

# Most Americans Have Built Little Wealth

## CFA RESEARCH REVEALS MOST AMERICANS HAVE BUILT LITTLE WEALTH

Launch of America Saves Program To Help Consumers Stop Living Paycheck to Paycheck

**Washington, D.C., February 20, 2001** - New Consumer Federation of America (CFA) research, funded by a Bank of America Foundation grant of \$100,000, reveals the distressing financial condition of low- to middle-income Americans and what measures could be taken to help them save and build wealth.

A new analysis of household wealth reveals that the typical family has net financial assets of under \$10,000 and that many families have recently lost wealth. In addition, a comprehensive survey of consumer views of their finances, and how to repair them, shows that many live from paycheck to paycheck but can benefit by developing a simple financial goal and plan.

Based on these studies, earlier research, and a year of planning, CFA is launching, with support from a second Bank of America Foundation grant of \$300,000, an America Saves campaign that will seek to:

- ? enroll 100,000 low- to moderate-income savers,
- ? encourage millions of Americans to build wealth, and
- ? support wealth-building campaigns throughout the nation.

The grant will make it possible for CFA to organize and support local savings campaigns and, eventually, to enroll savers directly. The funds will support local organizing, the development of a newsletter and web site, and the development of membership in America Saves. To enroll, savers must work out a simple, specific plan for attaining a financial goal then implement this plan.

This announcement follows 18 months of planning and testing elements of a Cleveland Saves campaign, funded by The Ford Foundation and other foundations, that will be launched on March 6. Kansas City Saves will kick off its campaign in April. Any individual or organization who wishes to organize a savings campaign should contact CFA.

"As the economy slows, most Americans will try harder to pay down debt and build wealth but will find both more difficult," said Stephen Brobeck, CFA, executive director. "The America Saves campaign will try to convince millions of

these consumers that they can save and build wealth, show them how to do so , and provide related incentives," he added.

"As the first truly nationwide bank, we think it is entirely fitting for Bank of America to play a leading role in the first truly nationwide savings initiative," said Lynn Drury, president, Bank of America Foundation. "Americans want to save and believe they can, if someone will just give them some ideas how. Our grant will help CFA to organize and support local and national savings campaigns vital to consumers all across the nation."

### **Most Households Have Accumulated Little Wealth While Many Have Lost Ground**

New research by Professor Catherine Montalto of Ohio State University for CFA using the Fed's 1998 Survey of Consumer Finances reveals the need for most American households to save.

While the typical household has net assets of \$71,700 (mostly home equity), it has net financial assets (including retirement accounts) of only \$9,850. Moreover, the typical low to moderate income household has net financial assets of less than \$1,000.

Montalto's research also reveal that the net financial assets and net wealth of these low- and moderate-income households actually fell in the late 1990s. Between 1995 and 1998, a period of strong economic growth and rising incomes, the net assets of very low-income households (under \$10,000) fell from \$4,992 to \$3,950 and that of other low-income households (\$10,00-254,000) sank from \$31,940 to \$24,650. Rising consumer and home equity debt was an important reason for this decline.

### **Most Households Say They At Least Sometimes Live From Paycheck to Paycheck and Don't Think They Are Saving Enough**

Fifty-three percent of those surveyed say that they sometimes, most of the time, or always "live from paycheck to paycheck," according to survey research conducted by Princeton Survey Research Associates (PSRA) for CFA. This percentage increases to 64 percent for those with moderate incomes (household incomes of \$20,00 to \$50,00) and to 79 percent for those with low incomes (household incomes under \$20,000).

The survey of a nationally representative sample of 1,637 financial decision-makers 18 or older was conducted by PSRA in September and October 2000 (margin of error, plus or minus three percentage points).

The survey also revealed that 60 percent say "I don't think I'm saving enough

for the future." That percentage rises to 69 percent for those with moderate incomes though unaccountably falls for those with low incomes (60 percent).

Many of these respondents were identified by PSRA through factor analysis as "strapped and struggling." These Americans want to save and build wealth but think they lack the ability to do so. They do not save regularly and have difficulty paying bills. Typically earning under \$50,00, "strugglers" usually lack a financial plan.

The lack of financial plan appears to help explain why many households are not saving adequately. Only 38 percent had "ever prepared a specific financial plan for yourself or had a professional prepare one for you" A widely publicized 1997 CFA/NationsBank study (conducted by PSRA) found that, at all income levels under \$100,000, households with a plan saved twice as much as those who did not.

**But Most Households Think They Can Save Money and Identify Strategies, Programs, and Messages That Would Help Them Do So**

Despite widespread financial anxiety, nearly two-thirds of those surveyed (65 percent) say that " I have the ability to save money and build personal wealth." Even more than half (56 percent ) of those with moderate incomes, and 47 percent with low incomes, believe in their capacity to save.

Moreover, an overwhelming majority (82 percent) "would like to save and build wealth." This desire is equally strong among those with moderate incomes (85 Percent) and low incomes (76 percent).

When asked which "strategies people use to save money" would be "useful to you," respondents rated "participating in an employer's retirement plan" and "saving a fixed amount each month" as the most useful, as the table below indicates. But paying off consumer debts and paying off one's home mortgage were also deemed "very useful" by moderate incomes.

**TABLE 1: USEFULNESS OF SAVINGS STRATEGIES**

	Very	Somewhat	Combined
Participating in an employer's Retirement plan (n=non-retirees)	64%	16%	80%
Saving a fixed amount each month	57%	22%	79%
Developing a comprehensive, long-term Financial plan	45%	24%	69%
Paying off the mortgage on your home Before you retire (n=homeowners)	57%	11%	68%
Saving automatically each month through Payroll deductions or account transfers	50%	8%	58%

Paying off consumer debts, such as credit card bills      55%      12%      67%

When asked which "financial services offered for free by a nonprofit agency you trusted" most interested them, respondents rate "one-on-one financial planning" the highest, with 52 percent expressing interest. Other popular services were pamphlets on saving and build expressing interest. Other popular services were pamphlets on saving and building wealth (51 percent). Seminars on retirement planning (46 percent among non-retired), and a web site with information on saving and wealth-building tools (46 percent.) Support for all four services are higher among those with moderate incomes.

When asked which organizations sponsoring these free financial services would be more or less likely to persuade you to use them, groups with whom respondents had a relationship scored highly. At 40 percent, "your bank or credit union" had the largest net positive rating (more likely minus less likely). "Your employer" (33 percent) and "your church" (26 percent) also had large net positive ratings. Respondents with moderate incomes gave even higher ratings to these three organizations.

#### American Saves Campaign Based on Research and Pilot Project

The America Saves campaign is based on more than three years of savings research, and development and testing of a social marketing campaign to persuade low- and moderate-income households to save and build wealth. The research included a broad-based review of the scholarly literature on saving, an anthropological study of low-income household saving, four focus groups, and the research released today.

Research findings include:

- ? Despite low income, many less affluent households are able to save money.
- ? An important barrier to saving among these households is the belief that their only savings options pay low interest rates and are assessed monthly fees.
- ? Social marketing initiatives can persuade some lower-income households to save and build wealth

The demonstration project, which has been funded by The Ford Foundation and National Endowment for Financial Education, is a social marketing initiative in Cleveland, Ohio. In November 2000, some 100 community groups, religious groups, employers, unions, educators, and financial institutions began planning a Cleveland Saves campaign. They established, as a first-year goal (beginning early 2001), the enrollment of 2,500 Cleveland Savers and encouragement of

25,00 other area residents to move down the "path to savings."

Cleveland Savers must set a financial goal (e.g., emergency fund, homeownership, education, retirement) and develop a plan to achieve this goal. The plan must include a monthly dollar amount, a specific savings (or investment) account, a method of making deposits (preferably automatic), and a time period.

Cleveland Savers qualify for benefits including fee-free savings accounts at ten area banks and credit unions, free investment and retirement planning seminars, free savings and investment clubs, and participation in semi-annual raffles of savings products.

However, the core Cleveland Saves services are a hotline, a pamphlet with savings tips and strategies, a motivational workshop to convince anyone that they can save, and a one-on-one session with a Wealth-Building Coach, who helps the saver find money to save and work out a savings plan. Last summer, 600 participated in test workshops and 200 in test one-on-one sessions. It is anticipated that most Cleveland Savers will attend the motivational workshop.

On March 6, these services will be announced at a community-wide meeting and made available to Greater Cleveland- area residents. They will be marketed by radio ads, billboards, posters, and encouragement by hundreds of participating organizations. Along Foundation are supporting the Cleveland campaign.

In April, area non-profit and financial institutions will launch Kansas City Save. That campaign has set 1,000 Kansas City Savers as its goal. It will offer the same type of free workshops, one-on-one consultations, and pamphlets that will be available in Cleveland. Several Kansas City financial institutions have agreed to waive fees for small savers.

America Saves will be advised by leaders from non-profit, corporate, and government organizations that currently participated in the Forum to Promote Lower-Income Household Savings, managed by CFA. Forum members meet three times a year to discuss recent research, innovative programs, and promising public policies that are relate to the promotion of low- and moderate-income household saving and wealth-building.

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CFA is a non-profit association of 270 pro-consumer groups that was established in 1968 to advance the consumer interest through advocacy and education.

The Bank of America Foundation contributes financial assistance to nonprofit organizations that enhance the quality of life and promote the public the public interest in the areas where the company conducts its business. On April 15, 2000, the Foundation received the 1999 Spirit of America Award from the United Way.