



Consumer Federation of America

PROVIDIAN

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**MIDDLE AMERICANS BECOME MORE FINANCIALLY PRUDENT AND BUILD
MORE WEALTH DURING ECONOMIC BOOM, YET MANY WORRY ABOUT
FINANCES TODAY**

America Saves Offers Free Services -- Including Advice from Certified Financial Planners -- to Help Americans Save and Build Wealth

Washington, D.C. -- Middle Americans -- the three-fifths of all American households with incomes between about \$20,000 and \$80,000 in 2001 dollars -- increased their personal wealth from 1995 to 2001 mainly through more prudent financial behavior, according to research released this morning by the Consumer Federation of America and Providian Financial. Despite these economic gains, today about one-half of Middle Americans are worried about their financial condition.

"The good news is that most middle class Americans built greater personal wealth during the late 1990s," said Stephen Brobeck, Executive Director of the Consumer Federation of America. "The bad news is that this wealth is not sufficient to meet major emergencies, let alone provide for a comfortable retirement. No wonder so many today are worried about their financial condition."

CFA and Providian released this research in part to demonstrate the widespread need for the free services of America Saves, which CFA manages and Providian helps support. This nationwide campaign, in which nearly 1000 organizations participate, encourages and assists nonsaving Americans to save and build personal wealth. More than 12,000 Americans -- having developed a savings goal and concrete plan to achieve this goal -- have enrolled as Savers with the number growing rapidly recently.

Locally, the thirteen Saves campaigns in operation -- with more than 30 additional ones being planned -- offer consumers free services including motivational workshops, wealth coaching, savers clubs, and low-balance, no-fee savings accounts at participating banks and credit unions. Nationally, all Savers receive, for free, not only information about saving and a one-year subscription to the American Saver newsletter, but also access to advice from volunteer certified financial planners by phone or Internet. Anyone can become an America Saver by enrolling online (www.AmericaSaves.org).

These savings services are supported, in part, by a recent \$100,000 grant from Providian Financial. "Providian is pleased to support a program that has proven to be an effective means to educate low- and moderate-income consumers on the practical steps they can take to build savings, accumulate wealth and reach their financial goals," said Chris Lewis, Senior Vice President at Providian Financial. "Our own consumer research reveals a strong interest for quality financial information and tools to help Middle Americans best manage their financial affairs. America Saves is just such a program."

Middle Americans Often Neglected

Most research on the financial condition of Americans focuses on lower- or upper-income households -- the poor or the affluent. Yet, the middle three-fifths of all households by income form the backbone of the country. Almost all of these households participate in the labor force -- holding or looking for jobs outside senior management in manufacturing, private services, or government.

Adults in these households are considerably younger than the rest of the adult population. Forty eight percent of Middle Americans are under 45 years of age compared to only 40 percent of all other Americans. Moreover, they are less or more educated than the rest of the population. Sixty two percent of Middle Americans hold a high school degree but not a college degree. Only 42 percent of other Americans hold only a high school degree, with the other 58 percent either not having completed high school or having completed college.

CFA and Providian studied the financial condition of these Middle Americans using two data sources. The two organizations asked Catherine P. Montalto, a consumer economist at The Ohio State University, to analyze data on household finances collected by the Federal Reserve Board's Survey of Consumer Finances from 1989 to 2001, the date of their last completed survey. The two groups also asked Opinion Research Corporation International to survey, in July 2003, a representative sample of more than 1000 adult Americans about their financial condition. That survey has a margin of error of plus or minus three percentage points.

Middle Americans Act With Greater Financial Prudence and Build More Wealth During the Economic Boom

From 1995 to 2001, affluent Americans were investing heavily in stock, often in that of technology or dot.com companies, and their stock increased considerably in value. According to Fed data, the median family stock holdings of stockholders in the top 10 percent income group rose, between 1995 and 2001, from \$69.3 thousand to \$247.7 thousand. It is these affluent Americans who have suffered the greatest loss in stock value during the past two years.

The experience of Middle Americans during this period was considerably different. From 1995 to 2001, the net wealth of the typical Middle American household rose 23 percent -- from \$60.0 thousand to \$74.0 thousand. But while their stock holdings grew, for the typical Middle American family, stocks represented only a minor portion of net wealth. By 2001, only 53 percent of these households held stock, and the value of the median holding was only \$17,500. That means that three-quarters of Middle American households held less than \$18,000 combined in individual stocks, stock mutual funds, and stock retirement plans. As a result, Middle Americans were relatively unaffected directly by the recent decline of stock prices.

The Fed data suggest that an important underlying reason for this rising Middle American wealth was increasing financial prudence. From 1995 to 2001, the proportion of Middle Americans with a planning horizon of greater than one year rose from 61 percent to 70 percent. During the same period, the proportion of Middle Americans who spent less than their income rose from 56 percent to 62 percent. Not surprisingly, then, during this period the proportion of Middle Americans who saved regularly rose from 35 percent to 40 percent. (And the proportion that did not save at all fell from 23 percent to 19 percent.)

Yet Today Many Middle Americans Worry About Their Financial Condition

Fifty percent of those adult Middle Americans (annual incomes between \$25,000 and \$75,000) surveyed by ORCI in July revealed that they were "worried" about their financial condition. One-fifth of this fifty percent (10 percent of the whole sample) said they were "very worried."

By comparison, more than two-thirds (69 percent) of those surveyed with incomes under \$25,000 said they were worried, while only one-third of those with incomes over \$75,000 indicated they were worried. Women, the middle-aged, and those living in the Northeast or North Central regions were especially worried.

"Those worried about their finances are likely to have too little income or savings," said the CFA's Brobeck. "As the unemployment rate has risen, they also may have grown more concerned about losing their job."

America Saves Offers Free Services to Assist Nonsaving Americans

Any American can enroll as an American Saver. All one must do is complete a brief form in which you identify your saving goal (emergency fund, home, retirement, etc.) and a specific plan for achieving this goal which includes dollar amounts saved monthly in an identified saving account. The easiest way to enroll is to go to the AmericaSaves.org web-site and click on the section, How To Become a Saver. Alternatively, you can request an America Saves brochure, which includes an enrollment form, by fax at 202-797-9093.

Those who enroll as American Savers online receive, for free, information about savings strategies and savings options, a one-year subscription to the American Saver newsletter, and access to advice by phone or Internet from certified financial planners (recruited by the Financial Planning Association).

TABLE 1: MIDDLE AMERICAN SAVING ATTITUDES AND ACCUMULATION

	1995	1998	2001
Planning horizon			
Less than one year	39%	33%	31%
More than one year	61	67	70
Spending			
Same/more than income	44	44	39
Less than income	56	56	62
Saving			
Don't save	23	21	19
Save regularly	35	38	40
Wealth accumulation (thousands)			
Net wealth	\$60.0	\$69.1	\$74.0
Net financial assets	5.6	9.1	11.0

Source: Federal Reserve Board, Survey of Consumer Finances for 1995, 1998, and 2001