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Financial Behavior Trends

Economic Downturn Triggers Consumer Change in Financial Behavior

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As the economy plummeted over the course of 2008, many American consumers expectedly responded by changing the way they manage their finances. To provide insight into this trend, Nielsen Claritas conducted a recent analysis of the Nielsen Claritas Market Audit—the nation’s largest primary market research study regarding household financial behavior.



This report shows how consumers have looked for safer places to keep their money, even if it meant a trade-off of lower interest rates. In saving more conservatively, they are also cutting back on spending as they ride out the storm until their retirement accounts bounce back.

Based on the findings of the Market Audit® in the fourth quarter of 2008, this report covers the following topics: non-interest checking accounts, savings accounts, retirement accounts, investments and channel behavior. The Market Audit is a comprehensive assessment of the financial products being used, which households use them, what their balances are and where they have their accounts.

Non-interest checking accounts

One product category that grew in 2008 was non-interest checking accounts in households where the head of the household was over 35 years old. It could be that attractive incentives for opening non-interest checking accounts drove the increase in these new accounts, but even if that was the case, it remains to be seen how long these accounts will remain open. It does not appear, however, that consumers replaced an interest checking account with a non-interest checking account.

The analysis also found that:

- 1) Those under age 35 showed no change in penetration of either type of checking account—average balances for non-

interest checking accounts for this group are down since the end of 2007.

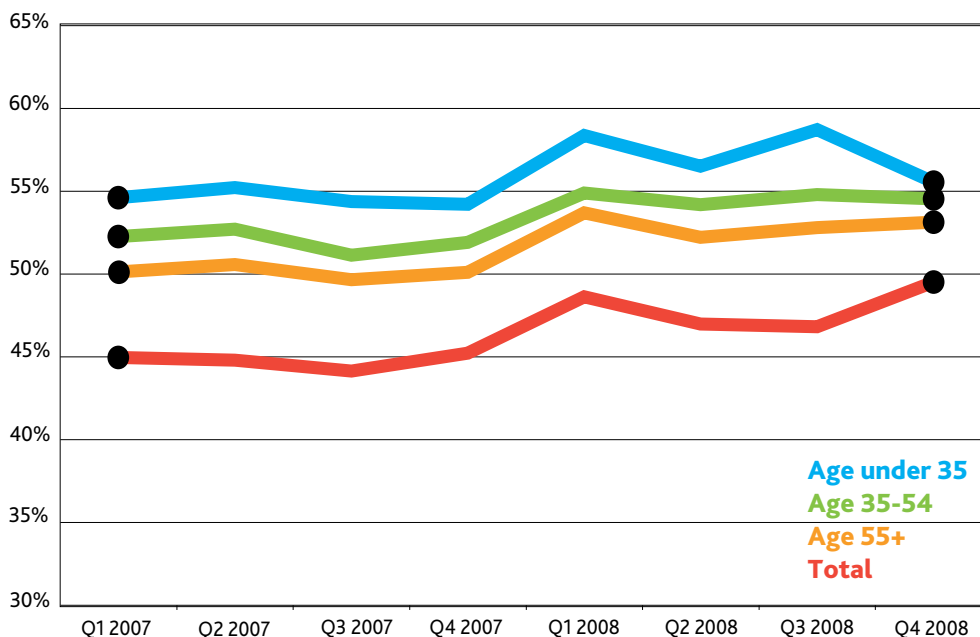
- 2) The 35-54 age group shows increases in penetration for both types of accounts, but decreases to average balances.
- 3) The 55+ age group shows an increase for non-interest checking penetration levels, but lower average balances.

Savings accounts

More households had a savings account in 2008 than at the end of 2007—so saving appears to be an increasing priority, and the type of savings vehicle is driven by the age of the head of household.

Older households had the ability to keep higher balances for things such as a money market accounts or were able to commit to locking in some of their savings into CDs. The younger households are keeping their savings liquid in fixed-interest savings accounts which might represent how the economy has changed a generation’s mindset regarding savings and investments.

Non-Interest Checking Account Penetration



Money market account penetration decreased year-over-year driven largely by the under age 35 households, but fixed interest savings accounts increased for all three age groups from 72.7% to 75.9%.

Other findings included:

- 1) Those under 35 years old decreased penetration of CDs from 16.5% to 14.2% and money market accounts from 18.9% to 16.5%.
- 2) There were no changes in penetration levels of CDs or money market accounts for those over 35.
- 3) In the 55+ age group, average CD balances steadily increased throughout 2008.

Retirement accounts

The number of households with an IRA increased from 26.1% to 27.5% and those with a 401K also jumped from 40.8% to 43.7%. Not surprisingly, average balances plummeted for all age groups.

If the overall worth of IRA and 401K accounts continues to decrease, perhaps there is an opportunity for financial institutions to place more of an emphasis on CDs as a way to help consumers save with some guaranteed interest rate during these trying financial times.

An interesting finding in the 55+ age group is that there was a decrease in the percentage of households that said they were retired from 2007 to 2008 going from 56.7% to 52.7%. This could indicate that some consumers were forced to come out of retirement during 2008.

Also, the number of unemployed households in the 35+ age group continued to increase during 2008, going from 7.2% in 2007 to 9% at the end of 2008.



Non-Interest Checking Account		U.S. Household Penetration	
Age Group	Q4 2007	Q4 2008	
Under age 35	54.2%	55.5%	
Age 35-54	51.9%	54.5%	
Age 55+	45.2%	49.5%	
Total	50.1%	53.1%	

CD Account		U.S. Household Penetration	
Age Group	Q4 2007	Q4 2008	
Under age 35	16.5%	14.2%	
Age 35-54	17.7%	17.2%	
Age 55+	27.3%	26.9%	
Total	20.8%	19.7%	

401K Account		U.S. Household Penetration	
Age Group	Q4 2007	Q4 2008	
Under age 35	44.2%	46.2%	
Age 35-54	47.5%	49.6%	
Age 55+	30.1%	33.7%	
Total	40.8%	43.7%	

Investment Account		U.S. Household Penetration	
Account Types	Q4 2007	Q4 2008	
Stocks	19.2%	18.3%	
Corporate and municipal bonds	3.7%	3.3%	
U.S. savings bonds and treasury bills	18.8%	18.1%	
529 educational savings plan	3.1%	3.6%	
All mutual funds	32.8%	31.0%	

Credit

Along with the ability to take advantage of money market and certificate of deposit accounts, the older the head of household, the more likely they are to have an outstanding non-mortgage credit balance of over \$10,000. That level significantly increased for both the households in the 35-54 and 55+ age groups.

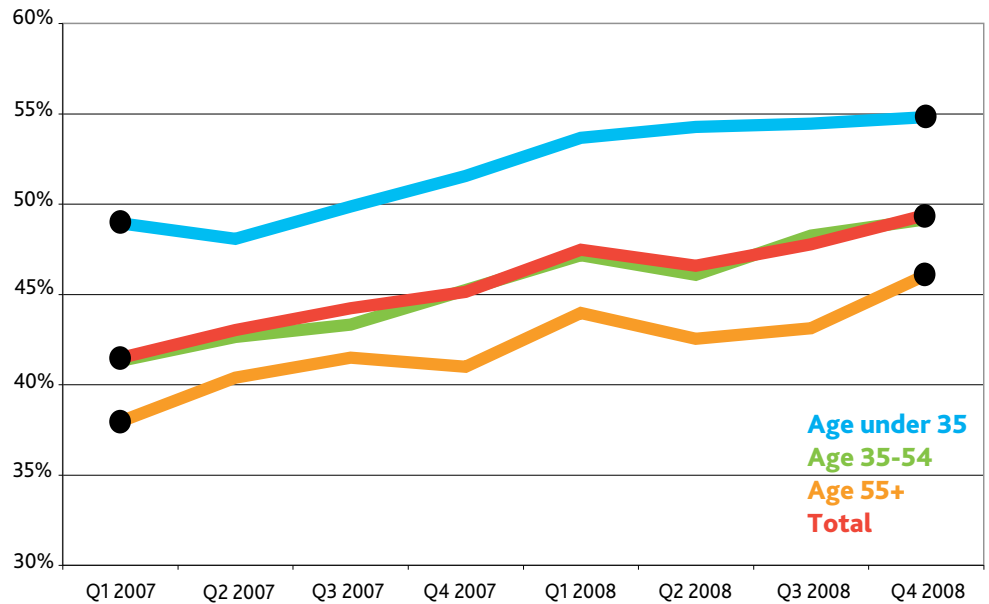
Personal loans also increased since the end of 2007 in the form of home equity loans, student loans and other unsecured personal loans. Penetration of revolving debt accounts, such as credit card debt, decreased which indicates that people were closing their credit card accounts. All the major credit card brands, including Visa®, MasterCard®, Discover® and American Express® showed a decrease in penetration from 2007 to 2008. However, credit card balances on the cards that people kept actually showed that average outstanding balances were on the rise. Average balances for all households went from \$7,000 to \$8,000 in 2008. It appears that households are not reducing the debt they have but rather consolidating it to fewer cards.

Although the under 35 age group had fewer credit accounts and lower overall outstanding credit, they did invest in themselves over the course of the year—with 17% of those households under age 35 with a student loan increasing from 13% in 2007. Households in the 35-54 age group also increased in penetration of student loans with 7%—up from 4% from the same time during the previous year.

Investments

Investments, including mutual funds, stocks, bonds and cash value insurance accounts all fell from Q4 2007. The only investment account to increase in penetration was the tax-advantaged college plans (529 Educational Plan); an increase driven largely by the households in the 35-54 age group.

Pays Bills Through Online Bank



Channel behavior

All households are doing more of their banking online since 2007—with half saying that they pay bills online. Not surprisingly, the youngest group is the most likely to bank online, review statements and pay bills online. Overall, all three age cohorts showed increases in online bill payments.

Conclusion

In this volatile economic environment, the opportunity exists for financial institutions to offer low-risk accounts such as fixed interest savings accounts, variable interest money market accounts and CDs, together with non-interest checking accounts. This way, consumers can shift money from higher risk investment accounts into more conservative savings accounts. Although this provides only modest rates of return, consumers are able to maintain liquidity while they wait for their investment accounts to bounce back.

It's important during these uncertain times that consumers are reassured that their finances are safe, and taking steps to show stability and strength can go a long way in calming fears. Because this survey is updated quarterly, market changes such as these are tracked over time to help you identify trends and strategize for the changing marketplace. The Market Audit gives you the most up-to-date financial information which allows you to adjust in this uncertain economic environment.

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