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NEW STUDY: TYPICAL AMERICAN HOUSEHOLD HAS NET FINANCIAL ASSETS OF $1,000

Related Survey Shows That Most Americans Overestimate Wealth, Underestimate Power of Saving

Washington, D.C. -- Despite the economic boom of recent years, one-half of American households have accumulated less than $1,000 in net financial assets and modest or no wealth, according to a new Census-based economic analysis commissioned by the Consumer Federation of America (CFA) and Primerica. A related CFA/Primerica public opinion survey finds that most American adults overestimate, by up to 25 times, the typical level of household assets and wealth.

Not only do most Americans grossly overestimate the wealth of others, but according to the CFA/Primerica survey data, they also greatly underestimate their ability to accumulate wealth through saving and investing. In fact, a majority of Americans in households with incomes of $35,000 or less believe that they are more likely to accumulate a $500,000 nest egg by winning a lottery or sweepstakes (40%) than by patient saving and investing of relatively modest sums (30%).

To help inform Americans that they can accumulate wealth, and how they can do so, Primerica and CFA are releasing this research together with a free pamphlet (**"Six Steps to Six-Figure Savings"**) and a related website with a savings calculator (*www.consumerfed.org*).

"Nearly all Americans have the ability to accumulate wealth if only they would make the commitment to do so," said John Addison, Co-CEO and President of Primerica. **"Simply by building equity through home ownership, taking advantage of an employer's retirement options, and saving monthly, most families can build assets of several hundred thousand dollars during their lifetimes,"** he added.

"Most Americans are now aware of the consumer debt trap and the need to build wealth but don't believe they can do so," said Stephen Brobeck, CFA's Executive Director. **"Through a modest reduction in expenditures and monthly savings, millions of Americans can achieve financial peace of mind,"** he added.

Typical Household Has
Few Financial Assets and Modest Wealth

In research commissioned by CFA and Primerica, economist Joseph M. Anderson of Capital Research Associates found that the typical American household has few net financial assets ($1,000) and modest net wealth ($35,500). Anderson used 1995 data collected by the U.S. Bureau of the Census in the Survey of Income and Program Participation (SIPP), the most recent available government data on household assets and wealth. (Assets in IRA and Keogh accounts, but not those in defined benefit or defined contribution pension plans, including 401(k)s, are part of these data. According to the Fed's 1995 Survey of Consumer Finances, only 27% of households were covered under a 401(k) plan.)

"The majority of working Americans have not benefited directly from the rise in stock prices," said Brobeck. **"In fact, more than half of all households hold no stock,"** he added.

An important reason for the low net financial assets, according to Anderson, is consumer debt. The typical household held consumer debts that totaled well over one half of gross financial assets. Moreover, the one-fifth of households with the lowest net assets held, by far, the highest consumer debts, most of them unsecured (mainly credit card debt).

What is especially striking is that the one-fifth with the least financial assets typically had middle incomes, not low incomes. The median income of this quintile was $31,700, while the median incomes of the next two quintiles (by financial assets) were $13,100 and $25,500 respectively. The main reason for this apparent anomaly was consumer debt -- the typical member of this quintile held $4,700 more in unsecured debt than in gross financial assets.

Anderson's research also found a strong relation between age and assets/wealth. But no 10-year age cohort had large asset levels. Those 65 to 74 years of age, the wealthiest, held median net financial assets of $12,500 and net wealth of $97,474, most of which represented home equity.

Americans Overestimate Wealth of Others
But Underestimate Their Own Ability to Accumulate Assets

In a public opinion survey commissioned by CFA and Primerica, the Opinion Research Corporation International (ORC) learned that Americans overestimate the wealth of others and underestimate their personal ability to build wealth. In fact, low and moderate income Americans believe they have a better chance of accumulating $500,000 through winning the lottery or sweepstakes than through saving/investing a portion of their incomes.

When Americans were asked to estimate the net financial assets held by the typical household, only 7% correctly answered "under $2,500." Nearly half (49%) estimated that these assets exceeded $10,000 while another 36% did not know.

When asked to estimate the net wealth of the typical household, only 20% said "under $50,000." 45% estimated wealth higher than this, and 34% did not know.

Many Erroneously See Lottery As Best "Savings Plan"

Surprisingly, when asked what is your "best chance to obtain half a million dollars or more in your lifetime," 27% said, "win a lottery or sweepstakes," while 47% said "save and invest a portion of your income."

For those with incomes below $35,000, more thought winning a lottery or sweepstakes was more promising than saving and investing a portion of their income. For households with incomes of $25,000-35,000, 41% chose a lottery while only 33% selected saving; for those with incomes of $15,000-25,000, 45% chose a lottery while just 31% selected saving.

One reason for this belief is that most Americans dramatically undervalue the "time value of money" -- the extent to which regular savings will accumulate over time.

- When asked how much $25 invested weekly for 40 years (at a 7% annual yield) would accumulate to, the median response was $122,500. But in fact, this saving would result in an accumulation of $286,640.

- When asked how much $50 invested weekly for 40 years (at a 9% annual yield) would accumulate to, the median response was $239,400. Yet, this saving would lead to an accumulation of more than one million dollars -- $1,026,853.

"If Americans understood that their chances of winning a big lottery jackpot were 10 to 20 million to one but that they could accumulate hundreds of thousands of dollars through regular saving, more families would put the $50 away rather than spending it on gambling or unneeded consumption," said Addison

Those Who Most Need to Save Are The Ones Most Likely To Underestimate the Value of Doing So

The young, the poor, and the least educated are less likely than other demographic groups to understand the power of saving.

- For each of four scenarios, the estimates of young adults of how much savings they would accumulate were more than 20% less than the estimates of older Americans (who themselves underestimated savings).

- Only 8% of households with incomes under $15,000 know that $25 invested weekly for 40 years at a 5% annual yield would accumulate to more than $150,000 (compared to 28% of those with incomes of $50,000 or more).

- Only 30% of high school dropouts know that saving and investing is the best route to a big retirement nest egg (compared to 61% of college grads).

Survey data also revealed a gender gap noted by most other research. Only 40% of women believe that saving and investing is the most effective strategy for wealth-building (compared to 54% of men). Moreover, women were more than twice as likely as men (47% vs. 20%) to offer no answer to the question of how much $25 a week saved would yield. And, when they did guess, they were more likely to underestimate the accumulation than were men.

CFA and Primerica Make Available Free Pamphlet and Website Saving Calculator

To help convince Americans that they can build wealth, and strategies for doing so, CFA and Primerica are making available a free pamphlet and website saving calculator. The pamphlet, **"Six Steps to Six-Figure Savings,"** recommends six basic wealth-building strategies, each with a specific action step. It also shows the power of saving over time and suggests a number of "easy ways to save." A free copy is available by sending a self-addressed stamped envelope to: CFA's 6 Steps to Savings, P.O. Box 12099, Washington, DC 20005.

The website calculator allows users to estimate savings, over various time periods at different rates of return, for ten specific ways to save (e.g., brewing your own coffee, eating out one night less per week, paying off a credit card balance). To use the calculator, visit: *www.consumerfed.org*. Also available on this website is the "6 Steps" savings pamphlet.

CFA and Primerica plan to publicize the results of both studies, distribute hundreds of thousands of pamphlets, and communicate the availability of the website over the next year. These materials will be used by a new AMERICA SAVES wealth-building campaign directed at low- and moderate-income households, which CFA is organizing.

Primerica is a leading provider of a broad array of financial products including insurance, investments, and debt consolidation loans. Primerica is a member of Citigroup (NYSE:C), the global financial services company, with some 100 million clients in 100 countries.

CFA is a nonprofit association of more than 250 pro-consumer groups, which, since 1968, has sought to advance the consumer interest through advocacy and education.

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