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Beyond 50.04: A Report to the Nation on Consumers in the Marketplace

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This report focuses on the role of mid-life and older consumers in the nation’s economy and the challenges they face as financial managers in a rapidly changing and dynamic marketplace.

In the future, the word, “consumer,” will increasingly come to mean “older consumer.” This report examines the implications of this demographic and social change from a public policy perspective—more specifically, consumer information policy. It addresses a key policy question: What is needed in the context of today’s marketplace to assure that older consumers have the information and tools they need to make wise decisions concerning their financial security?

In order to help consumers successfully meet the challenges of a dynamic marketplace and to assure the economic security of older households in the future, AARP recommends that the nation commit itself to the following goals:

- Assist consumers in making informed choices by improving the quality of consumer information in the marketplace.
- Increase the level of consumer financial literacy, particularly among Boomers, minorities, and low-income persons.
- Increase consumer choice and financial service options for isolated communities and underserved market segments.

A Growing Market: Expenditures by the Older Population—Analysis from the Consumer Expenditure Survey

As a group, older consumers are a powerful economic force:

- By 2001, older consumers (age 45 and older) were responsible for the majority (52 percent) of total consumer spending.
- Older consumers held a majority of the market share in the key categories of food, housing, health care, transportation, and personal insurance and pensions in 2001.
- Between 1984 and 2001, the total average annual expenditures of older consumers increased at a greater rate (+8 percent) than those for all consumers (+6 percent), largely reflecting the aging of the Boomers.

Large disparities in income become obvious when examining spending in the key categories—food, housing, health care, transportation, and personal insurance and pensions—by income, race, and ethnicity. While these disparities are not surprising, they reinforce the need for consumers
to have the best information available so that they can manage and use their resources effectively. This is particularly true when income is limited. Further, the savings that accrue from effective shopping and financial management can help enable consumers to contend with myriad responsibilities, such as financing their children's education, caring for older relatives, and preparing for retirement.

The Management Challenge

Factors That Are Increasing the Difficulty of Consumer Decision Making

The marketplace is more complex than it was a generation ago, and change is rapid and continuous. Today’s consumers face a demanding set of challenges in navigating the marketplace and obtaining financial security. In general, the consumer decision-making process today is difficult for several reasons:

• **Less time and more decisions.** More consumers, including older consumers, are working and have more choices in the marketplace. In addition, special circumstances such as disabilities, poverty, discrimination, living alone, and language barriers often disproportionately affect the older population and their role as shoppers and money managers.

• **Increasing complexity of products and services.** To navigate the marketplace successfully, consumers need to be able to differentiate among a wide range of products, services, and providers; understand key contract terms and conditions and pricing mechanisms; and make appropriate decisions related to diversification and risk.
• **Low levels of financial literacy.** Consumers must be knowledgeable to make informed choices. Unfortunately, research indicates that they often have disturbingly low levels of financial and consumer literacy.

**Older Consumers As Money Managers**

Analysis of survey data from the Federal Reserve Board examining the money management skills and financial behaviors of older consumers found the following:

- Persons age 65 and older, non-Hispanic blacks, and Hispanics were less likely than all persons to have experience with financial products and basic money management skills.
- Persons who have less experience with financial products and lower basic money management skills were most likely to have incomes in the lowest third of the income distribution.
- The most effective tools for learning were news media and brochures. Older persons were less likely to report the Internet as an effective tool for learning.
- Persons who reported that they had less experience with financial products and less sophisticated basic money management skills were less likely than other money managers to report that their chances for a comfortable retirement had increased in the last five years.

**Implications For Today’s and Tomorrow’s Financial Managers**

Approximately 4.4 million households age 50 and older try to manage their money without a checking account—that is, they are “unbanked.” This often means relying on more expensive alternative services and the lack of a savings mechanism. In addition, the aversion to debt among the “greatest generation” has given way to a much more expansive use of credit among the Boomer generation. Many older consumers now keep an ongoing balance on their credit cards, and the level of debt and number of bankruptcies among older households rose sharply between 1991 and 2001. Further, the shift from non-home-secured (consumer) credit to mortgage debt heightens the danger of foreclosure and losing one’s home. This concern has increased in recent years because older borrowers are overrepresented in the high-cost subprime refinance market where the incidence of predatory practices and associated foreclosures is greatest.

Market segmentation in banking and mortgage lending has resulted in differential access to prime credit and services for many older and minority consumers. In many low-income, minority, and older communities, high-cost alternative financial service providers such as check cashers and subprime mortgage lenders predominate, while mainstream institutions seek more affluent customers. If consumers lack meaningful choices, better consumer information and greater financial literacy are of limited benefit.

**Recommendations**

**Improving the Quality of Consumer Information**

Make Product Information, Labeling, and Disclosures Easier to Understand, More Accurate and Useful

- **Product and service providers and self-regulatory organizations** should develop and use common language and terms that permit consumers to comparison shop more easily, particularly with regard to product options, risks, and fees. They should also test their product information and disclosures for consumer understanding.
- **Federal and state policymakers** should focus on making required labeling and disclosures easier to understand, more comprehensive and accurate, and more useful in enabling consumers to understand risks and costs and to compare products. Uniform and appropriate disclosures should be required for similar products, regardless of the type of company offering the products (for example, mutual fund or other investment being offered by a bank, insurance company, brokerage firm, or other financial services company).
Increase the Quality and Integrity of Advice to Consumers

- **Organizations representing consumer advisors** (for example, financial planners, investment advisors, insurance agents, and securities and mortgage brokers) should set high standards for professional competence and integrity.
- **Federal and state policymakers** should reinforce such standards by requiring appropriate industry-wide compliance and enforcement, full disclosure of conflicts of interest, and the application of suitability standards for recommended products appropriate to the consumer’s financial situation.

Increase the Availability of and Access to Third-Party Products and Services Information

- **Consumer organizations, universities, and other independent organizations** should be encouraged to test and conduct research on consumer products and services.
- **Consumer organizations, foundations, universities, state and local governments** should encourage the development of local consumer information networks (such as Washington Consumers Checkbook), including Internet-based approaches that collect and disseminate price and quality information. Service quality and rating information collected by federal, state, and local agencies should be available to consumers online and in an understandable format.
- **Federal, state, and local governments** should strengthen product and consumer information efforts.

Increasing Financial Literacy

Give Increased Attention to the Financial Literacy Needs of Boomers and Older Persons

- **Federal and state financial literacy initiatives** (such as the federal Financial Literacy and Education Commission established under the Financial Literacy and Education Improvement Act of 2003) should focus increased attention on the financial literacy needs of Boomers and the older population.

Focus on Outcomes That Lead to Improved Money Management

- **The private sector, foundations, federal and state governments**, and others should support research aimed at improving the effectiveness of financial literacy and consumer counseling programs, particularly with regard to obtaining outcomes that lead to better money management and wealth-building behaviors.

Empower Consumers with New Tools and Technology

- **Financial literacy programs** should empower individual consumers by including information on obtaining and using credit reports and scores, effective comparison-shopping, the use of technology (broadband, online banking, and ATMs), and techniques for preventing financial fraud and abuse.

Increasing Consumer Choice

Increase Choices for Banking and Credit in Segmented Communities

- **Insured financial institutions** (banks, savings and loans, credit unions) should offer competitive basic banking products in segmented markets (for example, low-income, minority, and elderly) as an option to more costly alternative financial services.
- **Lenders** should establish practices and procedures to increase prime lending in segmented markets.
- **Secondary market institution** (such as Fannie Mae and Freddie Mac) policies should encourage and reinforce such practices and procedures.
Strengthen the Community Reinvestment Act (CRA)

- **Congress** should extend coverage of the Community Reinvestment Act (CRA) to include industries other than banking that offer financial products. The activities of affiliates engaged in banking, lending, and investment activities should be included under the CRA, and incentives for increasing prime lending incorporated in performance standards for such affiliates.

- **Banking regulators** should consider an institution’s compliance with state basic banking laws, efforts to provide accounts for the unbanked, and compliance with usury or other statutes in determining an institution’s rating under the CRA and when considering bank mergers. Assessment areas should coincide with the market for an institution’s products.

Eliminate Predatory Financial Practices

- **Federal and state policymakers** should protect homeowners from abusive practices and resulting foreclosures. Policymakers should require alternative financial service providers to eliminate abusive, unfair, and deceptive practices and assure adequate resources for enforcement of small-loan and other relevant statutes.
This report discusses the role of mid-life and older consumers in the nation’s economy and the challenges they face as financial managers in a rapidly changing and dynamic marketplace.

Why focus on mid-life and older consumers? The reason is simple. In the future the word, “consumer,” will increasingly come to mean “older consumer.” This report examines the implications of this demographic and social change from a public policy perspective—more specifically, consumer information policy. It addresses a key policy question: What is needed in the context of today’s marketplace to assure that older consumers have the information and tools they need to make wise decisions concerning their financial security?

Part I, A Growing Market, examines the older population’s spending using data from the federal government’s Consumer Expenditure Survey from 1984 to 2001. The analysis looks at how older consumers’ expenditures in key categories—food, housing, transportation, health care, and personal insurance and pensions—have changed over time. It also examines differences in expenditures among various groups within the older population based on such characteristics as age, race, and ethnicity. The section concludes with a discussion of the findings’ implications for the efficiency of our nation’s economy and the financial management responsibilities of individual consumers—particularly the Boomer generation.

Part II, The Management Challenge, examines a number of factors—time pressures, complexity of products and services, and financial literacy—that increase the difficulty of information search and financial management for consumers. Analysis of data from a recent Federal Reserve Board study provides new information about the money management skills and behaviors of older consumers. Also in this section are two self-assessment tools for readers: “Test Your Wireless IQ: Navigating the Cell Phone Service Maze” and “How Good Are Your Money Management Skills?” The section ends with a discussion of the policy implications of the survey findings and an outline of major concerns relating to banked and unbanked consumers, the increased risk of bankruptcy and foreclosure among older consumers, the widening gap in consumers’ perceptions about the future, and the role of financial literacy initiatives in meeting the specific needs of individual consumers.

Part III, Report Recommendations, proposes national goals for improving the quality of consumer information, increasing consumers’ financial literacy, and increasing consumer choice for underserved market segments and
in isolated communities. It also makes specific recommendations for implementing these goals.

Part IV, Special Analyses, includes two sector studies that examine consumer information issues in the mortgage lending and online services markets. For older consumers, the home is not only a place to live; it is usually their single largest financial asset. Further, more retirement-age homeowners have mortgages. As a result, mortgage market practices are a key concern. Similarly, more older consumers are using the World Wide Web. The online services sector study examines such issues as search engines, high-speed Internet access, and information credibility. Both sector studies provide specific policy options.

Special analyses from the Consumer Expenditure Survey in six areas—food, housing, health care, transportation, personal insurance and pensions, and computers—are also included in this section.

The Appendices include money management tips to accompany the money management self assessment in Part II, as well as Internet resource tips for readers.

The 2002 Consumer Expenditure Survey data were released after the analyses were completed for this report. Preliminary analysis suggests that average expenditures for all consumers increased by a modest amount and spending patterns by older consumers in the key categories were similar to 2001. Whether spending patterns are consistent or dynamic, consumers continue to face challenges in an everchanging marketplace.
Older consumers (those age 45 and older) are a powerful economic force in America, spending more as a group than all other consumers. In 2001, older consumers spent $2.28 trillion of total consumer spending ($4.36 trillion) in the United States. This 52 percent market share was up from 47 percent in 1984. Increases in market share were not limited to the Boomers: the market share of consumers age 75 and older also increased during the same period.
Introduction—For some time now, marketing analysts have focused on the size and commercial potential of expenditures by America’s older population, particularly that segment known as “Boomers” born between 1946 and 1964. Headlines like “Older Baby Boomers a Big, Growing Market,” “Big Spenders,” and “The Boomer Attitude” testify to the growing importance of the older population to the bottom line of American business.

This review of expenditure patterns, however, does not focus on the potential for sales, brand preferences, or the attitudes of the older population toward particular products. Rather, it identifies several questions concerning public policy, consumer well-being, and the role of well-informed consumers in fostering a fair and efficient marketplace. These questions include:

• How have older consumers’ expenditures in key categories changed over time?
• What are the differences in the expenditures among various groups within the older population based on such characteristics as age, income, race, ethnicity, and family size?
• What do these expenditure patterns and trends suggest about the role of older consumers in the nation’s economy and the well-being of the older population?

To answer these questions, this report relies on recent data available from the Consumer Expenditure Survey (CEX), issued by the U.S. Bureau of Labor Statistics (BLS) in 2001. While the CEX tends to underestimate expenditures in some areas, it is the best source of information about the spending behavior of American consumers. The BLS conducts the survey—which comprises two parts: an interview survey and a diary survey—annually, integrates the responses to calculate average expenditures, and publishes the results the year after conducting the surveys. To examine changes in spending over time, this report also relies on data from the 1984, 1990, and 1994 CEX surveys.

Glossary of Frequently Used Terms
Readers should be aware of the following terms used in this analysis:

• **Consumer Expenditures.** Consumer spending on the various expenditure categories as defined in the Consumer Expenditure Survey. The amounts may represent out-of-pocket spending or payroll deductions and do not include spending by other payors. For example, expenditures on insurance or Social Security do not include employer contributions.

• **Older Consumer.** A consumer age 45 or older. We selected this age break because it allows the analysis to encompass the leading edge of the Boomer generation—persons born from 1946 to 1964.

• **Consumer Unit.** Roughly equivalent to households, consumer units are the measurement unit used in the CEX. However, some households contain more than one consumer unit. This study uses the terms, “older consumer(s)” and “older consumer unit(s),” interchangeably.
• **Key Categories.** This report designates food, housing, health care, transportation, and personal insurance and pensions as “key categories” of expenditures for older consumers. We group the remaining categories under the title, “other,” when examining percentage shares of total average annual expenditures by consumer units. The key categories typically include a broad array of expenditures. For example, “Housing” includes not only expenditures for shelter but also those for utilities, fuel, public services, household operations, housekeeping supplies, and household furnishings and equipment. A listing of the expenditures comprising each of the key categories is provided on page 114 of the Appendices.

• **Average Annual Expenditure.** All expenditure information in this report is shown as annual averages, expressed in:

• **Dollars.** This report presents all expenditure figures in 2001 dollars to account for inflation and allow comparisons of expenditures over time.

• **Percentage of Total Average Annual Expenditure or “Percentage Share.”** We use these terms to compare spending across key categories.

• **Indexed Spending.** We provide indexed spending figures to facilitate comparisons of spending by groups of consumer units in a particular key category with the spending of all consumer units in that category. We compute the index used in this analysis by dividing the average spending of consumer units in the particular group (age, race, family size, etc.) by the average spending of all consumer units, then multiplying by 100. For example, an index of 150 means that
spending by a consumer group is 50 percent above the average spending in that key category by all consumers. Similarly, an index of 50 means spending by that group of consumers is 50 percent below the average spending in that key category.

- **Population Share.** Population share shows the size of a group (for example, age, race, or income) relative to the total population of consumer units.

- **Market Share.** Market share is contribution of a group (for example, age, race, or income) to total spending in a particular category. For example, if consumer units age 65 and older spend one-quarter of the amount spent by all consumers on food consumed at home, the market share of consumer units age 65 and older is 25 percent. If the market share by a group greatly exceeds its population share, analysts consider the group to have high potential for spending. Conversely, a market share that is less than the population share may indicate that the particular group has fewer resources or that the key category is not in demand by the particular group.

The remainder of this section explores the market share and average annual expenditures of the older population, with a focus on the key expenditure categories of food, housing, health care, transportation, and personal insurance and pensions.
Market Share of the Older Population, 1984 to 2001

Total Market Share
Older consumers (those age 45 and older) are a powerful economic force in America, spending more as a group than all other consumers. In 2001, older consumers spent $2.28 trillion of total consumer spending ($4.36 trillion) in the United States. This 52 percent market share was up from 47 percent in 1984. Increases in market share were not limited to the Boomers—the market share of consumers age 75 and older also increased during the same period (see Figure 1).

A major factor contributing to the growing market share of older consumers is the increasing population of older consumers. While the total population grew by 22 percent between 1984 and 2001, the number of older consumers increased by 33 percent during the same period. Figure 2 illustrates population growth for various age groups.

From 1984 to 2001, the number of consumers age 35 to 44 increased by 43 percent (from 17,118,000 to 24,422,000) and those age 45 to 54 by 71 percent (from 13,027,000 to 22,317,000). Together, these two
FIGURE 3: The Market Share of Older Consumers Reached 50 Percent in Each of the Key Expenditure Categories in 2001


FIGURE 4: The Market Share of Older Consumers Age 45–54 in Each of the Key Expenditure Categories Increased Between 1984 and 2001

groups comprised more than two-fifths of the total population in 2001. While these groups include the Boomers, the population of consumers age 75 and older increased by about 50 percent, from 7,105,000 in 1984 to 10,596,000 in 2001.

Although consumers age 75 and older spend the least of all age groups, their expenditures increased by 22 percent between 1984 and 2001. This represents a large increase in spending, compared to the six percent increase among all consumers, 19 percent for consumers age 65 to 74, and four percent for those age 55 to 64.

**Market Share of Older Consumers in the Key Expenditure Categories**

Older consumers held at least half of the market share in each key expenditure category in 2001 (see Figure 3). Market share increased in every category since 1984, with the largest increases in the key categories of housing and health care. By 2001, older consumers spent more than two-thirds (69 percent) of all consumer expenditures on health care; 52 percent of total food expenditures; and about half of all expenditures on housing, transportation, and personal insurance and pensions.

Figure 4 shows the market share in each of the key categories for various ages within the older population. As with the overall market share held by each age group (see Figure 1 on page 13), the key category market share each age group holds reflects the changing size of the older age groups. Consumers age 45 to 54 and age 75 and older increased their market share in each of the key categories between 1984 and 2001.
Average Annual Expenditures of the Older Population, 1984 and 2001

**Total Expenditures**

Older consumers spent an average of $38,787 in 2001 (see Figure 5). Consumers age 45 to 54 had the highest average annual expenditures (AAE) of all age groups, spending an average of $47,930 annually. The average expenditures of this age group were slightly higher than those of consumers age 35 to 44, and more than double the annual amount spent by consumers age 75 and older. The average expenditures of older consumers increased by 8 percent during this time (from $36,049 to $38,787), compared to six percent for consumers of all ages.

The annual average expenditures for each of the age groups remained relatively stable between 1984 and 2001 (see Figure 6).

The income and other resources available to individual consumers generally limit annual consumer expenditures. It is possible, however, for annual expenditures to exceed annual income, such as when a consumer borrows to get through difficult financial circumstances.

As with total expenditures, the share of total income derived from various sources was relatively stable between 1984 and 2001. Not surprisingly, as consumers age, their share of income derived from wages and salaries decreases, while income from Social Security and pensions as a share of total income increases. Wages and salaries are the largest source of income for all consumers, comprising more than three-quarters (81 percent) of total income in 2001. This share was also large (71 percent) for consumers age 45 and older, despite the fact that many of the older consumers have retired from wage and salary employment. Although incomes vary by race and ethnicity, the share of total income from wages and salaries was similar for all groups except single nonearners.

**FIGURE 5: Consumers Age 45–54 Had the Highest Average Annual Expenditures of All Age Groups in 2001**

FIGURE 6: Average Annual Expenditures Remained Relatively Stable for All Age Groups Between 1984 and 2001

*Note: All figures are adjusted to 2001 dollars.

FIGURE 7: The Percentage of Total Spending Remained Largely Unchanged Between 1984 and 2001*

*Note: Percentages may not add to 100 due to rounding.
Social Security and pensions are the most important sources of income for older consumers after wages and salaries. In 2001, nearly one-fifth (19 percent) of older consumers received income from these sources.

Although older consumers, on average, derived 71 percent of their total income from wages and salaries, notable differences emerge when examining older consumers by income quartile. Consumers in the lowest income quartile relied on Social Security and pensions for almost three-quarters (71 percent) of their income, but these sources accounted for only seven percent of the total income of consumers in the high income quartile.

Expenditures in the Key Categories: Food, Housing, Health Care, Transportation, and Personal Insurance and Pensions
In a trend similar to consumer expenditures in all categories, the percentage of total spending by all consumers in the key categories—food, housing, health care, transportation, and personal insurance and pensions—remained virtually unchanged between 1984 and 2001 (see Figure 7). In 2001, older consumers allocated more than three-quarters (80 percent) of their expenditures to the key categories, the same share allocated by all consumers. Spending on each individual key category also remained remarkably stable between 1984 and 2001. Among the key categories in 2001, older consumers allocated about one-third (32 percent) of their total expenditures to housing, 19 percent to transportation, 13 percent to food, and 10 percent to personal insurance and pensions.

While key category expenditures as a percent of total expenditures by all older consumers appear to have remained largely unchanged between 1984 and 2001, more varied spending priorities emerge when examining the spending

among various age groups (see Figure 8). In particular, illustrating key category expenditures for each age group confirms that as consumers age, their expenditures on personal insurance and pensions as a share of total expenditures decrease. When examining expenditures in the key categories as a share of total spending, the allocated amounts are largely consistent across various demographic groups (see Figure 9 on page 20). With slight variations, all consumers allocated about the same percentage of total expenditures to the key categories in 2001: they spent about one-third of total expenditures on housing; approximately one-fifth on transportation; and comparable amounts on food, health care, and personal insurance and pensions. Single nonearners appear to allocate substantially more to housing than do other consumers, but this may simply reflect lower expenditures on personal insurance and pensions.

While shares allocated to the key categories are similar across demographic groups, actual dollars spent vary substantially. Figure 10 on page 21 illustrates the variation in average annual expenditures among various demographic groups.
Older consumers are responsible for the majority of total consumer spending in the United States, and they dominate the market in every key category of expenditure: food, housing, health care, transportation, and personal insurance and pensions. Their population share makes them a growing and powerful economic force.

Continuity was a primary feature of the expenditure patterns of older consumers, with little change in the share of average annual expenditures spent on each of the key categories in 1984 and 2001. In addition, changes in average annual expenditures have been modest and gradual. The 45 to 54 age group had the highest average annual expenditure ($47,930) of all age groups in 2001, while the 75 and older age group had the lowest average annual expenditure ($23,099) of all age groups.

But is spending power all that one needs to achieve what economists call “consumer sovereignty” or success in choosing a product or service within the limits of personal income that provides the quality desired at the lowest possible cost? This question is far from academic because we know from both practical experience and research that the information available to consumers to make choices is far from perfect in most markets, and consumers themselves are often ill equipped to shop effectively and manage their finances. Further, the marketplace has become vastly more complex since 1984, making the consumer’s task even more challenging.

Key Findings and Policy Implications

FIGURE 9: The Percentage of Average Annual Expenditures in the Key Categories is Similar for Various Demographic Groups*

*Notes: Percentages may not add to 100 due to rounding. Demographic classifications are not mutually exclusive. Native American classification includes consumers identified as American Indian, Aleut, or Eskimo. Data for “All” and “45+” groups are from BLS-published tables. Source: Consumer Expenditure Survey, 2001.
The stakes are high for both the nation’s economy and older consumers in how we address these issues. Given current demographic projections, “consumer” will increasingly mean “older consumer.”

Willie Sutton, the famous bank robber of the 1930s, was once asked why he robbed banks. His reply, “Because that’s where the money is,” is instructive for policymakers and consumer advocates because price competition and the availability of timely and accurate information about products and services are most important in areas where consumers spend the majority of their money. If consumers are not in a position to make decisions that reward efficient producers and punish inefficient ones, the potential efficiency of a market system is lost. Further, the savings that accrue from effective shopping and financial management are vital to helping consumers, especially Boomers, find adequate resources for myriad responsibilities, including financing their children’s education, caring for older relatives, and saving for their own retirement. In Part II of this report, we discuss what it will take to even the odds and get closer to “consumer sovereignty.”
Do consumers have the tools to make smart decisions and manage their money wisely in this complex marketplace? Is there adequate information symmetry between sellers and consumers to allow for a fair, efficient, and effective marketplace? Consumers must be knowledgeable to make informed choices. Unfortunately, research shows that adults in the United States have disturbingly low levels of economic, financial, and consumer literacy.
As the conclusion of Part I notes, information available to consumers to make decisions is far from perfect, and there are often imbalances in information resources between sellers and consumers.\textsuperscript{12}

While public policies, such as labeling and disclosure requirements, and new information technologies, such as the Internet, can be helpful in reducing this imbalance, several factors increase the difficulty of information searches and financial management for today’s consumers. Among these factors are time pressures, complexity of products and services, and low levels of financial literacy. In addition, a number of special concerns affect key segments of the older population and their role as shoppers and managers.

**More Responsibilities, More Decisions, Less Time**

There are 24 hours in a day and 168 hours in a week. Within these finite boundaries, consumers must find time for all activities of daily life. As more older people work, their time “off” becomes more valuable. Time spent gathering consumer information must compete with all of the other activities that people undertake away from work (see Figure 11). There is also increasing societal emphasis on individual responsibility. For

![Figure 11: Work Force Participation by Persons Age 45 and Older Increased by Almost 50 Percent Between 1990 and 2002](source: Bureau of Labor Statistics.)
example, Boomers are more likely than their parents were to be responsible for investment decisions about their retirement savings through defined contribution plans.

Dramatic changes have occurred: according to the Federal Reserve Board’s Survey of Consumer Finances (SCF), from 1998 to 2001, the proportion of persons with defined contribution plans increased from 13 to 27 percent, while the proportion of persons with defined benefit plans decreased from 26 to 13 percent. Although the shift to defined contribution plans has slowed somewhat recently, the increase in consumers’ responsibility for managing their retirement savings remains.

In addition, Boomers are much more likely than their parents were to have changed employers and to be responsible for deciding if and how to invest their former employer’s retirement package. These investment decisions greatly affect retirees’ financial well-being and independence.

Similar shifts of responsibility to the consumer for decision making and management are taking place in all sectors of the economy. Examples include selecting long-distance and local telephone service, choosing consumer-directed health plans, selecting electric utility services, and managing credit reports and personal information. Globalization, technological advances, and deregulation are hastening such changes.

Families are spending more time than ever at work. “Over the last 30 years, workers in middle-income married-couple families with children have added an average of 20 more weeks at work, the equivalent of five more months.”

Affluence has increased the number and types of goods and services that a consumer can buy and has expanded the array of brands, models, and sellers from which to choose. This abundance of goods and services has helped to raise standards of living, but it has also driven up the costs of consumer shopping and information search.
Increasing Complexity of Products and Services

Even though consumers have less time to devote to information searches, products and services in today’s marketplace are increasingly complicated and sophisticated. An increasing proportion of the goods and services consumers buy are “experience” goods—banking and insurance products, health care, investments—whose quality is difficult to assess without extensive research.\(^{15}\) Old rules of thumb, such as “you get what you pay for,” are often not applicable in today’s marketplace, and consumers who use them are often short-changed.

For example, technological advances and regulatory changes have allowed financial service providers to greatly broaden the number of choices available to consumers, even choices regarding the most basic financial products such as checking and savings accounts. In the not too distant past, a potential bank customer had few choices—for example, whether the customer wanted a checking account, a savings account, or both. Few people remember when banks had standard bank checks—no personalized checks—so consumers did not even have to decide on the color of their checks. Today, the pricing of basic financial products such as checking and savings accounts is often complex, making it difficult for consumers to comparison shop. Gone are the days when knowing the annual percentage rate (APR) was adequate—late fees, service charges, monthly maintenance costs, and prepayment penalties are among the surcharges that make it difficult for consumers to comparison shop and make informed decisions that result in their owning the best financial products for their circumstances.

Consumers trying to manage their finances and
make informed decisions often need unprecedented levels of sophistication, knowledge, as well as time to sort through massive amounts of complicated product information (investment prospectuses and mortgage paperwork, for example).

“Today’s financial world is highly complex when compared with that of a generation ago. Forty years ago, a simple understanding of how to maintain a checking and savings account at local banks and savings institutions may have been sufficient. Now, consumers must be able to differentiate between a wide range of financial products and services, and providers of those products and services.”

Alan Greenspan, Chairman of the Federal Reserve Board

Further, regulatory changes have increased the types of institutions from which consumers can get their financial products and services. Consumers once went to a bank for a loan, to a broker for investment products, and to an insurance agent for insurance policies. With the passage of the Gramm-Leach-Bliley Act of 1999, the “firewalls” that traditionally separated these three industries have all but disappeared. Today, conducting business with a bank does not guarantee that the products are FDIC-insured; they may be insurance or securities products. On the one hand, “hybrid” products, such as variable annuities that combine characteristics of banking and securities products, offer additional choices for consumers, while on the other hand, these same products demand a new level of consumer sophistication.

### FIGURE 12: The Number of Interstate Telecommunication Providers More Than Doubled Between 1993 and 2002

<table>
<thead>
<tr>
<th>Year</th>
<th>Toll Carriers</th>
<th>Other Carriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>2,388</td>
<td>521</td>
</tr>
<tr>
<td>1994</td>
<td>2,481</td>
<td>366</td>
</tr>
<tr>
<td>1995</td>
<td>2,605</td>
<td>453</td>
</tr>
<tr>
<td>1996</td>
<td>3,245</td>
<td>587</td>
</tr>
<tr>
<td>1997</td>
<td>3,604</td>
<td>569</td>
</tr>
<tr>
<td>1998</td>
<td>4,121</td>
<td>647</td>
</tr>
<tr>
<td>1999</td>
<td>4,486</td>
<td>651</td>
</tr>
<tr>
<td>2000</td>
<td>4,879</td>
<td>808</td>
</tr>
<tr>
<td>2001</td>
<td>5,001</td>
<td>940</td>
</tr>
<tr>
<td>2002</td>
<td>5,364</td>
<td>1,072</td>
</tr>
</tbody>
</table>

Complexity is increasing across all sectors of the economy. For example, according to the Federal Communications Commission, the number of long-distance toll carriers more than tripled between 1993 and 2003 (see Figure 12 on page 27).

Consumers can now choose from among wire line and wireless long-distance telephone service, prepaid calling cards, and satellite service carriers. Selecting a long-distance carrier is even more difficult because advertisements focus on per-minute rates rather than on the total cost of a call. A consumer must consider such factors as additional fees charged, the typical duration of calls, the time of day calls are made, and the destination of the call before they can know the actual price of the long-distance service (see “Test Your Wireless IQ” on page 30–31).

Similarly, one local newspaper’s mortgage guide listed 41 different loan types and 47 mortgage lenders for potential borrowers to compare. For those seeking to invest in a mutual fund, there were over 8,256 mutual funds to choose from in 2002, compared to 3,079 in 1990 (see Figure 13).

According to a recent AARP survey, one-fourth (25 percent) of older online investors had never used the services of offline full-service brokers, and more than one-third (37 percent) did not currently have a full-service broker. Knowledgeable and impartial salespersons are often a key source of “expert” advice for consumers. However, in today’s highly competitive services sector, sellers often have an incentive to contain costs by hiring fewer and/or less-skilled salespersons. Further, government oversight of sales practices has often failed to keep pace with changes in the marketplace. Technological advances, such as the Internet, and regulatory changes have increased consumers’ ability to access products and services directly. For example, investors may trade securities without a broker/dealer, and borrowers receive mortgage offers without entering a bank. Direct access by consumers empowers them to examine choices without the constraints.

![Figure 13: The Number of Mutual Funds More Than Doubled Between 1990 and 2002](image-url)
or biases—and fees—of middlemen. However, given the quantity of choices and the complexity of products and product terms, determining product suitability is often very difficult.

Finally, the complexity of consumer contracts and disclosures makes it difficult for many consumers to discern key information. For example, recent research suggests that more than half of adults would not be able to extract key information about loan contract terms from the standard Truth-In-Lending Act (TILA) or Real Estate Settlement Procedures Act (RESPA) disclosure form. Further challenging the consumer is the fact that these disclosures usually arrive in a package of up to 50 documents, most of which the lender, not federal law, requires. To sort through such a package is daunting for even the most motivated and financially literate consumers. Privacy notices sent out by financial services companies are also examples of disclosure complexity. Critics argue that the lack of comprehensibility impedes consumers’ understanding of their right to opt out of third-party information sharing under the Gramm-Leach-Bliley Act.
Choosing appropriate cell phone service has become a complex process, requiring consumers to wade through a confusing array of plans and options and make a series of difficult decisions. The questions come fast and furious. How many minutes per month? 100? 500? 1,000? 5,000? Is a regional plan or a nationwide plan more appropriate? Is “free” long-distance service important? How about “free” roaming for consumers who move about the region or country? Are “free” mobile-to-mobile minutes something to consider? Is it worth signing a multiyear contract to get a free phone every year? Or does it make more sense to accept the deal that offers no monthly fee for the first three months of the contract?

As they attempt to answer these and myriad other questions about their cell phone service needs, many consumers want to compare different service providers’ options. Unfortunately, this is often a daunting task, as the various companies have different coverage areas locally and nationwide, use dissimilar network technologies that determine which phones a consumer can use, and offer unique pricing plans with widely varying terms. Many of the major cell phone providers cannot even agree on how long a weekend lasts. Some companies define the weekend, which is when off-peak rates are usually in effect, as running from 9 p.m. Friday until 7 a.m. Monday. Some say it is from 12 a.m. Saturday to 11:59 p.m. Sunday. Other companies have a slightly different definition. At least one cell phone company even extends its weekend billing hours by a couple of hours for an additional $5 a month.

Cell phone users who lack important information and choose the wrong plan to meet their needs could overpay in unused minutes, hidden fees, or excessive long-distance or roaming charges. How much do you know about cell phone service? Test your knowledge by taking the following quiz.

**CELL PHONE QUIZ**

Q.1 About how much does the average user spend on cell phone service each month?
   a) $78  
   b) $64  
   c) $49  
   d) $38  
   e) $26

Q.2 What percentage of cell phone customers say they use all of the minutes included in their service plan every month?
   a) 93 percent  
   b) 81 percent  
   c) 68 percent  
   d) 56 percent  
   e) 37 percent

Q.3 The advertised rates of the major cell phone service providers do not include various extra fees that customers must pay. These hidden fees represent what percentage of the cost of cell phone service?
   a) 1 percent  
   b) 2 percent  
   c) 5 percent  
   d) 10 percent  
   e) 20 percent

Q.4 Who are cell phone users more likely to say they would contact if their cell phone service provider could not resolve a billing or service problem to their satisfaction?
   a) Better Business Bureau  
   b) The store where they bought the phone  
   c) Federal Communications Commission  
   d) No one but the service provider  
   e) Wouldn’t know whom to call

Q.5 Major cell phone service providers typically give consumers 20 days from the time they receive their first bill for monthly service to cancel any contract for wireless telephone service without having to pay an early termination fee.
   a) True  
   b) False
Q.6 The major cell phone service providers bill customers based on how many minutes of airtime they use each month. In general, all of the following count against airtime minutes, EXCEPT:

a) Incoming calls
b) Toll-free calls
c) Checking voicemail
d) Calls to 911 or 611 (a cell phone company's customer service number)
e) Calling card calls

Q.7 On November 23, 2003, cell phone service companies began providing number portability, which allows customers to take their telephone numbers with them if they choose to switch providers. In general, all of the following statements about wireless local number portability are true, EXCEPT:

a) Consumers cannot keep their cell phone number if they move to another state or metro area.
b) Consumers under contract with their current cell phone company are still responsible for any early termination fees if they decide to take their number to a different provider.
c) Most consumers will be able to use their existing cell phone with their new service provider.
d) Consumers should always sign up with their new company before canceling their existing service.
e) Only the person whose name is on the account can move a phone number to another company.

Answers to Quiz

Q.1 c. As of June 2003, the average monthly cell phone bill was $49.46, according to the Cellular Telecommunications & Internet Association.

Q.2 d. According to a 2003 J.D. Power and Associates study, 56 percent of cell phone customers say they use all of the minutes included in their plan every month. The study also found that the average number of minutes included in a typical cell phone service plan is 1,623. However, cell phone customers report using only 365 minutes of air time per month.

Q.3 e. On average, hidden fees (such as number-portability fees, directory assistance fees, setup fees, and service-termination fees), which are essentially rate increases, add 20 percent to the cost of wireless service.23

Q.4 e. According to a 2003 AARP study, nearly one half of all cell phone users (46 percent) do not know whom to contact in case their cell phone provider is unable to resolve a billing or service problem to their satisfaction. Only four percent of cell phone users cited the Federal Communication Commission (FCC), even though the FCC collects and publishes limited data on cell phone service complaints and inquiries. Another 18 percent said they would not contact anyone but their service provider, while 14 percent indicated they would get in touch with the Better Business Bureau.

Q.5 False. Most major cell phone service providers only give consumers 14 or 15 days after activation to return their cell phone without paying an early termination fee. This limited amount of time means that consumers typically do not have an opportunity to review at least one monthly bill before they must decide whether to keep their service. Reviewing a monthly bill is important because a large percentage of complaints about cell phone service involve billing and rate issues. In addition, consumers who purchase multiple cell phones on one account (sometimes known as a “family plan”) and terminate service before the contract ends must pay an early termination fee for each phone.

Q.6 d. The major cell phone companies do not charge for calls to emergency services or to their own customer service department.

Q.7 c. Cell phones are often incompatible among different wireless service providers, so most consumers need to buy a new phone if they move their number to another service provider. Also, consumers may keep the same phone number only if they change service providers within the same local area. Finally, consumers may lose their phone numbers and be unable to get them back if they cancel their existing service before signing up for a new one. By initiating this process with the new company first, consumers ensure that the old company does not reassign their phone number as soon as they cancel that number.
Financial Literacy

Television, the Internet, and mail advertisements offering “lower monthly payments,” “instant credit,” “qualification guaranteed,” “bad credit, no credit, no problem” inundate consumers.

According to a recent AARP survey, 40 percent of older borrowers with broker-originated loans reported that they responded to advertisements promoting “guaranteed loans,” and more than one-half (56 percent) reported that the brokers initiated the contact about getting a loan.24

Do consumers have the tools to make smart decisions and manage their money wisely in this complex marketplace? Is there adequate information symmetry between sellers and consumers to allow for a fair, efficient, and effective marketplace? Consumers must be knowledgeable to make informed choices. Unfortunately, research shows that adults in the United States have disturbingly low levels of economic, financial, and consumer literacy.25

For example, one of the most important financial decisions for Americans is whether to buy a home, yet consumer knowledge of five basic questions regarding the home-buying process is alarmingly low, especially for minorities (see Table 1).

According to a 2002 Fannie Mae survey, less than two-thirds (61 percent) of all adults accurately responded “false,” to the statement “neighborhood mortgage brokers will give you a better deal than large banks and housing lenders,” and; only one-third (37 percent) of Hispanic immigrants did so. This lack of knowledge may discourage eligible homebuyers from purchasing a home—a key element in building equity and retirement savings—or they may accept a mortgage (with predatory lending terms or appraisal fraud, for example) that does not build wealth for the homebuyer.

A recent Federal Reserve Board study26 measured consumer knowledge of financial issues. Researchers asked respondents 28 true/false questions about four financial areas: credit, savings, investment, mortgage, and other financial management topics. Persons age 65 and older had a lower overall score (59) than persons age 50 and older (66) or persons of all ages (67) (see Figure 14).

Persons age 65 and older scored lower (that is, answered fewer questions correctly) than did persons of all ages on 25 of the 28 questions, while persons age 50 and older scored lower on 22 of the

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**TABLE 1: Many Americans Are Unfamiliar with the Home-Buying Process**

<table>
<thead>
<tr>
<th>Correct Answer</th>
<th>All Adults</th>
<th>African American</th>
<th>Hispanic</th>
<th>Hispanic Immigrant</th>
</tr>
</thead>
<tbody>
<tr>
<td>You need to pay 20 percent of the cost upfront.</td>
<td>False</td>
<td>56</td>
<td>46</td>
<td>48</td>
</tr>
<tr>
<td>Housing lenders are required by law to give you the best possible rates on loans.</td>
<td>False</td>
<td>61</td>
<td>49</td>
<td>44</td>
</tr>
<tr>
<td>Neighborhood mortgage brokers will give you a better deal than large banks and housing lenders.</td>
<td>False</td>
<td>61</td>
<td>55</td>
<td>47</td>
</tr>
<tr>
<td>You need to have a perfect credit rating to qualify for a mortgage.</td>
<td>False</td>
<td>69</td>
<td>61</td>
<td>41</td>
</tr>
<tr>
<td>You need to have stayed in the same job for at least five years to qualify for a mortgage.</td>
<td>False</td>
<td>61</td>
<td>48</td>
<td>42</td>
</tr>
<tr>
<td>Most mortgage interest payments are deductible from your income taxes.</td>
<td>True</td>
<td>64</td>
<td>54</td>
<td>57</td>
</tr>
</tbody>
</table>

Source: 2002 Fannie Mae National Housing Survey.
28 questions. Both older groups were more likely than persons of all ages to know that a consumer is only responsible for $50 when a credit card is stolen; that credit counselors cannot have the federal government apply income tax refunds toward existing debts; and the definition of the cash value of a life insurance policy (see Appendix for a 28-question knowledge quiz). Both older groups, as well as all persons, were most knowledgeable about mortgages and least knowledgeable about other financial issues.

A 2003 AARP national survey of consumers age 45 and older found that they often lack knowledge of basic financial and investment terms. For example, the survey found that only about half (52 percent) of respondents reported knowing that diversification of investments reduces risk, and that the Federal Deposit Insurance Corporation does not cover losses of funds invested in a mutual fund (57 percent).

“Previous, less-indebted generations may not have needed a comprehensive understanding of such aspects of credit as the impact of compounding interest and the implications of mismanaging credit accounts. Today, however, the advance of telecommunications technologies and the development of other new technological tools have broadened the availability of credit and other banking services.”

Alan Greenspan, Chairman Federal Reserve Board

Many consumers underestimate the value of comparison-shopping because they are not aware of its potential benefits. Research indicates, however, that for about 40 percent of products, the highest price in the market is more than double the lowest price, while the quality is constant. Further, savings derived from comparison-shopping are tax-free, unlike ordinary income, and by learning...
to take advantage of price discrimination in the market, consumers can increase their purchasing power. A recent Consumer Literacy Consortium survey found that consumers needed a price savings of between 10 and 25 percent to persuade them to comparison shop among at least three sellers for most products. The survey also found that the youngest and oldest consumers and those with lower incomes and less education were less likely to comparison shop. Tests of comparison shopping done for the Consortium indicate that savings are significantly greater than 10 percent for most products, but only about half of consumers shop around.

The Consumer Literacy Consortium estimates that the average household could save about $1,000 a year through comparison-shopping.

Finally, the changing demographics of the nation’s population have also contributed to an increasing number of persons unfamiliar with the U.S. financial market (see Figure 15). Foreign-born households, for example, may find it difficult to navigate the complex marketplace and access the traditional mainstream financial system, so they rely on more expensive alternative financial services (payday lenders and check-cashing outlets, for example). These services generally do not provide savings accounts and related money management services—financial services key to making financial decisions that result in building wealth for retirement.

FIGURE 15: There Were 6.3 Million Foreign-Born Persons Age 55 and Older in the United States in 2002

![Chart showing the distribution of foreign-born persons by region as of 2002.]

Comparison-Shopping + Compound Interest = Real Money

Is a dollar saved through comparison-shopping a dollar earned? In fact, it may be worth more than a dollar earned because earned income is taxable but income from reduced spending is not. To save $1,000, for example, an individual can either reduce spending by $1,000 or earn more. How much additional income would a person have to earn to save $1,000? The amount depends on the individual’s marginal tax rate, or the tax rate that applies to each additional dollar of income earned. In the case of a person who pays a federal marginal tax rate of 15 percent, a state marginal income tax rate of five percent, and 7.65 percent of taxable income to Social Security and Medicare, the total marginal tax rate is about 28 percent. To “take home” $1,000, this person will have to earn $1,389.

Figure 16 shows the required spending reductions or income increases to save $365 (saving a dollar a day for one year), $1,000, or $3,000. For each of the savings goals, each extra dollar of taxable income results in 72 cents after taxes or, in other words, a dollar saved is worth $1.39 earned.

When people invest their savings, the balance increases each year from the annual contributions and the interest earned each year on the balance. This compounded interest (interest earned on both the contributions and previously earned interest) can result in substantial savings over time. Table 2 provides hypothetical examples of how much one can save over a period of 10 years, using the savings goals in Figure 16.

![Figure 16: Achieving Your Savings Goals: Reduce Spending or Increase Income*](image)

*Note: Examples are based on a marginal tax rate of 28 percent (federal, state, and worker contribution to Social Security and Medicare). The amount of taxable income required to achieve the savings goal will be higher if marginal tax rates are higher, and lower if marginal tax rates are lower.

<table>
<thead>
<tr>
<th>TABLE 2: Savings Accumulated after 10 Years of Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings goal (annual):</td>
</tr>
<tr>
<td>Total savings after 10 years of contributions, at a 3% real interest rate*</td>
</tr>
<tr>
<td>Total savings after 10 years of contributions, at a 6% real interest rate*</td>
</tr>
</tbody>
</table>

*Note: The real interest rate is the interest rate after inflation. The example assumes a stable annual inflation rate of 3 percent, the long-term rate projected by the Social Security Administration. Upon savings withdrawal, the income from interest may be taxable.
Managing personal credit is a key part of consumers reaching such goals as home ownership, financial stability, and higher education. For this reason, identifying the fundamentals of personal credit management is an important first step in developing financial education principles and materials to promote financial literacy.

The Department of the Treasury and the Board of Governors of the Federal Reserve System, in conjunction with representatives of financial services organizations, and community and consumer groups, including AARP, have recommended the following fundamental practices to consumers:

- Build savings to avoid high-cost debt and improve payment options.
- Pay bills on time.
- Pay more than the minimum payment.
- Comparison shop for credit and obtain only the credit you need.
- Understand your credit history and how it affects you.

These five practices, the fundamental steps for consumers to follow in managing their personal credit, are an important first step toward educating all Americans about the importance of responsible credit management.
Summary of Financial Literacy and Education Improvement Act of 2003
(Title V of the Fair and Accurate Transaction Act of 2003)

Purpose
To establish the Financial Literacy and Education Commission to improve the financial literacy and education of all Americans by developing a national strategy to promote financial literacy and education.

Commission Membership
Secretary of the Treasury (Chairperson), and one representative from the following agencies: each of the federal banking agencies; National Credit Union Administration; Securities and Exchange Commission; Department of Education; Department of Agriculture; Department of Defense; Department of Health and Human Services; Housing and Urban Development; Department of Labor; Veterans Affairs; Social Security Administration; General Services Administration; Small Business Administration; Federal Trade Commission; Commodity Futures Trading Commission; Office of Personnel Management; and up to five Presidential appointees.

Specific Strategies
The Commission coordinates federal financial literacy and education efforts and develops and implements a national strategy to promote financial literacy and education emphasizing household money management and planning skills, avoiding predatory financial products, and bringing unbanked individuals into the financial mainstream. In addition, the Commission creates a Web site and toll-free hotline to act as a clearinghouse for information on financial literacy and develops and disseminates relevant materials. The Commission will develop, implement, and conduct a pilot national public service multimedia campaign to enhance the state of financial literacy and education in the United States.

Reporting Requirements
The Commission is required to produce an annual report to Congress detailing the Commission’s progress and future plans to advance financial literacy in the United States.
Special Circumstances Affecting Segments of the Older Population

Disabilities
According to the National Center for Health Statistics, in 2001, 13 percent of persons age 65 and older reported having disabilities that limited their ability to shop, manage money, and move around outside the home. The disability rate of older poor respondents was more than twice that of older respondents who were not poor (25 percent and 10 percent, respectively).

Of persons age 50 and older with disabilities, more than two-thirds (68 percent) reported limited physical mobility—important for many consumers who want to comparison shop (see Figure 17). Of this same group of disabled persons age 50 and older, 41 percent experienced difficulty going out alone (to shop or visit a doctor’s office, for example).

A loss of mobility means that some older consumers become less able to actively seek out desired products and services. Severe hearing and vision losses may limit a consumer’s ability to receive and process important information, such as that contained on food and drug labels, or disclosures in contracts or other legally binding documents. Cognitively impaired consumers may be unable to evaluate promotional materials, so puffery and false claims may mislead them.

Poverty: It’s Expensive to Be Poor
In 2002, approximately one in 10 (9.3 percent) persons age 50 and older in the United States had an income at or below poverty. Poverty rates varied among ethnic and age groups, with the oldest consumers (age 75 and older) having the highest poverty rates for all ethnic groups (see Figure 18).

Persons with low incomes face a number of barriers as consumers. Their limited incomes may prevent them from taking advantage of quantity discounts, and the characteristics of stores serving low-income communities (for example, small retail groceries as opposed to supermarkets) often cause these consumers to pay higher prices. Even if they shop outside their neighborhoods, they incur travel and time costs. Further, building savings to fall back on in cases of emergency and accumulating financial assets for the future are often difficult.

For example, low-income families are less likely to have bank accounts than are families with higher incomes. The latest Survey of Consumer Finances (2001) found that 78 percent of families without a checking account had incomes of less than $25,000. Households without bank accounts often rely on alternative financial service (AFS) providers such as check-cashing outlets and

![Figure 17: More Than Two-Thirds of Persons Age 50 and Older with Disabilities Report Having Limited Physical Mobility in 2002](image17.png)

**FIGURE 17:** More Than Two-Thirds of Persons Age 50 and Older with Disabilities Report Having Limited Physical Mobility in 2002

| Cognitive/Emotional | 18% |
| Limited Physical Mobility | 68% |
| Vision/Hearing | 21% |

Note: N = 1,102. Source: AARP/Harris Interactive Survey of Persons 50 and older, with Disabilities, September 2002.

![Figure 18: Percent of Persons in Poverty by Age Group and Race or Ethnicity, 2002](image18.png)

**FIGURE 18:** Percent of Persons in Poverty by Age Group and Race or Ethnicity, 2002

<table>
<thead>
<tr>
<th>Age Group</th>
<th>White</th>
<th>Black</th>
<th>Asian</th>
<th>Hispanic</th>
</tr>
</thead>
<tbody>
<tr>
<td>45–54</td>
<td>6%</td>
<td>18%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>55–64</td>
<td>9%</td>
<td>17%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>65–74</td>
<td>8%</td>
<td>23%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>75+</td>
<td>11%</td>
<td>24%</td>
<td>23%</td>
<td></td>
</tr>
</tbody>
</table>

payday lenders, which are heavily concentrated in low-income communities. Although AFS businesses are frequently convenient (location, hours, lack of paperwork), their costs are significantly higher than those of traditional financial institutions, and the cost of cashing a paycheck often amounts to two to three percent of a low-wage worker’s income.

Discrimination
Discriminatory practices also continue to make it difficult for some consumers to access goods and services or to obtain the best price for the goods and services they purchase. For example, a recent report for the U.S. Department of Housing and Urban Development found that African American and Hispanic homebuyers in Los Angeles and Chicago faced a significant risk of unequal treatment when they visited mainstream lending institutions to make preapplication inquiries. Findings from a 2003 study of subprime mortgage lending in 10 metropolitan areas also concluded that African American and predominantly elderly communities received more high-cost subprime loans than were justified based on the credit risk of neighborhood residents.

Living Alone
Nearly one-third (31 percent) of households whose members are age 65 and older live alone. This includes 7.9 million women and 2.6 million men. Older persons living alone are more likely to be poor than are older persons living with families (19.2 percent vs. 6.0 percent), and older women living alone are more likely to be living in poverty than are older men (20.5 percent vs. 15.6 percent). Further, a recent AARP survey found that a higher proportion of adults age 50 and older with disabilities live alone (28 percent) than do adults age 50 and older in the general population (23 percent).

Older consumers living alone are more often targets of fraud and deceptive acts because they may be socially isolated; in addition, because they are at home during daytime hours, they are more accessible to fraudulent sales persons, contractors, and telemarketers.

Language Barriers
The ability to speak English can play a significant role in how well an individual can conduct shopping and financial management activities. Consumers who are not fluent in English or who do not have someone in their household to assist them regularly may find themselves at a disadvantage in today’s complex marketplace. Between 1990 and 2000, the number of “linguistically isolated” households—a household in which no person age 14 or over speaks English at least “very well”—increased from 2.9 million to 4.4 million. In 2000, linguistically isolated households accounted for 11.9 million people. Unprincipled companies and salespersons trying to profit from faulty materials, shoddy products, and inadequate services often target non-English-speaking immigrants or communities. Consumers in such communities also may have difficulty communicating effectively with service providers such as doctors, lawyers, salespersons, banking personnel, and others.
Older Consumers as Money Managers: An Analysis of Federal Reserve Data

How Well Do Consumers Manage Their Money?

The previous section highlighted factors that increase the difficulty of consumer decision making—time pressures, complexity of products and services, and financial literacy—in today’s marketplace. We now examine how well consumers are faring in their role as financial managers. The Federal Reserve Board study—mentioned in the discussion of financial literacy in the previous section—identified four types of money managers based on two measures: financial product ownership and financial behaviors. Financial product ownership was obtained by asking consumers whether they had experience with different financial products, ranging from savings and checking accounts to credit cards, mortgages, refinancing, and investments. The study measured financial behaviors by asking respondents questions that ranged from very basic money management skills that “everyone should do” (track expenses, pay bills on time) to more sophisticated behaviors (investment diversification). Researchers categorized each of the questions from the two measures, product ownership and behavior, into one of four money management categories (cash-flow management, credit management, savings, and investments).

The study categorized consumers as ranking low or high on product ownership and on financial behaviors. The Federal Reserve Board ranked consumers in the following manner:

- “very good”—money managers who ranked high on both ownership and behavior;
- “good”—money managers who ranked low on ownership and high on behavior;
- “lost”—money managers who ranked low on both ownership and behavior; and
- “bad”—money managers who ranked high on ownership and low on behavior.

Age

Persons age 65 and older were more likely than all persons to be “lost” money managers. Nearly one-half (48 percent) of money managers age 65 and older were “lost” compared to approximately four of ten money managers of all ages (38 percent) and money managers age 50 and older (39 percent) (see Figure 19). While persons 65 and older were more likely to report engaging in day-to-day financial behaviors (balancing checkbook, paying bills on time, tracking expenses, having an emergency fund), they were less likely to have checked their credit reports than all adults. Persons 65 and older were more likely to have certificates of deposit (CDs) and less likely to have 401(k)s.
Race/Ethnicity
Overall, non-Hispanic whites, along with “other,” were most likely to be “very good” money managers, while non-Hispanic blacks and Hispanics were most likely to be “lost” money managers. Nearly two-thirds of all Hispanics were classified as either “bad” or “lost” money managers—this was also the case for 80 percent of older Hispanics (see Figure 20 on page 42).

Just over one-third of white persons age 50 and older (35 percent) and those of all ages (34 percent) were similarly characterized as “lost” money managers, while the percentage of persons age 50 and older who were “lost” money managers for all other race/ethnicities was much higher than for all ages.

Income
Among households in the lowest third of income, most (87 percent) were “lost” or “good.” Similarly, among households in the upper third of income, most (81 percent) were either “very good” or “bad” money managers (see Figure 21 on page 42).

Education
Over one-half of persons age 50 and older with a college education or postcollege education (55 percent) were “very good” money managers, while more than half (59 percent) of persons age 50 and older with a high school education or less were “lost” money managers. There were no differences between “lost” money managers age 50 and older and “lost” money managers of all ages with a college education (see Figure 22 on page 43).
FIGURE 20: Minorities Are Less Likely to Be “Very Good” Money Managers

Source: Surveys of Consumers; analysis by AARP Public Policy Institute, 2004.

FIGURE 21: Higher-Income Consumers Are More Likely to Be “Very Good” Money Managers

Source: Surveys of Consumers; analysis by AARP Public Policy Institute, 2004.
Where Consumers Get Their Information

Decades ago, “information was power,” and obtaining basic information that consumers did not get from family or friends required a substantial amount of consumers’ time. Today, with the wealth of information available through the Internet, mass mailing, and media, access to meaningful money management information is more about managing information than about obtaining information (though obtaining information remains important).

Where and how consumers get their information is instrumental in the financial management decisions they make, decisions that affect both short- and long-term financial well-being. Respondents cited experience, family, and friends as their household’s main resources for financial knowledge. Therefore, if few market choices are available in a neighborhood, family or friend referrals may continue to send new borrowers to the same institutions, regardless of the borrower’s creditworthiness.

When asked about effective ways to learn, respondents reported media and brochures most often. Responses among different ages were similar, with the exception of responses concerning Internet, which older persons were much less likely to report as effective.

Differences among the four money manager types were greater for persons age 65 and older than they were for managers of all ages. “Very good” money managers age 65 and older more often reported these sources to be effective ways to learn, with the exception of school courses (see Figure 23 on page 44). “Lost” money managers age 65 and older were less likely to report these as effective sources, the exceptions being brochures and seminars.

FIGURE 22: Educated Consumers Are More Likely to Be “Very Good” Money Managers

Source: Surveys of Consumers; 2004 analysis by AARP Public Policy Institute.
FIGURE 23: “Very” Good Money Managers Age 65 and Older Most Often Identified Media, Brochures, Video and Seminars as Effective Ways to Learn

<table>
<thead>
<tr>
<th>Medium</th>
<th>50+</th>
<th>65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Course</td>
<td>56</td>
<td>55</td>
</tr>
<tr>
<td>Seminars</td>
<td>45</td>
<td>53</td>
</tr>
<tr>
<td>Internet</td>
<td>23</td>
<td>38</td>
</tr>
<tr>
<td>Video</td>
<td>52</td>
<td>59</td>
</tr>
<tr>
<td>Brochures</td>
<td>50</td>
<td>61</td>
</tr>
<tr>
<td>Media</td>
<td>54</td>
<td>64</td>
</tr>
</tbody>
</table>

Source: Surveys of Consumers; analysis by AARP Public Policy Institute, 2004.

FIGURE 24: “Very Good” Money Managers Were More Knowledgeable Than Other Money Managers

<table>
<thead>
<tr>
<th>Type of Money Manager</th>
<th>Knowledge Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lost</td>
<td>15.8</td>
</tr>
<tr>
<td>Bad</td>
<td>19.0</td>
</tr>
<tr>
<td>Good</td>
<td>17.6</td>
</tr>
<tr>
<td>Very Good</td>
<td>21.5</td>
</tr>
<tr>
<td>Total</td>
<td>18.3</td>
</tr>
</tbody>
</table>

Source: Surveys of Consumers; analysis by AARP Public Policy Institute, 2004.
Knowledge Scores

“Very good” money managers were the most knowledgeable managers. Figure 24 shows, as expected, that “very good” money managers scored highest (21.5), and “lost” money managers scored lowest (15.8) on the financial knowledge quiz. “Bad” money managers (that is, consumers who owned more financial products than average, but reported fewer good behaviors than average) scored higher than “good” money managers (who, conversely, owned fewer financial products than average but reported more good behaviors than average) with regard to knowledge, suggesting that knowledge is not always associated with desired behaviors.

Overall, money managers age 50 and older scored higher than did money managers age 65 and older, though the trends for each money manager type were similar.

Money Managers’ Current Situations Affect Their Perceptions about Current and Future Financial Standing

Long-term wealth building requires the ability and assets to handle day-to-day transactions in addition to transactions involving mid-level expenses (such as roof repairs, broken appliances). Savings are crucial for economic security; they help consumers to avoid the steep costs of short-term credit and, thus, become steppingstones to investments in other assets. Yet, according to the Federal Reserve Board, fully one-third of all home-owners and two-thirds of all renters in the bottom income quintile, had $500 or less in savings and other liquid assets in 2001.55

Transaction accounts (checking and savings) provide cushions against income volatility and budget shocks (including reductions in work hours,
property tax hikes, and uninsured medical expenses). Consumers who bank can receive paychecks or Social Security checks safely and access funds using checks, ATMs, and debit cards. Moreover, establishing a banking relationship can lead to obtaining financial education and accessing high-quality credit products, which establish a positive credit record for long-term wealth building. Good credit can smooth out life-cycle income (that is, provide money in early adulthood that one can repay as income increases during mid-life).

Transaction account ownership has grown, especially among low-income families. In the late 1990s, the federal government expanded the use of electronic payments for welfare and other benefits programs, which may have contributed more to the increase in the numbers of low-income people with transaction accounts than did any previous effort to promote basic banking.

Yet, 10 percent of families at least 50 years of age do not have basic transaction accounts. Reasons for not having basic transaction accounts include convenience, the lack of a need for a checking account, and a distrust of banks. These barriers affect how consumers who do not use banks manage their money on a day-to-day basis, their perceptions of short- and long-term savings, and their ability to access credit at appropriate terms. It is difficult to build assets without such basic financial tools. In fact, according to the Federal Reserve study, “lost” money managers were much more likely to report being in worse financial standing than they were one year ago, and less likely to expect to be better off one year into the future.

Financial decisions affect consumers’ financial situations in the short, mid, and long term. The Federal Reserve study asked money managers
about their perception of their current financial status compared to a year earlier, one year in the future, and five years in the future (relative to inflation). In addition, the study asked money managers how they viewed their future retirement situation, compared with how they had viewed it five years earlier. The following section examines the responses to these questions.

Financial Standing Compared with One Year Ago

“Very good” money managers age 50 and older were twice as likely as “lost” money managers to report they were better off financially than a year ago (41 percent and 21 percent, respectively). “Bad” and “lost” money managers age 50 and older were more likely to report being worse off now than they were a year ago (42 percent and 39 percent, respectively) (see Figure 25).

Expected Financial Standing One Year from Now

“Lost” and “good” money managers age 50 and older were less likely than were “bad” and “very good” money managers to expect to be better off one year in the future (see Figure 26). “Lost” (26 percent) and “good” (27 percent) money managers age 50 and older were much less likely to expect to be better off one year in the future than were “lost” (44 percent) and “good” (43 percent) money managers of all ages.

Chances of Having a Comfortable Retirement

“Lost” money managers were less likely than were other managers to predict that their chances for a comfortable retirement had improved in the last five years. For the other three groups—both for money managers of all ages and money managers age 50 and older—approximately half of these

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**FIGURE 26: “Very Good” Money Managers Were More Likely Than Other Money Managers to Expect to Be Better Off Financially One Year in the Future**

- **Lost**: 47%, 60%
- **Bad**: 45%, 55%
- **Good**: 50%, 63%
- **Very Good**: 43%, 48%

Source: Surveys of Consumers; analysis by AARP Public Policy Institute, 2004.
managers thought their retirement prospects were about the same as they were five years ago (see Figure 27).

**Probability That Income Will Increase More Than Inflation in the Next Five Years**

Among households age 50 and older, approximately one-fourth of “lost” and “good” (26 percent and 25 percent, respectively) money managers thought that their income would increase more than inflation, while one-third (31 percent) of “bad” money managers and nearly half (44 percent) of “very good” money managers thought this to be true. For each of the four money manager types, those age 50 and older were less optimistic and reported more often that they thought their income would increase less than inflation (see Figure 28).

It is interesting to note that more than one-third (39 percent) of “lost” money managers of all ages reported their financial standing to be worse than one year ago (see Figure 25 on page 46), while two-fifths (44 percent) of “lost” money managers of all ages expected to have better financial standing one year into the future (see Figure 26 on page 47). Only 28 percent of “lost” money managers believed that their chances of having a comfortable retirement had decreased (see Figure 27), while more than one-third (36 percent) of “lost” money managers thought their income would increase more than inflation (see Figure 28). This finding raises the possibility that “lost” money managers may have unrealistic expectations of what their financial situation will be when they retire. While the differences were smaller for “lost” money managers age 50 and older, the concern remains that many persons in this group who are near retirement or have already retired may have unrealistic expectations of their financial future.

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**FIGURE 27: “Lost” Money Managers Are Less Likely Than Other Money Managers to Report an Increase in Their Chances for a Comfortable Retirement**

<table>
<thead>
<tr>
<th></th>
<th>Lost All Ages (N=1,004)</th>
<th>Lost 50+ (N=416)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>55%</td>
<td>66%</td>
</tr>
<tr>
<td>Same</td>
<td>47%</td>
<td>29%</td>
</tr>
<tr>
<td>Decrease</td>
<td>28%</td>
<td>19%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Bad All Ages (N=1,004)</th>
<th>Bad 50+ (N=416)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>47%</td>
<td>29%</td>
</tr>
<tr>
<td>Same</td>
<td>29%</td>
<td>49%</td>
</tr>
<tr>
<td>Decrease</td>
<td>27%</td>
<td>22%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Good All Ages (N=1,004)</th>
<th>Good 50+ (N=416)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>47%</td>
<td>49%</td>
</tr>
<tr>
<td>Same</td>
<td>21%</td>
<td>51%</td>
</tr>
<tr>
<td>Decrease</td>
<td>29%</td>
<td>23%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Very Good All Ages (N=1,004)</th>
<th>Very Good 50+ (N=416)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>32%</td>
<td>51%</td>
</tr>
<tr>
<td>Same</td>
<td>24%</td>
<td>28%</td>
</tr>
<tr>
<td>Decrease</td>
<td>24%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: Surveys of Consumers; analysis by AARP Public Policy Institute, 2004.
Key Findings
Factors that increase the difficulty of consumer decision making include time pressures, complexity of products and services, and financial literacy. A number of special concerns, such as disabilities, poverty, discrimination, living alone, and language barriers, may disproportionately affect segments of the older population and their role as shoppers and money managers.

The Federal Reserve study categorized consumers as ranking low or high on product ownership and on financial behaviors. The Federal Reserve Board ranked consumers in the following manner:

- **“very good”**—money managers who ranked high on both ownership and behavior;
- **“good”**—money managers who ranked low on ownership and high on behavior;
- **“lost”**—money managers who ranked low on both ownership and behavior; and
- **“bad”**—money managers who ranked high on ownership and low on behavior.

Demographics of Money Manager Types
- Persons age 65 and older were more likely than all persons to be “lost” money managers.
- Older non-Hispanic whites were most likely to be “very good” money managers, while non-Hispanic blacks and Hispanics were most likely to be “lost” money managers.
- “Lost” and “good” money managers were most likely to have incomes in the lowest income tercile.
- One-half of persons age 50 and older with a college education (50 percent) and postcollege education (55 percent) were “very good” money managers.

Information Sources and Knowledge Scores
- Respondents reported that media and brochures were often effective ways to learn (other sources were Internet, seminars, and school courses). Age differences were small, except that older persons were much less likely to report the Internet as an effective resource.
- “Very good managers were the most knowledgeable about financial issues.
- “Bad” money managers scored higher than did “good” money managers with regard to knowledge, suggesting that knowledge is not always associated with desired behaviors.

Perceptions about Current and Future Financial Standing
- “Very good” money managers age 50 and older were twice as likely as were “lost” money managers to report being better off financially compared with their situation a year earlier.
- “Lost” money managers were less likely than other managers to report that their chances for a comfortable retirement had improved in the last five years.
Policy Discussion and Implications

Implications for Today’s and Tomorrow’s Financial Managers
Consumers with and without Banks
Access to basic financial services is critical to wealth building for consumers in today’s economy. Yet, according to the 2001 Federal Reserve Board’s Surveys of Consumer Finances, 13 percent of families do not have a checking account, nor do 10 percent of families headed by people age 50 and older—approximately 4.4 million older families. For consumers trying to manage their money, the consequences of not having a bank include having to use more expensive financial services and lacking a mechanism to save.

Alternative financial service (AFS) providers—including check cashers, payday lenders, auto title lenders, and tax preparation services that provide refund anticipation loans—offer a wide range of services and are often located in low-income communities. According to Fannie Mae, fringe banking transaction costs, including check cashing, payday lending, pawn loans, rent-to-own transactions, and auto title lending, do an estimated $5.45 billion in business annually with $1.6 to $2.2 billion in fees on 55 to 69 million payday loan transactions alone. In addition, the Coalition for Responsible Lending determined that homeowners lose $9.1 billion in equity annually through predatory mortgage lending practices, many of which occur through loans obtained outside of the traditional banking system.

Consumers without banks find it difficult to withstand budget shocks (seasonal loss of income, uninsured medical expenses, car repair, or broken appliances, for example) or smooth out life-cycle financial needs that require more money earlier in one’s life, in the hope that income will rise to help with the mortgage payments. The ability to pay bills on time, and to have a savings fund for emergencies, are basic elements necessary for longer-term investing and saving for retirement.
Many of today’s older consumers lived through the Great Depression and have a strong aversion to debt. The sole debt for many of these persons was a home mortgage, which they tried to pay off as quickly as possible. In fact, today’s older persons are the age group most likely to own homes “free and clear.”

This is changing as many Boomers, less debt-averse than their parents, are managing their money quite differently from previous generations of retirees. The proportion of persons 65 and older with a mortgage grew nearly one-third from 1990 to 2000 (see Figure 29).

Today’s retirement-age homeowners are more likely than were previous generations to carry debt on their homes. Some Boomers delay saving due to having children later in life, increasing education costs for their children, and higher home prices.

According to the Federal Reserve Board, homeowners converted an estimated $180.2 billion of their equity into cash during 2001.

In addition, the 1986 tax law limited tax-deductible debt to mortgage debt. As a result, some homeowners refinanced their mortgage and shifted their credit card and other nonmortgage debt to mortgage debt. Recent record-low interest rates have spurred many homeowners to decrease their home equity further by refinancing and withdrawing cash. During the bull market of the 1990s, some homeowners decided they could get a higher return on their money by cashing out home equity and investing in the stock market.

Automated loan underwriting, widespread use of credit scoring, and Internet lending have streamlined lenders’ ability to offer credit, increasing the need for borrowers to be knowledgeable about credit and to manage it wisely.

Consumers once viewed credit cards as a frivolous, unnecessary form of debt, then as a convenient form of payment. Today, a growing number of consumers use credit cards every day and keep an ongoing balance. During the 1990s, the average American family experienced a 53 percent increase in credit card debt, from $2,697 to $4,126. During this same period, among persons 55 to 64, the increase was 57 percent, and for persons 65 and older, the increase was 149 percent (see Figure 30).57

For example, long before securing a postgraduation job, today’s college students are bombarded with credit card offers; at least two-thirds of them have credit cards. Many collegiate credit card holders begin postcollege life tens of thousands
Beyond 50.04: A Report to the Nation on Consumers in the Marketplace

of dollars in debt because of student loans. For students unprepared to manage this debt, poor credit management decisions may result in long-term financial setbacks, including late payments, reduced savings, and poor credit histories that encumber, or at least delay, their ability to begin saving for retirement.

Bankruptcies and foreclosures are devastating to families, debilitating to neighborhoods, and costly to lenders. According to the American Bankruptcy Institute, personal bankruptcy filings totaled 1.6 million for the 12-month period ending June 30, 2003, up 10 percent from the 1.5 million of the preceding 12-month period. A total of 210,878 persons age 55 and older were in bankruptcy in 2001 (see Table 3).

Foreclosure losses average approximately $30,000 to $80,000 each, taking into account loss on the loan, legal costs, mortgage insurer losses, unpaid taxes, and increased costs for the localities when homes sit vacant and deteriorate. Foreclosure studies of selected metropolitan and suburban areas throughout the country found higher foreclosure rates in neighborhoods with high rates of subprime lending. While one might expect that foreclosure rates would be higher for higher-risk (that is, subprime) loans, the extent of these differences is of concern. Costs to the family, well beyond the financial devastation, include loss of community, social networks, and self-esteem, along with incurring the costs of starting over again.

Are consumers who experience bankruptcy or foreclosure poor managers hooked on credit cards? Are they older persons—generally good financial managers—who get deep in medical debt? Or, perhaps, Boomers struggling to keep up with the mortgage, the rising costs of raising a family, and taking care of aging parents? Or lost managers who, without savings, find their only alternative to be expensive financial services—and quickly get on a financial treadmill they are unable to get off?

There is much speculation about where the responsibility lies for the large numbers of foreclosures and bankruptcies: credit card companies’ indiscriminate issuing of credit cards; payday lenders offering loans without conducting adequate credit checks; borrower mismanagement and irresponsibility; societal pressure to spend and support the economy; or predatory mortgage lenders targeting entire communities with mortgages with abusive terms and conditions. Is it catastrophic family disruptions such as divorce, death, or illness? Regardless of the cause, the consequences are devastating. This is especially true for older persons, who have less time to start over again and have permanently lost both homeownership and financial independence.

**Table 3: Over 200,000 Persons Age 55 and Older Filed for Bankruptcy in 2001**

<table>
<thead>
<tr>
<th>Age</th>
<th>1991</th>
<th>2001</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;25</td>
<td>98,974</td>
<td>94,717</td>
<td>-4%</td>
</tr>
<tr>
<td>25-34</td>
<td>417,510</td>
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<td>11%</td>
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<td>35-44</td>
<td>348,115</td>
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<td>45-54</td>
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<tr>
<td>55-64</td>
<td>69,395</td>
<td>128,671</td>
<td>85%</td>
</tr>
<tr>
<td>65+</td>
<td>23,890</td>
<td>82,207</td>
<td>244%</td>
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</tbody>
</table>

will continue to be better off in the years to come. Other money managers (the “lost” and, to a lesser extent, the “good”) believe they are in a bad situation and do not believe the future will offer much improvement. The relationship between the incentive to save and the perception that one will be better off is difficult to assess if one believes saving will not improve one’s financial situation.

**Literacy and Behavior Change**

No single educational program or delivery technique will assure literacy that adequately educates financial managers. Savings, credit, investments, and mortgage literacy are each key elements of financial literacy, but linking these elements to the specific needs of consumers is important as well. Some consumers prefer delivery techniques, such as the Internet, brochures, and videos, that they can use at their convenience. Other consumers benefit from structured, group settings such as seminars or school courses.

In addition, some consumers would gain the most from education about short-term (that is, day-to-day) financial strategies, while others would gain if they had the wherewithal to establish a “rainy day” fund for a mid-level crisis. Still others would gain by concentrating on the benefits of long-term financial planning. Also, given the weak linkage between knowledge and behavior, education can only go so far to improve financial behavior. Other incentives and policies may also be needed to foster more positive financial behaviors.

It is important to examine consumer needs and individualize programs as much as possible, while not leaving anyone out. For example, while older persons are less likely to use the Internet as a source of information than are other consumers, it is extremely valuable for the growing number of older persons who do use it.
## Consumer Self-Assessment:
### How Good are Your Money Management Skills?

**Choose the best answer!**

<table>
<thead>
<tr>
<th>Statement</th>
<th>True</th>
<th>False</th>
<th>Not applicable / I do not have any credit cards.</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have a financial record-keeping system in place at home to track income and expenses.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have a household spending plan or budget and use it.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I regularly reconcile my checks and ATM withdrawals.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I pay my bills on time.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I compare offers from credit card companies before applying for credit.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I pay more than the minimum on my credit card bill each month.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have requested and reviewed a copy of my credit report from at least one credit-reporting agency.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have identified immediate and long-term savings goals.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I save money regularly.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have an emergency fund that covers three to six months of my living expenses.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I put my money in low-risk savings products such as savings accounts, money market accounts, or certificates of deposit (CDs).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I shop for the best interest rates for my savings vehicles.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I review my annual Personal Earnings and Benefit Estimate Statement (PEBES) from the Social Security Administration.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have calculated how much money I will need to retire comfortably.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am vested in an employer-funded pension plan.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I contribute regularly to an employer-sponsored retirement savings plan, such as a 401(k).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I save money in a tax-advantaged Individual Retirement Account (IRA).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement</td>
<td>True</td>
<td>False</td>
<td>Not applicable / I do not own a home.</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>------</td>
<td>-------</td>
<td>--------------------------------------</td>
</tr>
<tr>
<td>I put my money in different types of investments to boost returns and reduce risk.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have a mutual fund.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I don’t dip into my retirement savings to cover other expenses.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have searched to find the lowest interest rates and fees on a home mortgage.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have a will.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have adequate disability insurance.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have adequate life insurance.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have adequate health insurance.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have explored the pros and cons of long-term care insurance.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I educate myself about financial issues.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BONUS</strong> I pay my credit card balances off in full each month.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BONUS</strong> I calculated how much money I will need for retirement, <strong>AND</strong> I adjust my savings plan as needed to ensure that I have the best chance of reaching my retirement savings goals.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BONUS</strong> I own my home outright (I either paid the full purchase price of my home without taking out a loan, or I have fully paid off my home loan).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BONUS</strong> I have a no-load mutual fund, a fund that does not charge me a transaction fee when I buy or redeem shares.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Scoring**

Award yourself one (1) point for all “True” and “Not applicable” answers. **DO NOT** award points for bonus questions that do not apply to you. Add up the points and check your score below:

- 27 to 31 points—WOW! You could teach a class on this stuff!
- 22 to 26 points—You are one savvy consumer!
- 16 to 21 points—You’re on your way!
- 15 or fewer points—What are you waiting for?

For tips on how to improve your money management skills, go to page 106.

Consumers: Do you have a tip or special tactic you would like to share that could help others become more savvy money managers or help them save for their retirement? If so, we’d love to hear from you! Please e-mail your tips to AARP at financialquiz@aarp.org.
As a group, older consumers are a powerful economic force. However, large differences in spending exist within the older population when examining such characteristics as income, race, and ethnicity. These differences in spending reinforce the need for consumers to have the best information possible so they can manage their resources wisely, particularly if they have limited income. Further, spending power today does not ensure financial security tomorrow, even for those who are currently affluent.
The marketplace is more complex than it was a generation ago, and change is rapid and continuous. With technological advances, consumers have direct and immediate access to products around the globe. They have to make more decisions, but they have less time to devote to information search and comparison-shopping.

Success in the marketplace now requires unprecedented levels of sophistication and knowledge on the part of consumers. Increasingly, they must be able to differentiate among a wide range of products, services, and providers; understand key contract terms and conditions and pricing mechanisms; and make appropriate assessments concerning diversification and risk. Yet, as we have seen, levels of financial literacy and management skills are often shockingly low. Too many consumer managers are "lost." This is especially true for those who are over age 50, black, Hispanic, or have low incomes. Further, many consumers face additional barriers in their role as shoppers and managers because of disabilities, poverty, discrimination, living alone, and language barriers.

The aversion to debt among the "greatest" generation has given way to a much more expansive use of credit among the Boomer generation. Credit can help households maximize their resources and build assets, such as through home ownership, but many consumers now keep an ongoing balance on their credit cards, and the level of debt and number of bankruptcies among older households has risen sharply. Further, the shift from non-home-secured (consumer) credit to mortgage debt heightens the danger of foreclosure and loss of the home. The concern is far from theoretical. Older borrowers are disproportionately represented in the high-cost subprime refinance market, where the incidence of predatory practices and associated foreclosures is greatest.

Increasing personal financial literacy is critical. But today’s harried consumers also need reliable aids and advice to cut through the complexity of the marketplace and lighten their decision-making burdens. As noted earlier, too often “expert” advice is often unavailable or conflicted. Legally required disclosures may not be provided at the most opportune time or are incomprehensible to many consumers. There is a significant need to upgrade and improve these important consumer aids in line with changes in the marketplace.

Further, improved consumer information and greater financial literacy are of limited assistance if consumers lack meaningful choices. Market segmentation in banking and mortgage lending has resulted in differential access to prime credit and services for many older and minority consumers. In many low-income and minority communities today, high-cost alternative financial service providers such as check cashers and subprime mortgage lenders predominate, while mainstream institutions seek more affluent customers. Low-income and minority consumers regularly buy a wide variety of goods and services. Those businesses offering affordable products that meet the specific needs of these populations have the potential to do well by doing good.
To assist consumers in meeting the challenges of a dynamic marketplace and to assure the economic security of older households in the future, AARP recommends that the nation commit itself to the following goals:

- Assist consumers in making informed choices by improving the quality of consumer information in the marketplace.
- Increase the level of consumer financial literacy, particularly among Boomers, minorities, and low-income persons.
- Increase consumer choice and financial service options for isolated communities and underserved market segments.
Recommendations

Improving the Quality of Consumer Information

Make Product Information, Labeling, and Disclosures Easier to Understand, More Accurate and Useful

- Product and service providers and self-regulatory organizations should develop and use common language and terms that permit consumers to comparison shop more easily, particularly with regard to product options, risks, and fees. They should also test their product information and disclosures for consumer understanding.
- Federal and state policymakers should focus on making required labeling and disclosures easier to understand, more comprehensive and accurate, and more useful in enabling consumers to understand risks and costs and to compare products. Uniform and appropriate disclosures should be required for similar products, regardless of the type of company offering the products (for example, mutual fund or other investment being offered by a bank, insurance company, brokerage firm, or other financial services company).

Increase the Quality and Integrity of Advice to Consumers

- Organizations representing consumer advisors (for example, financial planners, investment advisors, insurance agents, and securities and mortgage brokers) should set high standards for professional competence and integrity.
- Federal and state policymakers should reinforce such standards by requiring appropriate industry-wide compliance and enforcement, full disclosure of conflicts of interest, and the application of suitability standards for recommended products appropriate to the consumer’s financial situation.

Increase the Availability of and Access to Third-Party Products and Services Information

- Consumer organizations, universities, and other independent organizations should be encouraged to test and conduct research on consumer products and services.
- Consumer organizations, foundations, universities, state and local governments should encourage the development of local consumer information networks (such as Washington Consumers Checkbook), including Internet-based approaches that collect and disseminate price and quality information. Service quality and rating information collected by federal, state, and local agencies should be available to consumers online and in an understandable format.
- Federal, state, and local governments should strengthen product and consumer information efforts.

Increasing Financial Literacy

Give Increased Attention to the Financial Literacy Needs of Boomers and Older Persons

- Federal and state financial literacy initiatives (such as the federal Financial Literacy and Education Commission established under the Financial Literacy and Education Improvement Act of 2003) should focus increased attention on the financial literacy needs of Boomers and the older population.
- States should establish interagency councils to coordinate existing and future efforts to increase financial literacy. Councils should include financial service providers, consumer groups and representatives, researchers and educators (such as Cooperative Extension), and government agencies, especially those that serve older persons (Departments of Aging, for example).
Focus on Outcomes That Lead to Improved Money Management

- The private sector, foundations, federal and state governments, and others should support research aimed at improving the effectiveness of financial literacy and consumer counseling programs, particularly with regard to obtaining outcomes that lead to better money management and wealth-building behaviors.

Empower Consumers with New Tools and Technology

- Financial literacy programs should empower individual consumers by including information on obtaining and using credit reports and scores, effective comparison-shopping, the use of technology (broadband, online banking, and ATMs), and techniques for preventing financial fraud and abuse.

Increasing Consumer Choice

Increase Choices for Banking and Credit in Segmented Communities

- Insured financial institutions (banks, savings and loans, credit unions) should offer competitive basic banking products in segmented markets (for example, low-income, minority, and elderly) as an option to more costly alternative financial services.

- Lenders should establish practices and procedures to increase prime lending in segmented markets.

- Secondary market institution (such as Fannie Mae and Freddie Mac) policies should encourage and reinforce such practices and procedures.

Strengthen the Community Reinvestment Act (CRA)

- Congress should extend coverage of the Community Reinvestment Act (CRA) to include industries other than banking that offer financial products. The activities of affiliates engaged in banking, lending, and investment activities should be included under the CRA, and incentives for increasing prime lending incorporated in performance standards for such affiliates.

- Banking regulators should consider an institution’s compliance with state basic banking laws, efforts to provide accounts for the unbanked, and compliance with usury or other statutes in determining an institution’s rating under the CRA and when considering bank mergers. Assessment areas should coincide with the market for an institution’s products.

Eliminate Predatory Financial Practices

- Federal and state policymakers should protect homeowners from abusive practices and resulting foreclosures. Policymakers should require alternative financial service providers to eliminate abusive, unfair, and deceptive practices and assure adequate resources for enforcement of small-loan and other relevant statutes.
This section includes special analyses from the Consumer Expenditure Survey in six areas—food, housing, health care, transportation, personal insurance and pensions, and computers. It also explores consumer information issues by looking at two key market sectors for older consumers: mortgage lending and online services.
Key Expenditure Category Reports
This section provides detailed analyses of consumer expenditures in six areas: food; housing; health care; transportation; personal insurance and pensions; and computers. Data on expenditures in these categories are drawn primarily from the Consumer Expenditure Survey, and we use many of the same terms previously defined in the glossary in Part I (see pages 10–12).

Let’s Eat Out: Expenditures on Food

Between 1984 and 2001, older consumers (age 45 and older) decreased their overall spending on food by 5.7 percent (from $5,506 to $5,193). Although they spent less on food overall, older consumer units increased their spending on food away from home during this period by one percent. In contrast, spending on food at home decreased by 11 percent over this same period.

In 2001, consumer units age 45 to 54 spent more on food overall than did consumer units of other ages and spent higher than average amounts on food away from home. In contrast, consumer units age 55 to 64 and the oldest age groups spent less on food and less than the group of all consumers spent on food away from home. For example, consumer units headed by persons age 45 to 54 spent 25 percent above average on food away from home, while consumer units headed by persons age 75 and older spent 56 percent below average (see Figure 31).

Consumer units headed by persons age 35 to 54—which includes Boomers—spent more on food away from home than their population share would suggest. While their population share was 42 percent, they accounted for 51 percent of the nation’s spending on meals away from home. Consumers age 65 and older had a population share of 20 percent but accounted for only 12 percent of spending on food away from home (see Figure 32).

Income

Income has a dramatic effect on food-away-from-home expenditures. In 2001, while average spending on food away from home by older consumers was $1,339, the wealthiest older consumers spent twice this amount ($2,669), while older consumers in the lowest income quartile spent less than two-fifths of the average ($509). In fact, while the wealthiest older consumer units comprised 13.2 percent of all consumer units, they spent 25 percent of all the dollars spent on food away from home.

---

**FIGURE 31: Consumers Age 55+ Spent Less Than Average on Food Away from Home**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Spending Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>35–44</td>
<td>19%</td>
</tr>
<tr>
<td>45–54</td>
<td>25%</td>
</tr>
<tr>
<td>55–64</td>
<td>-1%</td>
</tr>
<tr>
<td>65–74</td>
<td>-28%</td>
</tr>
<tr>
<td>75+</td>
<td>-56%</td>
</tr>
</tbody>
</table>

In the Future

In a recent AARP study, 80 percent of Boomers reported that they expect to work during their retirement years and continue to live at a higher standard than do older generations.

The fact that Boomers are purchasing more of their meals away from home than ever before may have significant health consequences. Overweight and obesity are serious public health problems that can lead to diet-related illnesses such as diabetes, heart disease, and stroke. Studies show that when people go to restaurants, they generally do not eat as well as they do at home. With many restaurants serving “super-size” portions, people often consume more calories and fat, and fewer important nutrients like fiber, when eating out. In fact, one restaurant entrée can easily provide 50 to 100 percent of a day’s recommended caloric intake.

Accurate nutritional information enables consumers to make healthy food choices. While processed foods sold in supermarkets have to include information about calories and other nutrients on product labels, no such requirement applies to restaurant food. Some large fast-food chains voluntarily provide nutrition information on request, and this information is sometimes available online.

More widespread availability of even limited nutrition information about restaurant foods—calorie and fat content for standard menu items offered by large restaurant chains—would be helpful to consumers.
Housing is the single largest category of expenditure by older consumers (age 45 and older). Between 1984 and 2001, the average annual expenditure by older consumers for housing increased by 16 percent, exceeding the percentage increase for all consumers (14 percent). During this period, the youngest and oldest age groups experienced the greatest percentage increases in average annual expenditures for housing (see Table 4).

In 2001, older consumers in the lowest income quartile spent the highest percentage of total expenditures for housing (36 percent), while those in the upper income quartile spent the highest dollar amount ($19,822) and the lowest percentage of total expenditures (29 percent).

In 1984, expenditures by older consumers accounted for 46 percent of the nation’s total expenditures on housing. By 2001, this spending had risen to 51 percent. The rate of growth of expenditures was faster (11 percent) than the growth of consumer units (9 percent). In addition, the 45 to 54 and 75 and older age groups increased their market share by 35 percent and 25 percent, respectively, while the market share of the other older age groups declined.

In 2001, consumers in the 35 to 44 and 45 to 54 age groups—which include Boomers—made half of all housing expenditures.

Distribution of Housing Expenditures

In 2001, older consumers spent over three-fourths of housing expenditures on shelter (56 percent) and utilities (23 percent) (see Figure 33).

Expenditures by older consumers were still four percent higher than by all consumers in 2001. Older consumers paid over half (55 percent) of utility expenditures in 2001. Older black consumer units spent on utilities (33 percent), those in the lowest income quartile spent (31 percent), and consumer units age 75 and older spent (28 percent) was higher than all older consumer units spent (23 percent) and all consumer units spent (21 percent) in 2001.

Older consumers paid over half (55 percent) of expenditures for utilities in 2001. Older consumers had higher average annual expenditures for utilities ($2,878) than all consumers did ($2,767).

Among older age groups in 2001, the percentage of housing expenditures spent by the oldest groups (age 65 to 74 and 75+) on shelter and house furnishings was less than the percentage spent by the youngest groups (age 45 to 54 and 55 to 64). However, the percentage spent by the oldest groups on utilities and household operations—which included items such as personal services—was higher.

Expenditures on Shelter

Between 1984 and 2001, expenditures by older consumers for owned dwellings increased by 56 percent while expenditures for consumers of all ages increased 42 percent (see Table 5).

In 2001, there were dramatic differences in expenditures for owned dwellings among income groups. Average annual expenditures for owned dwellings by older consumers in the upper income quartile ($9,863) were five times those of the older lower income quartile ($1,959) and two and a half

<table>
<thead>
<tr>
<th>TABLE 4: Expenditures for Housing, 1984 and 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>All Consumers</td>
</tr>
<tr>
<td>Under 25</td>
</tr>
<tr>
<td>25-34</td>
</tr>
<tr>
<td>35-44</td>
</tr>
<tr>
<td>45-54</td>
</tr>
<tr>
<td>55-64</td>
</tr>
<tr>
<td>65-74</td>
</tr>
<tr>
<td>75 and older</td>
</tr>
<tr>
<td>45+</td>
</tr>
</tbody>
</table>

times those of the older middle 50 percent income quartiles. Market share of the upper income quartile for owned dwellings, mortgage interest and charges, property taxes, and maintenance, repairs, and insurance was approximately double its population share (13.2 percent). In contrast, market share of the middle 50 percent income quartiles exceeded population for only one of the same categories (maintenance, repairs, and insurance) and failed to exceed population share of the lowest income quartile for any categories.

Some 79 percent of older consumers were homeowners in 2001. A higher percentage of consumer units in the 55 to 64, 65 to 74, and 75 and older age groups reported having a mortgage in 2001 than in 1984 (see Table 6 on page 63).

Between 1984 and 2001, average annual expenditures by older consumers for mortgage interest and charges increased from $1,344 to $2,438, and charges rose 81 percent. This compares to a 34 percent increase in average annual expenditures for all consumers. Increases in average annual expenditures by older age groups for mortgage interest and charges were highest for the oldest age groups and were higher than those for all consumers. In addition, older consumers’ share of the market for mortgage interest and charges increased from 31 to 45 percent between 1984 and 2001.

Between 1990 and 2001, expenditures on owned dwellings and mortgage interest by black older consumers more than doubled. Factors influencing these changes include low interest rates for first mortgages and home equity loans; a shift to home-secured debt due to passage of the Tax Reform Act of 1986, which phased out deductions for interest paid on nonmortgage consumer debt while maintaining such deductions for mortgage debt; and a steady increase in homeownership rates, particularly among older age groups.

### TABLE 5: Shelter Expenditures, 1984 and 2001*

<table>
<thead>
<tr>
<th>In 2001 Dollars</th>
<th>All Consumers</th>
<th>45+ Aggregate</th>
<th>45+ Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shelter</td>
<td>$5,947</td>
<td>$7,602 28%</td>
<td>$5,016</td>
</tr>
<tr>
<td>Owned Dwellings</td>
<td>$3,515</td>
<td>$4,979 42%</td>
<td>$3,182</td>
</tr>
<tr>
<td>Mortgage Interest &amp; Charges</td>
<td>$2,132</td>
<td>$2,862 34%</td>
<td>$1,344</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>$718</td>
<td>$1,233 72%</td>
<td>$972</td>
</tr>
<tr>
<td>Maintenance, Repairs, Insurance, Other</td>
<td>$665</td>
<td>$884 33%</td>
<td>$865</td>
</tr>
<tr>
<td>Rented Dwellings</td>
<td>$1,824</td>
<td>$2,134 17%</td>
<td>$1,143</td>
</tr>
</tbody>
</table>

groups and minorities during this period.\textsuperscript{65}

In 2001, older consumers accounted for 65 percent of expenditures for home maintenance, repairs, and insurance.

In addition, older consumers made over three-fifths of expenditures for property taxes (62 percent). The oldest age groups paid the highest percentage of total expenditures for property taxes. In 2001, the 75+ age group had the highest percentage share (five percent).\textsuperscript{66} In addition, expenditures by older black consumers for property taxes almost quadrupled.

One in five older consumer units (21 percent) were renters in 2001. Between 1984 and 2001, older consumers’ expenditures on rented dwellings increased to more than a third of the market, with the average annual expenditure rising 19 percent (see Table 5 on page 67). Older consumers in the lowest income quartile were most likely to be renters among demographic groups within the older population.\textsuperscript{67}

\textbf{In the Future}

Housing was older consumers’ single largest category of expenditure between 1984 and 2001, and it increased in both dollars spent and as a percentage of total annual average expenditures. The spending power of the Boomers and older consumers in the upper income quartile is attracting the attention of the housing industry, particularly those catering to the high end of the business. However, the significantly lower average annual expenditures for housing by the middle 50 percent income quartiles and the lower income

\begin{table}[h]
\centering
\begin{tabular}{lcccccc}
\hline
 & 45–54 & 55–64 & 65–74 & 75+ \\
\hline
Percent Homeowner & & & & & & \\
Without Mortgage & 56% & 56% & 36% & 42% & 18% & 25% & 4% & 10% \\
Renter & 21% & 21% & 45% & 38% & 59% & 57% & 65% & 68% \\
\hline
\end{tabular}
\caption{Percent of Consumers Age 45 and Older by Housing Tenure and Age, 1984 and 2001}
\source{Consumer Expenditure Survey, 1984, 2001.}
\end{table}
Older consumers (age 45 and older) increased their spending on health care by 23 percent between 1984 and 2001. Health care is the only key expenditure category where, in 2001, the average annual expenditure by older consumers exceeded that of all consumers ($2,832 vs. $2,182). Further, expenditures by older consumers accounted for almost $7 of every $10 spent by consumers on health care in 2001 (see Table 7). While spending on health insurance premiums and prescription and nonprescription drugs increased rapidly between 1984 and 2001, spending on medical services decreased. This may be due in part to a shift of employer health plans from traditional indemnity plans to managed care arrangements, which typically have included relatively small co-payments for medical services.

Older consumers’ share of the market for mortgage interest and charges increased 46 percent between 1984 and 2001 and was the single largest component of expenditures for owned dwellings.

Further, as increasing numbers of older consumers have mortgages, mortgage lending products and practices will increasingly affect the economic well-being of the older population (see Sector Study 1: Mortgage Lending).

### Table 7: Distribution of Consumer Health Care Expenditures, 1984 and 2001

<table>
<thead>
<tr>
<th></th>
<th>In 2001 Dollars</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Consumers</td>
<td>45+</td>
<td>45+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,788</td>
<td>$2,182</td>
<td>22%</td>
<td>$2,298</td>
<td>$2,832</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>$631</td>
<td>$1,061</td>
<td>68%</td>
<td>$858</td>
<td>$1,350</td>
</tr>
<tr>
<td>Medical Services</td>
<td>$774</td>
<td>$573</td>
<td>-26%</td>
<td>$913</td>
<td>$705</td>
</tr>
<tr>
<td>Drugs</td>
<td>$282</td>
<td>$449</td>
<td>58%</td>
<td>$396</td>
<td>$643</td>
</tr>
<tr>
<td>Medical Supplies</td>
<td>$99</td>
<td>$100</td>
<td>1%</td>
<td>$131</td>
<td>$133</td>
</tr>
</tbody>
</table>

Employer-sponsored coverage might purchase individual policies, which tend to be less generous and more expensive for consumers than employer coverage. Other consumers may have no insurance, so they pay all of their medical costs out of pocket. Some low-income individuals qualify for the state/federal Medicaid program. Finally, most individuals age 65 and older—as well as certain disabled workers—obtain health coverage through Medicare, a federal health insurance program. While Medicare provides important coverage for its beneficiaries, its cost-sharing requirements can be high, and its benefit package is not comprehensive (for example, in 1984 and 2001, Medicare did not cover the cost of most prescription drugs).

Consumers in the oldest age groups spent the most on health care. In 2001, older age groups’ expenditures on health care exceeded those of all younger age groups (see Figure 34). For example, total health care expenditures by the 75+ age group ($3,397) were more than six times those of the under-25 age group ($530).

Figure 34: Older Age Groups Spent the Most on Health Care in 2001

Consistent with the higher average age of older single-nonearner consumers (73), compared to older single-earner consumers (57), average annual health expenditures by this group ($2,180) were 51 percent greater than those of older single-earner consumers ($1,446). In addition, the proportion of total average annual expenditures older single-nonearner consumers devoted to health care (12.9 percent) was two and a half times the percentage share by older single-earner consumers (5.1 percent) and one and three-quarters times the percentage share by all older consumers (7.3 percent).

Income is another important factor in older consumers’ expenditures on health care. In 2001, the proportion of spending on health care by the lower income quartile (11.1 percent) was more than twice the proportion of spending of the upper income quartile (4.8 percent). Despite the fact that health care accounts for a larger proportion of lower-income consumer expenditures, the average annual expenditure on health care by consumers in the upper income quartile ($3,263) was 65 percent greater than what consumers in the lowest income quartile spent ($1,975) and 16 percent greater than that of consumers in the middle two income quartiles ($2,811). Indexed spending measures indicate that the lower income quartile’s spending on health care was 95 percent of average, compared to 136 percent for the middle two income quartiles and 158 percent for the upper income quartile.

In addition, average expenditures on health care varied by race and ethnicity. For example, in 2001 older black consumers spent 42 percent less than
all older consumers on health care ($1,910 versus $2,665). Similarly, the expenditures of older Hispanic consumers ($1,613) were 40 percent less than those of all older consumers. This finding likely reflects differences in income and insurance coverage.

In 2001, expenditures by older black consumers ($1,910) were 42 percent less than those of all older consumers ($2,665), while the expenditures of older Hispanic consumers ($1,613) were 40 percent less than those of all older consumers.

Prescription and Nonprescription Drug Expenditures

The percentage of health care expenditures for prescription and nonprescription drugs increased between 1984 and 2001 for all older age groups, particularly for the two oldest groups. Average annual expenditures on prescription and nonprescription drugs by the 75 and older group almost doubled, from $487 in 1984 to $965 in 2001, while expenditures by the 65 to 74 age group increased 73 percent between 1984 and 2001. This compares to a 58 percent increase in prescription and nonprescription drug spending for all consumers. Consistent with overall health care spending, the amount individuals spend on drugs has much to do with their insurance coverage. In 1984 and 2001, many younger workers had prescription drug coverage through employer-sponsored health insurance. However, Medicare prescription drug coverage—scheduled to begin in 2006—will be voluntary and will entail a separate premium. Many older consumers lack such coverage in the meantime.

In the Future

Health care services and products represent an important component of older consumers’ budgets. The aging of the population means that a proportionately greater share of the population will likely devote a substantial proportion of its total spending to health. As the cost of health care services and products continues to increase, we should give particular attention to those older consumers most vulnerable to high out-of-pocket spending.
Expenditures on transportation by older consumers (age 45 and older) accounted for 50 percent of all transportation spending in 2001. The majority of transportation expenditures were associated with vehicle purchases and ownership. While the amount of spending for new vehicles remained relatively flat between 1984 and 2001 ($1,647 vs. $1,686), average annual expenditures by older consumers for used vehicles rose 41 percent over the study period (see Table 8).

Older consumers accounted for almost half of all vehicle purchase expenditures in 2001.

The older upper income quartile's average annual expenditures for transportation were four times those of the older lower quartile and 80 percent more than the two older middle income quartiles in 2001. Between 1984 and 2001, average annual expenditures for transportation increased for each of the income quartiles. Increases in average annual expenditures for transportation were largest for the middle income quartiles (74 percent), followed by the lower income quartile (60 percent) and the upper income quartile (34 percent).

**Vehicle Purchase and Ownership**

Consumers age 45 to 54 operated an average of 2.6 vehicles, and 92 percent either owned or leased at least one vehicle in 2001. This was the highest level of vehicle operation among all age groups. The 55 to 64 group had the second-highest level of vehicle operation and ownership or leasing. The number of vehicles operated and owned or leased declined for older age groups, with each member of the 75 and older group operating an average of 1.2 vehicles.

Expenditures for vehicle purchases increased for all income groups, with the upper income quartile having the largest average annual expenditures for new vehicle purchases. In fact, the upper income quartile had an indexed spending measure of 181, compared to 86 for the middle 50 percent income quartiles and 43 for the lower income quartile. At the same time, the middle 50 percent income quartiles' average annual expenditure on used vehicles was greater than the amount spent on new vehicles (see Figure 35 on page 74).

For older Hispanic consumers, the average annual expenditure in 2001 for transportation ($7,059) was almost equal to that of all older

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**TABLE 8: Expenditures Associated with Vehicle Ownership, 1984 and 2001**

<table>
<thead>
<tr>
<th></th>
<th>All Consumers</th>
<th>45+ Aggregate</th>
<th>45+ Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>$7,336</td>
<td>$7,633</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Vehicle Purchases</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Net Outlay)</td>
<td>$3,090</td>
<td>$3,579</td>
<td>16%</td>
</tr>
<tr>
<td>Cars and Trucks, New</td>
<td>$1,756</td>
<td>$1,685</td>
<td>-4%</td>
</tr>
<tr>
<td>Cars and Trucks, Used</td>
<td>$1,289</td>
<td>$1,848</td>
<td>43%</td>
</tr>
<tr>
<td>Other Vehicles</td>
<td>$46</td>
<td>$46</td>
<td>0%</td>
</tr>
<tr>
<td>Gasoline and Motor Oil</td>
<td>$1,803</td>
<td>$1,279</td>
<td>-29%</td>
</tr>
<tr>
<td>Other Vehicle Expenses*</td>
<td>$2,008</td>
<td>$2,375</td>
<td>18%</td>
</tr>
</tbody>
</table>

*Note: Other vehicle expenses include vehicle finance charges; maintenance and repairs; vehicle insurance; and vehicle rental, leases, licenses, and other charges.

consumers ($7,173). The majority of expenditures for older Hispanic consumers’ transportation are associated with vehicle purchase and operation. The average annual expenditures for vehicle purchases by older Hispanic consumers ($3,654) in 2001 exceeded those of all older consumers ($3,267). Further, average annual expenditures for vehicle finance charges were higher ($326) for older Hispanic consumers than they were for all older consumers ($304).

In 2001, average annual expenditures for transportation by the older upper quartile were four times those of the older lower quartile and 80 percent more than those of the two middle income quartiles.

**Insurance**

Older consumers accounted for more than half (55 percent) of all spending on vehicle insurance in 2001. Average annual expenditures for vehicle insurance by the 45 to 54 age group were the highest ($1,032) among consumers of all ages. The 75 and older age group had the lowest average annual expenditure for vehicle insurance ($536) among older consumers, but these expenditures registered the biggest increase (59 percent) between 1984 and 2001. This compares to a 25 percent increase for the 45 to 54 age group and a 37 percent increase for all consumers.

In addition, average annual expenditures for insurance increased 58 percent for the lower income quartile and 66 percent for the two middle income quartiles. This compares to a 25 percent increase for the upper income quartile and a 46 percent increase for all older consumers.
Public Transportation

The largest portion of public transportation expenditures among all age groups in 2001 went to airline fares for out-of-town trips. Average annual expenditures for public transportation declined for all age groups except the 65 to 74 group between 1984 and 2001. The 65 to 74 age group spent the highest proportion of its public transportation expenditures on airline fares (68 percent), while the 75 and older group spent the lowest proportion (57 percent).

In 2001, average annual expenditures by older black consumers for intracity mass transit fares and local travel were 75 percent greater than those of all older consumers ($107 vs. $61).

In 2001, all older consumers’ average annual expenditures on transportation ($7,173) were 51 percent more than those of older black consumers ($4,753). However, average annual expenditures by older black consumers for intracity mass transit fares and local travel ($107) were 75 percent greater than those of all older consumers ($61) and consumed 39 percent of public transportation expenditures by older black consumers, compared to 15 percent of expenditures for all older consumers.

In the Future

The high level of expenditures related to automobile ownership and operation indicates older consumers’ general reliance on automobiles for mobility. In fact, average annual expenditures for vehicle purchases and related ownership expenses accounted for 94 percent of older consumers’ transportation expenditures. As a result, cost increases in automobiles and related products such as car insurance and gasoline will affect older consumers as they continue to use automobiles to maintain mobility. This is particularly true for consumers age 75 and older, who have seen the largest increase in expenditures for vehicle insurance despite the fact that they operate fewer vehicles than any other older consumer groups.

The general reliance on automobiles for transportation suggests that there is a need to expand transportation alternatives to ensure the continued mobility of older persons.
Protection for Tomorrow: Personal Insurance and Pensions

The key category of Personal Insurance and Pensions represents financial security in the form of deferred consumption. In addition to other savings, people spend a portion of annual income on premiums and pension contributions until retirement or other life events force them to draw on their savings for consumption. This section examines the market share and expenditures of the population age 45 and older on all personal insurance other than health insurance as well as average annual contributions to pensions and Social Security.

**Personal Insurance: Market Share**
Consumers age 45 and older accounted for two-thirds (66 percent) of the market for personal insurance in 2001, yet they only comprised about half (53 percent) of the total population. Figure 36 illustrates the market share for various age groups as well as their share of the total population.

Market share declines with age, from a high of 27 percent for 45 to 54 year olds to only 6 percent for consumers age 75 and older.

Consumers age 45 and older accounted for two-thirds of the market for personal insurance, other than health insurance, in 2001.

**Personal Insurance: Average Annual Expenditures, 2001**
Consumers age 45 and older reported spending an average of $512 annually on personal insurance in 2001, about 25 percent more than the total population average of $410. The 55 to 64 age group had the highest average expenditures ($653) of any age group in 2001, while consumers 75 and older spent the least ($262) (see Figure 37 on page 76).
Of all age groups, consumers age 55 to 64 spent the most money on personal insurance in 2001, an average of $653 per consumer unit.

Pensions: Average Annual Contributions
Public and private employers generally base annual expenditures on pensions, including Social Security, on the total amount of money income (such as wages) an individual receives. Employers alone fund traditional defined-benefit pension plans, while workers primarily fund defined-contribution plans such as 401(k)s, although employers may supplement these funds. Social Security, which provides retirement income that cannot be outlived, is funded through equal contributions by workers and their employers. Workers and employers each contribute 6.2 percent of income, up to a maximum of $87,900 in 2004. (Self-employed workers contribute as both worker and employer.) More than 96 percent of all U.S. workers participate in the Social Security system.

Figure 38 illustrates the average annual amount all consumers contribute to Social Security by age group. Not surprisingly, expenditures on Social Security drop dramatically for the 65 to 74 age group, reflecting the fact that workers can receive reduced retirement benefits at age 62 and full benefits at age 65 or 66 (depending on their year of birth). Contributions beyond age 66 demonstrate that some consumers continue to work well past the age at which they can collect full benefits.

Consumers age 45 and older who participated in a public or private pension plan had an average annual expenditure on pensions of $4,667 (see Figure 39).

However, it is important to keep in mind that not all consumers have access to pension plans or participate in available plans. A recent Congressional Research Service study found that only 62 percent of full-time wage and salary workers (ages 25 to 64) had access to any type of pension plan in 2002, and only 54 percent of these workers participated in their employer’s pension plan.
FIGURE 38: Consumers Age 35–54 Had the Highest Expenditures on Social Security in 2001

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Average Annual Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>$3,008</td>
</tr>
<tr>
<td>45+</td>
<td>$2,591</td>
</tr>
<tr>
<td>35–44</td>
<td>$4,141</td>
</tr>
<tr>
<td>45–54</td>
<td>$4,176</td>
</tr>
<tr>
<td>55–64</td>
<td>$3,184</td>
</tr>
<tr>
<td>65–74</td>
<td>$937</td>
</tr>
<tr>
<td>75+</td>
<td>$288</td>
</tr>
</tbody>
</table>

Source: Consumer Expenditure Survey, 2001 (completed income surveys).

FIGURE 39: Average Annual Pension Contributions by Age Group Among Persons with Pensions, 2001*

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Average Annual Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>$4,358</td>
</tr>
<tr>
<td>45+</td>
<td>$4,667</td>
</tr>
<tr>
<td>35–44</td>
<td>$4,391</td>
</tr>
<tr>
<td>45–54</td>
<td>$4,898</td>
</tr>
<tr>
<td>55–64</td>
<td>$4,599</td>
</tr>
<tr>
<td>65–74</td>
<td>$3,569</td>
</tr>
<tr>
<td>75+</td>
<td>$1,754</td>
</tr>
</tbody>
</table>

*Note: Contributions comprise payroll deductions to public or private retirement plans but not contributions to Social Security. Average amounts among consumers reporting payroll deductions for a public or private pension plan.

plan. In contrast, participation in Social Security is nearly universal among part- and full-time workers, and provides benefits for spouses and other dependent family members as well.

Social Security provides lifetime benefits to more than 96 percent of all U.S. workers and their eligible family members. In contrast, only 62 percent of full-time workers had access to any type of pension plan in 2002.

In the Future
Social Security is the primary source of retirement income for most Americans. Nearly seven out of ten beneficiaries today derive more than half of their income from Social Security. Among poor households of retirement age, Social Security is virtually the only source of retirement income. But Social Security is more than a retirement program: It is a social insurance and family protection plan against financial hardships that cannot always be anticipated or prevented.

The low savings rate in the United States makes safeguarding Social Security and the pension system a critical public policy issue. Policies should give more attention to educating consumers about the importance of saving, contributing, and investing prudently in any retirement accounts available to them as well as the purchase of personal insurance when appropriate.

Logging in: Computer Expenditures and Adoption of Technology by Older Consumers

Between 1990 and 2001, older consumers increased their spending on computer products by 295 percent, compared to a 209 percent increase by consumers of all ages. Consumer units age 55 to 64 showed the largest increase in computer product expenditures, spending 767 percent more on computer products in 2001 than they did in 1990 (see Figure 40).

While older consumers have approached computers and the Internet with caution, they have quickly recognized the benefits of these technologies. Although a smaller percentage of older consumers uses computers than do younger consumers, older consumers are the fastest-growing group of computer users. Similarly, older consumers are the fastest-growing group of consumers online.

Interestingly, once older consumers gain access to the Internet, they spend more money online per person than their population share would suggest. Although comprising only 11 percent of the online population, they accounted for 18 percent of online spending in 2002. Experts predict that online spending by older consumers will grow to $26 billion by 2007, a quarter of total online spending. Older Internet users—age 55 and older—also use high-speed Internet access (broadband) at a similar rate and spend similar amounts of time online as younger users (see Table 9).

Research suggests that consumers, including older consumers, tend to adopt technology based on its utility, convenience, safety, and ease of use. A brief look at other technologies many older consumers have adopted provides additional support for this premise.

<table>
<thead>
<tr>
<th>TABLE 9: Internet Use by Older Adults</th>
</tr>
</thead>
<tbody>
<tr>
<td>Older Users (age 55 and older)</td>
</tr>
<tr>
<td>Users of All Ages</td>
</tr>
<tr>
<td>Online for 5+ years</td>
</tr>
<tr>
<td>Average time online/week</td>
</tr>
<tr>
<td>Have high-speed access</td>
</tr>
</tbody>
</table>

Cellular Telephones
Cellular telephone use among older consumers demonstrates their willingness to use new products that are useful or provide security. A recent AARP survey found the rates of cell phone ownership among 18 to 49 and 50 to 64 age groups to be similar (55 percent and 50 percent, respectively). More than half (57 percent) of the 50 to 64 age group with cellular service identified convenience as their primary reason for having it. For those respondents age 65 and older, one-third reported having cellular service, and, of these, almost three-fifths (58 percent) identified security in case of an emergency as their main reason for adopting cellular service.

Electronic Funds Transfer
Analysis of 2001 Survey of Consumer Finance (SCF) data shows that using direct deposit increases with age, while other forms of electronic funds transfer, such as ATMs, cash cards, and Internet banking, decrease. Researchers suggest that the differences reflect the relative safety, convenience, and ease of use of direct deposit, which requires only a one-time sign-up, as opposed to the multistep procedures involved in Internet banking (that is, accessing the bank Web site, navigating to the online banking page, logging in with a user name and password, then navigating among several submenus). Drawbacks to ATM use could include long lines, complicated on-screen user guides that vary among ATMs, and unsafe locations.

Cable Television
In 2001, 46 percent of all persons viewing cable television were age 45 and older (68.2 million persons). Persons age 55 to 64 had the highest rate of viewership (76.5 percent) among all age groups. The high rates of cable television subscribership among older adults seem to be a natural outgrowth of this population’s strong affinity for television. Frequency of television viewing tends to increase with age; in 2001, persons age 65 and older had the highest viewing rate (96.9 percent) of all age groups. Watching cable is virtually identical to watching broadcast television, and older adults have responded to the ease of moving to this new technology with a solid adoption rate.

Internet
The growing rate of Internet use among older consumers reflects their increasing awareness of its utility. The most popular online activities of older consumers are sending and receiving e-mail (95 percent of all older users) and searching for information (76 percent). Older users most frequently visit sites about health, travel, and investment advice as well as those specifically tailored to seniors’ issues. One study found that 48 percent of users age 65 and older—not compelled to use the Internet for school or work—went online because family members wanted to keep in touch with them. Once online, more than half of these users (56 percent) reported that they were in touch more often with their families because of the Internet.
On the other hand, many older people who do not access the Internet simply do not think that doing so will benefit them in any way. A 2000 AARP study found that one-fifth of the computer users surveyed did not have access to the Internet. Almost half of this group (46 percent) cited a lack of interest as the main reason they did not have Internet access. Most of the nonusers were over age 65 and described themselves as inexperienced computer users.

Among older persons who access the Internet, safety considerations often play an important role in their decision to adopt or reject more advanced products and services. For example, the AARP survey revealed that although about half of older Internet users used the Internet to research and compare products, only 39 percent of those who browsed actually made purchases over the Internet. Of those users not choosing to purchase anything over the Internet, one-third cited concern about the privacy of their personal information, safety of payments, and possible fraud.

A 2000 Pew report found that 68 percent of all Americans are concerned about misuse of their credit card number online. The report also noted that 53 percent think that Internet tracking is an invasion of privacy. Data from this report illustrate the fact that older users are more concerned with privacy than are other age groups (see Table 10).

Poor Web page design also influences Internet use. Web sites with small font sizes, tightly clustered and nondistinct links, moving or flashing interfaces, and unforgiving search engines do not take into account the physiological effects of aging.

Once older consumers gain access to the Internet, they spend more money online per person than their population share would suggest.
Between 1984 and 2001, older consumers decreased their average annual expenditure on food by 6 percent. Expenditures on food at home decreased by 11 percent, while those for food away from home increased 1 percent.

In 2001, consumers age 35 to 54 (which include Boomers) accounted for 51 percent of spending on food away from home, while only comprising 42 percent of all consumers. The wealthiest older consumers spent 25 percent of all food-away-from-home dollars.

Older consumers in the lowest income quartile spent the highest percentage of total expenditures for housing (36 percent), while those in the upper income quartile spent the highest dollar amount ($19,822) and had the lowest percentage of total expenditures (29 percent) in 2001.

In 2001, consumers in the 35 to 54 age group—which includes Boomers—accounted for half of all housing expenditures.

Older consumers’ expenditures for utilities accounted for 55 percent of the market in 2001, and average annual expenditures in this

One study investigating Web usability by older persons showed that the study’s older group found the Web significantly less usable than did the younger control group. The study reported a strong correlation between successful completion of assigned tasks and a high satisfaction rating among the older group. In other words, older participants strongly preferred the Web sites that they found easier to use.

Improvements in privacy protections and Web site design could influence older consumers to adopt technology and encourage access to information and the online marketplace.

Summary of Findings from Key Expenditure Category Reports

### Food
- Between 1984 and 2001, older consumers decreased their average annual expenditure on food by 6 percent. Expenditures on food at home decreased by 11 percent, while those for food away from home increased 1 percent.
- In 2001, consumers age 35 to 54 (which include Boomers) accounted for 51 percent of spending on food away from home, while only comprising 42 percent of all consumers. The wealthiest older consumers spent 25 percent of all food-away-from-home dollars.

### Housing
- Older consumers in the lowest income quartile spent the highest percentage of total expenditures for housing (36 percent), while those in the upper income quartile spent the highest dollar amount ($19,822) and had the lowest percentage of total expenditures (29 percent) in 2001.
- In 2001, consumers in the 35 to 54 age group—which includes Boomers—accounted for half of all housing expenditures.
- Older consumers’ expenditures for utilities accounted for 55 percent of the market in 2001, and average annual expenditures in this

<table>
<thead>
<tr>
<th>Behaviors/Concerns</th>
<th>Percent of Age Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Ages</td>
</tr>
<tr>
<td>Not very/not at all confident online activities are private</td>
<td>46%</td>
</tr>
<tr>
<td>Think Internet tracking by companies is harmful</td>
<td>54%</td>
</tr>
<tr>
<td>Provided real name, personal information, or e-mail address to use a site</td>
<td>54%</td>
</tr>
<tr>
<td>Made friends with a stranger by communicating online</td>
<td>25%</td>
</tr>
<tr>
<td>Think Internet companies should not track online activities</td>
<td>62%</td>
</tr>
</tbody>
</table>

category for older consumers were higher than those for all consumers.

- Between 1984 and 2001, expenditures for mortgage interest and charges by older consumers increased by 81 percent, compared to 34 percent for all consumers. Market share increased from 31 to 45 percent.
- In 2001, older age groups spent the most of all age groups on home maintenance, repairs, and insurance in terms of both dollars spent and percentage of total average annual expenditures.

### Health Care

- In 2001, health care expenditures by older age groups exceeded those of all consumers and all younger age groups. The market share of older consumers was 69 percent.
- The group age 65 to 74 had the highest average annual expenditures ($3,583) for health care among all age groups in 2001.
- In 2001, the proportion of older consumers’ spending on health care in the lower income quartile (11 percent) was more than twice the share that older consumers in the upper quartile spent (5 percent), but the average annual expenditure by the upper quartile was 65 percent greater than the lower income quartile ($3,263 vs. $1,975).

### Transportation

- Older consumers accounted for half of all transportation spending in 2001 and almost half of all vehicle purchase expenditures.
- Older consumers accounted for 55 percent of all spending on vehicle insurance in 2001.
- In 2001, average annual expenditures for transportation by the upper income quartile of the older population were four times those of the lowest income quartile and 80 percent more than those of the two middle income quartiles.

### Personal Insurance and Pensions

- Expenditures by older consumers comprised two-thirds of the market for life and other personal insurance, other than health insurance, in 2001.
- Of all age groups, consumers age 55 to 64 spent the most money on personal insurance in 2001, an average of $653 per consumer unit.
- Social Security provides lifetime benefits to more than 96 percent of all U.S. workers and their eligible family members. In contrast, only 62 percent of full-time workers had access to any type pension plan in 2002.

### Computers

- Expenditures by older consumers on computer products increased by 295 percent between 1990 and 2001, compared to a 209 percent increase for consumers of all ages.
- While older consumers comprised 11 percent of online users, they accounted for 18 percent of all online spending in 2002.
This section explores consumer information issues by looking at two key markets for older consumers: mortgage lending and online services. As the analysis of the Consumer Expenditure Survey in Part I highlighted, housing is the single largest category of expenditure for older consumers. For most older consumers, the home is not only a place to live, it is their main asset in retirement. As we noted in the conclusion of Part II, the percentage of retirement-age homeowners with a mortgage is increasing. Therefore, practices in the mortgage market are increasingly significant to this population.

The World Wide Web is today’s frontier of consumer activity and, increasingly, a playing field for older consumers, especially Boomers. The Web provides an unprecedented opportunity to access a vast array of resources, but it also presents pitfalls that may prevent consumers from finding the information they need and want most. This sector study focuses on issues concerning search engines, access to high-speed Internet networks, and the problem of information credibility.
Sector Study 1: Mortgage Lending

The American mortgage finance system is justifiably the envy of the world. It has offered unparalleled financing opportunities under virtually all economic conditions to a wide range of borrowers, leading to the highest homeownership rate in the nation’s history.90

Many older persons, while not in the mortgage market to purchase their first home, have substantial equity in their home and, for a variety of reasons, choose to refinance. According to the U.S. Census, the total home equity of persons age 65 and older in the United States is at least $1.75 trillion.91

The process of obtaining a mortgage—first purchase or refinance—is complicated and costly for borrowers and lenders alike. Americans currently spend $50 billion a year on settlement costs associated with buying or refinancing a home without fully understanding what they are paying for.92 Loan originators (that is, lenders and brokers) express concerns that the current mortgage process is cumbersome.

For most consumers, closing day is the most highly anticipated step of the lending process. Homeowners who have financed or refinanced a home remember the “closing” or “settlement” and the legal and technical terms they are required to sign—a stack of paperwork that would take days to actually read and comprehend.93

The closing process, often described by borrowers as intimidating, confusing, and exhausting, is, in reality, the culmination of earlier efforts of the borrower and the lender/broker. Some borrowers go out and seek a loan, while others respond to television advertisements, direct mail, or Internet solicitations. Once actively seeking a loan, borrowers often find that getting approval for the loan is the easy part; comparing loan terms, choosing (and knowing the difference between) a broker or lender, and reading and understanding documents are a different story.

Prime or Subprime?

Over the last ten years, subprime mortgage lending has evolved from a small industry to a market valued at over $200 billion annually, approximately 10 percent of the overall mortgage market.94 The term, “subprime,” covers a wide range of mortgage products and practices. In simplest terms, it is mortgage lending where the cost of credit is higher than that offered by prime loan originators.95

The industry originally designed subprime mortgages as refinancing loans to consolidate debt.96 Survey data show that debt consolidation or cash-out refinancing accounted for 57 percent of subprime loans.97 In contrast, only 16 percent of prime loans were for that purpose. These rates vary among lenders and over time, but, in general, subprime refinance loans recapitalize borrowers who may have current or past financial problems.

A recent study found that borrowers 65 years of age or older were three times more likely to hold a subprime mortgage than were borrowers younger than age 35.98 Figure 41 shows that for borrowers age 45 and older, 56 percent of mortgages were subprime, while for borrowers younger than age 35, only 12 percent of mortgages were subprime.
For borrowers with less than perfect or no credit, getting a legitimate subprime loan may be a necessary step toward homeownership. For other borrowers, however, especially current homeowners considering refinancing, several aspects of the subprime mortgage lending market should be of concern.

First, market segmentation in mortgage lending results in differential access to prime credit for many borrowers. Studies have shown that minority and older borrowers are disproportionately represented in the subprime refinance market. Further, two recent studies suggest that between 30 percent and 50 percent of subprime mortgage borrowers could qualify for lower-cost "A" loans, but are paying for more expensive subprime loans instead.

Second, there is evidence of predatory lending practices in the subprime mortgage market. One recent study found that more than one-third of subprime refinance borrowers' loans may have included predatory terms.

Third, there is concern about the increasing percentage of foreclosures associated with subprime mortgage lending. Studies in both urban and suburban areas have found that the volume of foreclosures associated with subprime loans has increased considerably in recent years. Additionally, a survey of older refinance borrowers found that subprime borrowers were less satisfied with their loan than were prime borrowers. Older subprime refinance borrowers were less likely than were older prime borrowers to feel they received the loan that was best for them, fair rates and terms, and accurate and honest information. In addition, subprime borrowers were less likely to want the same loan again or to recommend the broker/lender to a friend (see Figure 42).

**Broker or Lender?**

Since the advent of mortgage brokers in the mid-1980s, borrowers have been confused about brokers' functions and fees, such as whether brokers do or do not shop around on the borrower's behalf and who pays the broker and how much they are paid. Some mortgage brokers tell borrowers that they will, in essence, act as their agent to shop for the best mortgage loan for them, while other brokers state that they work with a number of funding sources to provide loans and will arrange a favorable loan with one of them.

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**FIGURE 42: Older Subprime Refinance Mortgage Borrowers Express Less Satisfaction with Their Loans Than Older Prime Borrowers***

<table>
<thead>
<tr>
<th>Category</th>
<th>Subprime</th>
<th>Prime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Would Recommend Broker/Lender</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Would Get Same Loan</td>
<td>38%</td>
<td>60%</td>
</tr>
<tr>
<td>Received Accurate Information</td>
<td>48%</td>
<td>71%</td>
</tr>
<tr>
<td>Rate and Terms Were Fair</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Received Best Mortgage</td>
<td>42%</td>
<td>67%</td>
</tr>
</tbody>
</table>

According to some estimates, mortgage brokers today originate more than 60 percent of the nation’s mortgages.

It is not surprising, therefore, that borrowers often perceive brokers as shopping on their behalf for the best loan to meet their needs. This perception frequently deters borrowers from searching on their own for the loan originator and mortgage product that best meets their needs.

Broker Compensation

Mortgage brokers receive compensation for their services in a variety of ways. The borrower may pay a broker directly, the lender or wholesale lender who purchases the mortgage loan may pay the broker, or payment may come from a combination of both. Brokers may charge borrowers directly at or before settlement for loan origination as well as for other services, including the application, document preparation, and document review.

According to an AARP study, 52 percent of older borrowers with lender-originated loans and 70 percent with broker-originated loans relied “a lot” on a broker or lender to get them the best loan.108

HUD describes mortgage broker compensation as follows:

“In some cases, broker origination charges may be denominated as an origination fee and sometimes as an ‘origination point’ (one point equals one percent of the loan amount), while other fees for named services (for example, application fees, document preparation fees, processing fee, etc.) are charged as separate cost items on the Good Faith Estimate (GFE). Some brokers receive both percentage-based fees and fees for named services. Where brokers receive a payment for compensation from someone other than the borrower, most commonly the lender, it is called indirect compensation. Such indirect compensation from lenders is ordinarily based upon an above-market interest rate on the loan entered into by the broker with the borrower. We often refer to this type of compensation as ‘yield spread premium’ (YSP) although it sometimes shows up under a different label, for example, servicing release premium.”109
Along with the complexities of broker fees, fees for document preparation and other costs further complicate comparison-shopping and may inhibit the borrower from shopping.

In 1974, Congress enacted the Real Estate Settlement Procedures Act (RESPA) to improve the mortgage settlement process. Among the Act’s stated purposes are improving the effectiveness of advance disclosure of settlement costs to homebuyers and sellers and eliminating kickbacks or referral fees that tend to increase the costs of certain settlement services unnecessarily. Regulators have not substantially revised RESPA, which predates the widespread use of many current broker compensation practices, in decades. HUD recently proposed a rule to improve and simplify the mortgage process and reduce consumers’ settlement costs.110

Some borrowers understand, agree to, and properly use higher interest rates to lower up-front settlement costs. Many borrowers, however, find it difficult to determine whether they are getting optimum loan terms. Is the borrower receiving any benefits (reduced up-front costs, for example) for a slightly higher interest rate? Is the borrower receiving any of the benefit from the YSP, or is it solely compensation for the broker?

Mortgages: Bought, Sold, or Information Overload?

In a market where consumers have the ability to comparison shop, prices can be competitive.111 Unfortunately, given the bewildering array of mortgage products available from a growing number of sources, even the most sophisticated borrower has difficulty evaluating the details of the mortgage. How can borrowers, who generally make this transaction infrequently, possibly keep up with ever-changing terms and products? How can they wade through the complex and endless choices of mortgage products and determine which, if any, loan is best for them?

As we noted earlier, most borrowers rely a great deal on the loan originator for expertise and guidance. After all, it is the lenders’ and brokers’ job to be knowledgeable about the credit market and mortgage products; they “do this every day for a living.” In fact, according to Fannie Mae’s 2002 Housing Survey, over one-third (39 percent) of consumers erroneously believe that the law requires lenders to give borrowers the best possible rates on loans (see Figure 43). This was true for more than half of African Americans (51 percent) and Hispanics (56 percent) and nearly two-thirds (64 percent) of Hispanic immigrants.

Information Overload

With the increasing availability of nonprime (that is, subprime) products, whose terms are often more complex and less standardized, comparison-shopping is more difficult, yet even more essential. And, as noted, the law does not require lenders to

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**FIGURE 43: Many Consumers Believe That Lenders Are Required by Law to Give Borrowers the Best Possible Loan Rates**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hispanic Immigrants</td>
<td>64%</td>
</tr>
<tr>
<td>Hispanics</td>
<td>56%</td>
</tr>
<tr>
<td>African Americans</td>
<td>51%</td>
</tr>
<tr>
<td>All Adults</td>
<td>39%</td>
</tr>
</tbody>
</table>

Source: Fannie Mae 2002 Housing Survey.
give borrowers the best possible rate, even though borrowers rely a great deal on lenders’ expertise. It is not surprising to find that, according to a recent AARP study, many recent prime and subprime borrowers report that they are unfamiliar with terms and conditions of the mortgage process (see Figure 44). More than 50 percent of consumers did not understand the terms of one of the mortgage forms, the Truth-In-Lending disclosure.112

Getting the best mortgage should be easy, right? You don’t even have to find a bank because lenders and brokers find you. It is nearly impossible to open the mail, watch television, access the Internet, or open a newspaper without seeing an advertisement for “debt consolidation” or promising “lower monthly payments.” In fact, a recent AARP study found that 70 percent of homeowners age 45 and older had received information “offering the opportunity to borrow money against the equity in their current home”; of these recipients, 87 percent had received such offers via direct mail. In the face of so much information, how can a consumer interpret all of it and make the best financial decision? And how can a borrower be sure that there are no surprises in the small print of all of the paperwork at closing?

Federal and state consumer protection statutes provide certain basic rights and prohibit certain practices. When predatory lenders victimize older homeowners, these consumers have several legal options under the Truth-In-Lending Act, the Home Ownership Protection Act, the Real Estate Settlement and Procedures Act, and state consumer laws.

In addition, numerous homeownership education and counseling (HEC) programs offer important information about the mortgage process. HEC programs have received wide support based on several perceived values, including the notion that borrowers who receive counseling are better able to handle the responsibilities of achieving and maintaining homeownership. Research findings about the effectiveness of HEC programs, however, are “highly ambiguous” and have “serious limitations…[which] severely compromise the value of such findings.”113

HEC programs primarily target home purchasers, perhaps with the false notion that after homeowners have gone through the mortgage process, they are better educated and less vulnerable. However, increasing numbers of equity-rich homeowners,
many of whom are also unfamiliar with the current and ever-changing mortgage market and mortgage products, are refinancing.

Mortgage lenders overwhelmingly use credit scores. By one estimate, over 75 percent of all home mortgage loan decisions use credit scores as a significant factor in the decision-making process.

Credit bureaus are increasingly holding consumers responsible for assuring the accuracy of the information the bureaus use to calculate their “score,” which in turn, affects the interest rate (that is, the price) of the loan for which they qualify. Experts recommend that consumers request their credit report from each of three credit bureaus annually and take steps to correct erroneous information.114

Consumers receive a “credit score” based on credit report information, but they do not have access to the proprietary formulas that generate their “scores.”

Bought or Sold?

“Push marketing,”115 which may lead some persons to originate loans that are not in the borrower’s best financial interest, has raised a concern that many loans, particularly refinance loans,116 are “sold, not sought.”117

Forty percent of older borrowers with broker-originated loans and 31 percent of older borrowers with lender-originated loans reported that they responded to guaranteed loan advertisements at least “a little.”

In a recent AARP study, many older borrowers (24 percent of those surveyed) reported that the lender initiated contact about their current loan, and 56 percent said the broker initiated contact (see Figure 45).

Policy Options

If the mortgage marketplace is to work efficiently and effectively, borrowers must have access to fair credit. Fair credit is defined as credit that is priced (that is, the interest rate and related fees) appropriately, based on the risk that the borrower will repay the loan. Further, choice and competition in the marketplace require that consumers have adequate, timely information about the loan terms and role of the loan originator. In addition, consumers must have confidence that inappropriate loan terms are not hiding in the stacks of paperwork or that the terms are unlawful. The mortgage process, while onerous, must assist borrowers in navigating the complexities of the process and obtaining fair credit.

Policymakers have attempted to assure access to fair credit, prohibit egregious lending practices, and assure adequate and timely disclosures that enable consumers to compare loan products. In addition to existing federal protections,118 many states have recently enacted legislation on high-cost home loans that includes provisions addressing such
predatory lending practices as: requiring lenders and brokers to consider the borrower’s ability to repay the loan, not just the amount of equity offered as collateral; restricting unfair prepayment penalties; limiting the closing costs or other fees financed in the loan amount; and prohibiting or limiting the use of balloon payments.

Recently, the Department of Housing and Urban Development (HUD) issued a “Homebuyer Bill of Rights” that provides some basic principles to guide the mortgage settlement process. HUD asserts these five principles to be essential rights of consumers in the home-buying process.

Harvard University’s Joint Center for Housing observes that regulatory oversight has not kept pace with dramatic changes in the mortgage lending industry, and that “closing the homeownership gap requires efforts that not only expand financing options for minorities, but also…ensure that recent minority first-time buyers are able to remain homeowners.” Home equity remains the primary source of wealth in old age and continues to be a major component of older persons’ financial security and independence. A combination of enhanced legal protections and market-oriented reforms must protect this key asset.

- Congress could strengthen the Real Estate Settlement Protection Act regulations to clarify the closing process and protect consumers from inappropriate fees and charges as well as changes in loan terms. Changing the way the system records lender payments to brokers and reports them to consumers, and improving HUD’s Good Faith Estimate settlement cost disclosure are among the changes that would improve the mortgage process for lenders and borrowers alike.
- Congress and the states could enact legislation to protect homeowners from abusive practices and resulting foreclosures. Predatory lenders often target equity-rich older homeowners and strip their equity through deceptive terms and inappropriate multiple refinancings (that is, “flipping”).
- Providers, researchers, and policymakers could explore ways to make home education counseling more effective. Legislators should consider expanding access to HEC for older persons, persons engaged in refinancing, and other “nonfirst purchasers.” One often assumes that after homeowners have gone through the mortgage process, they are more knowledgeable and less vulnerable. However, choices in mortgage products change every day, and even if borrowers have gone through the mortgage process before, they are likely to come across unfamiliar terms and aspects of the process.

### Homebuyer Bill of Rights

- Homebuyers have the right to receive settlement cost information early in the process, allowing them to shop for the mortgage product and settlement services that best meet their needs.
- Homebuyers have the right to have the disclosed costs be as firm as possible, to avoid surprises at settlement.
- Homebuyers have the right to benefit from new products, competition, and technological innovations that could lower settlement costs.
- Homebuyers have the right to simplified disclosure and access to better borrower education.
- Homebuyers have the right to know they are protected through vigorous RESPA enforcement and a level playing field for all industry providers.

Sector Study 2: Accessing Information Through the Tangled Web

Every day, millions of consumers connect to the vast and diverse World Wide Web in search of information to meet their specific needs. The information they seek may be as varied as stock prices, hieroglyphics, or gardening tips, just as whoever provides that information could include the U.S. government, a fourth-grade student at the local elementary school, a Fortune 500 company, or an almond farmer in Eastern Europe. The Web serves as a popular door to the Internet—the fastest-growing information medium of all time—by providing an easy way to access huge amounts of online information, including files of text, images, audio, and video. Its existence creates immeasurable opportunities for consumers. At the same time, the Web contains significant hidden hazards that prevent many users from finding the information they need. Three of these perils are: the notion that because the Web contains so much information, it must include everything that is available; search engines that give prominence to the most commercial, most popular, and best-designed Web pages regardless of their quality; and the existence of inaccurate or incomplete information that is often difficult to distinguish from accurate information.

The Deep Web

One major hazard to using public Web information is the mistaken notion that because the Web contains so much information, Web users must have access to all existing information. In fact, much of the highest quality information is not available publicly.

The World Wide Web contains about 92,017 terabytes of information. To put this in perspective,
consider that one byte provides the amount of memory space necessary to store a single character such as a letter, number, or symbol. A single terabyte, which equals one trillion bytes, is large enough to store all of the words printed on paper from 50,000 trees.\textsuperscript{125} Ten terabytes is roughly equivalent to the entire print collection of the Library of Congress, the world’s largest library.\textsuperscript{126}

Despite the existence of all of this online information, Web users generally do not have access to most of it. In fact, researchers estimate that commonly used search engines only access about 167 terabytes of the more than 92,000 terabytes of information on the Web. This smaller, more popular portion of the Web goes by the term, surface Web or visible Web. Terms for the much larger, usually unreachable portion of the Web include the deep Web, hidden Web, or invisible Web. The deep Web resists search engines for a variety of reasons:\textsuperscript{127}

**Relational Databases**—Many databases have their own specific search tool, which provides the only access to the data. General search engines typically are unable to complete the interface with the database search tool.

**Dynamically Generated Content**—Some Web site developers use a technology known as dynamically generated content HTML, which assembles a Web page only in response to a specific database query. The Web page does not exist either before or after the query, making it very difficult for search engines to index. For example, a Web site that constantly updates its national database of movies, show times, and theater locations can generate a Web page of local information for moviegoers who enter their ZIP code.

**Private Information**—Some Web sites provide information for a fee and require member login to access content. Many other sites don’t charge a fee, but still require registration and member login. Some Web sites exist on an intranet or behind a firewall. Some sites code other Web content to direct search engines to exclude that information from their index.

**New Information**—Search engines only index Web pages with links to other indexed pages or those submitted on behalf of the specific Web site. Typically, search engines take at least several weeks and sometimes much longer to discover newly posted information.

**Old Information**—Many individuals or groups that launch a site deactivate it and remove its content from the Web. Many others move the content of their site from one Web address to another. In fact, the average estimated life span of a Web page is only 100 days. However, several sources, including a few search engines,\textsuperscript{128} are available to help find Web pages as they used to exist. In fact, when they index a Web page, a few search engines take a snapshot, which can serve as a backup in case the original page becomes unavailable.

**Too Much Information**—The largest search engines currently index more than three billion Web pages but miss or purposely exclude many more pages deep within Web sites. For example, search engines may choose to ignore pages formatted using little if any HTML text (the standard programming language of the Web) because content in special file formats, such as high-performance multimedia animations and streaming audio and video, are currently difficult to index, or people search them infrequently.

Much of the deep Web contains high-quality information in databases from government agencies, universities, associations, libraries, and businesses. Each of these databases typically covers more specialized and frequently updated material than a general-purpose search engine. Examples of information stored as part of the deep Web include the following:

- available airline flights and hotel rooms
- basic demographic information
- clinical trials
- dated newspaper articles
- dictionary definitions
- job postings
- laws
• multimedia and graphical files
• out-of-print books
• patents
• scholarly journals
• stock and bond prices
• telephone books

The World Wide Web and Search Engines
According to a survey by the Pew Internet Project, 85 percent of American Internet users have consulted a search engine, while 29 percent rely on one every day, making searches the most popular activity after reading or writing e-mail. Moreover, consumers connect to search engines to find a variety of important information, such as learning about health care options, seeking financial advice, or selecting a vacation destination. Obviously, the use of incorrect or incomplete information could have potentially devastating consequences. More specifically, "[s]earch engine indexing and ranking may have economic, social, political, and scientific effects. For example, indexing and ranking of online stores can substantially effect [sic] economic viability; delayed indexing of scientific research can lead to the duplication of work; and delayed or biased indexing may affect social or political decisions."  

Different Search Engines, Different Results
People frequently use the term "search engine" to describe two different types of tools for searching the Web: spider-based search engines and human-edited or human-powered directories. Spider-based search engines use automated software known as "spiders," "robots," or "crawlers" to inspect and retrieve the full text of pages on the Web. Most spiders collect and index the full text, or part of the full text, of Web pages by starting with a seed collection of Web addresses (URL's), and then following the links embedded in each one to find additional pages that are linked to the first set. No search engine has a complete index of all the pages on the Web. In fact, search engines may exclude certain sites, not find links to others, or encounter still others that do not allow crawlers to index all or part of that site's materials. Once they have collected the text from a page, spiders build search indexes from the words in each of the pages. Note that the web search engine is not searching Web pages when they answer a query. Instead, they are searching their index, which may or may not contain any particular page. Other search engines collect information in a different manner. Human-edited or human-powered directories depend on humans instead of spiders to enhance their database of Web pages. In compiling this manual index, editors or subject experts process submissions of Web sites, update current listings, resolve dead links, and discover new topics to add. An increasing number of search engines offer both spider-based and human-edited results. However, spider technology is essential because the rate at which people and sites create new Web documents greatly exceeds any manual indexing capacity.

The databases of large spider-based search engines are growing rapidly; the largest search engine now covers more than three billion Web addresses. The fast-growing nature of the Web also means that spider-based search engines that crawl the Web with the smartest and most active spiders have an advantage over their competitors. For example, some of the larger search engines now use spiders that can index relatively new types of documents, such as Portable Document Format (PDF) files, that lesser spiders are unable to crawl. Nevertheless, no single search engine covers all of the Web pages available. In fact, research shows that about half of the Web pages in any search engine database exist only in that database. Thus, Web users who use more than one search engine may find useful information that they would not have found had they limited their search to one engine, regardless of which one they used.

Nevertheless, no single search engine covers all of the Web pages available. In fact, research shows that about half of the Web pages in any search engine database exist only in that database.
For search engine companies, keeping their index up to date is the most challenging, resource-intensive, and costly aspect of maintaining a large database of Web pages. In this regard, without some sort of notification, spiders have no way of instantly knowing that a new page has appeared on the Web. Some companies may program their spiders to delay return trips to Web pages that typically do not change very often so that they can concentrate on more changeable, popular, or newer pages. Others may decide to save time and money by having their spiders crawl only the first half of a Web page. No matter what strategies they use, however, with new Web pages coming online every second, and other pages disappearing just as fast, portions of a search engine database become outdated, and search engine users can not find all the relevant or accurate information on a topic that exists. The fact that this is a problem for all search engines, and the extent to which Web page freshness is a problem for any specific search engine, are issues (see "Wrong Information on the Web" on page 98 for more on outdated information) that more Web users need to recognize.

Assuming that a search engine actually has indexed a page that has the information to answer a query, the key to search engine effectiveness is the criteria, or algorithms, that each search engine uses to decide which Web pages in its database are relevant to a user’s query. Using these algorithms, search engines select the listings of Web pages that match the query and rank the identified listings so that the most relevant come first. In an ideal world, Web search tools would retrieve and prioritize the exact same Web pages—and only those Web pages—that each individual searcher would select if he or she were able to review every Web page in the search engine database thoroughly. However, since queries are typically incomplete, words are ambiguous, and relevance is in the eye of the beholder, search engines are unlikely to return perfect results for every search.

Determining Relevance
The challenge then is to find a search engine(s) that comes closest to returning the documents that best fulfill the real information need behind a search query. All Web search engines use essentially the same basic criteria for determining whether a page is relevant to a query or not—how frequently the query term occurs on a particular page, and how prevalent that same term occurs in the entire Web search index. They all also use additional criteria to determine the relevance of a Web page. These may include such measures as where the word appears on a page, how close the query terms are to each other, whether the term is in bold text, or how many pages link to that page. Most search engines, however, do not make clear the relative importance that they attach to these criteria. In fact, search engine companies do not disclose the exact procedures they use to select and rank the Web pages in their database. They guard this information closely to keep it away from Webmasters, who may seek to manipulate their search result rankings, and competitors.

On-Page Criteria
Each search engine uses complex, different ranking procedures and adjusts them frequently in a constant attempt to provide searchers with more pertinent and valuable documents. All search engines consider the content of a Web page, also known as the “on-page” information, to determine whether and to what degree the page is relevant to a searcher’s query. More specifically, search engines assume that the relevance of a Web page increases if it contains more occurrences of the search keywords. They also assume that the position of a search keyword is important: each search engine gives extra weight to Web pages in which search keywords occur near the top of the document and when several or all search keywords appear in a phrase or even close to each other. Some search engines place value on information contained in a “metatag,” an optional area of a Web page, not visible to general users, in which the Web page author can add appropriate
subject terms, highlight keywords from the page or write a one- or two-sentence description of the page. While using keyword frequency and other on-page criteria is a logical approach to returning more relevant listings, no search process using only this approach can provide every searcher with flawlessly relevant and useful results from just a couple of keywords. Too many words in a given language have multiple meanings. As such, the search engine cannot infer the searcher’s desired meaning unless the searcher puts the words into context. Moreover, the voluminous amount of information on the Web encompasses a wide range of pages that vary dramatically in terms of size, type, and quality. Accordingly, search terms appear in many irrelevant or poor-quality Web pages. Another concern about using this retrieval technique is that Web page developers have the ability to manipulate on-page factors as a means to get higher rankings in search engine results and draw more searchers to their Web page. One such tactic, known as spamdexing (as in flooding or spamming a search engine’s index), involves repeated use of certain extraneous keywords—such as the name of a celebrity, a popular product, or fashionable company—on one’s Web page in a manner that is invisible to the Web user but that search engines can read. By using this approach, Web page developers seek to raise their search engine ranking by capitalizing on the popularity or relevancy of these keywords. Search engine companies catch many of the more blatant spamdexers and penalize them by rejecting, removing, or at least lowering their pages’ rankings.

Off-Page Criteria
Most search engines also look beyond the content of a page to determine its overall relevance to a keyword. In this regard, they use “off-page” ranking criteria that developers cannot control by making Web page edits. Probably the most significant of these is link analysis, which weighs the relevancy of a Web page by analyzing the links between it and other pages. The theory is that a link from one Web page to another is the equivalent of a vote for the importance or relevance of the second page by the author of the first page. With this approach, a Web page with
many links to it is more relevant than a page with fewer links. Link analysis also values some links more than others do. A link from a more “important” Web page weighs more heavily. However, in many instances, a link from a Web page that connects to many other pages may be somewhat less valuable than a link from a page with only a few outbound links.\(^{141}\)

A search engine’s use of link analysis may make it more difficult for Web developers to influence their position on a results page. However, this approach to determining Web page relevancy has its limitations as well. First, the number of links to a Web page can be a measure of that page’s quality or popularity, but a page may be popular for reasons other than the importance, relevance, or quality of its content. People add links to Web pages for a variety of reasons, some of which have nothing to do with the quality of the pages.\(^{142}\)

The number of links to a Web page can be a measure of that page’s quality or popularity, but a page may be popular for reasons other than the importance, relevance, or quality of its content.

- **Reciprocal Links**—Exchanging links with other, often similar, Web pages.
- **Link Requirements**—Some people require a link to their Web page in exchange for the use of proprietary material, such as pictures or graphics.
- **Friends and Family**—Many people add links to Web pages their friends and family have developed.
- **Free Page Add-ons**—Some companies provide Web page graphics, icons, and tools, such as hit counters and guestbooks, in exchange for a link to their Web page.

Second, while many important and high-quality Web pages are popular, some others are
not as connected on the Web. For example, link analysis undervalues the merits of newer Web pages, which generally have fewer links initially, even though they may become very popular over time. Moreover, developers of new Web pages may find it difficult to add “high-quality” links to improve their ranking now that at least one of the major search engines identifies, on a crude scale of 0 to 10, the level of importance it assigns a particular page.143 In this regard, Web page developers seeking to maintain or raise their relevancy ranking may not want to link to new pages or other “less important” pages.

Third, while it is more difficult to influence link analysis than to influence other ranking criteria, significant abuse still occurs. “Link farming,” one of the most popular manipulation techniques, refers to the process of exchanging reciprocal links with a Web site (a link farm) for the sole purpose of increasing the number of links to each Web page added to the link farm. Other tactics include purchasing links to Web pages that have higher rankings144 and adding a link in the comment areas of a blog—basically a Web page that functions as an online diary or personal journal—to capitalize on the typically high rankings of well-read blogs.145 The goal of these artificial linking tactics is to boost Web page rankings by accumulating hundreds or even thousands of inbound links. However, all search engines seek and frequently uncover efforts to manipulate link analysis. Most also penalize such abuse by reducing the ranking of the offending Web page or even banishing it altogether.

**Paid Inclusion**

Participating in a “paid inclusion” program is another factor that may improve the position of a Web page on a user’s list of search results. Search engine companies that offer paid inclusion receive money in exchange for a guarantee that they will add specific Web pages, as long as these pages meet certain quality review criteria, to their search engine’s database and regularly return to these pages to record any changes or new information. Unlike “paid placement” programs, which label advertiser-sponsored listings as such and/or appear above or adjacent to the keyword search results, paid inclusions typically are indistinguishable from unpaid listings.

Search engine companies that offer paid inclusion programs receive money in exchange for a guarantee that they will add specific Web pages to their search engine’s database and regularly return to these pages to record any changes or new information.

Most search engine companies emphasize that participation in their paid inclusion program does not ensure a high position in the search rankings.146 However, several search engine experts and a recent investigation by *Business Week* (“based on 30 interviews and analysis of dozens of Internet searches”) suggest that Web operators receive higher search engine rankings after subscribing to a paid inclusion program.147 Search engine companies that use these programs disagree with this suggestion and assert that paid inclusion serves customers’ interest because it improves the relevance of their results. Nevertheless, these companies receive significant revenue from paid inclusion programs. One study predicts that spending on paid inclusion programs will increase, after a decline in 2004, from $167 million in 2003 to $293 million in 2006.

In addition, at least one of the larger paid inclusion programs148 using a pay-per-click pricing structure creates further incentive for a search provider to improve the rankings of its paid inclusion participants. Under this pay-per-click model, larger Web page operators (over 1,000 Web pages) pay the search engine company between 15 cents and $1 each time a Web user clicks on one of their listings.149 Establishing such a pricing structure creates an inherent conflict of interest. Search engine companies make more money when users click on these listings more often, so they have an incentive to give higher rankings to participants than to more relevant listings from nonparticipants.
Quality and Trustworthy Searching?

By not disclosing relevancy criteria, search engines seriously limit the ability of a Web user to assess the quality of its search results. In this regard, the results of every search engine query represent calculated judgments by the search provider about which Web pages in its collection correspond to the query. Each search engine is free to choose which Web pages it recommends and how it chooses to recommend them. Of course, each Web user is also free to choose an alternative search engine. The problem, however, is that without knowing specifically how search engines make their choices, Web users lack sufficient information to understand the different strengths and weaknesses inherent in each search engine.

In addition, some important information about the factors that influence how search engines collect and present their results is available, but much of the searching public does not understand it. The participants in a Consumer WebWatch study selected links from the first page of search results almost 50 percent of the time because they trusted their search engines to present the most relevant results on the first page. Consequently, 41 percent of the listings these participants selected were paid search results.

The findings from this and other studies suggest that consumers are unaware that search engine optimization is a thriving industry, and that many companies spend tens of thousands of dollars to improve search placement, often without changing the substantive content of their Web site. They also suggest that Web users are unaware that search engines penalize Web operators by lowering their Web pages’ relevancy rank or even removing these pages from their database, usually because of something unrelated to any change in the substantive content of the particular Web site. For example, search engines may remove Web pages if they find evidence that Web page developers have used false means to achieve higher search engine rankings.

Search engine companies are increasingly able to frame the way consumers learn about the world as more consumers use the Web as their primary method for accessing information. As such, these companies wield increasingly enormous power. Some consumer advocates contend that search engine companies also have the opportunity and the financial incentive to abuse their power. Further, they argue that the public’s increasing reliance on search engines for all types of information necessitates standards for what constitutes credibility and quality on the Web.

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In general, policymakers have refrained from adopting any rules or regulations for search engines, asserting that the market, unfettered by government regulation, will provide incentive for search engine companies to produce the most objective, least biased search results. In this regard, a 2002 Federal Trade Commission (FTC) letter to several search engine companies urging them to make “clear and conspicuous disclosures” to distinguish sponsored or paid search results from nonpaid results essentially represents the extent of government action to protect search engine users against deceptive or misleading practices.

More than a year after sending its letter, the FTC has expressed satisfaction with the efforts by search engine companies to clearly distinguish paid placement listings on a results page. However, a recent Consumer WebWatch report suggests that many consumers still find paid listings too difficult to recognize. Further, the FTC is less satisfied with paid inclusion programs and, in fact, has expressed concern that these programs might mislead the public about the independence of search listings.
Access to good information empowers people at all levels of society to make rational decisions and to improve the quality of their lives. Conversely, using wrong or incomplete information may have minor or even serious consequences.

Wrong Information on the Web

The Problem

As is the case with any information source, not all of the information on the Web is of good quality. Caveat emptor is the rule. Many of the same attributes that facilitate open and wide access to useful information also encourage dissemination of bad information. For example, the decentralized nature of the Internet promotes access to a diversity of opinions but, in many instances, also allows Web page developers to claim anything they want regardless of their expertise or bias. The dramatic reach of the Internet ensures easy access to helpful information from all over the world, but it also facilitates the rapid and widespread dissemination of poor-quality information.

In general, the reliability, accuracy, and value of the information on the Web vary across the spectrum from very good to very bad. The significance of this variation is huge. Access to good information empowers people at all levels of society to make rational decisions and to improve the quality of their lives. Conversely, using wrong or incomplete information may have minor or even serious consequences.

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For example, a Web page that misidentifies the street address for the location of an upcoming meeting may force the planners to delay or postpone the meeting or cause potential attendees to waste time or money trying to find it. More significantly, a Web page containing misinformation about a health issue may lead some consumers to make bad decisions that could have life-threatening consequences.
The following list, based on a recent article on information quality, identifies five categories of wrong information and includes brief descriptions and examples of ways in which information on the Web can be wrong:154

- inappropriate quality
- deliberately misleading or fraudulent
- biased or nonobjective
- incomplete
- out of date

Inappropriate Quality of Information
This category includes information that is of poor quality for one group of users but not necessarily for others. For example, both a doctoral dissertation and a junior high school textbook might examine the history of the Vietnam War. While the textbook’s treatment of this issue is appropriate for junior high school students, dissertation advisors would express grave concern if a doctoral candidate submitted a similar-quality document as a dissertation.

The wide variety of documents on the Web ensures that many consumers will encounter information that is relevant to the topic of their search but of inappropriate quality. This issue is particularly relevant in light of the growing popularity of Web logs, or blogs for short. Essentially online diaries, blogs often present an individual’s unedited ideas or other information that he or she finds interesting. Web users may turn to a blog as a source of news, as many Californians did when wildfires ravaged portions of the state in October 2003.155 In this regard, blogs provide timely and essential bits of information, update this information more frequently than do more traditional news sites—which require all articles to meet certain standards and editorial requirements—and generally offer a unique perspective on the subject. However, for consumers expecting the level of objectivity associated with a major newspaper, the information in blogs, in many instances, may be inappropriate.

Deliberately Misleading or Fraudulent Information
On the Web, intentional use of false information is a serious problem. Numerous individuals and companies create deliberately deceptive Web sites to disseminate misinformation and/or manipulate others to obtain money or something else of value.

According to the Securities and Exchange Commission (SEC) and the Federal Trade Commission, many fraudsters create intentionally misleading Web sites that appear to be incredible investment opportunities to entice visitors to give them money. Recognizing that this problem is increasing, the two commissions have even created a Web site that promotes a nonexistent company, McWhortle Enterprises, Inc., to alert investors to potential online frauds.156 The site includes several pages of information that replicate the typical language and approach online fraudsters use on their Web sites. After looking at a minimum of two pages on this phony site, visitors may click on a link to learn more about investing in McWhortle Enterprises. Instead, the connection is to a Web page that reveals that the company is a fabrication and provides links to the SEC, FTC, and other sites offering information about online fraud.

While the McWhortle Enterprises site includes many of the fraudulent and illegal tactics con artists use on the Web, some deliberately misleading Web sites do not break the law. One example is the Web site, www.ConsumerProtectionAgency.us.

Before its operator shut down this Web site in 2003, consumers could use it to file a complaint with the Better Business Bureau (BBB) and various government agencies for a fee.157 The site’s official-looking name and its use of images such as the U.S. Capitol dome and the Stars and Stripes gave visitors the impression that its operator was a government agency. In fact, many consumers thought that the Web site would resolve their complaints.158 In reality, the business that operated the site simply sent copies of a consumer’s complaint to the Federal Trade Commission (FTC), the appropriate state’s Attorney General’s office, the BBB, and the National Consumers League.
Each customer paid $4.95 for this service, even though all of these organizations accepted complaints online at no charge and through the mail for the price of a stamp, and the FTC operated a program to share consumer complaints with every state attorney general and law enforcement agencies nationwide.$^159$

Some individuals and organizations purposely present wrong or misleading information on a Web site for reasons other than defrauding consumers out of money. Some are deliberately deceptive in an attempt to be humorous or to entertain. The Onion (www.theonion.com), for example, is a parody newspaper featuring world, national, and community news. Visitors to the farcical site, www.thedogisland.com, read about an island where dogs go to “live the free and natural life.”

Other sites use intricate deception for political purposes. The World Trade Organization (WTO), established in 1995 to succeed the General Agreement on Tariffs and Trade (GATT) as the organization responsible for the global rules of trade between nations, has its Web site at www.wto.org. However, a group protesting the policies of the WTO operates a parody site (www.gatt.org) that very closely resembles the real site. In fact, the protestor’s site has deceived numerous journalists and even those organizing international trade conferences and seminars, who have sent speaking invitations through the fake Web site to the WTO’s director-general. The protestors, known as the Yes Men, have accepted these invitations and proceeded to offer preposterous proposals on behalf of the WTO.$^{160}$

While a professional-looking Web page may be better able to misguide its visitors, some people only need a fake Web address to disguise their true intentions. The World Intellectual Property Organization, the United Nations’ trademark and copyright agency, released a report in 2003 identifying several sites that use popular brand names as part of their Web address in an attempt to redirect customers of various airlines, car rental companies, and hotels to an unaffiliated Web site that advertises travel deals.$^{161}$ Many of these sites, including www.airfranceairlines.com, have already ceased operations, but at least one site (www.us-airways.net) is still on the Web.$^{162}$

**Biased or Nonobjective Information**

Pure objectivity does not exist. All of the information on the Web reflects the point of view of its author and possibly others, no matter how much they try to control their biases. However, some individuals and organizations present information that is intentionally subjective as a means of bolstering their particular point of view. In many instances, a subjective source may offer accurate and useful information and serve to balance sources expressing an alternative point of view. Problems usually arise, however, when Web users do not recognize the biases and subjectivity in such information. In this regard, various Web sites claim objectivity but, in fact, they disguise or conceal biases and thus increase the likelihood of spreading wrong information.

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The Web sites of several antivaccine activists that appear among the first results of a Web search for the word “vaccination” are examples of subjective sources of information that feign objectivity. The first words visitors to Vaccination Debate (http://www.vaccinationdebate.com) notice are a quote from Benjamin Franklin, “When men differ, both sides ought equally be heard by the public, for when truth and error have fair play, the former is always an overmatch for the latter.” Both the quotation and the title of the Web site suggest that its contents include alternative points of view about the benefits and risks of vaccinations. In reality, the site offers no debate, just a monologue on antivaccination topics, such as “Why Vaccines Are Ineffective” and “Health—The Only Immunity.” Similarly, another antivaccination site (http://www.vaccinationnews.com) lacks information about the benefits of vaccination and
Incomplete Information

A Web site may contain accurate and relevant information but still mislead users because of what it does not include. For instance, a cell phone company that uses its Web site to highlight a service plan with a low monthly rate may confuse and mislead consumers if it does not clarify that the particular rate increases significantly after the first six months. Defining complete and explicit information may vary, however, by the purpose of the site and needs of the visitor. In this regard, most consumers shopping at the cell phone company’s Web site do not need to know about the types of phones the company offered in 1997.

The comprehensiveness and accuracy of health-related information on the Web is particularly important. Nevertheless, many health sites lack important information. According to a study by the U.S. Department of Health and Human Services (HHS), for example, numerous Web sites for clinical trials, which use human volunteers to determine whether experimental treatments or new therapies are safe and effective, exclude key information. More specifically, the study examined 110 clinical trial listings from 22 clinical trial Web sites and found that not one included any information about risks to human subjects; 77 failed to identify the sponsor for the clinical trial; 69 did not indicate the phase of the clinical trial; and 56 lacked a general description of the trial. Similarly, a study of 40 Web sites that provide information to help users choose a physician found that many sites did not include all physicians in a coverage area and some only identified a few providers. Further, only one site allowed users to search for physicians who were currently accepting new patients, and a just a third of the sites allowed users to search for doctors who spoke a specific language.

Out of Date Information

In many instances, the value of information on a Web site may depend, in part, on the date when the site posted the information. Consumers who use a particular Web site to check the price of an automobile at a new car dealership may waste...
time and money if the dealer does not update the site as frequently as the dealer changes its prices. Even some of the most respected sources on the Web may contain out-of-date and potentially misleading information. One of the first listings in a search of the word, “Czechoslovakia,” is a page (http://lcweb2.loc.gov/frd/cs/cstoc.html) that the Library of Congress put online as part of its Country Study Series. The series covers 102 countries and regions, but does not include entries for the Czech Republic or Slovakia, the two independent states that came into being in 1993 when Czechoslovakia ceased being a single country. The first page a visitor sees after clicking on the listing from the search result is the table of contents from the Czechoslovakia study. This page offers no indication that the information is out of "of contents, a user may notice a line at the bottom of the page that states, "Data as of August 1987."

Policy Options
The World Wide Web provides access to vast amounts of information on countless topics, and its existence creates immeasurable opportunities for consumers. At the same time, however, the Web also contains significant hazards or obstacles that prevent many users from finding the information they need. Individual searchers should shoulder some of the responsibility for accessing accurate and reliable information. Careless research techniques, unthinking search strategies, lackluster effort, or even poor judgment often prevent Web users from accessing information that satisfies their search objective. On the other hand, much of the public does not have ready access to huge amount of information on the Web. In fact, some of this information is only available through fees, memberships or subscriptions to online information services. Moreover, search engines do not index everything on the Web. In other instances, the barrier to the most relevant and useful information occurs elsewhere. The obstacle may be a search engine that purposely produces biased results or a Web site that contains deliberately misleading information. In this regard, the following policy options would make it easier for Web users to access the right information.

Search Engines
The Federal Trade Commission (FTC) could review the progress made by the search engine companies that received the Commission's warning letter\textsuperscript{165} in 2002 and determine the extent to which these companies clearly distinguish paid search results, whether they appear under paid placement or paid inclusion, from pure search results. In addition, the FTC could urge all search engine companies to incorporate the following guidelines into all of their search and navigation services:

- Search engine Web sites prominently display a comprehensive list of major content sponsors and advertisers and make it easy to access.
- Search engine Web sites prominently display basic explanations of the methods search engines use to determine which Web sites are relevant to a search query, the ranking of Web sites in a results page, and how the sites include paid results in a results page and make them easy to access.
- Search engines reveal their policies on what they crawl and how often, and perhaps offer a process for noting outdated or Error 404 (not found) pages.

Wrong Information
The private sector, foundations, federal and state governments, and others could initiate, fund, publicize, or otherwise support efforts to help consumers better ascertain the credibility of information on the Web. These organizations might consider adopting specific guidelines or best practices to help standardize the reliability of information on the Web. Such activities could include collaboration with any of various independent organizations, such as Consumer WebWatch,\textsuperscript{166} Stanford Web Credibility Project,\textsuperscript{167} and Health on the Net Foundation,\textsuperscript{168} that have already established such guidelines.
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Appendices

Consumer Information
Money Management Tips

Cash-Flow Management

1. I have a financial record-keeping system in place to track income and expenses.

One of the best ways to begin taking control of your financial future is to organize your personal records. Get your financial house in order by locating and organizing all of your financial documents, then creating a filing system for them. Include information on bank and investment accounts, insurance policy numbers, and key legal documents such as your will or stock certificates. Storing the documents in one place will help you keep tabs on your records and make it easier for you—and loved ones—to respond to financial matters in an emergency.

2. I have a household spending plan or budget and use it.

An important way to gain control over your financial future is to develop a household budget. If you have a spending plan, you are more likely to avoid the temptation and pitfalls of living beyond your means. Several online tools can help you create a household budget and track your expenditures—for example, www.dallasfed.org and www.financial-education-cfe.org/mending_spending/spending_plan.asp.

3. I reconcile my checks and ATM withdrawals on a regular basis.

Knowing how much money you have on hand after paying monthly expenses can help you stick to your household budget. Keep your ATM receipts and balance your checkbook each month. Keeping tabs on your monthly and annual cash flows can also help you identify areas where you can save money.

4. I pay my bills on time.

Making a habit of paying bills on time will help you become a more confident and savvy money manager. Just as important, paying bills in a timely manner will help you avoid late fees, negative marks on your credit report, and possible conflicts with credit card companies and credit reporting bureaus. For convenience, you may wish to use a secure Internet bill-paying program through your bank’s Web site.

Credit Management

5. I compare offers from credit card companies before applying for credit.

If you have and use a credit card, make sure the credit card company is not taking you to the cleaners with high interest rates and fees. Some cards offer low introductory interest rates, and some do not have an annual fee. To get the best deal on credit cards, shop around to compare credit card companies’ interest rates and fees. You can go to www.kiplingers.com or www.bankrate.com to find the best credit card deals.

6. I pay more than the monthly minimum on my credit card bill each month.

Taking control of your financial future requires you to manage your credit wisely. While borrowing can help you realize some of your long-term goals, borrowing for day-to-day needs can result in financial troubles. If you pay off your balance each month, congratulations—you are ahead of the game in taking control of your financial future. If, however, you carry a revolving balance on your credit card, you may be setting yourself up for financial troubles and should:

- pay more than the minimum payment,
- set a monthly limit on your credit card charges,
- avoid making spur-of-the-moment purchases, and
- cut your credit card up or simply do not use it.

We cannot overstate the importance of paying more than the minimum payment on your credit card bill. High interest rates and revolving balances can snowball, making it increasingly difficult to make payments and, in some cases, adding thousands of dollars in interest to your credit card balance. If you find that you are having trouble making payments, consider getting help through a reputable, nonprofit credit-counseling organization such as Consumer Credit Counseling Service. Be sure to avoid outfits that promise to “fix” your credit problems—usually for a large fee.
7. I have requested and reviewed a copy of my credit report from at least one credit reporting agency. Having a good credit record is key to navigating in today’s financial marketplace. If you have been denied credit or believe that your credit record is inaccurate, request a copy of your credit report from the three major Consumer Reporting Agencies (CRAs) listed below. As of January 2004, residents in all states are entitled to one free credit report from each agency, each year. Request a report from each agency, as your record may differ from one credit-reporting agency to another. If you discover any mistakes in your credit record or suspect that you may be a victim of identity theft, immediately contact each CRA to rectify the situation.

- Equifax: 800-685-1111
  www.equifax.com
- Experian: 888-397-3742
  www.experian.com
- Trans Union Corporation: 800-888-4213
  www.transunion.com

Savings
8. I have identified immediate and long-term savings goals.
Setting goals is a vital part of gaining control over your finances. Your goals might include buying a house, setting up a college fund for a child, or taking exotic vacations every year. And do not forget the goal that everyone shares: saving for retirement. Try to assign a dollar amount to each goal and a target date for achieving it (for example, paying off a $10,000 car loan in three years). The Federal Reserve Bank's Money Smart program provides a good planning worksheet at www.chicagofed.org/consumerinformation/budgeting_and_saving.cfm.

9. I save money on a regular basis.
Saving money is key to building a secure financial future. Thanks to the power of compounding, you earn interest not only on what you save, but also on the interest those savings generate. The earlier you start to save, the more dramatically your money can grow. With an automatic transfer account, you can systematically save a set amount from each paycheck you bring home. In this way, you are actually paying yourself before spending it on other things. You can get excellent savings tips from the American Savings Educations Council at www.asec.org or from "America Saves" at www.americasaves.org.

10. I have an emergency fund that covers three to six months of my living expenses.
Do you have enough money in case of an emergency? Life is unpredictable—you may break down, you could lose your job, or you could have a medical emergency. Experts suggest that you keep enough money aside to cover basic expenses for three to six months. Place this money in an account from which you can withdraw funds immediately and without penalty.

11. I put my money in low-risk savings products such as savings accounts, money market accounts, or certificates of deposit (CDs).
As one component of your financial plan, consider using low-risk options for saving money such as savings accounts, money market accounts and funds, certificates of deposit (CDs), and savings bonds. The federal government insures most savings accounts in banks up to $100,000. You can often get higher yields from CDs in return for tying your money up for a fixed amount of time. In addition, by holding savings bonds you can get higher returns and avoid paying state and local taxes. Go to www.fool.com/savings/savings.htm for a comprehensive discussion of conservative savings vehicles.

12. I shop for the best interest rates for my savings vehicles.
Compound interest is a powerful tool for building wealth and financial security. Over time, it can make your money grow dramatically. Finding the highest interest rates for your savings can help you achieve your financial goals more quickly. To illustrate this point, consider that a $5,000, five-year term CD at four percent interest will generate a balance of $6,105, versus $6,417 for the same CD at five percent. To compare interest rates on different savings products, go to www.bankrate.com.
Investment

13. I review my annual Personal Earnings and Benefit Estimate Statement (PEBES) from the Social Security Administration.

Each year, around your birthday, the Social Security Administration (SSA) sends you a Personal Earnings and Benefit Estimate Statement (PEBES) estimating how much you will receive in benefits when you retire. This is a good time to review and make any changes to your retirement plan. Remember that Social Security is not intended to meet all your financial needs when you retire. The age to receive the full Social Security benefit is gradually moving up from 65 to 67 by the year 2022, although you are eligible for a reduced benefit beginning at age 62. The most stable part of most people's retirement income, Social Security provides inflation-protected benefits that will continue for as long as you live. For more information, call Social Security at 800-772-1213 or go to www.ssa.gov.

14. I have calculated how much money I will need to retire comfortably.

According to the 2004 Retirement Confidence Survey, half of workers aged 55 and older have not calculated how much money they will need to retire comfortably. Financial experts generally recommend that you will need at least 70 percent of your preretirement income. A number of retirement calculators are available on the Internet. Examples can be found at the CNNMoney Web site, http://money.cnn.com/tools, and at www.choosetosave.org.

15. I am vested in an employer-funded pension plan.

If you are covered under a defined benefit plan, commonly referred to as a pension, your employer guarantees that you will receive a specific amount of money when you retire. The amount of your pension will depend on your wages and years of service. Usually you have to work a minimum number of years before you “vest” or become eligible for a pension. Most pension programs will send you a monthly check, although other options may be available such as a lump-sum payment. Pensions are insured by the federal government. For more information, visit www.dol.gov.

16. I contribute regularly to an employer-sponsored retirement savings plan, such as a 401(k).

Save as much money as you can if your employer offers a defined contribution or 401(k) plan. Many companies match some or all of your contributions to these tax-sheltered savings plans. While there are limits on how much you can contribute, if you are age 50 or over you can make “catch up” contributions of up to $3,000 each year if your company permits this option. With these plans it pays to be a knowledgeable investor, as you will have to choose among the investment options offered by your employer.

17. I save money in a tax-advantaged Individual Retirement Account (IRA).

You can save for retirement by contributing to an Individual Retirement Account (IRA). Currently, only 26 percent of people age 45 and older have an IRA. An IRA is a personal savings plan that allows you to contribute up to $3,000 a year. If you are 50 or over, you can save up to $500 more with a “catch-up” contribution. There are two types of IRAs: the traditional IRA and the Roth IRA. Each has its own rules and tax advantages. Go to www.kiplinger.com/planning/retirement/iras for further information.

18. I put my money in different types of investments to boost returns and reduce risk.

Different investments have different levels of risk. You can reduce risk by spreading your money over a variety of investments. As a result, you minimize the impact that any one investment has on your overall portfolio. For example, while you may have a bond mutual fund that is losing money, you may also have a stock mutual fund and a CD that are making money. Typically, you may want to consider mixing your investments among stocks, bonds, and cash. For a good overview of diversification, go to www.investopedia.com/university/risk.

19. I have a mutual fund.

Mutual funds pool money from many individuals with a specific investment objective and invest the money in a range of stocks or bonds. You benefit not only from automatic diversification, but also
from the expertise of professional money managers. Look for funds that have low fees and do not charge a commission or "load." You can diversify even more by investing in funds with different investment goals. For instance, you can buy funds that invest in large or small companies or government or corporate bonds. Check www.morningstar.com for additional information.

20. I do not dip into my retirement savings to cover other expenses.
Dipping into your retirement savings to pay your bills is not a good idea. Remember: the purpose of your retirement savings is "retirement." Often there are financial penalties for withdrawing money early from a retirement account. If you take money out of your 401(k) or IRA accounts before age 59 1/2, you will pay a 10 percent penalty on top of the taxes you’ll owe. If you decide to take a lump-sum payment for your company pension when you retire, try to avoid diverting the money to pay for current expenses.

Housing
21. I have searched to find the lowest interest rates and fees on a home mortgage.
Searching for the lowest rates and fees on a home mortgage can save you bundles of money. If you shop around, you can often find a good deal. You can reduce costs by considering a shorter-term mortgage or by paying off your loan faster by making additional payments. It generally pays to refinance if you can lower your interest rates by at least two percentage points. For more information on home mortgages, check out www.bankrate.com.

Protecting Assets
22. I have a will.
To protect your family and your assets, it is critical to have a will. A will is a legal document that transfers your property to your beneficiaries when you die. You may also want to consider having a Power of Attorney written, a document that grants authority to a designated other to make decisions on your behalf, should you become ill or unable to make decisions. For additional information on wills and other legal issues, visit www.nolo.com. You can find an attorney who can assist you with drawing up a will through the American College of Trust and Estate Counsel (www.actec.org) or AARP’s Legal Services Network at www.aarp.org/lsn.

23. I have adequate disability insurance.
Persons between the ages of 35 and 65 are at greatest risk of suffering a disability that prevents them from working. If you are working, protect yourself and your family with disability insurance to assure that you have a source of income in the event that you suffer a serious impairment. Check with your employer to see whether you have disability insurance and what benefit the policy provides. You may want to enhance your employer-provided policy with a "gap policy" to ensure that your disability insurance mirrors your normal take-home pay as much as possible. The Web site www.fool.com has good information on disability insurance.

24. I have adequate life insurance.
Purchasing life insurance can be a critical way to protect your family. Life insurance policies are numerous and complex, so be sure to research your policy options and shop around for the policies that best suit your needs. Before buying coverage, become familiar with both “term” and “permanent” life insurance options. If you have dependents, you need coverage equal to between six to ten times your annual income or, as some financial advisors recommend, enough to cover ten years of your family’s living expenses. Most financial experts do not recommend life insurance if you have no dependents. To explore life insurance, go to www.iii.org or www.calcbuilder.com/cgi-bin/calcS/INS1.cgi/cfl.

25. I have adequate health insurance.
Health insurance ensures that you and your family get the medical care you need when you get sick. If you do not have health insurance through your employer, get the best individual health insurance you can afford and compare quotes for various policies. If you are about to lose
your health insurance or plan to change jobs, be sure to find out if you qualify for coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA) or the Health Insurance Portability and Accountability Act (HIPAA). Under COBRA, you can keep your group health insurance coverage for up to 18 months if you lose or quit your job, or have your work hours reduced. For information on COBRA, visit the Web site, http://www.dol.gov/dol/topic/health-plans/cobra.htm. HIPAA lets you switch from one job to another more easily without losing your health coverage due to serious or pre-existing medical conditions. Visit http://www.cms.gov/hipaa/ for additional information on HIPAA. For general information on health insurance, go to www.healthinsuranceinfo.net.

26. I have explored the pros and cons of long-term care insurance.
As you grow older, there is a chance that you’ll need a broad array of support services in your home or other living environment. Medicare does not pay for the bulk of long-term care services, so you may want to explore the pros and cons of purchasing long-term care (LTC) insurance. LTC insurance can be very expensive and complicated, so be sure to shop around for the best information and affordable policies. For more information, visit www.medicare.gov/longtermcare/static/asp.

27. I educate myself about financial issues.
Understanding the basics of financial planning, saving, and investing is critical today. You’ll need to build on Social Security to ensure you have enough money in your later years. Stay current by reading the financial section of your newspaper and financial magazines and by researching the Internet. Where possible, take advantage of financial information your employer provides.
Internet Resources for Consumers: Tip Sheet

66 Ways to Save Money
Covering a wide variety of topics relevant to consumers, including transportation, insurance, banking/credit, housing and utilities, this free illustrated brochure provides 66 easy and practical steps consumers can take to save money and prevent fraud. Taken from Consumer Action.org.

Manage Your Money Wisely:
Tracking Your Money
This free brochure includes money management techniques such as budgeting, checkbook balancing, and cutting back on expenses. It also provides consumer tips on spending less while saving more. Taken from Consumer Action.org.

6 Steps to 6-Figure Savings:
Start Building Your Wealth Today
This free brochure details practical steps toward accumulating financial wealth, including saving money, making money-saving sacrifices such as packing a lunch instead of purchasing fast food ($12/week savings), and paying down high-priced debt. Taken from Consumer Federation of America.
http://www.consumerfed.org/cfaprime.pdf

ConsumerReports.org
A Web site devoted to reports on products in several categories, including cars, electronics, appliances, and more. Reveals the results of independent product testing, and provides product ratings and rankings. Free consumer information is available.
http://www.consumerreports.org/main/home.jsp

Federal Trade Commission Consumer Information Web Page
This page (on the FTC’s Web site) provides access to consumer information through free publications with advice on saving money, identifying superior value, and avoiding scams and rip-offs.
http://www.ftc.gov/ftc/consumer.htm

Federal Citizen Information Center
This online information center provides consumers with purchasing guidelines for houses, cars, computers, and food, among others. The site also provides health and employment news and links to federal and private consumer sites.
http://www.pueblo.gsa.gov

ConsumerWorld.com
This Web site provides information on health, travel, real estate, and shopping. The site lists several useful consumer resources, including directories; booklets and buying information on a number of topics; and a directory of federal, state, and local consumer agencies, companies and their customer service and complaint telephone numbers.
http://www.consumerworld.org/
List of Expenditure Categories

The Consumer Expenditure Survey reports over 500 different categories of spending, most of which are included within fourteen major categories. This report designates food, housing, health care, transportation, and personal insurance and pensions as “key categories” for older consumers. This section provides a summary of the expenditures included within the key categories. Additional subcategories may be viewed at the Consumer Expenditure Survey website: www.bls.gov/cex/csxgloss.htm.

Food
At Home
- Cereals and bakery products
- Meats, poultry, fish and eggs
- Dairy products
- Fruit and vegetables
- Other food at home

Food Away from Home
- Meals at restaurants, carry-outs, other
- Board (including at school)
- Catered affairs
- Food on out-of-town trips
- School lunches
- Meals as pay

Housing
Shelter
- Owned dwellings
  - Mortgage interest and charges
  - Property taxes
  - Maintenance, repairs, insurance, and other expenses
- Rented dwellings
  - Rent
  - Rent as pay
  - Maintenance, repairs, and insurance
  - Other lodging

Utilities, Fuels, and Public Services
- Natural gas
- Electricity
- Fuel oil and other fuels
- Telephone
- Water and other public services

Household Operations
Household Furnishing and Equipment

Health Care
Health Insurance
- Commercial health insurance
- Blue Cross/Blue Shield
- Health maintenance plans (HMOs)
- Medicare payments
- Commercial Medicare supplements/other health insurance

Medical Services
- Physician's services
- Dental services
- Eye care services
- Nursing, therapy, other non-physician medical services
- Lab tests, x-rays
- Hospital room
- Hospital services other than room
- Care in convalescent or nursing home
- Other medical services

Drugs
- Non-prescription drugs
- Prescription drugs

Medical Supplies
- Eyeglasses and contact lenses
- Topicals and dressings
- Medical equipment for general use
- Supportive/convalescent medical equipment

Transportation
Vehicle Purchases (Net Outlay)
- Cars and trucks, new
- Cars and trucks, used
- Motorcycles

Gasoline and Motor Oil
Other Vehicle Expenses
- Vehicle finance charges
- Motorcycles and other vehicles
- Maintenance and repairs
- Vehicle insurance
- Vehicle leasing, renting, licensing, and other charges

Public Transportation

Personal Insurance and Pensions
Life and Other Personal Insurances Except Health

Retirement, Pensions, Social Security
- Deductions for government retirement
- Deductions for railroad retirement
- Deductions for private pensions
- Non-payroll deposit to retirement plans
- Deductions for Social Security
Endnotes


2 Published tables were the source of data used in this analysis whenever possible. However, in many instances, the analysis could only be done using data from the interview survey alone. As a result, totals may not match those in published tables.

3 Since public access to the complete set of data files for the interview survey was not available before 1990, the analysis of expenditures by income, race, and single consumer units included in this report extends from 1990 to 2001 and relies on data from the earliest survey wherever possible. Similarly, the CEX only began collecting expenditure data by ethnicity in 1994. Therefore, the analysis of expenditures by the ethnicity of older consumer units extends from 1994 to 2001.

4 Compatibility with BLS published tables also facilitated data analysis.

5 The BLS defines consumer units as: 1) members of a household who are related by blood, marriage, adoption, or other legal arrangements; 2) a person living alone or sharing a household with others or living as a roomer in a private home or lodging house or in permanent living quarters in a hotel or motel, but who is financially independent; or 3) two or more persons living together who pool their income to make joint expenditure decisions. The BLS defines financial independence in terms of the three major expenses categories: housing, food, and other living expenses. A respondent is considered to be financially independent if he or she provides at least two of the three major expense categories.

6 “Other” includes the following categories: alcoholic beverages, apparel and services, entertainment, personal care and products, reading, education, tobacco products and smoking supplies, miscellaneous cash contributions, and personal taxes. To avoid any confusion, this report uses the same titles as the BLS when reporting expenditures. In all, the CEX reports over 500 different categories of spending, although most are included in the 14 major categories and related subcategories in the BLS-published tables. For a full list of universal classification code (UCCs) titles see http://www.sc.edu/ardc/icpsr/pdf/cbs3396.pdf.


8 By definition, nonearners do not have wages and salaries; consequently, they relied on Social Security and pensions for 82 percent of their total annual income in 2001.


10 Ibid.; see Maynes for a concise summary of empirical research on ”informationally imperfect consumer markets” and weak price quality correlation.


12 Brobeck, 1997, p. 158.


14 Mishel, L., Bernstein, J., Bernstein, J., and Boushey, H. The State of Working America


26 To address the questions of interest, the Federal Reserve Board commissioned additional questions regarding a household’s financial knowledge, experience, behaviors, learning experiences, and learning preferences on the monthly Surveys of Consumers conducted by the University of Michigan.


29 Ibid; price discrimination occurs when a single seller charges different prices to different customers for the same product.


32 Ibid.
33 Ibid.
34 Individuals can also save pretax income in retirement savings accounts such as IRAs and 401(k) plans. One may withdraw funds in retirement savings accounts under limited circumstances before retirement (for example, home purchase and higher education expenses), and these funds may be subject to early withdrawal penalties.
37 A cognitive/emotional disability constitutes a physical, mental, or emotional condition that increases the difficulty of learning, remembering, or concentrating; limited physical mobility refers to any condition that substantially limits one or more basic physical activities, such as walking, climbing stairs, reaching, lifting, or carrying; a visual/hearing disability refers to blindness, deafness, or a severe vision or hearing impairment.
40 Families in low-income rural communities who lack access to supermarket chains pay 17.5 percent more, and inner-city families pay up to 22 percent more than the U.S. Department of Agriculture-recommended budget for basic food items; see The Annie E. Casey Foundation. “The High Cost of Being Poor,” 2003.
48 AARP/Harris Interactive Survey of Persons 50 and Older with Disabilities, September 2002.
52 To address the topics of interest, the Federal Reserve Board commissioned additional questions on the monthly Surveys of Consumers regarding a household’s financial knowledge, experience, behaviors, learning experiences, and learning preferences. The questionnaire was administered in November and December 2001 using the University of Michigan’s 2001 Surveys of Consumers; see Hilgert, M. A., Hogarth, J. M., and Beverly, S. G.
“Household Financial Management: The Connection between Knowledge and Behavior.” *Federal Reserve Bulletin.* (July 2003): 309 to 322. The quiz administered as part of the Surveys of Consumers follows:

<table>
<thead>
<tr>
<th>Question</th>
<th>Correct Answer</th>
<th>Percentage of Respondents Answering Correctly</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors are required to tell you the APR that you will pay when you get a loan</td>
<td>True</td>
<td>92</td>
</tr>
<tr>
<td>If you expect to carry a balance on your credit card, the APR is the most important thing to look at when comparing credit card offers.</td>
<td>True</td>
<td>84</td>
</tr>
<tr>
<td>Your credit report includes employment data, your payment history, any inquiries made by creditors, and any public record information.</td>
<td>True</td>
<td>81</td>
</tr>
<tr>
<td>The finance charge on your credit card statement is what you pay to use credit.</td>
<td>True</td>
<td>69</td>
</tr>
<tr>
<td>Using extra money in a bank savings account to pay off high interest rate credit card debt is a good idea.</td>
<td>True</td>
<td>68</td>
</tr>
<tr>
<td>Your credit rating is not affected by how much you charge on your credit cards.</td>
<td>False</td>
<td>60</td>
</tr>
<tr>
<td>If your credit card is stolen or someone uses it before you report it missing, you are only responsible for $50, no matter how much they charge on it.</td>
<td>True</td>
<td>50</td>
</tr>
<tr>
<td>If you have any negative information on your credit report, a credit repair agency can help you remove that information.</td>
<td>False</td>
<td>30</td>
</tr>
<tr>
<td>If you are behind on debt payments and go to a credit counseling service, they can get the federal government to apply your income tax refund to pay off your debts.</td>
<td>False</td>
<td>22</td>
</tr>
<tr>
<td><strong>Saving</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>You should have an emergency fund that covers two to six months of your expenses.</td>
<td>True</td>
<td>94</td>
</tr>
<tr>
<td>If you have a savings account at a bank, you may have to pay taxes on the interest you earn.</td>
<td>True</td>
<td>86</td>
</tr>
<tr>
<td>If you buy certificates of deposit, savings bonds, or Treasury bills, you can earn higher returns than on a savings account, with little or no added risk.</td>
<td>True</td>
<td>74</td>
</tr>
<tr>
<td>With compound interest, you earn interest on your interest, as well as on your principal.</td>
<td>True</td>
<td>72</td>
</tr>
<tr>
<td>Whole life insurance has a savings feature while term life insurance does not.</td>
<td>True</td>
<td>60</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The earlier you start saving for retirement, the more money you will have because the effects of compounding interest increase over time.</td>
<td>True</td>
<td>92</td>
</tr>
<tr>
<td>A stock mutual fund combines the money of many investors to buy a variety of stocks.</td>
<td>True</td>
<td>75</td>
</tr>
<tr>
<td>Employers are responsible for providing the majority of funds that you will need for retirement.</td>
<td>False</td>
<td>72</td>
</tr>
<tr>
<td>Over the long term, stocks have the highest rate of return on money invested.</td>
<td>True</td>
<td>56</td>
</tr>
<tr>
<td>Mutual funds pay a guaranteed rate of return.</td>
<td>False</td>
<td>52</td>
</tr>
<tr>
<td>All investment products bought at your bank are covered by FDIC insurance.</td>
<td>False</td>
<td>33</td>
</tr>
<tr>
<td><strong>Mortgages</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>When you use your home as collateral for a loan, there is no chance of losing your home.</td>
<td>False</td>
<td>91</td>
</tr>
<tr>
<td>You could save thousands of dollars in interest costs by choosing a 15-year rather than a 30-year mortgage.</td>
<td>True</td>
<td>84</td>
</tr>
<tr>
<td>If the interest rate on an adjustable-rate mortgage loan goes up, your monthly mortgage payments will also go up.</td>
<td>True</td>
<td>77</td>
</tr>
<tr>
<td>Repeatedly refinancing your home mortgage over a short period of time results in added fees and points that further increase your debt.</td>
<td>True</td>
<td>72</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Making payments late on your bills can make it more difficult to take out a loan.</td>
<td>True</td>
<td>94</td>
</tr>
<tr>
<td>Your bank will usually call to warn you if you write a check that would overdraft your account.</td>
<td>False</td>
<td>62</td>
</tr>
<tr>
<td>The cash value of a life insurance policy is the amount available if you surrender your life insurance policy while you’re still alive.</td>
<td>True</td>
<td>56</td>
</tr>
<tr>
<td>After signing a contract to buy a new car, you have three days to change your mind.</td>
<td>False</td>
<td>18</td>
</tr>
</tbody>
</table>
53 Other includes Asian, Pacific Islander, and native Hawaiian; Native American; and Eskimo and Aleut.


61 2001 CEX Interview Survey; numbers may not match published tables.


66 In 2001, the proportion of total expenditures for property taxes was 3.2 percent for the 45 to 54 age group, 3.5 percent for the 55 to 64 age group, 4.7 percent for the 65 to 74 age group, and five percent for homeowners age 75 and older.


69 Public transportation includes airline fares, intracity mass transit fares, taxi fares, local transportation trips, intercity trains, bus and taxi fares, ship fares, and private school bus fares.

70 Personal insurance comprises all insurance other than health insurance.


72 Social Security Administration, 2002.

73 Includes computer hardware, software, and accessories.

74 1990 Consumer Expenditure Survey and 2001 Consumer Expenditure Survey.
Forty-two percent of the 50+ population vs. 72 percent of the 25 to 49 population are computer users. The 55+ age group shows a 15 percent growth rate in computer use between 1997 and 2001, compared with a 12 percent rate of growth for the 18 to 49 age group (U.S. Census Bureau. *Statistical Abstract of the United States*, 2002).

Rate of computer use among 50+ consumers grew from 11.2 to 37.1 percent between 1997 and 2001 (U.S. Department of Commerce Economics and Statistics Administration. *A Nation Online: How Americans are Expanding Their Use of the Internet*, 2002; National Telecommunications and Information Administration, September 2002 to October 2003).

Demographic Profile: Older Adults Online, Jupitermedia Corporation, 2002.

Ibid.

See Demographic Profile: Older Adults Online. Jupitermedia Corporation, 2002.


Demographic Profile: Older Adults Online. Jupitermedia Corporation, 2002.

Ibid.


See, for example, Creating Senior-Friendly Web Sites, Center for Media Education 1 (4) (2000); Universal Usability Web Design Guidelines for the Elderly (Age 65 and Older). University of Maryland Department of Computer Science, 2001.


Other sections of this report address existing concerns such as disparate homeownership rates for minority communities.

See http://www.centerltc.org/bullets/current/470.htm. Over 80 percent of seniors own their homes rather than rent. Of the 17,513,000 owner-occupied elderly households in the U.S., 73 percent or 12,792,000 are owned free and clear, that is, they are not mortgaged. Mean home value of householders age 65 or older is $113,071. Multiplying 12.8 million free and clear homes of the elderly by the mean value of $113,071 amounts to $1.45 trillion. In addition, 3,838,000 elderly homeowners have one or more mortgages, the median outstanding principal of which is $34,147. Assuming the value of the mortgaged homes is the same as the homes with no mortgage, and that the median principal amount approximates the mean, then the average equity in these mortgaged properties is $113,071 minus the remaining loan balance of $34,147 or $78,924. Multiplying the equity in mortgaged homes owned by the elderly by the total such homes (3.8 million) amounts to an additional $302.9 billion in home equity held by elderly households. Adding the $1.45 trillion in unmortgaged home equity of seniors to the $.30 trillion of equity in mortgaged homes gives a total of $1.75 trillion.


volume of paper. In fact, for fixed-rate, nonpurchase money loans, only about eight pages are attributable to federal law: Truth-In-Lending disclosure (one page); Notice of Right to Cancel (two copies, one page each); HUD-1 Settlement Statement (two pages); Transfer of Loan Servicing Statement (one page); Private Mortgage Insurance Statement, if applicable (one page); and Escrow Statement (one page). The lender requires the bulk of the documents (states may also have requirements).


99 See, for example, National Training and Information Center. Citigroup: Reinventing Redlining, June 2002.


109 Ibid.

110 HUD is proposing this rule in accordance with 5 U. S. C. 552, Sections 19 and 8(c)(5) of the Real Estate Settlement Procedures Act of 1974 (12 U. S. C. 2617). In 1974, Congress enacted the Real Estate Settlement Procedures Act (Pub. L. 93 to 533, 88 Stat. 1724, 12 U. S. C. 2601 et seq.) after finding that “significant reforms in the real estate settlement process are needed to ensure that borrowers throughout the nation are provided with greater and more timely information on the nature and costs of the settlement process and are protected from the unnecessarily high settlement charges that have developed in some areas of the country.”

111 Apgar notes that, at best, this implies that potential borrowers lack the information they need to shop for the best mortgage product available in the market. At worst, it implies that some brokers may actively seek to identify individuals who lack the experience to correctly evaluate the terms (including price) being offered (The Changing Industrial Organization of Housing Finance and the Changing Role of Community-Based Organizations. Harvard’s Joint Center on Housing, 2003).
Beyond 50.04: A Report to the Nation on Consumers in the Marketplace


114 The federal Fair and Accurate Credit Transactions Act of 2003 (FACT), signed into law December 4, 2003, made significant changes and additions to the federal Fair Credit Reporting Act (FCRA). The 2003 Act provides for free annual credit reports, increases the standard for accuracy of information furnished to credit reporting agencies, strengthens adverse action notices, and creates a right to a credit score from a credit reporting agency for a reasonable fee. FACT also requires a lender or broker who is considering a home loan application to provide a credit score free of charge and adds certain rights for identity theft victims and measures intended to prevent identity theft, including a duty on creditors to take certain steps before granting credit when a fraud alert is contained in a credit file or accompanies a credit score.

115 U.S. Senate Committee on Banking, Housing, and Urban Affairs hearing, July 26, 2001.


117 Center for Community Change, May 2002.

118 Including the Truth-In-Lending Act, Real Estate Settlement and Procedures Act, and Home Ownership Equity Protection Act.


120 See *Federal Register*, op. cit., for proposed rules.


122 Although one uses “Internet” and “World Wide Web” interchangeably, the two terms are not synonymous. The Internet is a vast network of networks that connects computers all over the world. Information is disseminated over the Internet through different protocols such as the Web, e-mail, and instant messaging.

123 These are just some of the obstacles to information-seeking on the Web. For example, Beau Brendler, Director of Consumer WebWatch identifies a variety of other concerns, including the following: 1) the blending of editorial and advertising content on the Web sites of some of the world's most trusted offline publishers; 2) the dramatic increase of fraud across all facets of Internet communications; and 3) the continued deterioration of perceived credibility in the minds of consumers and users of the Web and the Internet as a result of the many articles in the popular press warning of schemes, scams, identity theft, false information, propaganda, etc. In other words, many Internet sites that strive to uphold the standards of professional and responsible publishing and commerce are tarred by the brush of bad actors.” (Brendler, Beau. E-mail to Christopher Baker, AARP Public Policy Institute. April 7, 2004).


125 Ibid.

126 Ibid.

For example, see www.archive.org.


Most search engines also permit Web sites to submit their Web address to announce their existence.


151 Ibid.


156 See http://www.mcwhortle.com/.


158 New York State Consumer Protection Board. “Oops! He Did It Again! Queens Businessman Charging $10 for Free IRS Service.” Press release, June 17, 2003, http://www.consumer.state.ny.us/pressreleases/2003/June172003.htm. The same operator of www.consumerprotectionagency.us currently manages another Web site that charges a fee for a service the federal government offers at no charge. This more recent Web site (www.federalnumber.com) provides visitors with the opportunity to obtain a federal employer identification number (EIN) for $10. According to the press release, customers of the Web site do not actually receive an EIN (the number that employers use to report employee payroll deductions to the Internal Revenue Service). Instead, they receive a toll-free telephone number operated by the IRS that makes EINs available to the public.


162 As of January 8, 2004.


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- Kimberly Washborne, Springfield, VA
- Agrodolce Restaurant, Germantown, MD
- Best Buy (Store 293), Rockville, MD
- Mama Lucia’s Restaurant, College Park, MD
- TableTop, Washington, DC
- Watkins Mill Exxon, Montgomery Village, MD

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