FINRA Investor Education FOUNDATION

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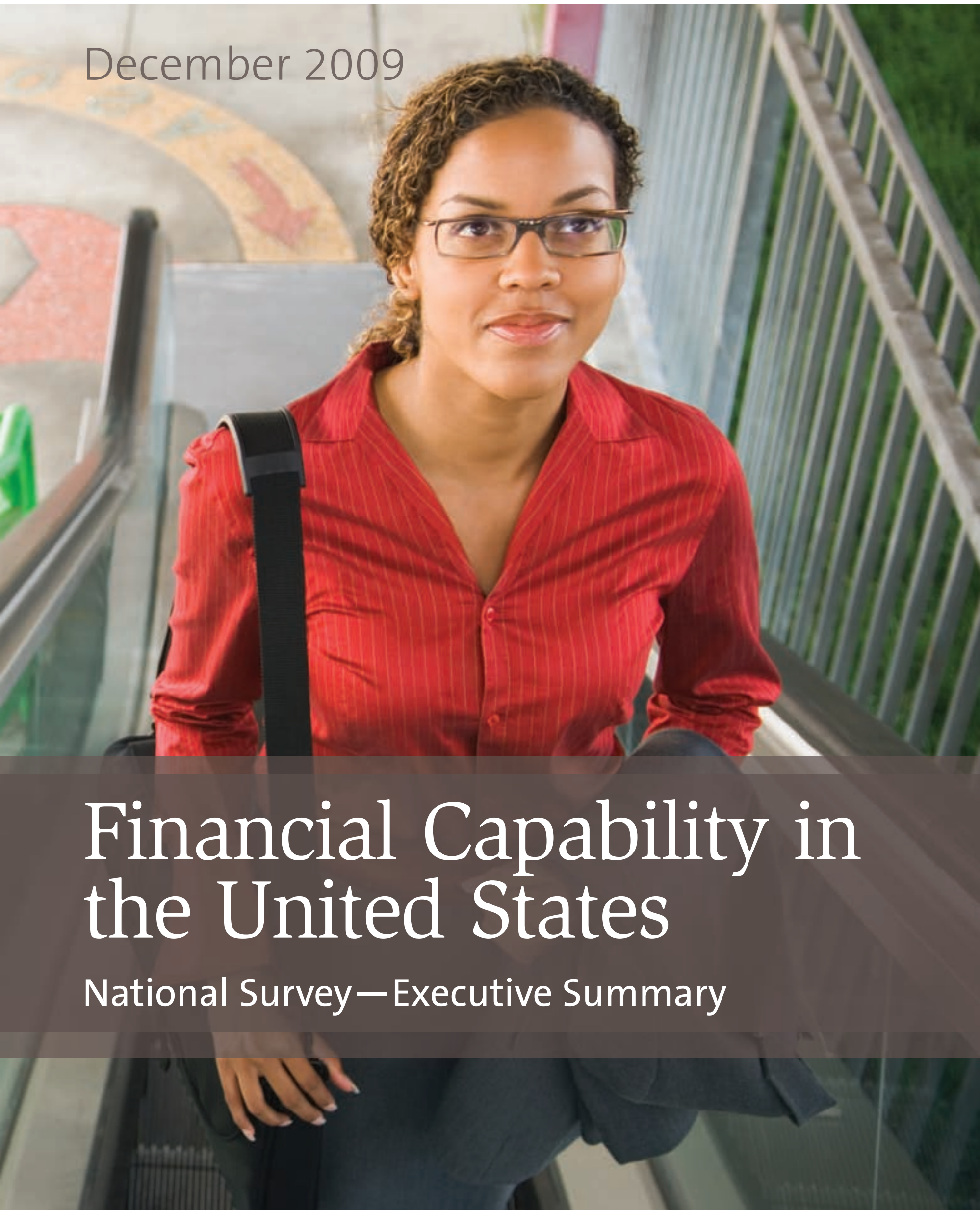

Financial Capability in the United States

National Survey—Executive Summary

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Report on the National Survey Component of the National Financial Capability Study—Executive Summary

With this Study, we have sound empirical evidence regarding which families are most vulnerable and where action is needed most.

The Department of the Treasury is pleased to have consulted with the FINRA Investor Education Foundation which commissioned the first comprehensive national study of the financial capability of adults in the United States. This National Financial Capability Study represents a significant milestone in benchmarking American financial literacy and an opportunity to measure progress in the future.

An individual's financial literacy and access to basic financial services affects household financial stability and may have long-term effects on financial well-being. With this Study, we have sound empirical evidence regarding which families are most vulnerable and where action is needed most. This report contains detailed information about the financial knowledge, attitudes and behavior of Americans today. It details how Americans are trying to get by in the current economic environment, and the areas where they are in need of better information, better financial products, and better financial skills in order to prepare for the years ahead.

We will continue to work with the FINRA Investor Education Foundation and others to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management.

Michael S. Barr, Assistant Secretary for Financial Institutions, U.S. Department of the Treasury

The FINRA Investor Education Foundation is proud to support the National Financial Capability Study, the first of its kind conducted in the United States. This important initiative gives us the chance to better understand specific financial behaviors that affect the finances of Americans nationwide.

The results of the National Survey, the first of three linked surveys to be released as part of the Study, give us rich and complex data on how Americans save, borrow and plan for their financial future that can help us find ways to improve and focus financial literacy efforts across the nation. When put alongside the economic difficulties many families in the United States are currently facing, the results highlight how important it is to give people the information and resources they need to make sound financial decisions.

At the FINRA Foundation, we strive to do just that. As the largest foundation in the United States dedicated to investor education, our mission is to provide Americans with the knowledge, skills and tools necessary for financial success throughout life. Our goal is to reach more and more people each year, educate them on their own terms and teach them how to protect themselves in a financial world that is complex and dynamic.

The findings of this survey underscore the need for us to continue building on our Foundation's efforts to help underserved Americans manage their money with confidence.

It is our hope that in the years to come, we will be able to use the information presented here as a benchmark to measure the progress Americans have made in improving their financial futures.

When put alongside the economic difficulties many families in the United States are currently facing, the results highlight how important it is to give people the information and resources they need to make sound financial decisions.

Richard G. Ketchum, Chairman of the FINRA Investor Education Foundation

Introduction

Over the past several decades, the financial landscape in the United States has changed significantly on several fronts. With respect to retirement, the shift from defined benefit (pension) plans to defined contribution (401(k)-type) plans has transferred the burden of providing an income stream in retirement from employers to individuals. Not only must individuals take greater charge of their financial well-being once they retire, but they must also forecast future financial needs, navigate increasingly complex financial markets and manage risk, both during and after their working years. At the same time, financial products, including mortgages and products used for saving and investing, have become more numerous and more complicated, requiring individuals to make choices on an array of options. In addition, the price tag for many components of the American dream—including purchasing a home or funding a child's college education—has risen since the 1980s and 1990s. Especially with respect to college tuition costs, that trend promises to continue.

Against this backdrop, the consequences of not having the necessary skills to make sound financial decisions become ever more severe. This is particularly true in times of economic instability, when resources may be more limited and negative financial events, such as the loss of a job or a sharp decline in income, more frequent. Not only has managing day-to-day finances become more difficult for many Americans, but there are also greater risks in getting it wrong.

The National Survey is one of three linked surveys that collectively constitute the National Financial Capability Study. (In early 2010, results from the remaining two components, a State-by-State Survey and the Military Survey, will be released.) This project aims to assess and establish a baseline measure of the financial capability of U.S. adults. Financial capability cannot be measured simply by looking at one indicator, such as demonstrated knowledge of specific terms or concepts. Instead, financial capability encompasses multiple aspects of behavior relating to how individuals manage their resources and how they make financial decisions (including the factors they consider and the skill sets they use). It is a multi-dimensional concept that requires looking at individual behavior from various angles.

Nearly half of survey respondents reported facing difficulties in covering monthly expenses and paying bills.

This report distills the rich and complex data resulting from the National Survey, a nation-wide telephone survey of nearly 1,500 American adults, focusing on the following four key components of financial capability:

1. **Making Ends Meet.** Nearly half of survey respondents reported facing difficulties in covering monthly expenses and paying bills.
2. **Planning Ahead.** The majority of Americans do not have "rainy day" funds set aside for unanticipated financial emergencies and similarly do not plan for predictable life events, such as their children's college education or their own retirement.
3. **Managing Financial Products.** More than one in five Americans reported engaging in non-bank, alternative borrowing methods (such as payday loans, advances on tax refunds or pawn shops). And few appear to be knowledgeable about the financial products they own.
4. **Financial Knowledge and Decision-Making.** While many American adults believed they were adept at dealing with day-to-day financial matters, they nevertheless engaged in financial behaviors that generated expenses and fees and exhibited a marked inability to do basic interest calculations and other math-oriented tasks. In addition, few compared the terms of financial products or shopped around before making financial decisions.

In general, measures of financial capability are much lower among adults with no post-secondary educational experience and those with household incomes below $25,000 per year, indicating that those populations are most vulnerable. Hispanics and African-Americans, who are disproportionately represented in these education and income segments, also face higher levels of exposure. When available, data from the larger State-by-State Survey will allow for a more in-depth analysis of the statistical relationships between ethnicity, income, education and financial capability.

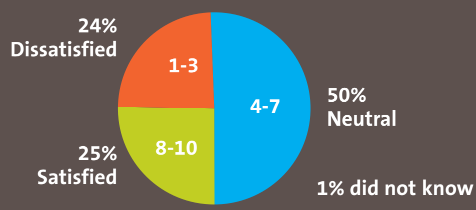
1. Making Ends Meet

A key building block of financial capability is the ability to make ends meet, which can be measured by examining the extent to which people balance monthly income and expenses to avoid over-spending and how they deal with everyday financial matters. The data indicate several signs of financial strain among American adults.

- Almost half of Americans reported having trouble keeping up with monthly expenses and bills, with just under 14 percent of survey respondents stating it is very difficult to do so and 35 percent finding it somewhat difficult.
- Nearly one-quarter (23 percent) of individuals with checking accounts reported overdrawing those accounts on occasion. Significantly, of those who overdrew their accounts, 73 percent reported finding it very or somewhat difficult to cover their monthly expenses and pay their bills.
- About 16 percent of mortgage borrowers reported having been late on a payment at least once in the last 2 years, including 10 percent who had been late more than once.
- A smaller but significant number of respondents who have self-directed retirement accounts (either an employer-sponsored defined contribution plan or a retirement account they manage on their own) reported tapping into their retirement savings. Specifically, nearly 9 percent have taken out a loan from their retirement accounts during the past 12 months, and almost 5 percent have taken a permanent hardship withdrawal. These depletions are most prevalent among those earning between $25,000 and $75,000 a year, with more than 10 percent of this income cohort borrowing against their retirement savings and nearly 8 percent taking hardship withdrawals.

How satisfied are you with your current personal financial condition?

Given the financial difficulties respondents are experiencing, it may not be surprising that, when asked how satisfied they are with their current financial condition using a scale from 1 to 10, many respondents gave low ratings.



The recent economic crisis has hit individuals hard, hindering their ability to make ends meet. One-third of respondents stated they experienced a large and unexpected drop in income during the past year.

Over the past year, household expenses (not including the purchase of a new house or car or other big investments) have been greater than income for more than one of every 10 Americans (12 percent) and about equal to income for 36 percent of Americans. Across all age groups up to age 60, approximately one-third (33 percent) of survey respondents reported that they are not saving. Among those over the age of 60, this lack of saving increases to 42 percent, which can be explained in part by the predictable decumulation of retirement savings among retirees. Significantly, a lack of savings is strongly correlated with difficulty in making ends meet, with approximately 66 percent of those who indicated they were not saving also stating they found it somewhat or very difficult to cover their monthly expenses and pay bills.

The recent economic crisis has hit individuals hard, hindering their ability to make ends meet. One-third of respondents stated they had experienced a large and unexpected drop in income during the past year. Workers earning less than $25,000 a year and Hispanics appear to have been especially hard hit, with 41 percent and 43 percent, respectively, reporting a drop in income. Across all demographic groups, those who suffered large decreases in income were more likely to report having difficulties covering their expenses and were less likely to save.

2. Planning Ahead

Many Americans experience certain predictable life events that require planning, including financing one's retirement and funding the cost of a child's post-secondary school education. And because the future is inherently uncertain, individuals and families also need to make provisions to buffer themselves against financial emergencies or shocks. Being able to weather shocks not only contributes to financial stability at the individual and family level but also increases the stability of the economy as a whole.

"Rainy day" funds

Most Americans lack emergency savings or "rainy day" funds. Only 49 percent of respondents reported that they had set aside funds sufficient to cover expenses for three months in case of sickness, job loss, economic downturn or other emergency. Among those in the 18-29 age group, only 31 percent had set aside rainy day funds, while only 26 percent of those with annual incomes below $25,000 had such funds. As a result, many individuals and families would not be able to draw on personal financial resources if they were faced with an economic shock.

Individuals who lacked rainy day funds were more likely to be hit by shocks. Specifically, they were 1.5 times more likely to have experienced a large decrease in income in the past 12 months than those who have an emergency fund (40 percent compared with 26 percent). In addition, they appeared less prepared to cover the costs of unexpected medical emergencies as they were 3.8 times more likely to lack health insurance than those who have an emergency fund (30 percent versus 8 percent).

Planning for retirement

While individuals increasingly have to take responsibility for their financial security after retirement, the majority of Americans appear not to have done any retirement planning. Decisions about how much to save in order to afford a comfortable retirement require collecting information about several important variables (including Social Security and retirement plan benefits) and doing some, even rudimentary, calculations. Yet, when asked whether they have ever tried to figure out how much they need to save for retirement, only 42 percent of respondents who are not retired said they did.

The proportion of planners increases with age. Nevertheless, even among those in the 45-59 age group, only 51 percent have attempted to calculate how much they need to save for their retirement. Among low income respondents, we saw that retirement planning was low or even nonexistent.

		Income			Age			
Respondents who...	Total	<$25K	$25-75K	>$75K	18-29	30-44	45-59	60+
Have tried to figure out retirement saving needs	42%	17%	45%	68%	23%	46%	51%	50%

Additional evidence of a lack of retirement planning emerges from data concerning the use of annual Social Security statements, which the Social Security Administration has been mailing each year to workers since 1995. While 66 percent of individuals who are not yet retired acknowledged receiving these statements, a large majority of recipients stated they did not use the information contained in those statements when making or adjusting decisions on when to retire or when to claim Social Security benefits.

Among those who have engaged in at least some planning for retirement, 82 percent have retirement accounts, compared with only 40 percent of non-planners. As illustrated in the chart below, current retirees indicated they rely primarily on Social Security and payments from defined benefit pension plans. For future generations of retirees, however, the failure to plan for retirement becomes especially worrisome in light of the decreasing availability of defined benefit plans as a source of income in retirement and the increasing reliance on self-directed retirement accounts.

Which of the following are you [retired respondents] using for living expenses?	
Social Security retirement payments	81%
Pension plan payments	63%
Withdrawals from savings, investments or retirement accounts	26%
Dividends or interest income from savings, investments or retirement accounts	23%
Salary, wages or self-employment income	17%
Rental income or proceeds from a sale of real estate	12%
Financial support from family	3%
Payments from a reverse mortgage	1%

Planning for children's education

It is widely reported that, over the past decade, tuition and fees at four-year public colleges and universities have increased more rapidly than they did during the 1980s or 1990s, rising by an average of nearly 5 percent each year (adjusted for inflation). With this trend unlikely to abate, an average American family with children can expect to dedicate a sizable share of their resources to paying college tuition. However, well below half (41 percent) of those who have financially dependent children have set money aside for college education.

Respondents who...	Total	Income			Education		
		<$25K	$25-75K	>$75K	HS	Some College	College
Have set money aside for college education	41%	20%	35%	68%	28%	41%	60%

Among those who have, only 33 percent reported having used a tax-advantaged savings account, such as a 529 Plan or Coverdell Education Savings Account. The use of tax-advantaged college savings vehicles appears to increase as income rises. For example, 41 percent of those who reported saving for college and who have incomes above $75,000 reported participating in tax-free and tax-deferred college savings programs.

3. Managing Financial Products

This third component of financial capability encompasses how people manage cash, how they borrow, which assets they own and their exposure to financial market risks.

Banked and unbanked

Deposit accounts are critical financial products for managing money and saving. Yet 15 percent of survey respondents did not have a checking account, and 28 percent did not have a savings account, a money market account or a time-deposit account, such as a Certificate of Deposit. Overall, 12 percent of the U.S. population appears to be "unbanked." However, being unbanked is more prevalent in some demographic groups, including:

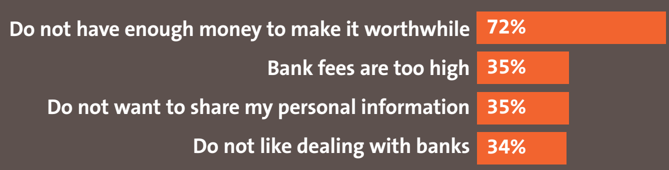
- Non-high school graduates (36 percent)
- Lower-income households (31 percent)
- Hispanics (30 percent)
- African-Americans (28 percent)
- Young adults (22 percent)

When asked why they did not have a checking or savings account, the vast majority listed not having enough money as their main reason.

Not having a deposit account can make it more difficult, and often more costly, to manage one's cash and conduct financial transactions. For example, 71 percent of the unbanked sometimes used money orders to pay bills, and 47 percent used check cashing stores to cash checks.

What are the reasons for being unbanked?

When asked the reason for being unbanked, respondents have indicated the following reasons:



Non-bank borrowing

A sizable share of Americans engaged in alternative forms of borrowing, such as taking out an auto title loan or a payday loan, getting an advance on a tax refund, using a pawn shop or using a rent-to-own store. These borrowing methods are likely to charge higher interest rates than those charged by banks, credit unions or credit card companies. Moreover, as widely reported in financial literacy literature, use of these products often indicates individuals have poor credit histories, lack of access to more traditional sources of credit or both.

While fewer than one in 10 Americans reported using any one particular method of non-bank method of borrowing, nearly one-quarter (23 percent) have used at least one of these methods in the last five years. The use of any one of these alternative methods is also highly correlated to the use of others. For example, those who have used pawn shops were more likely to have used an advance on tax refunds or taken out a payday loan and vice versa. Most importantly, these alternative methods of borrowing are used disproportionately by the unbanked. Thus, lack of a bank account is likely to result in the utilization of high-cost borrowing. Many of the users of these alternative methods of borrowing also did not have credit cards.

Respondents who, in the past 5 years have...	Total	Unbanked	Banked	No credit cards	Credit cards
Taken out an auto title loan	7%	5%	7%	6%	8%
Taken out a "payday" loan	5%	8%	5%	7%	4%
Gotten an advance on a tax refund	8%	16%	6%	12%	6%
Used a pawn shop	8%	26%	6%	18%	4%
Used a rent-to-own store	5%	14%	3%	11%	2%
Used one of these methods	23%	44%	20%	34%	19%

Most frequent users of non-bank borrowing: The most frequent users of non-bank methods of borrowing are disproportionately the young, those with low income, those without a high school education, African-Americans and Hispanics.

Respondent has...	Total	African-American	Hispanic	Income <$25K	Less Than HS	18-29
Taken out an auto title loan	7%	4%	6%	5%	5%	7%
Taken out a "payday" loan	5%	5%	11%	6%	8%	8%
Gotten an advance on a tax refund	8%	13%	9%	12%	13%	12%
Used a pawn shop	8%	17%	11%	16%	16%	19%
Used a rent-to-own store	5%	10%	4%	8%	7%	10%

Credit cards

A more traditional way in which many Americans borrow is through the use of credit cards. More than two in three (68 percent) reported having credit cards. In addition, among those who reported having credit cards, about 27 percent stated they had at least four credit cards.

As illustrated in the table below, most credit card holders engaged in at least one behavior that results in interest charges or fees. Nearly one third (33 percent) engaged in two or more such activities, and 17 percent engaged in three or more. Moreover, when looking at the subset of behaviors that are likely to generate sizeable interest or fees (paying the minimum payment, paying late fees, paying over the limit fees, or using the card for cash advances), we found that the borrowing habits of 41% of credit card holders resulted in either substantial interest payments, fees or both. While the incidence of interest- and fee-generating behavior occurs across all income groups, the proportion of those who paid only the minimum amount due, used the cards for cash advances and paid fees was higher for those earning less than $75,000 than for those earning more.

In the past 12 months...	Total	Income		
		< $25K	$25-75K	>$75K
I always paid credit cards in full	54%	54%	52%	55%
In some months, I carried over a balance and was charged interest	51%	47%	52%	51%
In some months, I paid the minimum payment only	29%	36%	30%	22%
In some months, I was charged a fee for late payment	23%	26%	25%	19%
In some months, I was charged a fee for exceeding my credit line	8%	12%	8%	4%
In some months, I used the cards for a cash advance	8%	12%	8%	6%

There are also important patterns among age groups. While half of young credit card holders paid off the balances on their credit cards in full each month, many (41 percent) paid only the minimum amount due. Young credit card users were also those most likely to use their cards for a cash advance or to be charged fees, particularly fees for exceeding their credit limit. On the other hand, individuals over age 60 were disproportionately more likely to pay in full and were also much less likely to engage in behaviors that generate high interest payments and fees.

		Age			
In the past 12 months...	**Total**	**18-29**	**30-44**	**45-59**	**60+**
I always paid credit cards in full	54%	51%	45%	44%	75%
In some months, I carried over a balance and was charged interest	51%	46%	62%	58%	33%
In some months, I paid the minimum payment only	29%	41%	35%	31%	11%
In some months, I was charged a fee for late payment	23%	24%	27%	29%	11%
In some months, I was charged a fee for exceeding my credit line	8%	14%	8%	9%	2%
In some months, I used the cards for a cash advance	8%	11%	10%	8%	5%

Mortgages

One significant source of borrowing among Americans involves the purchase of a home. Three in five survey respondents (61 percent) reported owning a home. Among these homeowners, 61 percent had a mortgage, and 21 percent had a home equity loan. Homeownership varies significantly by income level and by other demographic groups. For example, 34 percent of those with incomes below $25,000 owned a home, compared with 84 percent of those with incomes above $75,000. And 41 percent of African-Americans and 42 percent of Hispanics indicated owning a home, compared with 69 percent of Caucasians.

		Income		
Homeowners who stated they...	**Total**	**< $25K**	**$25-75K**	**>$75K**
Have a mortgage	61%	31%	61%	77%
Have a line of credit	21%	11%	20%	27%

When asked what type of mortgage they had, 8 percent of mortgage borrowers indicated they have adjustable rate mortgages, about 90 percent reported holding fixed rate mortgages and 2 percent stated they do not know. When asked whether they have a mortgage that either is an interest-only mortgage or has an interest-only option, 16 percent responded in the affirmative. However, 20 percent did not know the answer to this question, which is worrisome since mortgages, especially those issued recently, are complex contracts. In addition, 10 percent of mortgage borrowers did not know the interest rate they are paying on their mortgages.

Retirement accounts

An increasingly important asset is retirement savings. Recognizing that many Americans are not familiar with all of the technical terms and distinctions used to describe various retirement plans, the survey employed a few "plain language" questions to assess whether respondents have a retirement plan through an employer and, if so, which type (specifically, a defined benefit plan or a defined contribution plan, such as a 401(k) plan). In addition, the survey asked whether individuals have any retirement account plan they set up on their own, such as an individual retirement account (IRA), Keogh, SEP or other type of retirement account.

Overall, more than half of survey respondents reported having a retirement savings plan through a current or previous employer, and more than one-quarter reported having setting up their own accounts. However, responses varied significantly across income and education groups, as illustrated in the table below.

		Income			Education			
Respondents who...	Total	<$25K	$25-75K	>$75K	Less HS	HS	Some College	College
Have a retirement plan via employer	51%	13%	61%	83%	22%	39%	54%	76%
Have other retirement account(s)	28%	4%	27%	57%	7%	14%	26%	55%

Among those who have a retirement plan through their employer, 72 percent reported having a defined contribution plan that allows them to decide how the money is invested. Nearly four out of five (79 percent) respondents who have a defined contribution plan or an individual retirement account plan stated they regularly contribute to these savings vehicles.

Only 42% of respondents who are not retired said they have tried to figure out how much they need to save for retirement.

However, a significant portion of defined contribution plan participants could not describe how their retirement assets were invested. For example, 17 percent did not know whether the assets in their retirement plan were invested in stocks or stock mutual funds, and 37 percent did not know whether their assets were invested primarily in a life-cycle or target-date fund.

Stocks, bonds and mutual funds

About 46 percent of respondents reported investing in securities (specifically, in stocks, bonds, mutual funds or some combination). However, as with retirement accounts, there were vast differences in financial market participation across income groups and sharp differences across education groups.

Respondents who…	Total	Income			Education		
		<$25K	$25-75K	>$75K	HS	Some College	College
Have stocks, bonds or mutual funds outside of retirement accounts	46%	17%	47%	72%	34%	46%	66%

On the one hand, investing in stocks, bonds and mutual funds exposes individuals to financial market risk. On the other hand, investing in these types of products typically allows people to make their wealth grow and to take advantage of the potentially higher returns offered by the securities markets.

Assets in the total population and among African-Americans and Hispanics: As reported below, African-Americans and Hispanics, who are disproportionately represented among adults with no post-secondary educational experience and those with household incomes below $25,000 per year, are less likely to be banked or to have credit cards. They are also less likely to have retirement accounts, own a house and invest in stocks, bonds and mutual funds.

Respondent has...	Total	African-Americans	Hispanics
No bank accounts (neither checking nor saving)	12%	28%	30%
No credit cards	31%	49%	42%
No retirement accounts	38%	53%	55%
No home that they own	39%	59%	58%
No stocks, bonds or mutual funds outside of retirement accounts	53%	72%	73%

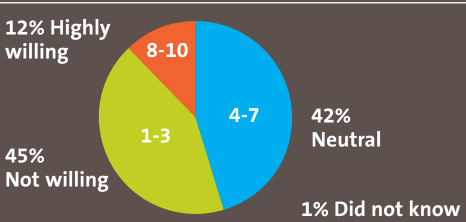
Risk preferences

A factor that affects how individuals make financial decisions is their attitude toward risk. This is an important determinant of portfolio choice and the type of assets into which people choose to invest their private and retirement wealth.

The chart below shows a strong aversion to risk among Americans, with 26 percent of respondents stating they are unwilling to take any risk at all (rating 1 on a 10-point scale), and a total of 45 percent exhibiting low risk tolerance (rating 1 to 3). It is not yet possible to say whether this high aversion to risk has been influenced by the recent economic crisis. However, the data do reveal a strong correlation between aversion to risk and knowledge of risk. Specifically, 42 percent of the respondents who are very risk averse (rating 1 to 3) did not know the answer to a question about risk and diversification, compared with 33 percent in the general population and 27 percent of the less risk-averse respondents (rating 8 to 10).

How willing are you to take risks?

Attitude toward risk is an important determinant of portfolio choice and the type of assets into which people choose to invest their private and retirement wealth.



All too often, a gap exists between self-reported knowledge and real-world behavior. When asked to assess their financial and math knowledge, very few respondents gave themselves low scores.

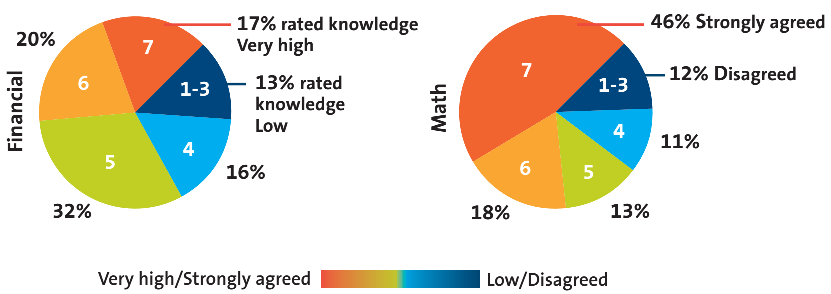
4. Financial Knowledge and Decision-Making

To make sound financial decisions, individuals need to be equipped not only with at least a rudimentary level of financial knowledge, but also with the skills to apply what they know to actual financial decision-making situations. As the survey data demonstrate, all too often, a gap exists between self-reported knowledge and real-world behavior.

Self-perceptions of financial knowledge

When asked to assess their financial knowledge, most respondents gave themselves high scores. As the chart below illustrates, 37 percent of respondents rated their financial knowledge at the high end of the scale. Because many financial decisions require some knowledge of math, respondents were also asked to rate their math knowledge. Again, self-assessed knowledge of math was high, with 46 percent strongly agreeing they were very good at math.

How would you assess your overall financial and math knowledge?



Measuring financial literacy

To evaluate financial knowledge, respondents were exposed to a battery of questions covering fundamental concepts of economics and finance expressed in everyday life, such as calculations involving interest rates and inflation, principles relating to risk and diversification, the relationship between bond prices and interest rates and the impact that a shorter term can have on total interest payments over the life of a mortgage.

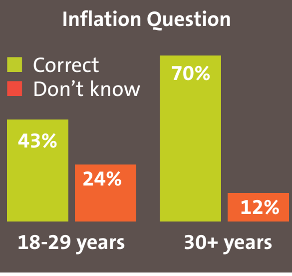
As illustrated in the table below, the data demonstrate relatively low levels of financial literacy among Americans.

	Correct	Incorrect	Don't Know
Interest Rate Question	65%	21%	13%
Inflation Question	64%	20%	14%
Bond Price Question	21%	44%	34%
Mortgage Question	70%	16%	12%
Risk Question	52%	13%	34%

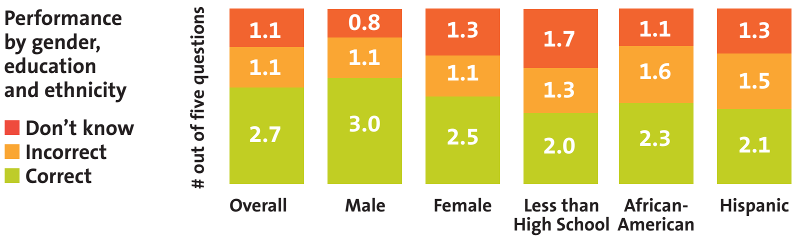
While the correct response to any single question sometimes exceeded 60 percent, fewer than half of respondents (46 percent) correctly answered both a question about interest rates and a question about inflation. Less than one-third (30 percent) correctly answered those questions plus a question about risk and diversification correctly. And fewer than 10 percent of respondents were able to answer all questions correctly.

Financial literacy among the young

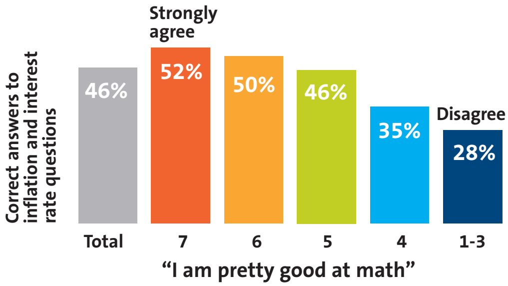
Young individuals display much lower financial literacy than older individuals. For example, a question on inflation instructed respondents to assume the annual interest on a savings account was 1% and that inflation was 2% per year. Respondents were then asked whether, after one year, they would be able to buy more than today, exactly the same, or less. Twice as many 18- to 29-year-olds either answered incorrectly or stated they did not know, compared with those over age 30.



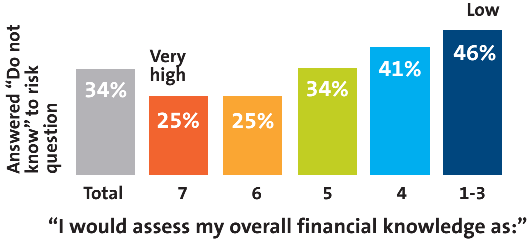
As shown below, women, those with low education, African-Americans and Hispanics were less likely to correctly answer the financial literacy questions.



The survey data reveal a sharp disconnect between self-reported financial knowledge and math skills and responses to the financial literacy questions and questions designed to test math skills (also referred to as numeracy). As the chart below indicates, only 52 percent of those who gave themselves the highest score of 7 in math are able to do two calculations involving interest rates and inflation.



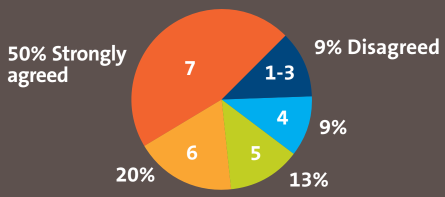
A similar disparity appears when one compares self-assessed financial knowledge with actual answers given to financial literacy questions. For example, even among those who gave themselves a score of 7 in their self-assessed financial knowledge, a quarter did not know the answer to a question about risk and diversification that asked whether investing in a single company stock is safer than investing in a stock mutual fund.



Finally, as illustrated below, the survey data show a disconnect between perceptions and actions in day-to-day financial matters. When asked how good they are at dealing with day-to-day financial matters (such as managing checking accounts and credit cards and tracking expenses), half of respondents with credit cards and checking accounts (50 percent) gave themselves the top score of 7. However, one-quarter of these respondents separately indicated they engaged in behaviors that generate fees or high costs (such as using credit cards for cash advances, paying late payment or over-the-limit fees or overdrawing their checking accounts). Among those who gave themselves a score of 6, 40 percent engaged in these fee- and cost-generating behaviors.

Self-perception versus financial behavior

"I am good at dealing with day-to-day financial matters"
Respondents with credit cards and checking accounts



However, 24% who strongly agreed and 40% who agreed engaged in behaviors that generated fees or high costs.

Financial literacy is found to be strongly correlated with behavior that is indicative of financial capability. Specifically, those with higher literacy were more likely to plan for retirement and to have an emergency fund, and they were less likely to engage in credit card behavior that generates high interest payments and fees. Financial literacy is also highly correlated with attitudes toward risk. Those who reported being unwilling to take any risks (ratings of 1 to 3) were also more likely to say they did not know the answer to the question about risk and diversification.

▸ The data reveal that most Americans either do not comparison shop or conduct only limited searches for the best prices or terms.

Comparison shopping

To assess how Americans engage in financial decision-making and what factors they consider, the survey asked respondents about the extent to which they shop around and compare offers and terms from different providers of financial services. The data reveal that most Americans either do not comparison shop or conduct only limited searches for the best prices or terms.

Product	% Who Don't Compare Offers
Credit cards	63%
Auto loans	50%
Mortgages	34%

Focusing on credit cards and auto loans, we found that those with lower income and lower education tend to comparison shop the least.

	Income			Education		
Respondents who don't shop for...	**<$25K**	**$25-75K**	**>$75K**	**HS**	**Some College**	**College**
Credit cards	70%	64%	57%	69%	60%	62%
Auto loans	–	50%	46%	51%	52%	45%

About 10 percent of respondents did not know the interest rate on their mortgages.

Obtaining credit reports and checking credit scores

Although credit scores are a critical determinant of the interest rates one will be charged on mortgages, loans and other financial instruments, only 38 percent of survey respondents have obtained a copy of their credit report, and even fewer (36 percent) have checked their credit score in the past 12 months. Those who have higher credit scores have sought out this information. Specifically, 52 percent of those who have checked their credit score reported having credit scores above 720. By contrast, only 17 percent of those who have checked their credit score had credit scores below 620. In addition, as illustrated below, those with lower income and lower levels of education were less likely to have obtained a credit report and to have checked their credit score.

Respondents who...	Total	Income			Education			
		<$25K	$25-75K	>$75K	Less HS	HS	Some College	College
Obtained copy of credit report	38%	18%	43%	56%	25%	30%	39%	53%
Checked credit score	36%	15%	42%	55%	22%	29%	35%	53%

Understanding financial contracts

Many individuals display limited knowledge of the terms of their financial contracts and often could not state the interest rate they pay on their loans. For example, about 20 percent of those who have auto loans did not know the interest rate they pay. About 10 percent did not know the interest rate on their mortgages. Of the 46 percent of credit card holders who do not pay off their balances in full each month, 12 percent did not know the interest rate on their credit card with the largest balance.

Conclusion

The findings from the National Survey paint a troubling picture of the current state of financial capability in the U.S. adult population. This is not only important for those individuals who demonstrate low levels of financial capability, but also for the United States as a whole, particularly in tough economic times. When people make poor financial decisions, the cost of those decisions is often passed on to all Americans through higher prices for financial products, the diversion of economic resources and greater strains on existing social safety nets.

The good news is that the findings also demonstrate that increasing financial capability can have profound implications on the financial security, well-being and prosperity of individuals and families. A more financially capable population can result in a larger and more efficient market for financial products, greater participation in asset building and greater financial stability. It is therefore in everyone's interest that action be taken to improve the financial capability of all Americans.

What are the next steps with the Study?

- We will release the results of the State-by-State Survey and Military Survey in early 2010.
- We will continue to analyze the National Survey data to generate more findings and to study groups that appear to be less financially capable in more detail.
- We will make the survey instrument and data available online at *www.finrafoundation.org/capability* so that policymakers, researchers and others can gain additional insights from the Study.
- We intend to repeat the Study in the next three to five years to assess the impact of efforts to increase the financial capability of Americans.

Background and Methodology

In consultation with the U.S. Department of the Treasury and the President's Advisory Council on Financial Literacy, the FINRA Investor Education Foundation commissioned a national study of the financial capability of American adults. The overarching research objectives were to benchmark key indicators of financial capability and evaluate how these indicators vary with underlying demographic, behavioral, attitudinal and financial literacy characteristics.

The National Financial Capability Study consists of three linked surveys:

- **National Survey:** A nationally-projectable telephone survey of 1,488 American adults
- **State-By-State Survey:** A state-by-state online survey of approximately 25,000 American adults (roughly 500 per state, plus the District of Columbia)
- **Military Survey:** An online survey of 800 military servicemembers and spouses

The survey instruments were designed by a multi-disciplinary team including Professor Annamaria Lusardi of Dartmouth College, Applied Research & Consulting LLC (ARC), the FINRA Investor Education Foundation and the Office of Financial Education of the U.S. Treasury Department. Additional input was provided by Craig Copeland of the Employee Benefit Research Institute (EBRI), the American Institute of Certified Public Accountants (AICPA) and Professor Robert Willis of the University of Michigan, among others.

This report outlines the findings of the National Survey, administered to respondents between May and July 2009. The primary sample of 1,200 respondents was constructed to be representative of the general adult U.S. population. To ensure sufficient number of respondents for the analysis, African-Americans, Hispanics, Asian-Americans and adults with less than a high school education were oversampled. The total number of respondents in the sample was 1,488. The results of the State-by-State Survey and the Military Survey will be released in early 2010.

FINRA Investor Education FOUNDATION

A copy of this summary and the full report can be found on *www.finrafoundation.org/capability* or by calling (202) 728-6964.

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