

Americans Underestimate Household Wealth

MAJOR GAPS UNCOVERED IN U.S. PUBLIC'S UNDERSTANDING OF WHO HAS WEALTH, HOW TO BECOME AFFLUENT

Is There a "Millionaire on Every Block"? Why Are the Affluent So Underestimated? Misunderstanding About Top Asset of Affluent May Hamper Saving By Some

Washington, D.C., July 16, 2001 -- Most Americans substantially underestimate the extent of household affluence and fail to understand that this affluence is based, more than any other factor, on homeownership, according to a study and survey released today by the Consumer Federation of America (CFA) and Providian Financial.

More than one-half of all American households headed by someone over 45 years of age (56 percent) had net assets of at least \$100,000 in 1998, according to an economic analysis of Fed data commissioned by the CFA and Providian. Yet, a representative sample of American adults think that little more than one-third of these households (36 percent) have this much wealth, according to an Opinion Research Corporation International (ORCI) survey commissioned by the two organizations.

Even most moderate-income older households were affluent (net assets of \$100,000 or more). Households headed by an older person (over 65 years of age) with incomes between \$10,000 and \$25,000 had median net assets of \$106,400. Those older households with incomes between \$25,000 and \$50,000 had median net assets of \$215,300.

Homeownership Most Important Way to Build Wealth

By far the greatest source of wealth for all affluent households is the value of their homes. According to the economic analysis (prepared by Professor Catherine Montalto of Ohio State University), 34 percent of the wealth of these families represents equity in their primary residence. By comparison, only 17 percent is in retirement accounts and only 11 percent is in stocks, bonds, and mutual funds (not part of retirement accounts).

For households with net assets of \$100,000 to \$250,000, home equity is an especially important source of wealth. The value of their homes represents 43 percent of their wealth (compared to 17 percent in retirement accounts and 6 percent in stocks, bonds, and mutual funds).

Yet, many Americans underestimate the importance of home equity as a source of wealth. When asked to rank sources of wealth for affluent households by the June 2001 ORCI survey, only four in ten Americans (40 percent) correctly identified equity in one's home as the most important source.

"Contrary to the belief of many, those with modest incomes can, over time, build wealth," noted Stephen Brobeck, CFA's Executive Director. "The easiest way to do so is to buy a home, faithfully make the mortgage payments, and be cautious about borrowing the accumulating home equity," he added.

"Americans should also take all the free dollars offered by employers who match contributions to workplace retirement programs," said Brobeck. "On dollar-for-dollar matches, this free money produces investment yields of more than 100 percent," he added.

Providian Announces Grant to Support America Saves Campaign

In February, CFA announced the launching of an America Saves campaign to encourage and assist Americans, especially those with low- and moderate-incomes, to save and build wealth. Since then, leaders in Cleveland and Kansas City have launched local campaigns; leaders in Indianapolis, Charlotte, and Gadsen County (FL) are organizing campaigns; and leaders in a half-dozen other cities have requested assistance in organizing campaigns.

At the press conference, Providian Chairman and CEO Shailesh Mehta announced a two-year \$200,000 grant to support the organization of these local campaigns. Said Mehta: "The America Saves campaign is an innovative effort to encourage savings, especially among moderate- and low-income households. Providian is pleased to provide this grant to help more Americans achieve their financial goals."

Millionaires: Perception and Reality

Americans believe that 15 percent of all households have net assets of at least \$1 million, according to the ORC study. But in reality, only 4 percent (4.6 million households) have this much wealth, according to the analysis of Fed data.

The young (18-24 years of age), the poor, and minorities are far more likely than older persons, the affluent, and non-minorities to overestimate the number of Americans who are wealthy. "Their perceptions may well be unduly influenced by the portrayal of American wealth in television ads and programming," noted Brobeck.

Millionaires are more likely to be older, with higher incomes and more

education, than the rest of the population. These millionaires made up:

- ? 10 percent of those households headed by someone 55-64 years of age;
- ? 17 percent of households headed by someone with a graduate or professional degree; and
- ? 36 percent of households with at least \$100,000 in income.

The two most important sources of wealth for millionaires are business assets (21 percent) and holdings of stocks, bonds, and mutual funds (23 percent). Retirement account assets (14 percent) and equity in one's main residence (13 percent) represent significantly less important sources of wealth.

Inherited assets are also an important source of wealth for millionaires. Forty-five percent had received an inheritance whose median level was \$125,000.

The young are far more optimistic than are the middle-aged about becoming millionaires. In response to the question, "when you are 60 years of age, how much wealth do you think you will have accumulated," 31 percent of those 18-24 years of age, but only 14 percent of those 45-54 years of age, thought they would have at least \$1 million.

The Affluent: Perception and Reality

Americans believe that only 36 percent of households have at least \$100,000 in net assets. Yet, in reality 42 percent of households hold this much wealth.

Like millionaires, the affluent are more likely to be older, with higher incomes and more education, than the rest of the population. Households with assets of at least \$100,000 make up:

- ? 56 percent of those headed by someone 45 years of age or older;
- ? 69 percent of those headed by someone with a graduate or professional degree; and
- ? 92 percent of those with incomes of at least \$100,000.

On the other hand, a significant minority of households with modest incomes have substantial assets. Twenty-six percent of families with incomes between \$10,000 and \$25,000, and 38 percent of those with incomes between \$25,000 and \$50,000, have at least \$100,000 in net assets. As noted earlier, these asset figures rise considerably with age.

For the large majority of affluent families, inherited wealth is not important. Only 30 percent had inherited assets. For those who did, the median inheritance level was \$36,000.

America Saves Campaign Expands

Last year, The Ford Foundation and the National Endowment for Financial Education funded the planning and testing of a Cleveland Saves social marketing campaign. The goal of this initiative is, over a period of years, to increase the value Clevelanders place on saving and building wealth.

More than 100 Greater Cleveland non-profit, business, financial, community, and governmental organizations planned a campaign featuring community-wide advertising and the involvement of hundreds of organizations. These organizations also developed services for savers including motivational workshops, one-on-one coaching, free financial planning services, and savings clubs. In addition, the groups agreed to publicize five important wealth-building strategies:

- ? Pay off high-cost debt.
- ? Buy a home and pay off the mortgage before you retire.
- ? Participate in a work-related retirement program.
- ? Outside of work, save monthly through an automatic transfer from checking to savings.
- ? Earn over 5 percent on many CDs or U.S. Savings Bonds.

In March, the Cleveland Saves campaign was launched by several hundred Cleveland-area leaders at an event well-covered by the press. Since then, more than 500 persons have enrolled as Cleveland Savers, agreeing to work towards a saving goal by depositing a certain amount in a designated account over a specific period of time. More than 1,000 Greater Clevelanders have attended motivational workshops, more than 10,000 area residents have received brochures, and more than 100,000 have heard radio ads (on 18 stations) or seen billboards.

Last February, the Bank of America Foundation announced a major grant to help develop a national America Saves campaign. The funding is being used to develop an American Saver newsletter (whose first issue will be published later this month), an interactive web-site (that will be introduced this fall), and technical assistance to communities who wish to organize local savings campaigns. As noted earlier, leaders in many communities have contacted CFA for assistance in developing these campaigns.

The Providian Financial grant will provide invaluable support to these local campaigns. The monies will be used to provide start-up grants to assist the planning and launching of these campaigns. Those interested in organizing a savings campaign in their own community should contact CFA (phone, 202-387-6121; fax, 202-265-7989; e-mail,

www.consumerfed.org).

About the Data Sources

The Fed's Survey of Consumer Finances is the most frequently used source of data on family finances. The 1998 data used for the CFA/Providian calculations were released in February 2000.

The national opinion survey was conducted by CARAVAN Opinion Research Corporation International (ORCI) during the period, June 21-24, 2001. Telephone interviews were conducted among a national probability sample of 1022 adults comprising 505 men and 517 women 18 years of age and older, living in private households in the continental United States. The margin of error is plus or minus 3 percent.

About CFA and Providian

Consumer Federation of America (www.consumerfed.org) is a non-profit association of 285 pro-consumer groups, which, since 1968, has sought to advance the consumer interest through advocacy and education.

Winner of the 2001 Rochester Institute of Technology/USA Today Quality Cup for excellence in customer service, San Francisco-based Providian Financial (www.providian.com) is a leading provider of lending and deposit products to customers throughout the U.S., and offers credit cards and deposit products in the UK and in Argentina.