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The 2009 Consumer Financial Literacy Survey

Final Report

Prepared For:

The National Foundation for Credit Counseling



NATIONAL FOUNDATION FOR
CREDIT COUNSELING

*Knowing the difference can
make all the difference.*

Prepared By:

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Public Relations Research

Summary

At this time last year, economists were still debating whether or not America was in a recession. It is now clear that we are facing a global financial crisis. While financial experts and policymakers argue over the best way to stimulate the economy and resolve the problem, stock prices continue to plummet and unemployment rates soar, leaving consumer confidence vulnerable to the changing landscape of both Wall Street and Main Street.

In the midst of this turbulent period in our economic history, the third annual Financial Literacy survey revealed surprisingly few changes in consumer sentiment and behavior since 2007 and 2008: while most Americans engage in healthy financial behaviors, many are struggling and certain segments of the population – such as young adults and minorities – are at greater risk than others. The good news, however, is that while many adults grade themselves poorly on their knowledge of personal finance, most agree that they would benefit from the advice of a financial professional, suggesting that they recognize there is need for improvement.

Methodology

The 2009 Financial Literacy survey was conducted by telephone within the United States by Harris Interactive on behalf of the NFCC (National Foundation for Credit Counseling) between March 13 and March 16, 2009 among 1,000 adults ages 18+. Results for African-American (n=86) and Hispanic (n=53) adults should be interpreted with caution as the data are based on small sample sizes.

Results were weighted for age, sex, geographic region, and race where necessary to align them with their actual proportions in the population.

All sample surveys and polls, whether or not they use probability sampling, are subject to multiple sources of error which are most often not possible to quantify or estimate, including sampling error, coverage error, error associated with non-response, error associated with question wording and response options, and post-survey weighting and adjustments.

Therefore, Harris Interactive avoids the words “margin of error” as they are misleading. All that can be calculated are different possible sampling errors with different probabilities for pure, unweighted, random samples with 100% response rates. These are only theoretical because no published polls come close to this ideal.

KEY FINDINGS

Financial Literacy:

41 percent of U.S. adults, or more than 92 million people living in America, gave themselves a grade of C, D, or F on their knowledge of personal finance, suggesting there is considerable room for improvement. This number is highest among Gen Y adults at 47 percent. 80 percent of adults agree that they would benefit from advice and answers to everyday financial questions from a professional, and more than one-third (35 percent) **strongly** agree.

Budget:

Showing no improvement since 2007, less than half of adults (42 percent) keep close track of their spending. Nearly 16 million adults (7 percent) don't know how much they spend on food, housing, and entertainment, and do not monitor their overall spending.

Spending:

57 percent of adults report spending less than they were a year ago. However, 45 percent of those now spending less admit that, if their financial situation were to improve within the next year, they would resume their previous spending habits.

Savings:

One-third of adults (32 percent), or 72 million people, report that they have no savings and only 23 percent are now saving more than they did a year ago because of the current economic climate. Nearly half (48 percent) of Gen Y adults- more than any other age group- report having no savings. Of those with no savings, more than one in four report that, if faced with an emergency, they would charge that expense to a credit card (29 percent) or take out a loan (26 percent), thus adding to their debt load.

Debt and Credit Cards:

26 percent, or more than 58 million adults, admit to not paying all of their bills on time. Among African-Americans, this number is at 51 percent. In the last 12 months, 15 percent of adults, or nearly 34 million people, have been late making a credit card payment and 8 percent (18 million people) have missed a payment entirely. More than 13 million adults (6 percent) report that their household carries credit card debt of \$10,000 or more from month to month, and the same number have debts in collection, are seriously considering filing for bankruptcy, or have already done so within the past three years.

Credit Score:

In spite of it being free, nearly two-thirds (64 percent), or 144 million people, have not ordered a copy of their credit report in the past year; this grows to nearly three-quarters (72 percent) among Hispanic Americans. Additionally, more than one-third (37 percent) admit that they do not know their credit score.

Housing:

42 percent of adults, or more than 94 million people, currently have a home mortgage and, of those, 28 percent say that the terms of their mortgage somehow turned out to be different than they expected, including: either payment or terms of loan were different than expected, the interest rate or its duration were different, or they had no knowledge of PMI.

Retirement:

One-third of adults (33 percent), or more than 74 million people, do not put any part of their annual household income toward retirement. This is up from 28 percent in 2008.

Insurance:

More than one in 10 adults (13 percent), or more than 29 million people, do not have medical insurance and this number grows to 20 percent among Gen Y adults. Nearly three in four (72 percent) do not have long-term care insurance, including 65 percent of adults aged 65 and older – this is more than 24 million people.

Financial Literacy is Low, but Most Recognize Need for Education

When asked what grade they would give themselves for their knowledge of personal finance, two in five adults (41%), or more than 92 million people, gave themselves a C, D, or F. The average grade U.S. adults would give their knowledge of personal finance is a B- or C+, suggesting there is much room for improvement. Indeed, four in five adults (80%) agree that, even considering what they already know about personal finance, they could still benefit from advice and answers to everyday financial questions from a professional, and just over one in three (35%) *strongly* agree.

When it comes to learning about personal finance, the home is the most commonly cited source for personal finance education: 37% of adults say they learned the most about personal finance from their parents or at home. Only 9% say they learned the most about personal finance in school – the relatively low grades many adults give themselves on their knowledge of personal finance suggest that this subject should be more broadly incorporated into school curricula.

Adults with a lower annual household income are more likely to grade themselves poorly in terms of their financial knowledge. Older adults ages 55+ are more likely than Gen Y adults (those ages 18-34) to give themselves an A in personal finance. These same adults are also more likely to say they don't need the help of a financial professional, while as many as 50% of Gen Yers *strongly* agree that they could benefit from advice and answers to everyday financial questions from a professional. Nearly half of Gen Y adults (47%) give themselves a C, D or F in personal finance.

African-American (50%) and Hispanic (45%) adults are both more likely than their white counterparts (38%) to give themselves a C, D or F on their knowledge of personal finance. African-Americans are more likely than Caucasian adults to agree that they could benefit from the advice of a financial professional – in fact, more than half of African-Americans *strongly* agree (54%, vs. 32% white) that they could use answers to everyday financial questions from a professional.

African-American adults (26%) are more likely than Caucasian adults (12%) to have learned the most about personal finance from self-help books or the media, while Hispanic adults (21%) are more likely than both African-American (4%) and Caucasian adults (7%) to have learned about personal finance in school.

<i>Question:</i>	Total 2009 %	Total 2008 %
Thinking now about what you have learned about personal finance, where do you think that you learned the most?	Base: Adults 18+	
	(n= 1,000)	(n= 1,001)
	A	B
Any (Net)	86	N/A
From your parents or at home	37	40
From self-help books or media	15 B	9
From a financial professional	12	10
From school	9	7
From friends	6	5
From the Internet	4	N/A
At work	4	6 A
Spouse or partner (VOL)	N/A	2
Learned on own/myself (VOL)	N/A	15
None of these	12	N/A
Don't know	1	4 A
Refused	1	2

More Than Half of Adults Do Not Have a Budget, Many Do Not See the Need for One

As in previous years, only about two in five U.S. adults (42%) have a budget and keep close track of expenses such as food, housing and entertainment – more than half (57%) do not have a budget and almost 16 million people (7%) do not monitor their overall spending and do not know how much they spend on food, housing, and entertainment.

<i>Question:</i>	<u>Total 2009</u> %	<u>Total 2008</u> %	<u>Total 2007</u> %
Which of the following best describes how you manage your money?	Base: Adults 18+		
	(n= 1,000)	(n= 1,001)	(n= 1,003)
	A	B	C
You have a budget and keep close track of how much you spend on such things as food, housing and entertainment	42	42	39
Don't have a budget (Net)	57	N/A	N/A
You have a somewhat good idea about how much you spend on such things as food, housing and entertainment, but you don't keep strict track of your spending on these things	39	35	36
You don't have a good idea how much you spend on such things as food, housing and entertainment, but you keep track of your overall spending and try to stay within certain limits that you've set for yourself	11	12	15 AB
You don't have a good idea how much you spend on such things as food, housing and entertainment, and you often don't keep track of your overall spending	7	7	7
Don't know	1	2	2
Refused	*	2	1

Among the 57% of adults, or about 128 million people, who *do not* have a budget, negative attitudes about budgeting may reinforce unhealthy behaviors: nearly one in five (18%) don't want to be restricted in their spending and one in 10 don't think a budget is useful. Additionally, 13% of adults who do not have a budget, or about 29 million people, don't know how to make one (3%) or what limits to set (9%), further underscoring the need for financial education.

Overall, men and women, and adults of all ages, are equally likely to have a budget. African-American (19%) and Hispanic (13%) adults are more likely than Caucasian adults (4%) to not monitor their overall spending.

Though there were no such differences by household income in 2007 or 2008, this year, we find that adults with an annual household income of \$100K+ (28%) are significantly *less likely* than those earning less than \$100K/year (44%) to have a budget and keep close track of their expenses.

Economy More Likely To Impact Spending Than Saving

Compared to one year ago, more than half of adults (57%), or the equivalent of roughly 128 million people, are now spending less, and more than one in four (27%) are spending *a lot* less. Of those who have curbed their spending, however, more than two in five (45%), or nearly 58 million people, say they would resume their old habits if their financial situation were to improve within the next year.

As in 2008, one-third of adults (32%), or 72 million people, report that they have no savings and only 23% are now saving more than they were a year ago because of the current economic climate.

Question:	<u>Total 2009</u> %
Compared to one year ago, how has the current economic climate affected your saving habits? Are you now saving...?	Base: Adults 18+ (n= 1,000)
More (Net)	23
A lot more than last year	9
A little more than last year	15
The same as last year	39
Less (Net)	35
A little less than last year	15
A lot less than last year	20
Don't know	1
Refused	2

A majority (59%) of adults who do not have any non-retirement savings cite a limited income as the primary reason for not having savings. Nearly one in 10 (9%) adults, or about 20 million people, do not have savings because they find it difficult to manage their money (4%), or they believe savings aren't necessary (5%). If they encountered an emergency or unexpected expense, more than one in four adults without savings would charge it to a credit card (29%) or take out a loan (26%), thus taking on or adding to existing debt. More than half would turn to family or friends to borrow the money (57%), but as many as 17%, or nearly 12 million people, would be forced to neglect their other financial obligations.

Not surprisingly, young adults and those earning less than \$35K/year are much more likely than their older and higher-earning counterparts, respectively, to say they do not have any non-retirement savings. African-American (49%) and Hispanic (50%) adults are nearly

twice as likely as their white counterparts (26%) to not have any savings. Among adults who do not have savings, women (70%) are more likely than men (49%) to say it's because they have a limited income.

One in Four Do Not Pay Their Bills on Time

Though most adults say they pay their bills on time and have no debts in collection, 26%, or more than 58 million people, admit to not paying all of their bills on time. 6% of adults, or about 13 million people, currently have debts in collection, of whom, 2% (4.5 million people) are seriously considering filing for bankruptcy or have already done so in the past three years.

Question:	<u>Total 2009</u> %	<u>Total 2008</u> %
Which of the following best describes your financial situation?	Base: Adults 18+	
	(n= 1,000)	(n= 1,001)
	A	B
You pay all of your bills on time and have no debts in collection	70	69
Do not pay all bills on time (Net)	26	N/A
You sometimes miss a payment but have no debts in collection	10	11
You struggle to pay your bills every month but have no debts in collection	10	9
You are getting calls from collectors and struggle to pay your bills every month	4	5
You are seriously considering filing for bankruptcy or have filed for bankruptcy in the past three years	2	2
I am not involved at all in any financial decisions including how money is spent in our household (VOL)	1	2
Don't know	1	2
Refused	1	1
Special Net: No debts in collection	91	N/A
Special Net: Debts in collection	6	N/A

Men and adults ages 65+ are more likely than their female and younger counterparts, respectively, to say they pay all of their bills on time and have no debts in collection. Adults ages 35-44 are most likely to be receiving calls from collectors and struggling to pay their bills every month (11% of adults in this age range, or almost 5 million people). Not surprisingly, adults with an annual household income of less than \$35,000 are the most likely to say they don't pay all their bills on time.

Additionally, African-American adults (51%) are more likely than both their white (23%) and Hispanic (21%) counterparts to not pay all of their bills on time, and to have debts in collection (14% African-American vs. 5% white and 2% Hispanic).

Many Carry Credit Card Debt and Millions Engage in Risky Credit Behaviors

Though a majority of adults (61%) say they currently live on a cash basis and do not access their credit cards for regular monthly expenses, more than two in five (44%) say their household carries at least some credit card debt from month to month, and about 13 million people (6% of all adults, 13% of those who have credit card debt) carry \$10,000 or more from month to month. 9 million people (4% of adults) do not currently, and say they could not, live on a cash basis.

In the last 12 months, 15% of adults (nearly 34 million people) have been late making a credit card payment, 7% (almost 16 million people) have made a payment that was less than the minimum required, and 8% (18 million people) have missed a payment entirely. Additionally, 7% (nearly 16 million people) have transferred the balance from one card to another, 4% (9 million) have obtained a cash advance from their credit card company, and 2%, or as many as 4.5 million people, have consolidated their credit card debt into a personal bill consolidation loan.

Younger adults ages 18-54 are more likely than those ages 65+ to have been late making a payment and to have missed a payment entirely. Adults with children under 18 in the household are more likely to have been late making a payment and to have made a payment that was less than the minimum required.

Question:	<u>Total 2009</u> %
In the last 12 months, have you...? *	Base: Adults 18+ (n= 1,000)
Any (Net)	40
Cancelled a credit card	15
Been late making a credit card payment	15
Applied for a new credit card	11
Missed a credit card payment	8
Transferred the balance from one credit card to another	7
Made a payment that was less than the minimum payment required	7
Been rejected for a new credit card	6
Obtained a cash advance from your credit card company	4
Consolidated your credit card debt into a personal bill consolidation loan	2
None of these	58
Don't know	*
Refused	1

Most Adults Have Not Reviewed Their Credit Report, Many Do Not Know Credit Score

Nearly two-thirds of adults (64%), or 144 million people, have not ordered a copy of their credit report within the past 12 months and more than one in three (37%), or about 83 million people, do not know their credit score.

Gen Y adults, those ages 65+, and adults earning less than \$35K/year are less likely to have ordered a copy of their credit report in the past 12 months. There were no significant differences by gender, region, or ethnicity.

Question:	Total 2009 %	Total 2008 %
Have you ordered a copy of your credit report in the past 12 months?	Base: Adults 18+	
	(n= 1,000)	(n= 1,001)
	A	B
Yes	34	37
No	64	62
Don't know	1	1
Refused	1	*

One in Four Mortgage-Holders Surprised by Their Terms

About two in five adults (42%), and more than half of homeowners (59%), currently have a home mortgage. Those who have a mortgage are most likely to have a fixed rate mortgage (84%), but nearly one in 10 (9%), or about 20 million people, have an adjustable rate mortgage (ARM). More homeowners have a mortgage this year than in both of the previous years when this question was asked (59% in 2009 vs. 45% in 2008 and 53% in 2007).

More than one in four adults who have a home mortgage (28%), or more than 26 million people, report that the terms of their lien turned out to be different than what they initially expected with respect to: the amount of their monthly payment (14%); the interest rate (13%) or how long the initial rate lasted (10%); the private mortgage insurance (PMI) they had to pay in addition to the monthly mortgage payment (9%); and/or, the new dollar amount of their mortgage after it reset (8%).

Gen Y adults and those ages 65+ are least likely to currently have a home mortgage, most likely because they haven't purchased a home yet (younger) or have already paid off their mortgage (older). Adults (and homeowners) earning a higher income, as well as those with children under 18 living with them, are more likely to have a home mortgage. Among those who have a mortgage, men are more likely to say they have a fixed rate mortgage, and women are more likely to say they have an ARM.

One in Three Adults – More Than Last Year – Do Not Save For Retirement

Compared to last year, more adults now report that they do not save any part of their annual household income for retirement (33% in 2009 vs. 28% in 2008). Only 6% of adults, or 13.5 million people, save more than 20% of their household's income for retirement each year.

Men (64%) are more likely than women (50%) to put money away for retirement. Gen Y adults and adults ages 65+ are least likely to save for retirement, probably because they have a limited income (younger) or have already retired (older). Not surprisingly, adults earning less than \$35K/year are least likely to be saving for retirement, while those earning \$100K+ are most likely to contribute 11-20% of their annual household income to retirement.

Question:	Total 2009 %	Total 2008 %
On average, what percentage of your household's income do you save every year for retirement?	Base: Adults 18+	
	(n= 1,000)	(n= 1,001)
	A	B
0% or nothing	33 B	28
Any (Net)	56	N/A
1% to 10%	34	33
11% to 20%	16	16
More than 20%	6	8
Already retired (VOL)	N/A	8
Don't know	8	6
Refused	2	2

Many Lack Basic Coverage, Most Older Adults Do Not Have Long-Term Care Insurance

More than one in 10 adults (13%), or more than 29 million people, do not have medical insurance, including 20% of Gen Yers. About three in four (72%) do not have long-term care insurance, including 65% of adults ages 65+, or more than 24 million people. Among all adults, Northeasterners are least likely to have long-term care coverage.

Only one in four adults (25%) have insurance against natural disasters. Among adults residing in the South – that is, those at greatest risk for hurricanes – two in three (66%) lack disaster insurance.

Men are more likely to have auto, disability, and disaster insurance, while women are more likely to have medical and renter’s insurance. Younger adults are less likely than their older counterparts to have medical, life, homeowners, disaster, or long-term care insurance. Interestingly, there are no differences in insurance coverage based on whether or not adults have children under 18 living in their household.

Only a Minority Expect to Afford Paying for Children’s College Education

Among adults who have children under the age of 18 living in their household, one in three (33%) want to provide a college education for their child but have not done anything about it yet, 18% have established an education savings account but doubt they can finance four years of college without taking out any loans, and 15% say their children will have to pay for college themselves. Only one in five (21%, or about 47 million people) have established a 529 Plan or other education savings account and expect to be able to pay for four years of college for their children.

Question:	<u>Total 2009</u> %	<u>Total 2008</u> %
Which of the following best describes your current plans for financing your child’s or children’s education needs?	Base: Adults 18+ who have children under 18 years of age currently living in the household	
	(n= 260)	(n= 338)
	A	B
Have education savings account (Net)	39	N/A
You’ve established a 529 Plan or other education savings account and expect to be able to finance four years of college for your child or children	21	23
You established an education savings account but are doubtful you can finance four years of college without borrowing	18	19
Do not have education savings account (Net)	48	N/A
You want to provide a college education for your children or children but haven’t done anything about it yet	33	30
If they want to go to college, they’ll have to pay for it themselves	15	15
Not the parent or guardian (VOL)	9	5
Don’t know	3	5
Refused	1	3

Familiarity with NFCC and CCCS Remains Low

Less than one in five adults (17%) are somewhat or very familiar with the NFCC, and only 2%, or 4.5 million people, say they are *very* familiar with the organization. More adults, though not by a wide margin, are familiar with the CCCS: 23% are somewhat or very familiar, and 4%, or 9 million people, are *very* familiar. A majority of adults are not at all familiar with either the NFCC (60%) or the CCCS (58%).

Patterns of awareness among various segments of the population are similar for the NFCC and the CCCS: familiarity does not vary significantly by gender, region, income, or presence of children in the household. However, there is some variance by age, with adults ages 45-54 being more likely to be familiar with these organizations than Gen Y adults and those ages 55+. Adults ages 65+ are more likely than those ages 18-54 to be not at all familiar with either organization.

African-American adults (29%) are more likely than Caucasian adults (16%) to be very or somewhat familiar with the NFCC, and more likely than both white (22%) and Hispanic (17%) adults to be familiar with the CCCS (36% African-American).