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.

“For the last two decades, American workers have been clocking more and more hours on the job, and they now work more hours than workers in any other industrialized country.”
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. 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 compare 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.
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.
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.20 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.21 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.22
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

<table>
<thead>
<tr>
<th>TABLE 1: Many Americans Are Unfamiliar with the Home-Buying Process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Correct Answer</strong></td>
</tr>
<tr>
<td>Percent with Correct Answer</td>
</tr>
<tr>
<td>You need to pay 20 percent of the cost upfront.</td>
</tr>
<tr>
<td>Housing lenders are required by law to give you the best possible rates on loans.</td>
</tr>
<tr>
<td>Neighborhood mortgage brokers will give you a better deal than large banks and housing lenders.</td>
</tr>
<tr>
<td>You need to have a perfect credit rating to qualify for a mortgage.</td>
</tr>
<tr>
<td>You need to have stayed in the same job for at least five years to qualify for a mortgage.</td>
</tr>
<tr>
<td>Most mortgage interest payments are deductible from your income taxes.</td>
</tr>
</tbody>
</table>

Source: 2002 Fannie Mae National Housing Survey.
“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

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).
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

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*](chart)

**Table 2: Savings Accumulated after 10 Years of Contributions**

<table>
<thead>
<tr>
<th>Savings goal (annual):</th>
<th>$365</th>
<th>$1,000</th>
<th>$3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total savings after 10 years of contributions, at a 3% real interest rate*</td>
<td>$4,310</td>
<td>$11,808</td>
<td>$35,423</td>
</tr>
<tr>
<td>Total savings after 10 years of contributions, at a 6% real interest rate*</td>
<td>$5,100</td>
<td>$13,972</td>
<td>$41,915</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.
Five Fundamentals of Managing Personal Credit

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**

<table>
<thead>
<tr>
<th>Cognitive/Emotional</th>
<th>Limited Physical Mobility</th>
<th>Vision/Hearing</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td>68%</td>
<td>21%</td>
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</tbody>
</table>

Note: N = 1,102.

**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’s 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.

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.

**FIGURE 19: Persons Age 65 and Older Are More Likely to be “Lost” Money Managers Than the Total Population**

Source: Surveys of Consumers; analysis by AARP Public Policy Institute, 2004.
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 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></th>
<th>Very Good</th>
<th>Good</th>
<th>Bad</th>
<th>Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Course</td>
<td>56</td>
<td>55</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>Seminars</td>
<td>38</td>
<td>45</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>45</td>
<td></td>
<td>38</td>
<td>23</td>
</tr>
<tr>
<td>Video</td>
<td>52</td>
<td>59</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>Brochures</td>
<td>50</td>
<td>61</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>Media</td>
<td>54</td>
<td>64</td>
<td>73</td>
<td>84</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>50+</th>
<th>65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lost</td>
<td>15.8</td>
<td>14.8</td>
</tr>
<tr>
<td>Bad</td>
<td>19.0</td>
<td>18.3</td>
</tr>
<tr>
<td>Good</td>
<td>17.6</td>
<td>17.3</td>
</tr>
<tr>
<td>Very Good</td>
<td>21.5</td>
<td>20.4</td>
</tr>
<tr>
<td>Total</td>
<td>18.3</td>
<td>16.8</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 homeowners 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

**FIGURE 25: “Very Good” Money Managers Age 50 and Older Were Twice as Likely as “Lost” Money Managers to Report Being Better Off Now Financially Than They Were One Year Ago**

![Bar chart showing financial status of money managers](source: Surveys of Consumers; analysis by AARP Public Policy Institute, 2004.)
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
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.
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 or 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” money managers age 65 and older more often reported these sources to be effective.
- “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.
Implications for Today’s and Tomorrow’s Financial Managers

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.
Risk of Bankruptcy and Foreclosure

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).

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
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>
<td>464,647</td>
<td>11%</td>
</tr>
<tr>
<td>35-44</td>
<td>348,115</td>
<td>602,254</td>
<td>73%</td>
</tr>
<tr>
<td>45-54</td>
<td>179,745</td>
<td>414,608</td>
<td>131%</td>
</tr>
<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>
</tr>
</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>I put my money in different types of investments to boost returns and reduce risk.</td>
<td>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td>I have a mutual fund.</td>
<td>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td>I don’t dip into my retirement savings to cover other expenses.</td>
<td>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td>I have searched to find the lowest interest rates and fees on a home mortgage.</td>
<td>True</td>
<td>False</td>
<td>Not applicable / I do not own a home.</td>
</tr>
<tr>
<td>I have a will.</td>
<td>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td>I have adequate disability insurance.</td>
<td>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td>I have adequate life insurance.</td>
<td>True</td>
<td>False</td>
<td>Not applicable / I do not have dependents.</td>
</tr>
<tr>
<td>I have adequate health insurance.</td>
<td>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td>I have explored the pros and cons of long-term care insurance.</td>
<td>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td>I educate myself about financial issues.</td>
<td>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td><strong>BONUS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I pay my credit card balances off in full each month.</td>
<td>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td><strong>BONUS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td><strong>BONUS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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>True</td>
<td>False</td>
<td></td>
</tr>
<tr>
<td><strong>BONUS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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>True</td>
<td>False</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.