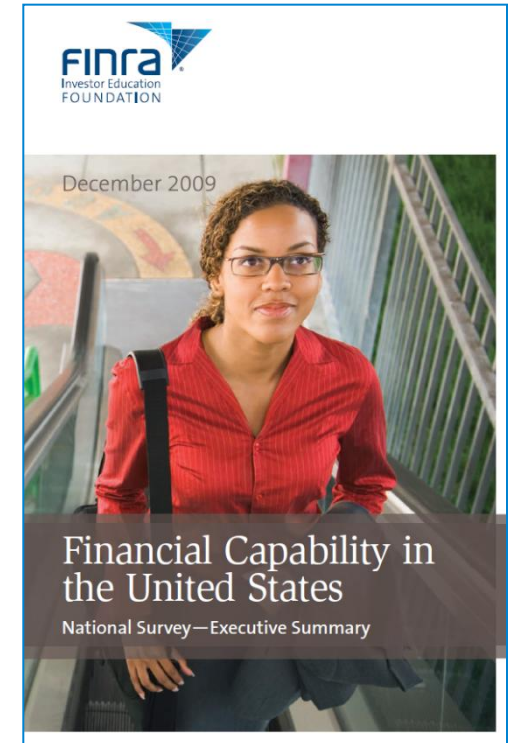


Respondents with unexpected large drop in income in past 12 months



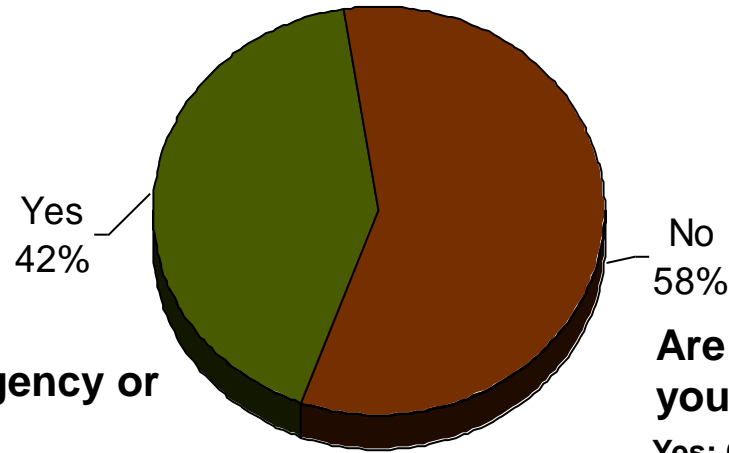
Second Component of Financial Capability

- ✓ **Making Ends Meet**
- 2. Planning Ahead**

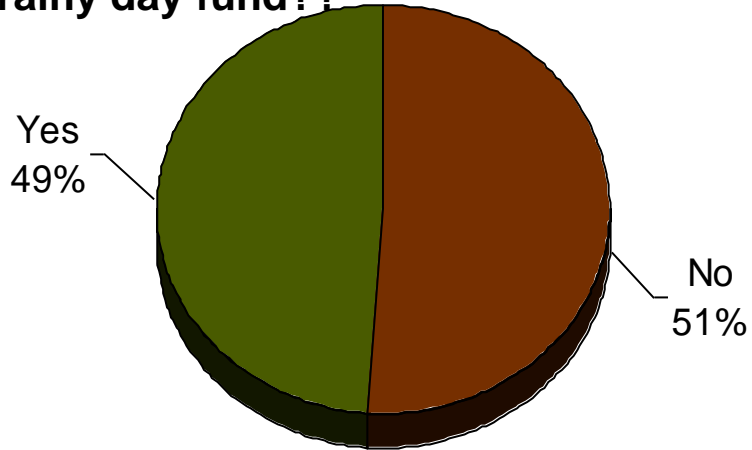


Many Americans Don't Plan Ahead

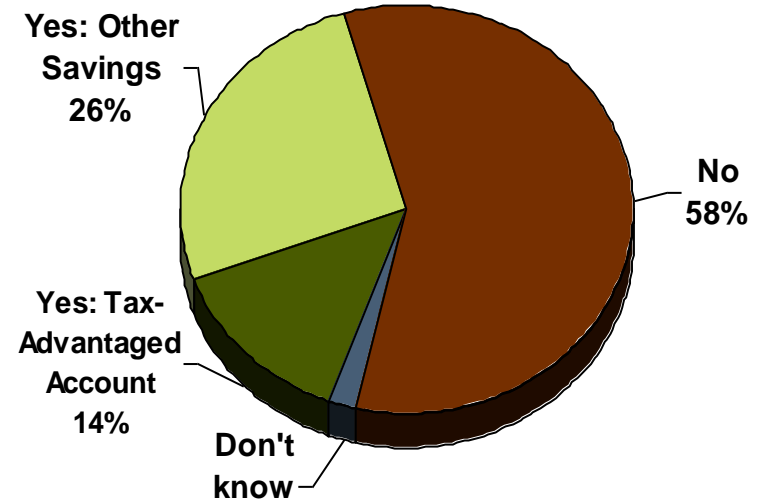
Have you ever tried to figure out how much you need to save for retirement?



Have you set aside an emergency or rainy day fund??

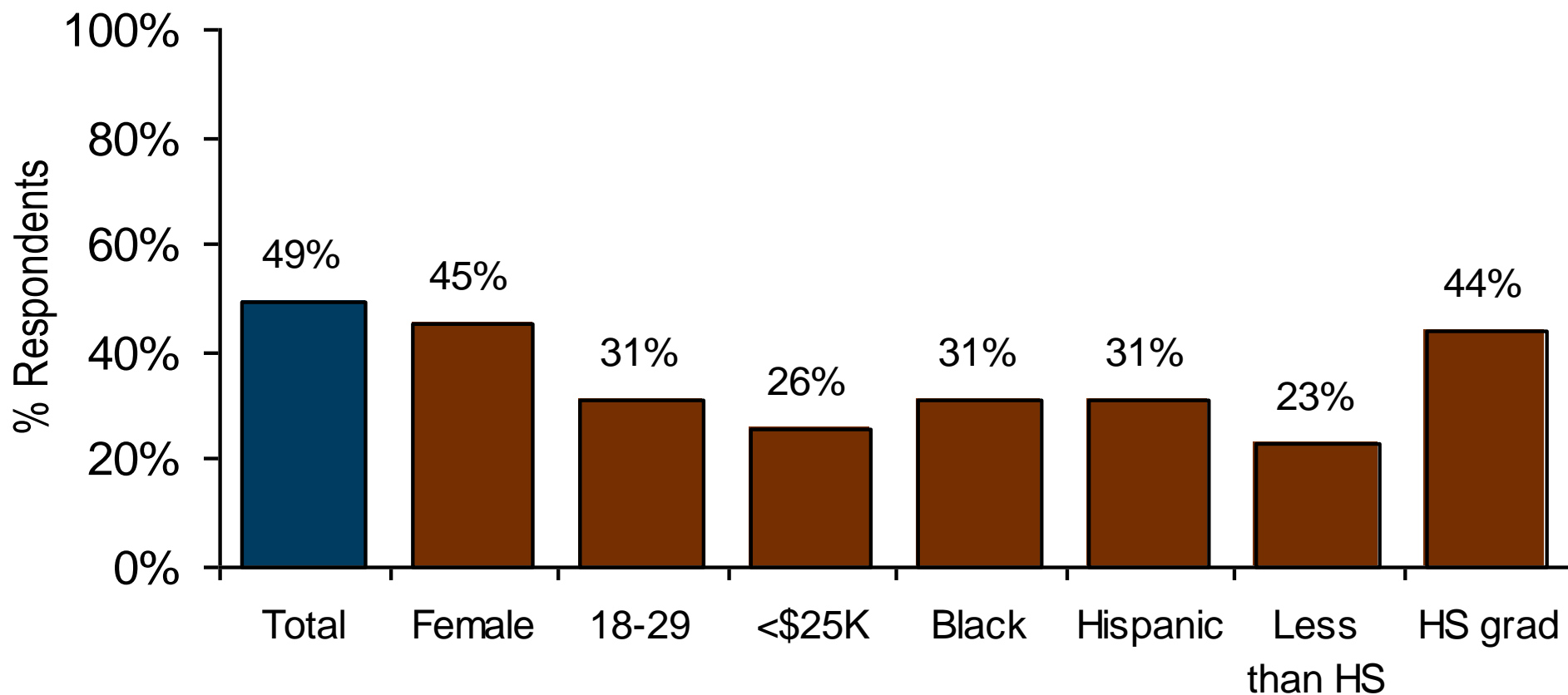


Are you setting aside any money for your children's college education?



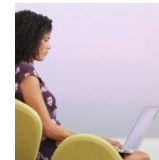
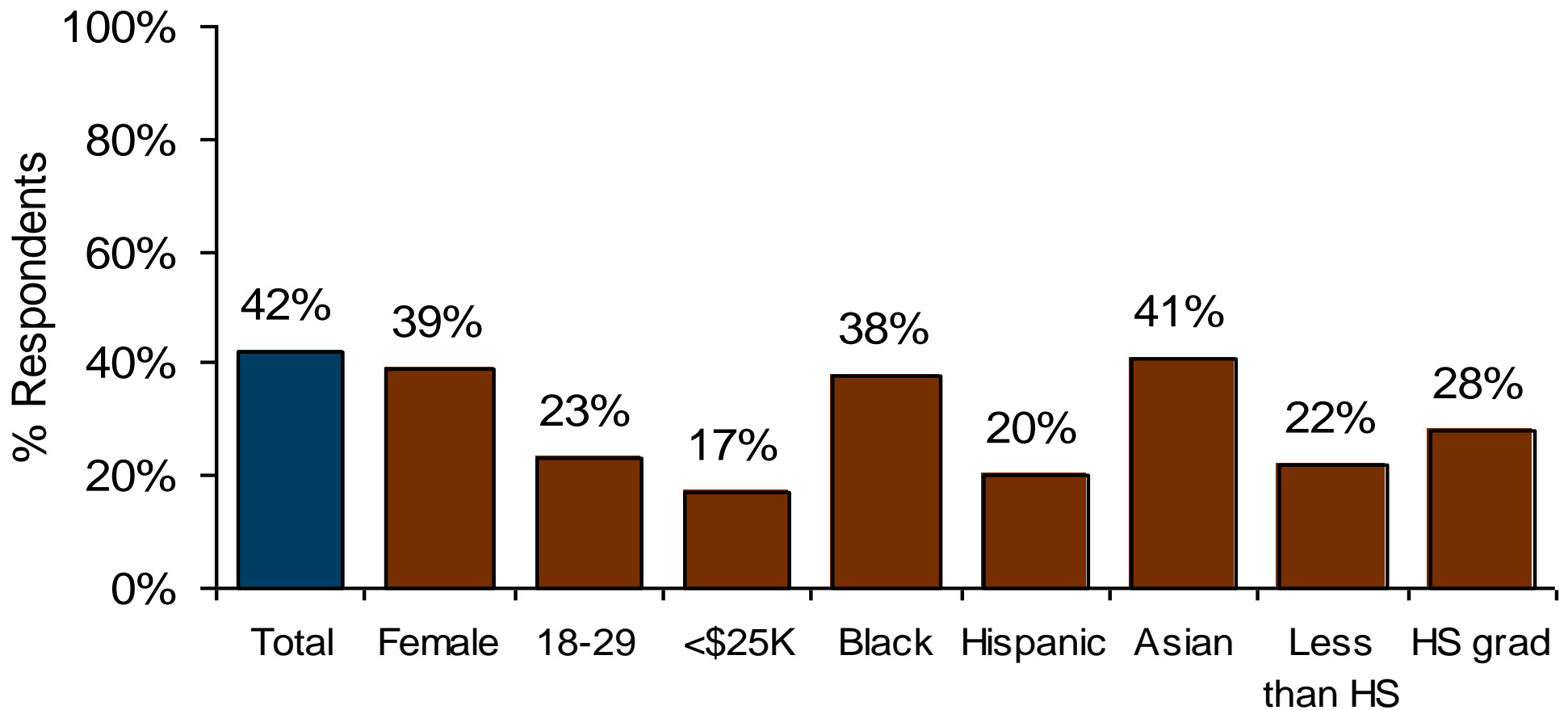
Those Most at Risk Are Least Prepared for Emergencies...

Respondents with emergency or rainy day funds that would cover expenses for 3 months



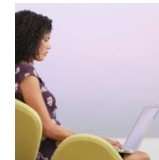
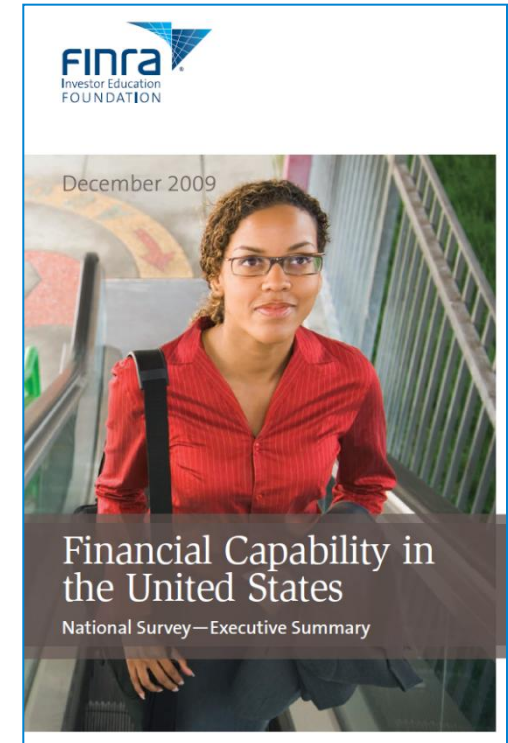
...And Least Likely to Plan for Retirement

Respondents who have tried to figure out how much to save for retirement



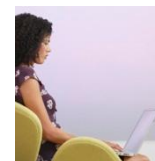
Third Component of Financial Capability

- ✓ **Making Ends Meet**
- ✓ **Planning Ahead**
- 3. Managing Financial Products**



Lack of Assets

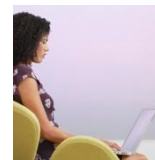
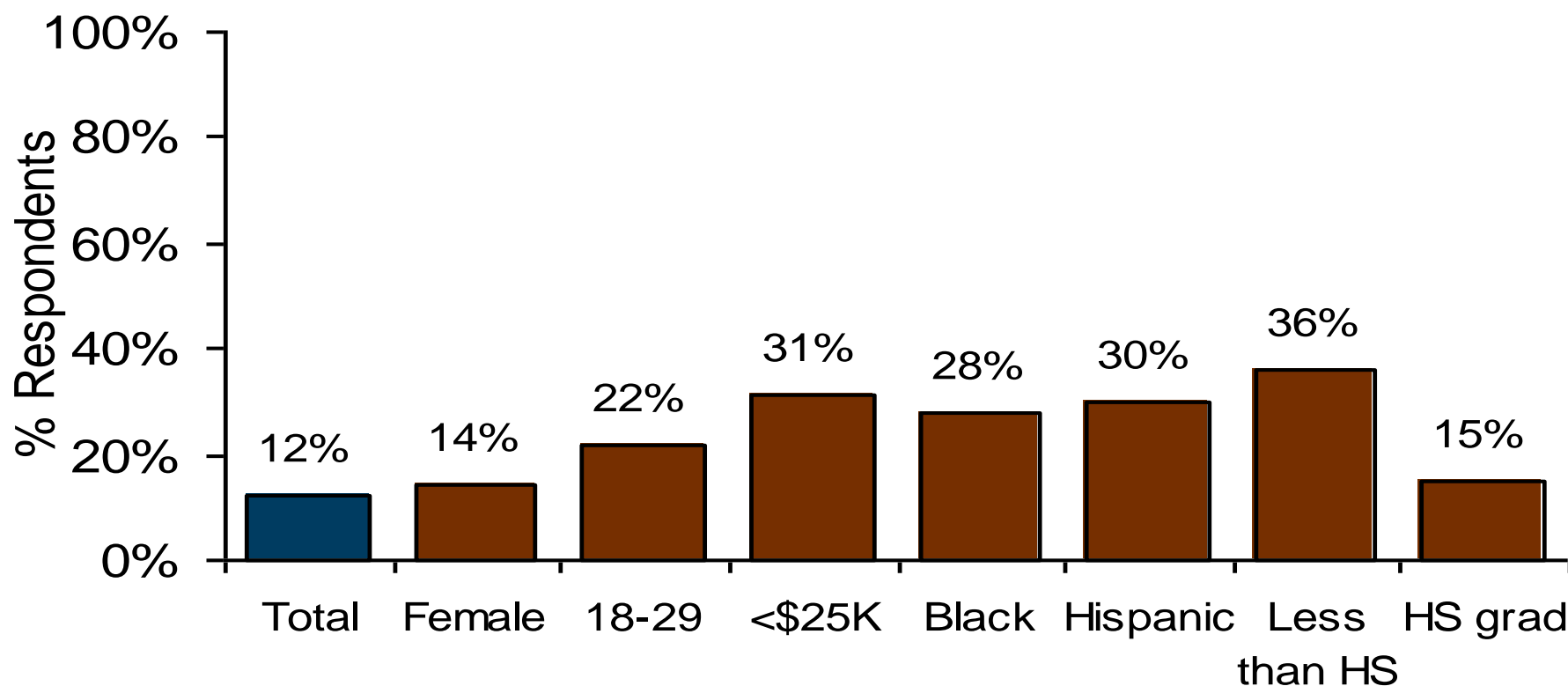
Respondent has...	Total	African-Americans	Hispanics
No bank accounts (neither checking nor saving)	12%	28%	30%
No credit cards	31%	49%	42%
No retirement accounts	38%	53%	55%
No home that they own	39%	59%	58%
No stocks, bonds or mutual funds outside of retirement accounts	53%	72%	73%



No Bank Accounts

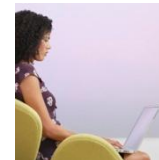
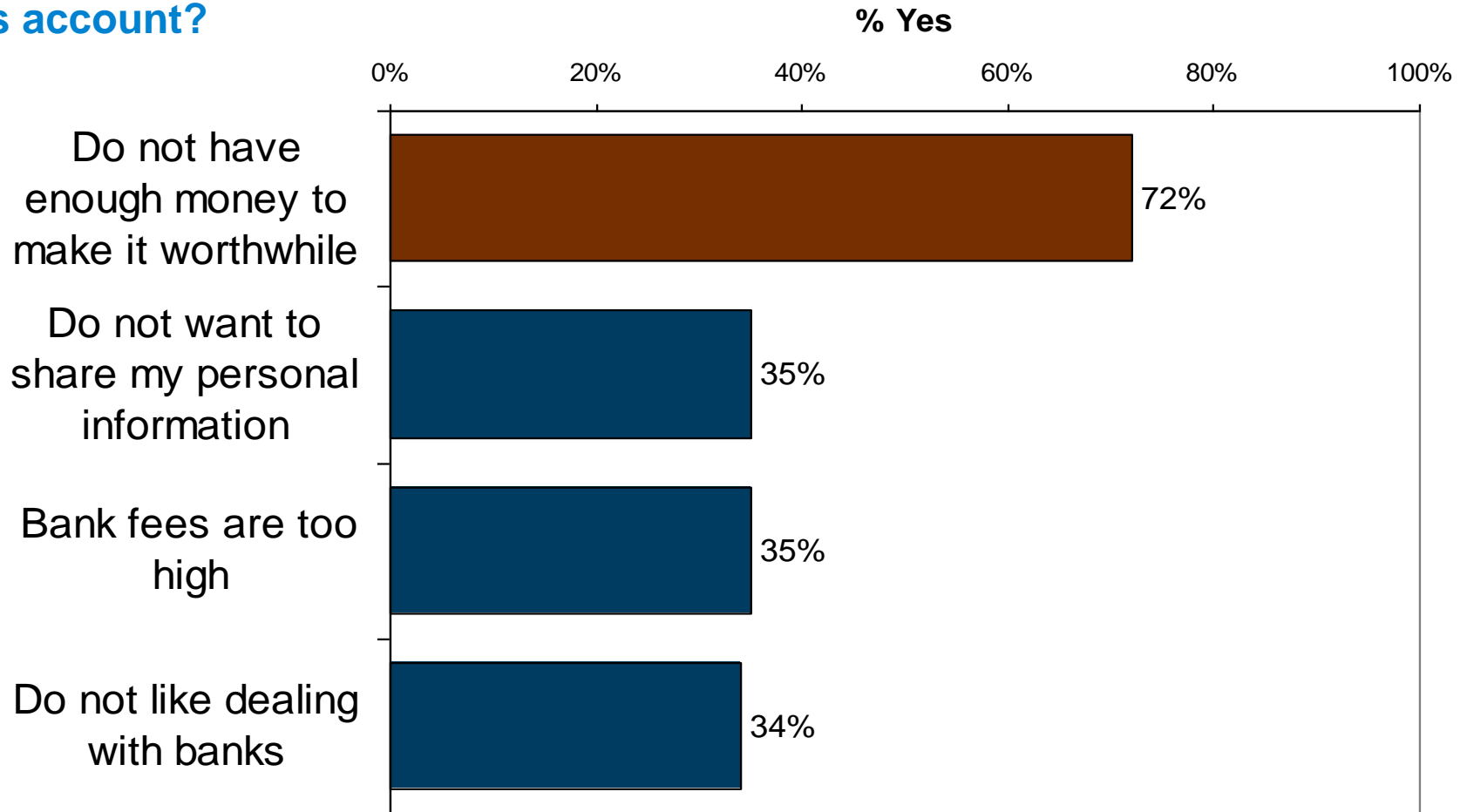
Profile of the Unbanked

Unbanked respondents (no checking or savings accounts)



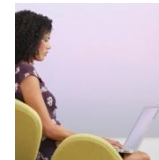
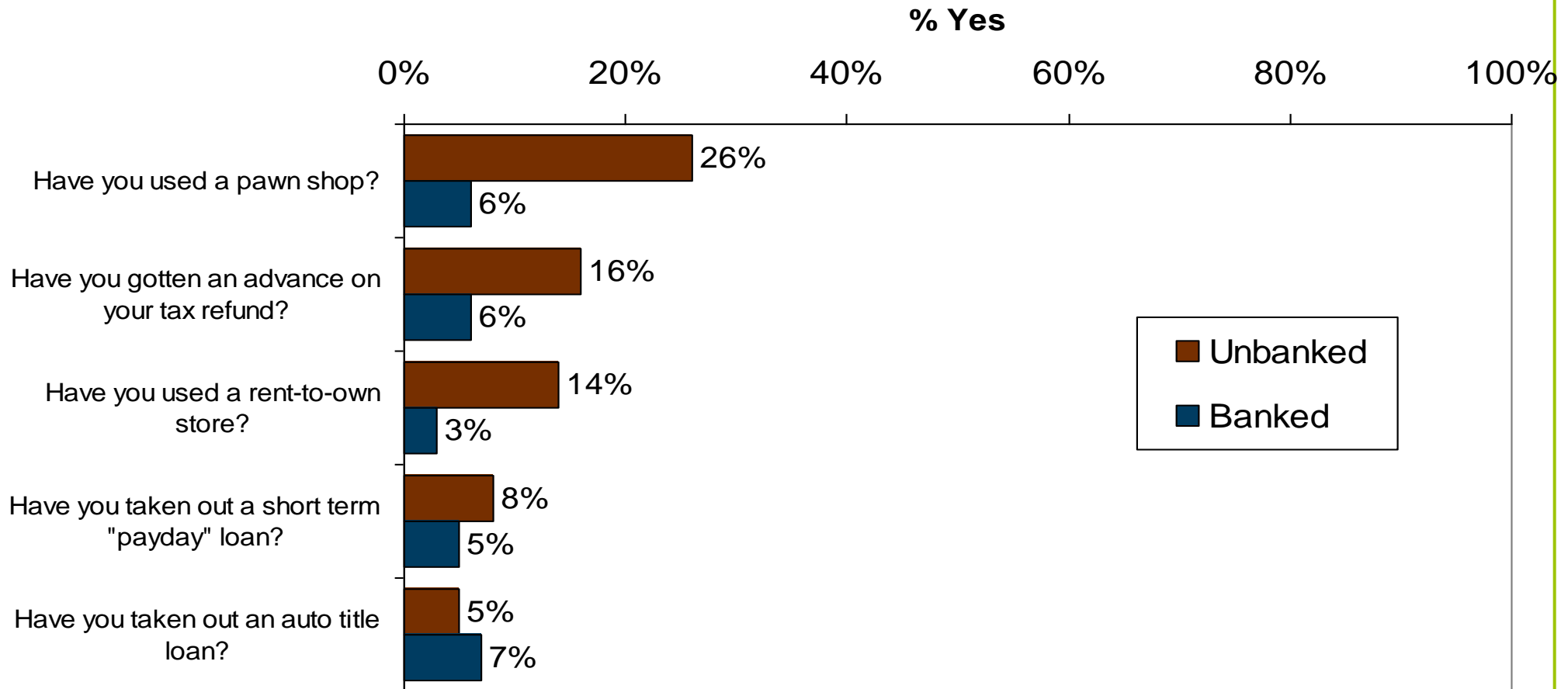
Reasons for Not Having a Bank Account

Which of the following are reasons why you do not have a checking or savings account?



Unbanked More Likely to Engage in Expensive Borrowing Behaviors

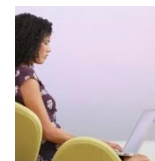
Please tell me if you've done any of the following in the past 5 years.



Credit Cards

In the past 12 months...	Total	18-29	30-44	45-59	60+
I always paid credit cards in full	54%	51%	45%	44%	75%
In some months, I carried over a balance and was charged interest	51%	46%	62%	58%	33%
In some months, I paid the minimum payment only	29%	41%	35%	31%	11%
In some months, I was charged a fee for late payment	23%	24%	27%	29%	11%
In some months, I was charged a fee for exceeding my credit line	8%	14%	8%	9%	2%
In some months, I used the cards for a cash advance	8%	11%	10%	8%	5%

12% of respondents who do not pay in full each month do not know the interest rate on their credit card.

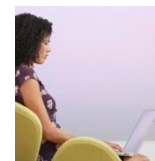


Home Ownership and Mortgages

Homeowners that stated	Total	<\$25K	\$25-\$75K	>\$75K
Have a mortgage	61%	31%	61%	77%
Have line of credit	21%	11%	20%	27%

When asked whether they have a mortgage that is either an interest-only mortgage or has an interest-only option, 20% responded they did not know the answer to this question.

Moreover, 10% of mortgage borrowers did not know the interest rate they are paying on their mortgage.



Retirement Accounts and Investments

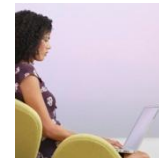
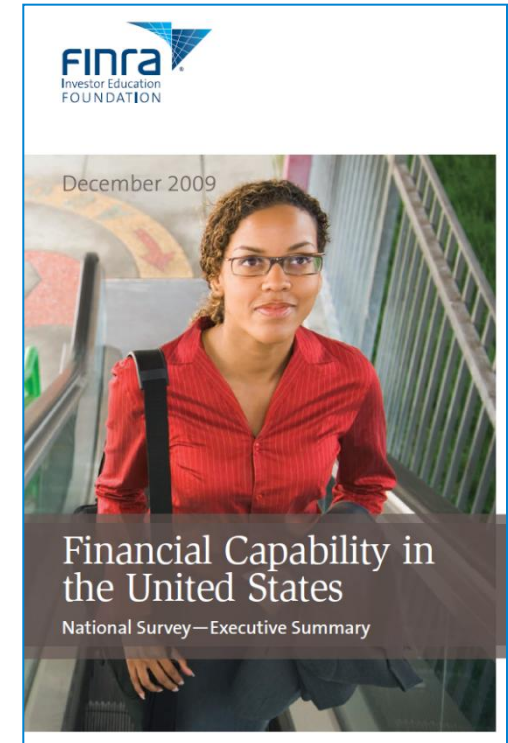
Respondents who...	Total	<\$25K	\$25-\$75K	>\$75K	Less than HS	HS	Some College	College
Have a retirement plan via employer	51%	13%	61%	83%	22%	39%	54%	76%
Have other retirement accounts	28%	4%	27%	57%	7%	14%	26%	55%
Have stocks, bonds or mutual funds outside of retirement accounts	46%	17%	47%	72%	N/A	34%	46%	66%

Note that about 9% of those with self directed retirement accounts have taken a loan from their retirement accounts and 5% have taken a hardship withdrawal. Moreover, 17% of those with self-directed accounts do not know how their wealth was allocated in their accounts and 37% did not know whether they invested primarily in life-cycle funds,



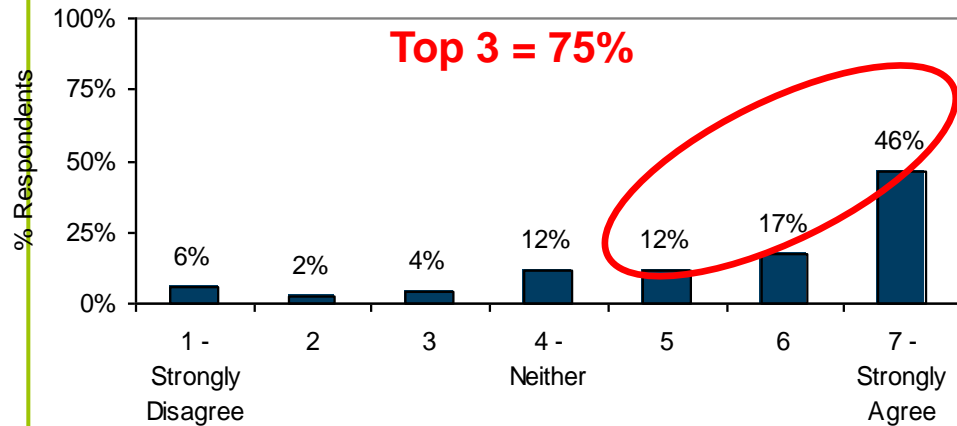
Fourth Component of Financial Capability

- ✓ **Making Ends Meet**
 - ✓ **Planning Ahead**
 - ✓ **Managing Financial Products**
- ## 4. Financial Knowledge and Decision-Making

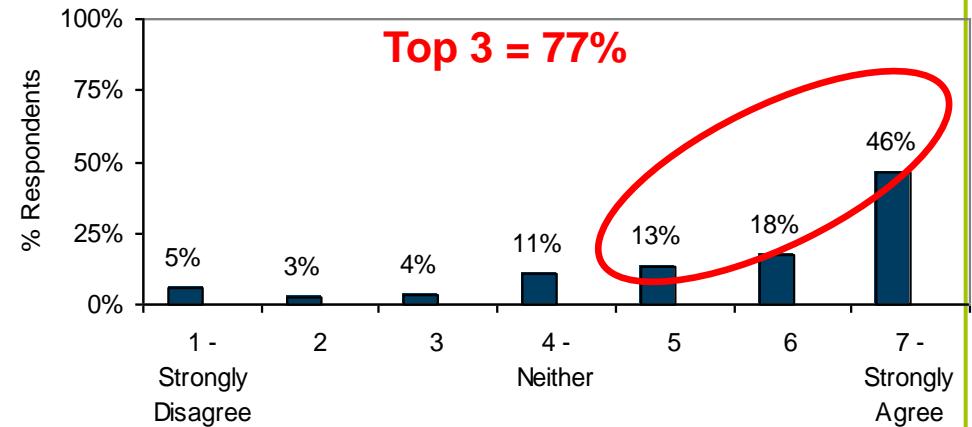


Highly Positive Self-Perceptions

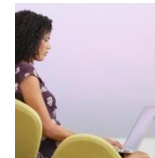
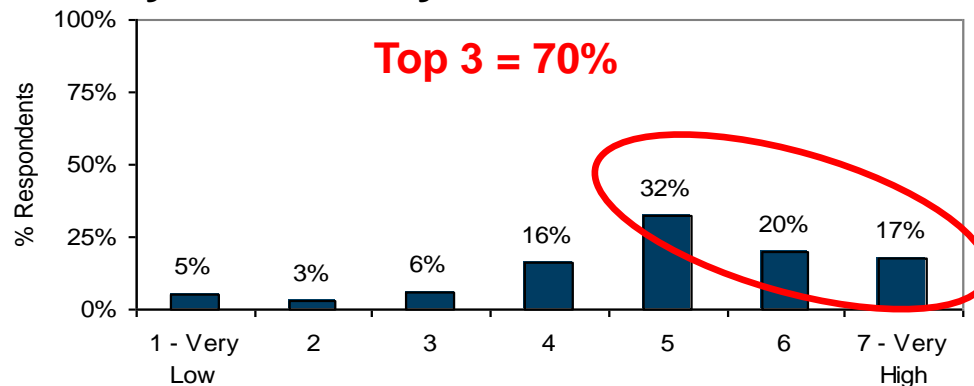
I am good at dealing with day-to-day financial matters.



I am pretty good at math.

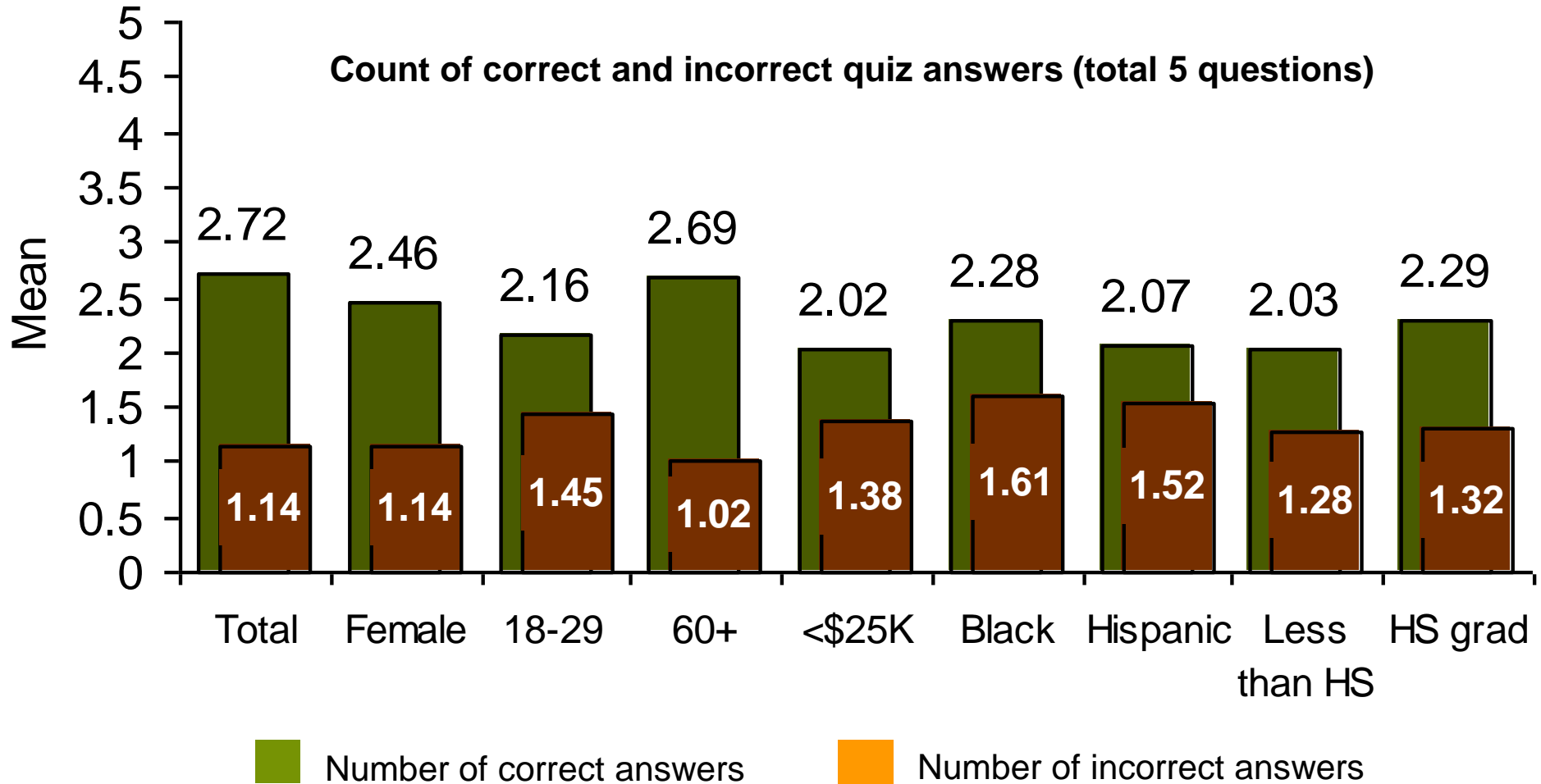


How would you assess your overall financial knowledge?



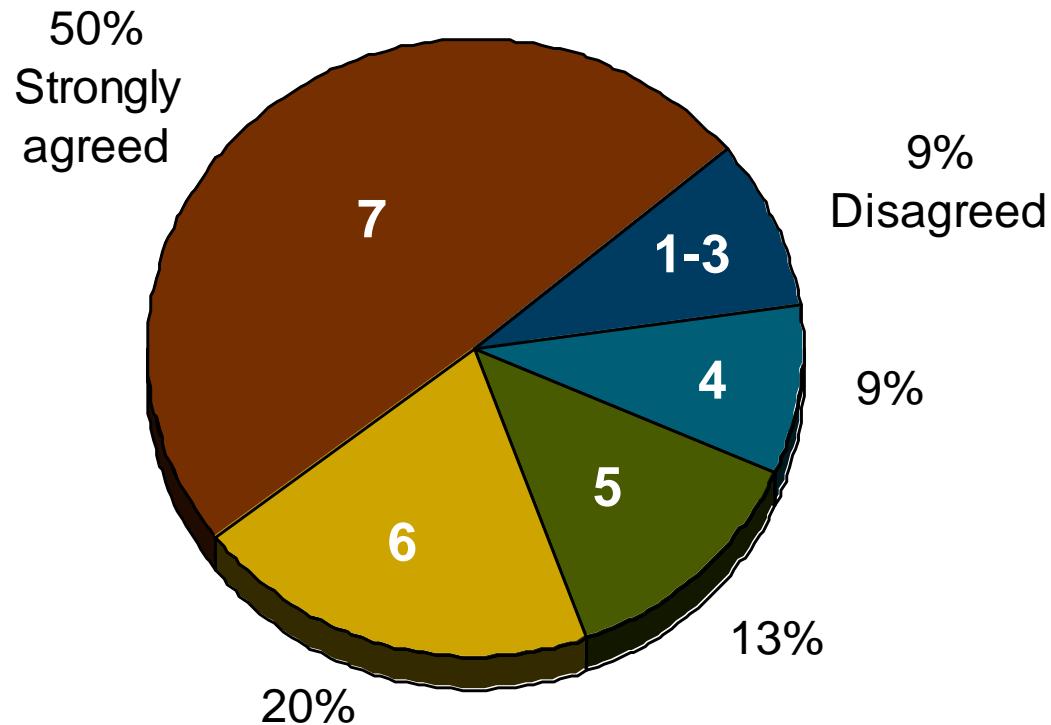
Financial Literacy

Count of correct and incorrect quiz answers (total 5 questions)

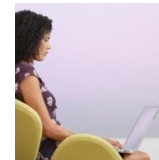


Self-Perception versus Financial Behavior

“I am good at dealing with day-to-day financial matters”
Respondents with credit cards and checking accounts

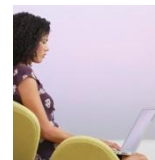
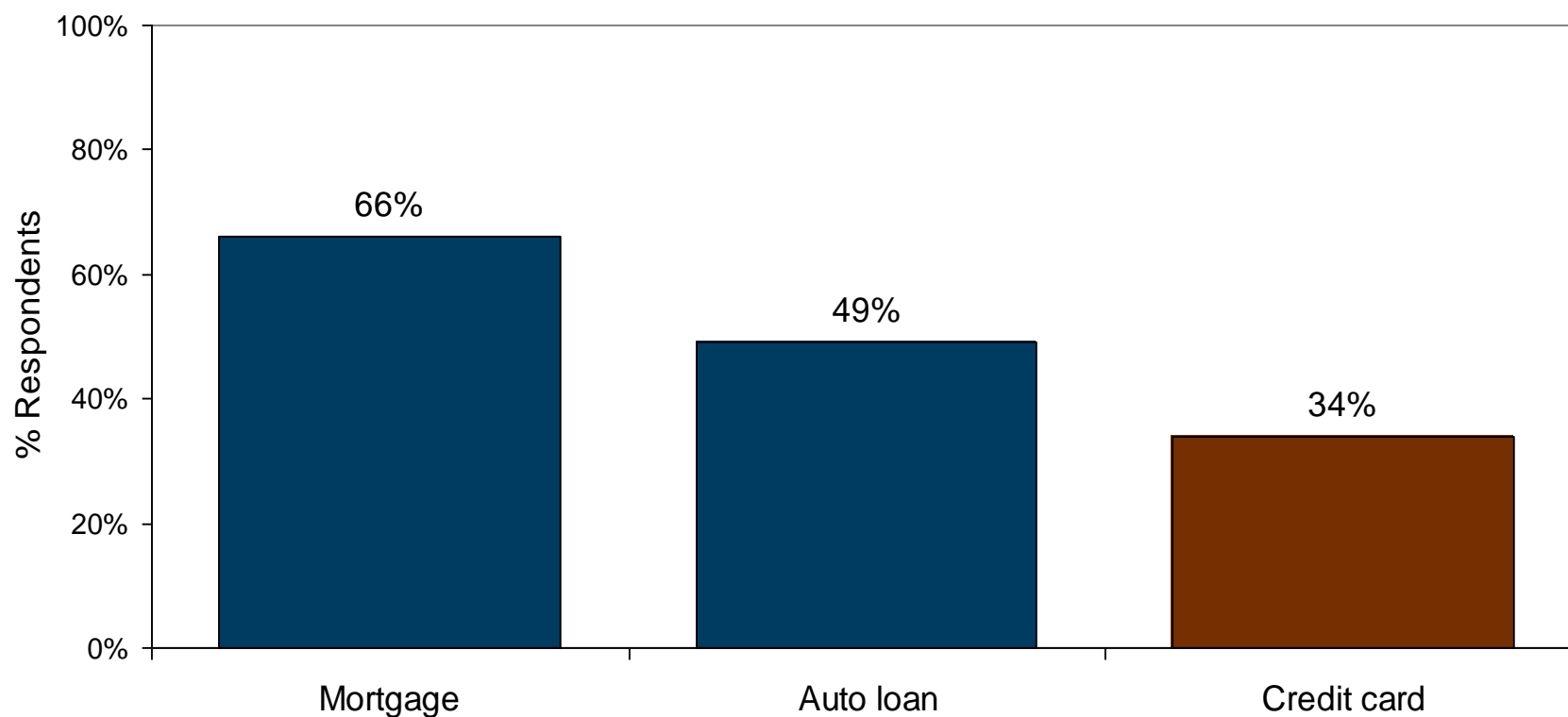


However, 24% who strongly agreed and 40% who agreed engaged in behaviors that generated fees or high costs.



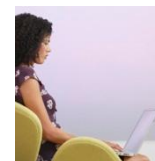
Few Comparison Shop

Respondents who shop around for...



Few Obtain Credit Scores and Reports

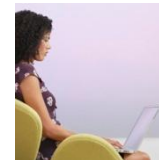
Respondents who, in the past 12 months,...	Total	<\$25K	\$25-\$75K	>\$75K	Less than HS	HS	Some College	College
Obtained copy of credit report	38%	18%	43%	56%	25%	30%	39%	53%
Checked credit score	36%	15%	42%	55%	22%	29%	35%	53%



Summary

The survey provides evidence that:

- People are not well equipped to make financial decision
- People are not well informed about the terms of their financial contracts and they do not shop around
- The majority of Americans do not plan ahead for life-cycle events and do not insure against unexpected ones
- Many incur in behaviors that generate fees, interest payments, and other costs
- There are signs of financial distress
- The groups displaying lower financial capability are those with low income, low education, and minorities



Next Steps

National Survey

- Analysis of open-ended numeric responses
- Data will be made available to the public for independent analysis

State-By-State Survey

- Preparation of report for public release (2010)
- Large data set will enable much more detailed analysis of specific demographic groups and opportunity for state-by-state comparison
- Data will be made available to the public for independent analysis

Military Survey

- Preparation of report for public release (2010)
- Data will be made available to the public for independent analysis

