A REPORT TO THE NATION
on Consumers in the Marketplace

2004

beyond 50.04

AARP BEYOND FIFTY

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We also want to thank other AARP staff who reviewed sections of the draft report and provided useful comments and critical support including, from the Public Policy Institute, Laurel Beedon, Craig Caplan, Elizabeth Clemmer, Carlos Figuereido, Andrew Kochera, Susan Raetzman, Audrey Straight, and, from State Affairs, Coralette Hannon and Susan Weinstock. Thanks also to Jack Agnew of AARP Massachusetts for his review of the draft and helpful suggestions. Finally, this report was prepared under the general direction of John Killpack, Michael Murray, John Rother, and Theresa Varner of AARP.

AARP selected a group of experts with diverse perspectives to review the draft report. The authors, however, bear responsibility for its final content. We express gratitude to the following individuals who generously offered their time and expertise: Steven Brobeck, Consumer Federation of America; Malcolm Bush, Woodstock Institute; Robert Mayer, University of Utah; Jeanne Hogarth and Marianne Hilgert of the Federal Reserve Board; Steve Henderson, Abby Duly, and Geoffrey Paulin of the Bureau of Labor Statistics; Beau Brendler, Consumer WebWatch; and Susan Feldman, IDC. Their thoughtful comments and expertise were invaluable.

Finally, special thanks to Jean Bernard for applying her excellent copy editing skills throughout the process of drafting this report.

AARP extends its gratitude to the many individuals whose photos appear in this publication as well as the following businesses and families, which graciously allowed their facilities and homes to be photographed:

- Dara and Dave Adams, Montgomery Village, MD
- Bernard and Terese Cabana, Montgomery Village, MD
- Tom Gamertsfelder, Springfield, VA
- 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

AARP is a nonprofit, nonpartisan membership organization dedicated to making life better for people 50 and over. We provide information and resources; engage in legislative, regulatory, and legal advocacy; assist members in serving their communities; and offer a wide range of unique benefits, special products, and services for our members. These include AARP The Magazine, published bimonthly; AARP Bulletin, our monthly newspaper; Segunda Juventud, our quarterly newspaper in Spanish; NRTA Live and Learn, our quarterly newsletter for National Retired Teachers Association members; and our Web site, www.aarp.org. We have staffed offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.
# 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.
- 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 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.