

# THE STATE OF CONSUMER FINANCES – APRIL 2010

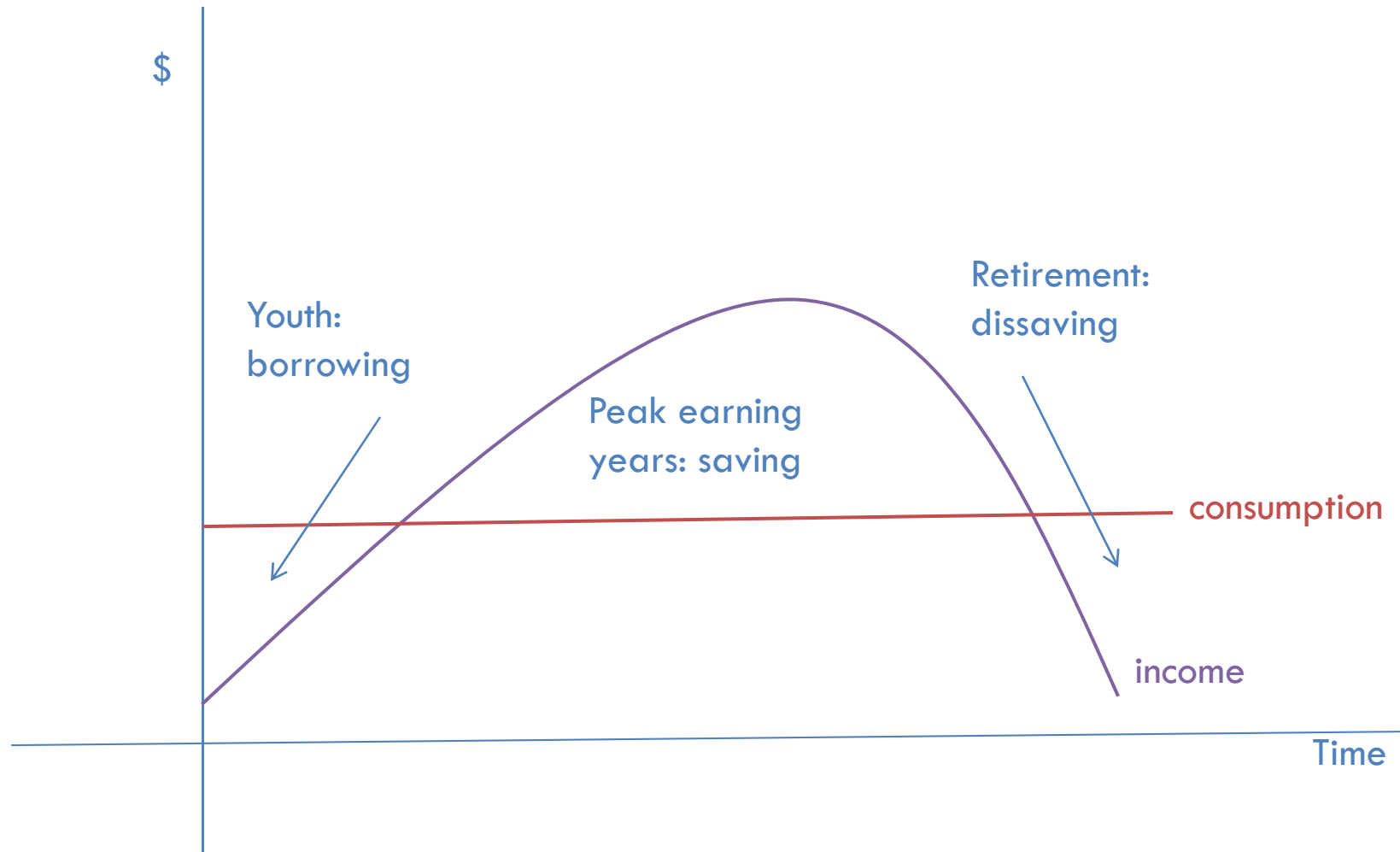
April 26, 2010

Financial Stability Summit

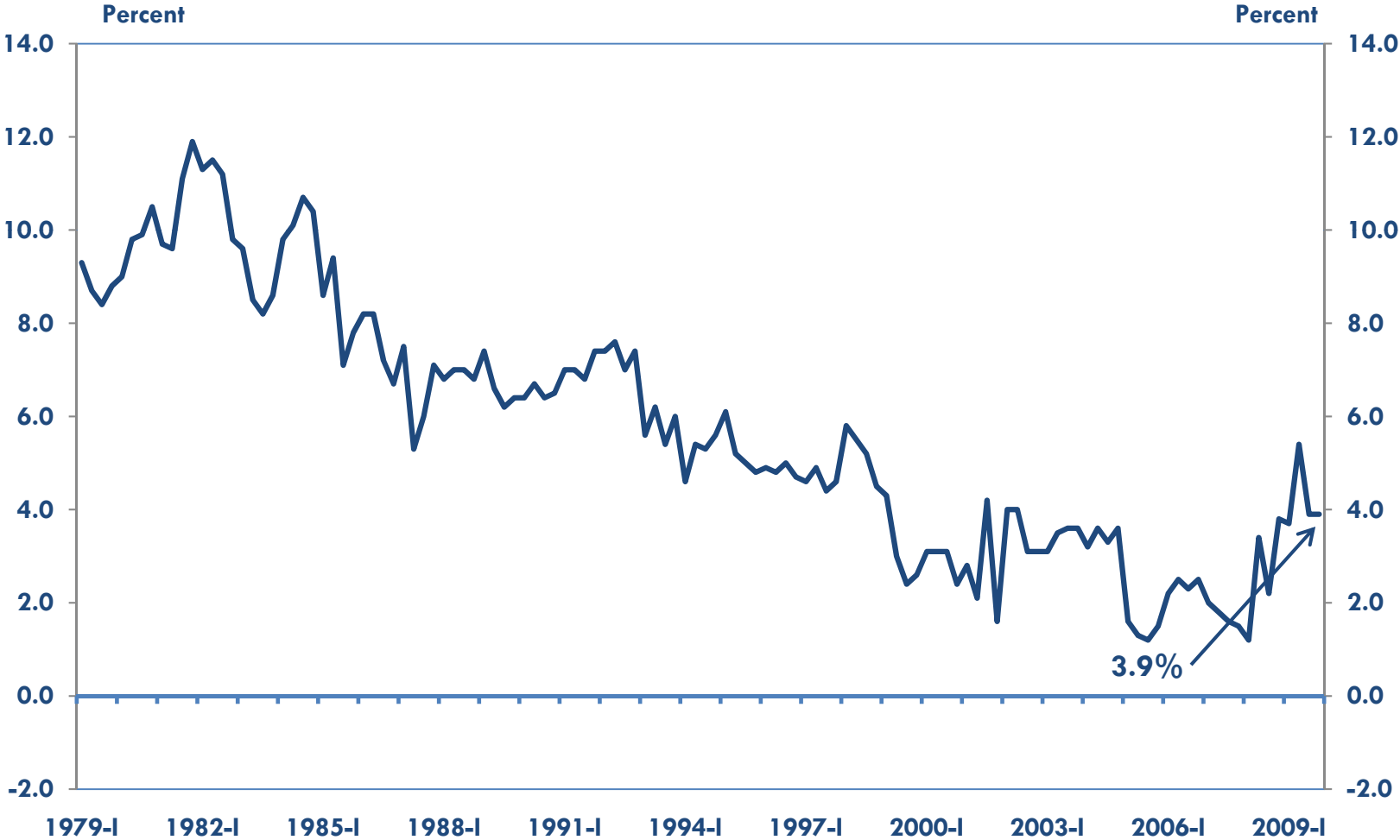
Kelly D. Edmiston, Federal Reserve Bank Kansas City

# Consumption Smoothing

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# U.S. Personal Savings Rate



# International Savings Rates (G7 Countries)

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Country	2007 (2010)	Country	2007 (2010)
Canada	2.5 (3.3)	Italy	8.2 (10.7)
France	12.2 (13.7)	United Kingdom	2.2 (5.3)
Germany	10.8 (11.7)	United States	1.7 (3.9)
Japan	3.3 (2.6)		

Source: OECD Economic Outlook, January 2010

# Reasons People Save

## (Most Important Reason)

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Reason for Saving	Percentage of Respondents
Retirement	33.9
Liquidity	32.0
Education	11.0
Purchases	9.7
Buying Own Home	4.4
Other (or answered “do not save”)	9.0

Source: Bucks et al., 2009, “Changes in U.S. Family Finances from 2004 – 2007,” Federal Reserve Bulletin, February.

# Savings Behavior

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- While almost 3/4 of survey respondents report spending less than they earn in a recent **AmericaSaves survey**, (American Saves)
  - ▣ only 53% save at least 5% and 28% save at least 10%

# Planned Disposition of Tax Refunds

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- Of those expecting to receive a refund of 2009 income taxes paid, (Bankrate.com)
  - ▣ 30% planned to pay down debt
  - ▣ 28% planned to save or invest
  - ▣ 26% planned to spend on necessities
  - ▣ 7% planned to splurge on a vacation or shopping spree
- March is typically the peak period for bankruptcies because tax refunds are used to pay attorneys' fees

# Retirement Savings Outlook is Grim

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- Median value of holdings in retirement accounts is \$45,000 (52.6% of households) (2007 SCF)
  - \$6,500 for those in the bottom income quintile
  - \$10,000 for those under 35
- 46 percent of workers elect to cash-out 401(k)'s upon leaving a job (Hewitt Associates, 2009)
- Only 10% of workers contribute the maximum to their plans



# 401(k) Savings

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Criterion	2005	2008
Participation Rate	67.2%	74.2%
Before-Tax Contribution Level		
1% - 4%		31.1%
5% - 6%		30.6%
7% - 10%		21.9%
> 10%		16.4%
Average		7.4%
Average Plan Balance	\$75,700	\$57,150
Nominal Plan Balance (< \$5,000) with salary < \$20,000	24.1%	29.4%
Average Balance to Pay Ratio		
40 – 49 (3.0)		0.8
50 – 59 (6.5)		1.3
60+ (12.0)		1.4

Source: Hewitt Associates, 2009, "How Well Are Employees Saving and Investing in 401(k) Plans: 2009 Universal Benchmarks."

# 401(k) Cash Out Rates

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Age	Cashed Out	Left in Plan	Rolled Over
20 – 29	60%	21%	18%
30 – 39	47%	30%	23%
40 – 49	43%	32%	25%
50 – 59	34%	35%	31%
60 – 69	31%	32%	38%
65+	31%	32%	37%

Source: Hewitt Associates, Press Release, October 28, 2009

# Estimated Social Security Benefits



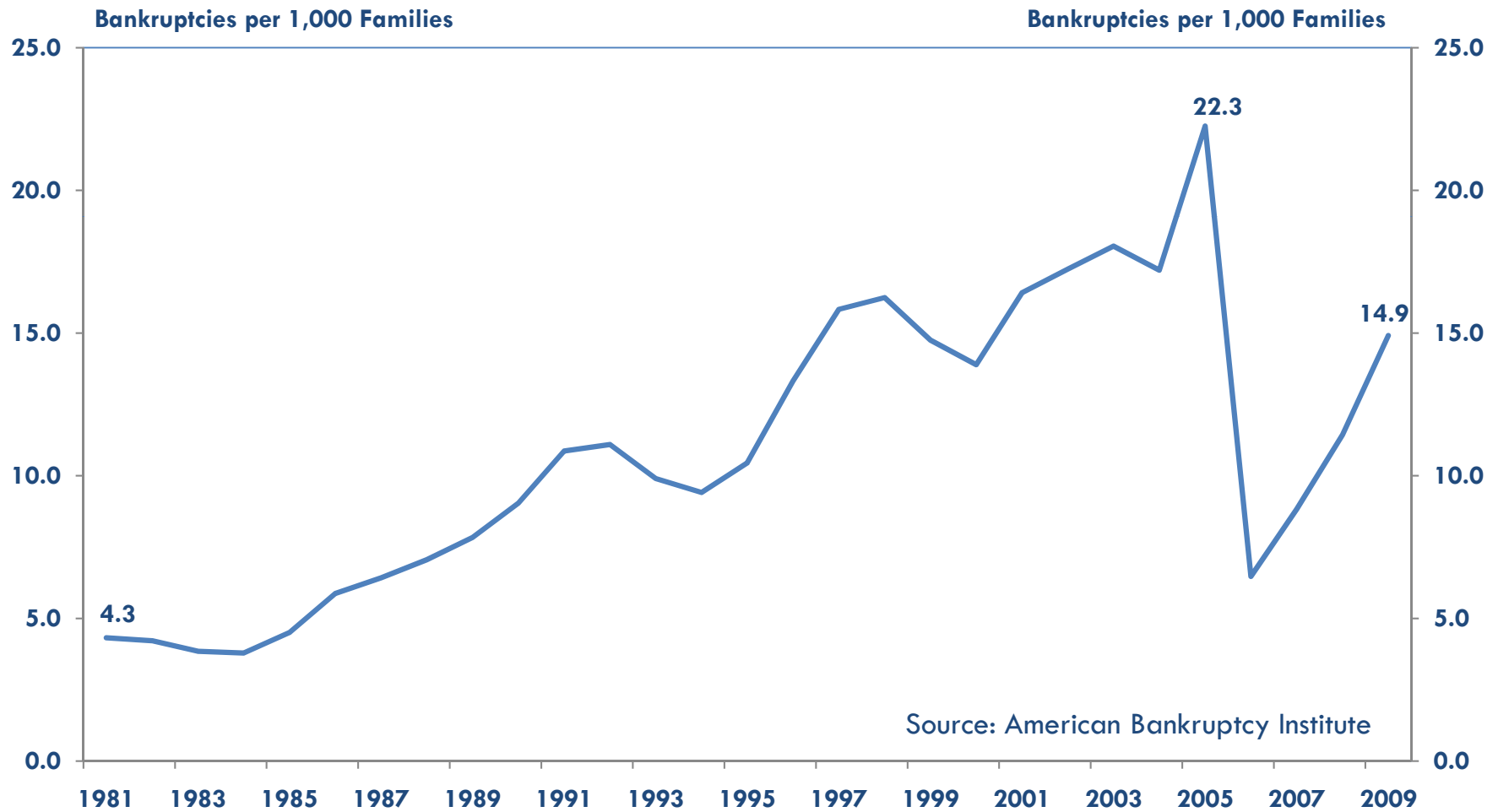
# Debt

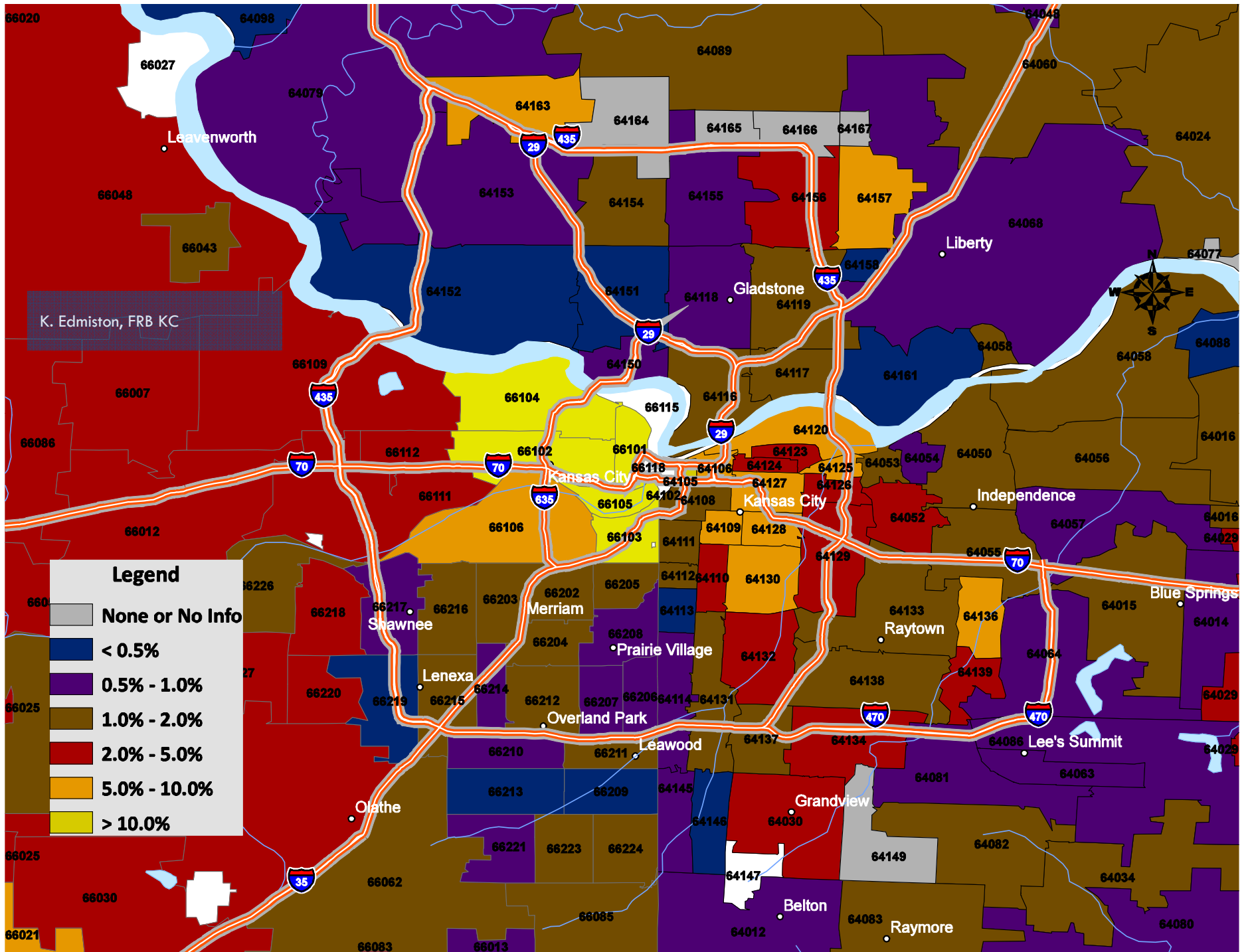
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- Median outstanding debt for families holding debt increased by 27 percent from 2004 to 2007
- Bankruptcies, after declining significantly between 2006 and 2008 (due to rules changes) have picked up significantly
  - ▣ In march 2010, bankruptcies were at an all-time high  
(New York Times, April 2 2010)
- Foreclosure rates are at all time highs in most areas of the country

# Bankruptcy Rates

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# Credit Card Debt

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- Credit card debt remains a serious problem for consumers
  - 46.1 percent of families carry credit card debt (2007 Federal Reserve SCF)
  - Average debt currently is \$16,007 for those who carry debt (Calculated with Federal Reserve data)
  - 15 percent of families owe more than 40 percent of their income in credit card debt (Federal Reserve)
  - Although 30-day credit card delinquencies are improving, they remain near record highs (7.1% in March for Bank of America; 5.3% for Capital One; 5.4% for Discover) (Dow Jones, April 22 2010)
  - Defaults are at record highs
  - Charge-offs have hit record highs this year

# Finances in the Millennial Generation

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- ❑ **58% pay bills on time** (National Foundation for Credit Counseling)
- ❑ **70% building no savings** (MetLife)
- ❑ **20% more than \$10,000 balance on credit cards**  
(Fidelity Investments)
- ❑ **Average \$23,000 in student loan debt** (Project on Student Loan Debt)

See Christine Dugas, “‘Generation Y’ Faces Some Steep Financial Hurdles,” *USA Today*, April 23, 2010, p. A1.



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