

New Report: Middle Class Americans Acknowledge Past Financial Mistakes

Two out of Three Adult Americans say they have made at least one really bad decision, with average loss costing \$23,000

Yet large majorities of those surveyed believed their ability to make sound financial decisions is “good” or “excellent”

WASHINGTON--(BUSINESS WIRE)-- In an analysis of two new sources of information about family finances, the Consumer Federation of America and Primerica found that two-thirds of middle class Americans acknowledge having made financial mistakes, often costly ones.

The new report, “The Financial Status and Decision-Making of the American Middle Class,” also concluded that the financial condition of most middle class families is challenging. For example, in 2010 the typical middle class family had financial assets of \$27,300 – including retirement savings but not pensions – which was 28 percent less than the \$37,800 held in 2007.

The comprehensive analysis includes a national survey of 2015 representative adult Americans by ORC International in July of this year and a statistical examination of the Federal Reserve Board’s 2010 Survey of Consumer Finances, by Professor Catherine Montalto of The Ohio State University.

In the ORC International survey, 843 out of 2015 respondents reported household incomes between \$30,000 and \$100,000 and were considered to be middle class. Key findings from an analysis of the survey data are:

- Two-thirds of middle class Americans (67%) said that, in the past, they had made at least one “really bad financial decision,” and nearly half of those questioned (47%) acknowledged that they had made more than one bad decision. The typical (median) cost of these bad decisions was \$5,000, but the average cost was \$23,000.
- Few of these Americans said their main source of information or advice about specific financial decisions would be from the Internet, books, magazines, or TV. And a number said they would not seek information or advice in making these decisions. For example, for “saving and investing,” only 15 percent said they would rely on the Internet, publications, or TV for the information, yet another 17 percent said they “wouldn’t seek any information or advice, and just make a decision.” However, for this kind of decision, 45 percent said they would use information and advice from a financial professional.
- These middle class Americans are much more risk-averse than those with higher incomes. If given \$1,000,000 to invest for retirement, only 21 percent of middle class Americans, compared to 48 percent of higher-income persons (incomes \$100,000 and

over), would invest mainly in “stocks, bonds, and/or mutual funds.” And 19 percent of the middle class group would “invest” most of their funds in a savings account while 25 percent would invest mainly in real estate.

- Yet, large majorities of these Americans believe their ability to make financial decisions is “good” or “excellent” – for example, 81 percent for ability to budget income and 80 percent for ability to manage credit card debt though only 63 percent for ability to save for retirement and 67 percent for their ability to purchase a mortgage loan.

“Considering their past mistakes and the complexity of the financial services marketplace, we were surprised at how highly most middle class Americans rate their ability to make a variety of financial decisions and how infrequently they rely on information from the Internet and publications,” said CFA Executive Director Stephen Brobeck.

The second source of information was the Federal Reserve Board’s 2010 Survey of Consumer Finances, which was released several months ago. Professor Catherine Montalto of The Ohio State University used its database, and that of the Fed’s 2007 survey, to compute financial statistics for the 40 percent of households in the third and fourth income quintiles -- incomes between \$35,600 and \$94,600 in 2010. Analysis of these data revealed that:

- This typical middle class family had financial assets of \$27,300, including \$3,900 in checking and/or savings accounts. These financial assets were 28 percent less than the \$37,800 held in 2007.
- Most of these financial assets represented money in contributory retirement accounts, but only about three-fifths of all families (61%) had such an account (though a number of middle class families did have pensions).
- For middle class families, the typical debt payments to income ratio was 20 percent with only 9 percent having debt payments that were overdue by 60 days or more. But nearly half (49%) still carried credit card debt from month to month, and the typical (median) debt for these families was \$2,700.
- The decline in housing prices was the main reason that the net assets of the typical middle income family declined 35 percent, from \$145,600 to \$94,700.

“Families without a lot of resources are balancing difficult and expensive priorities such as saving enough for college and retirement or paying off a mortgage and consumer debt. When you consider these demands within the context of the last decade’s falling incomes, we are nearing a crisis in this country,” said John Addison, Primerica Co-CEO. “Primerica’s representatives specialize in working with families that earn between \$30-\$100,000, and trust me, this can be a lonely field to be in. The trend on Wall Street is to work with wealthier and wealthier clients, but this report lays out very clearly the urgent need for more financial services aimed at middle income earners.”

Other findings from the analysis of the Fed data include:

- Only 21 percent of the middle class families had a cash value life insurance policy, 15 percent stocks outside a retirement account, 14 percent certificates of deposit, and 13 percent U.S. Savings Bonds.

- Over half of these families (53%) had installment debt whose typical amount was \$13,500. Almost all of this debt represented auto loans and student loans.
- These families held consumer and mortgage debt that was, typically, \$85,400 in 2007 and \$84,400 in 2010.

Other findings from the analysis of the ORCI survey data include:

- More older middle class persons (65 and older) than younger persons (18-34 years) rated their financial decision-making ability as good or excellent, for example, 56 percent vs. 27 percent for budgeting one's income.
- Two-fifths of middle class persons (40%) said they would not seek information or advice about managing credit card debt, and about one-quarter would not do so for purchasing auto insurance (25%) and life insurance (24%).
- Few said they would use information and advice from a financial professional for managing credit card debt (18%) and purchasing auto insurance (13%).
- The least well-educated middle class persons were the least likely to seek information or advice. For example, 23 percent of those with a high school degree or less, but only 10 percent of those with a college degree, would not seek information about saving and investing.
- A very small percentage would invest the bulk of \$10,000 (7%), \$100,000 (6%), or \$1,000,000 (6%) in gold or precious metals.
- Fewer middle class persons (63%) than those with incomes of \$100,000 or higher (76%) rated their decision-making about saving for retirement as good or excellent.
- More middle class persons (67%) than upper income persons (61%) said they had made at least one bad financial decision but the latter group lost more money -- \$61,000 vs. \$23,000 on average, presumably because they had more to lose.

The Consumer Federation of America is a nonprofit association of some 270 consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education. While its primary focus is public policy issues, CFA founded and manages the America Saves campaign in which more than 300,000 Americans have enrolled or pledged as Savers.

Primerica, Inc. headquartered in Duluth, GA, is a leading distributor of financial products to middle-income families in North America. Primerica representatives educate their Main Street clients about how to better prepare for a more secure financial future by assessing their needs and providing appropriate solutions through term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. In addition, Primerica provides an entrepreneurial full or part-time business opportunity for individuals seeking to earn income by distributing the company's financial products. We insure more than 4.3 million lives and approximately 2 million clients maintain investment accounts with us. Primerica is a member of the Russell 2000 Stock index and is traded on The New York Stock Exchange under the symbol "PRI".

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