

# Charles Schwab

## *Savings Fundamentals Study*

**October 2008**

*charles* **SCHWAB**

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# Background

- Over time, expenditures for U.S. consumers have risen while their amount of savings has continued to decrease.
- Schwab has developed the Savings Fundamentals to help people prioritize savings goals and create a realistic plan.
- This survey was developed to see how respondents' savings priorities compare with those outlined in the Savings Fundamentals.

# Methodology

# Methodology

- An online study was conducted among a national panel sample by Koski Research from October 1 to October 7, 2008.
  - A total of 1,004 surveys were completed; margin of error, 3.16%.
  - On average, the survey took 10 minutes to complete.
  - The panel sample was provided by Greenfield.
- Respondents qualified for the survey if they:
  - Saved a minimum of \$1,000 annually: Half of the sample with less than \$5,000 and half of the sample with \$5,000 or more in annual savings
  - Are involved in decisions regarding their household's finances
  - Are between the ages of 22 and 64
  - Are not retired
- Data are reported at the total level and by level of savings:

SAMPLE SIZES BY SAVINGS LEVELS		
TOTAL	LESS THAN \$5K	\$5K OR MORE
1004	502	502

- Statistically significant comparisons at the 95% confidence level are denoted by sub-scripts.
- Results are not weighted. See appendix for comparison of respondents to U.S. Census.

Optimus technology was used to control for respondents completing the survey in less than 5 minutes or submitting responses in a "straight-lining" fashion.

# Highlights

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## U.S. Savers are headed in right direction but could use guidance.

- U.S. Savers prioritize paying off credit card debt and saving for their child's college education over maximizing their employer's match in a retirement program.
- For renters, saving for a down payment on a house jumps to number two, taking priority over all other goals except paying off credit card debt.

SAVINGS FUNDAMENTALS		U.S. SAVERS' PRIORITIES	
1	Contribute to your workplace-sponsored retirement plan up to the maximum company match	1	Reduce or eliminate credit card debt (i.e., "Pay off non-deductible high interest debt")
2	Pay off non-deductible, high-interest-rate debt (i.e., credit card debt)	2	Contribute to household emergency expense fund #2 = "Save for a child's education" if have children #2 = "Save for a down payment..." if do not own home
3	Create an emergency fund equivalent to at least three months of essential living expenses	3	Contribute to your workplace-sponsored retirement plan up to the maximum company match
4	Contribute up to the maximum allowed to available tax-advantaged retirement accounts	4	Pay off deductible, high-rate debt (reduce mortgage)

- U.S. Savers also prioritize saving for a vacation or a household good over paying off high interest, deductible debt such as mortgages, or maximizing their contribution to a 401(k).

# Highlights

## **Respondents who save more are less impacted by the current economy.**

- In general, U.S. Savers are changing their behavior as a result of the current economy—many are reducing their spending.

## **Savings helps people sleep better at night.**

- U.S. Savers who have saved \$5K or more during the past 12 months report they “sleep better at night” with the knowledge that they are saving money for retirement.
- In contrast, U.S. Savers who have saved less than \$5K report that they are aware they should be saving for retirement, but “something always seems to get in the way.” They also are more likely to put money “in the bank,” even if it means having credit card debt.

# Detailed Results

# Schwab's Savings Fundamentals Compared to Respondents' Priorities

SAVINGS GOALS	SAVINGS FUNDAMENTALS	U.S. SAVERS' PRIORITIES
Contribute to your workplace-sponsored retirement plan up to the maximum company match	1	3
Pay off non-deductible, high-interest-rate debt	2	1
Create an emergency fund equivalent to at least three months of essential living expenses	3	2
Contribute up to the maximum allowed to available tax-advantaged retirement accounts	4	6
Save for a child's education	5	5**
Save for the down payment on a home	6	8*
Pay off deductible, high-rate debt	7	4
Keep investing	8	7

- \*Number 2 for people who do not own a home.
- \*\*Number 2 for people who have children.

## When offered the option...

- "Pay for a vacation" becomes #4
- "Purchase a household good such as TV or furniture" becomes #6.

# U.S. Savers are most likely to reduce credit card debt and contribute to their child's college fund before contributing maximum company match

## SCHWAB'S SAVINGS GUIDE VS. U.S. SAVERS' PRIORITIES

Side by Side Comparison

SCHWAB FUNDAMENTALS		U.S. SAVERS' PRIORITIES	
1	Contribute to your workplace-sponsored retirement plan up to the maximum company match	1	Reduce or eliminate credit card debt (i.e., "Pay off non-deductible high-interest-rate debt")
2	Pay off non-deductible, high-interest-rate debt (credit card debt)	2	Contribute to household emergency expense fund
3	Create an emergency fund equivalent to at least three months of essential living expenses	3	Contribute to your workplace-sponsored retirement plan up to the maximum company match
4	Contribute up to the maximum allowed to available tax-advantaged retirement accounts	4	Make additional payments or increase amount of current mortgage payments (i.e., "Pay off deductible high-rate debt")
5	Save for a child's education	5	Save for a child's education
6	Save for the down payment on a home	6	Contribute maximum allowed by IRS (\$15,500) in employer-sponsored retirement plan
7	Pay off deductible, high-rate debt	7	Put money in a brokerage or investment account
8	Keep investing	8	Save for a down payment on a house (Respondents who rent or lease: this is #2)

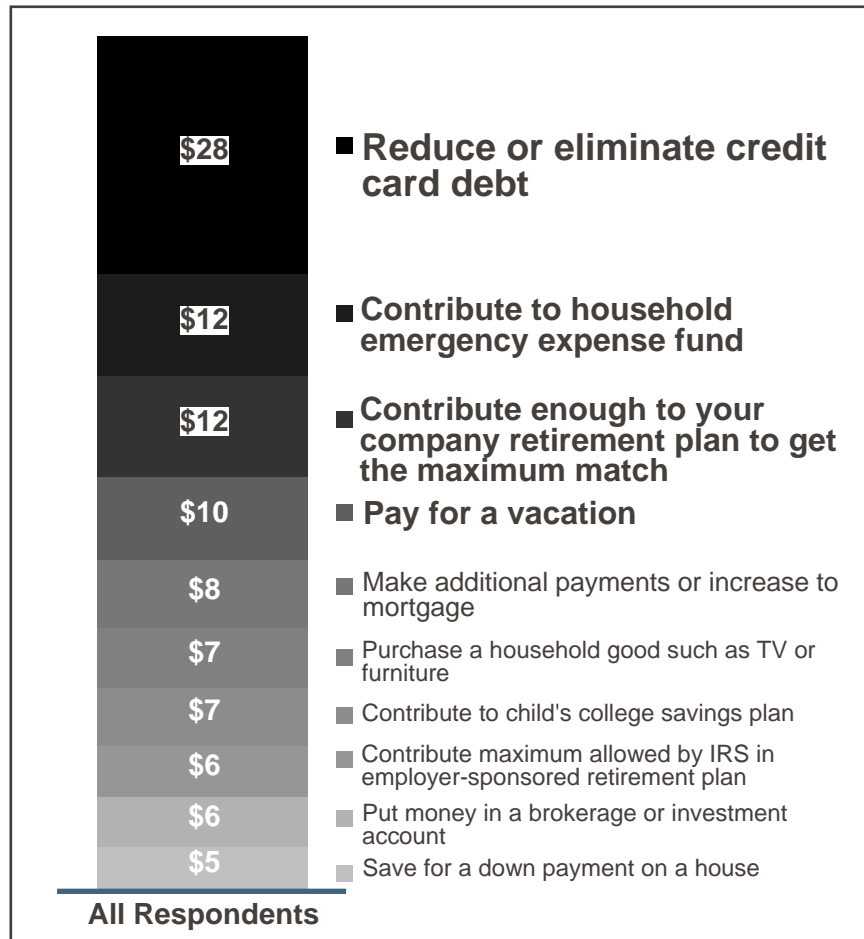
### When offered the option...

- "Pay for a vacation" becomes #4
- "Purchase a household good such as TV or furniture" becomes #6

#2 = "Save for a child's education" if have children  
 #2 = "Save for a down payment..." if do not own home

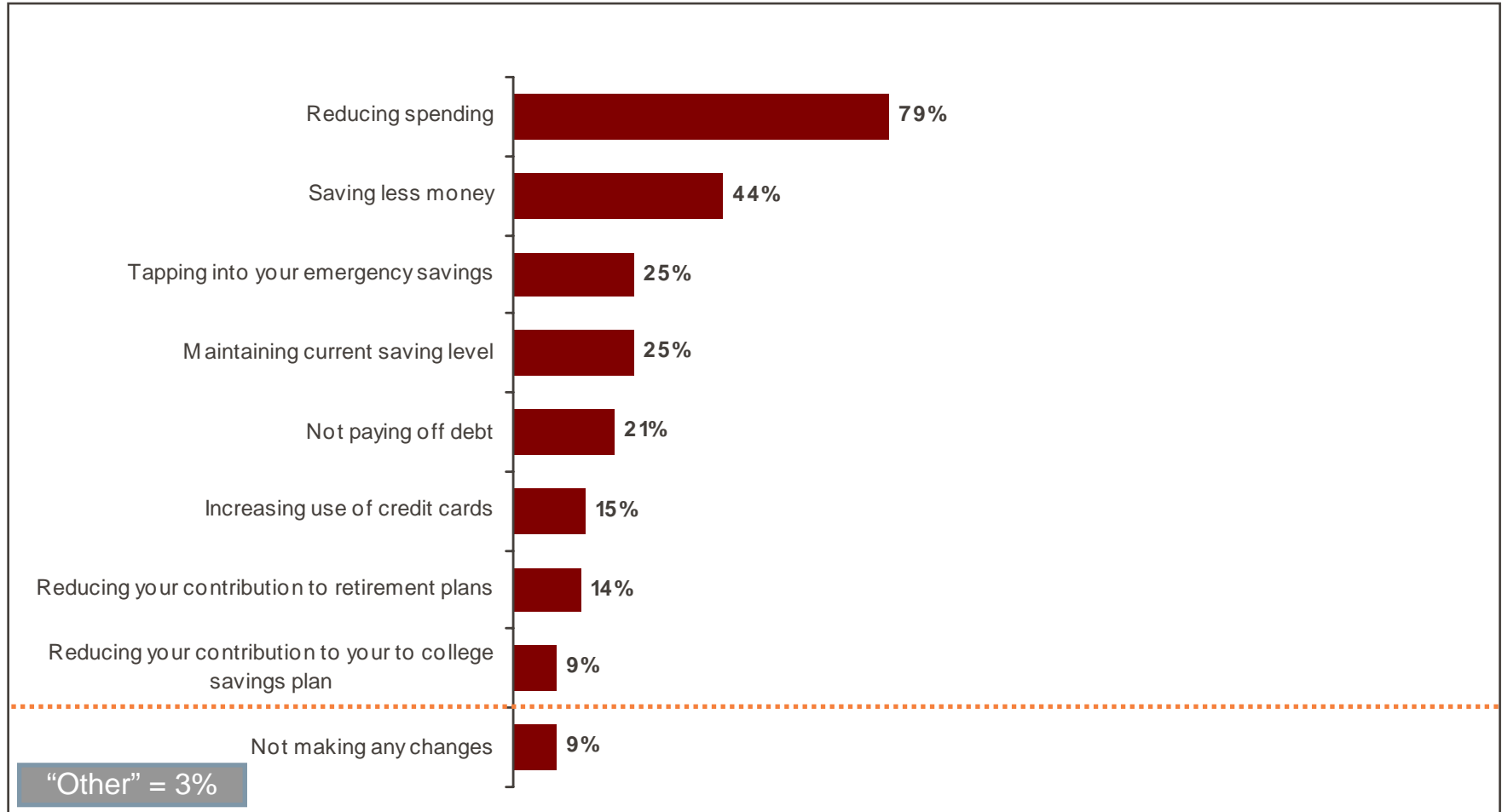
# U.S. Savers' Allocation of \$100

## U.S. SAVERS ALLOCATION OF \$100



# Financial Changes Due to Current Economy

All Respondents

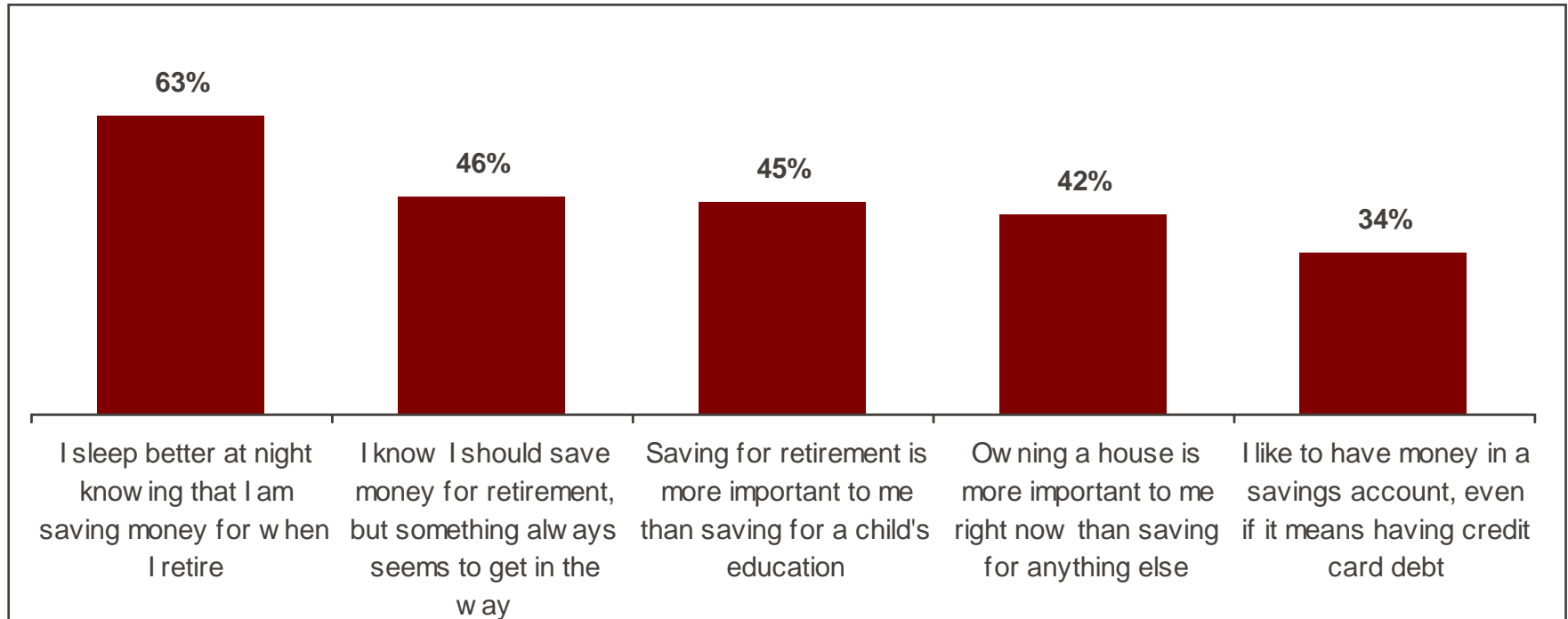


Source: Q8. Which of the following, if any, are you doing as a result of the economy? (Base = All respondents: 1004)

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# Attitudes about Saving

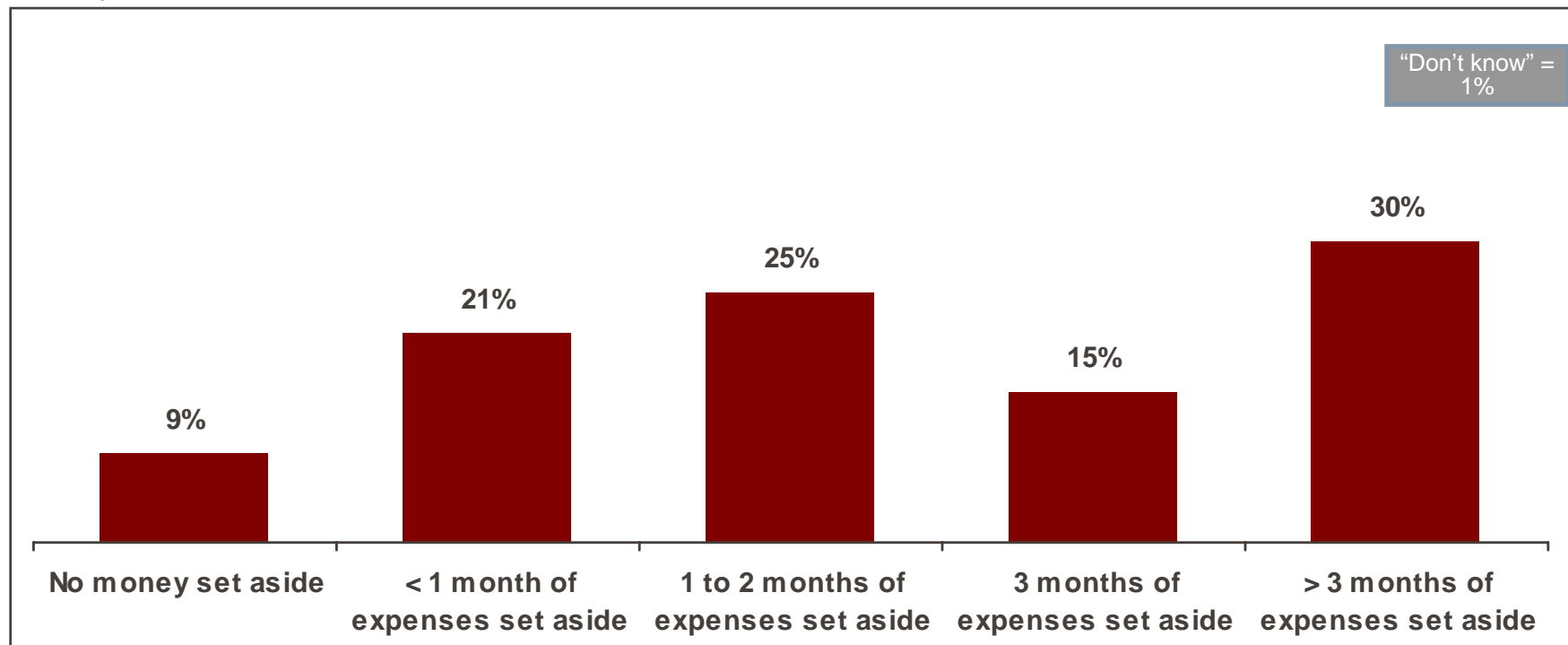
All Respondents: "Strongly" and "Somewhat" Agree



Source: Q9. How much do you agree or disagree with the following statements? (Base = All respondents: 1004)

# Emergency Funds

All Respondents



Source: Q10. How much money, if any, do you have set aside for household expenses in case of an emergency? (Base = All respondents: 1004)

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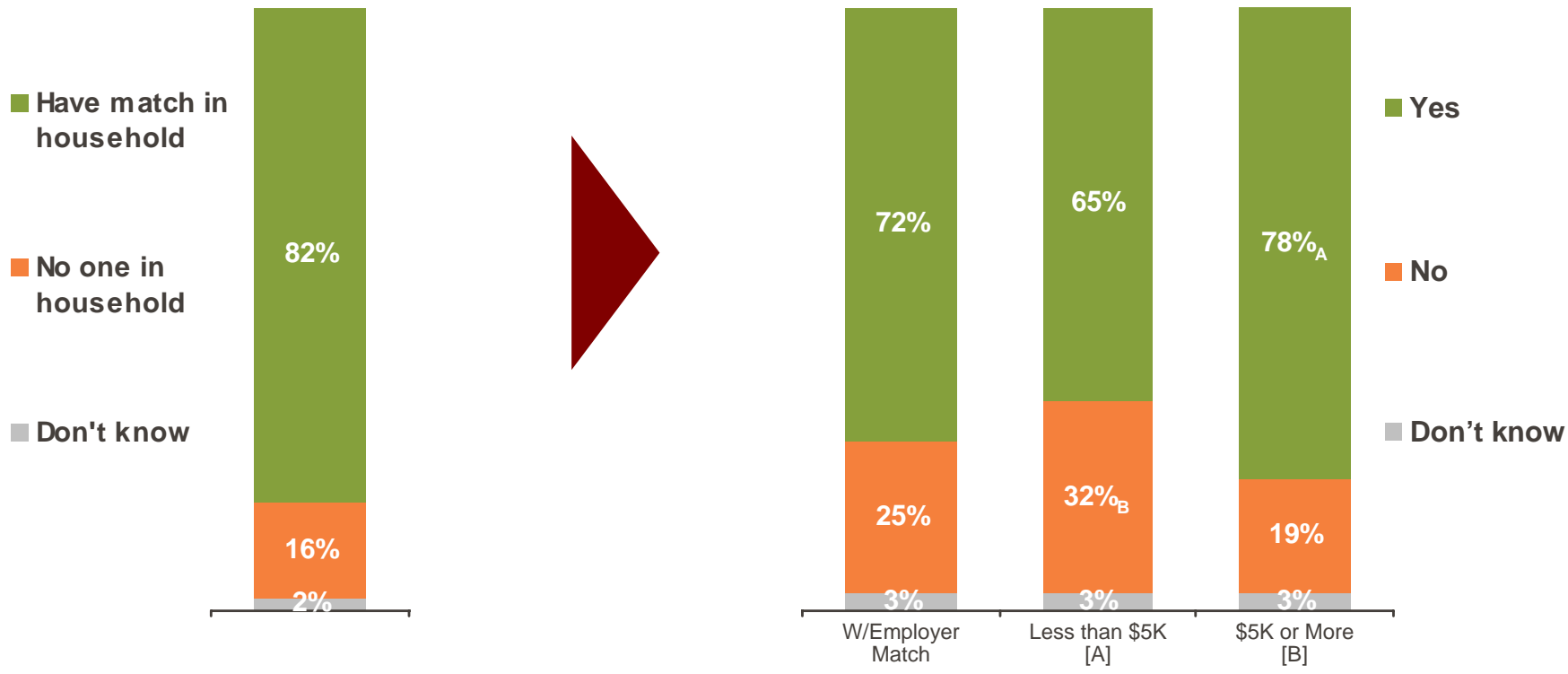
# Contributing up to the Employer Match

## HAVE EMPLOYER WHO MATCHES CONTRIBUTION

Have Retirement Plan

## WILL CONTRIBUTE THE MAXIMUM MATCH AMOUNT

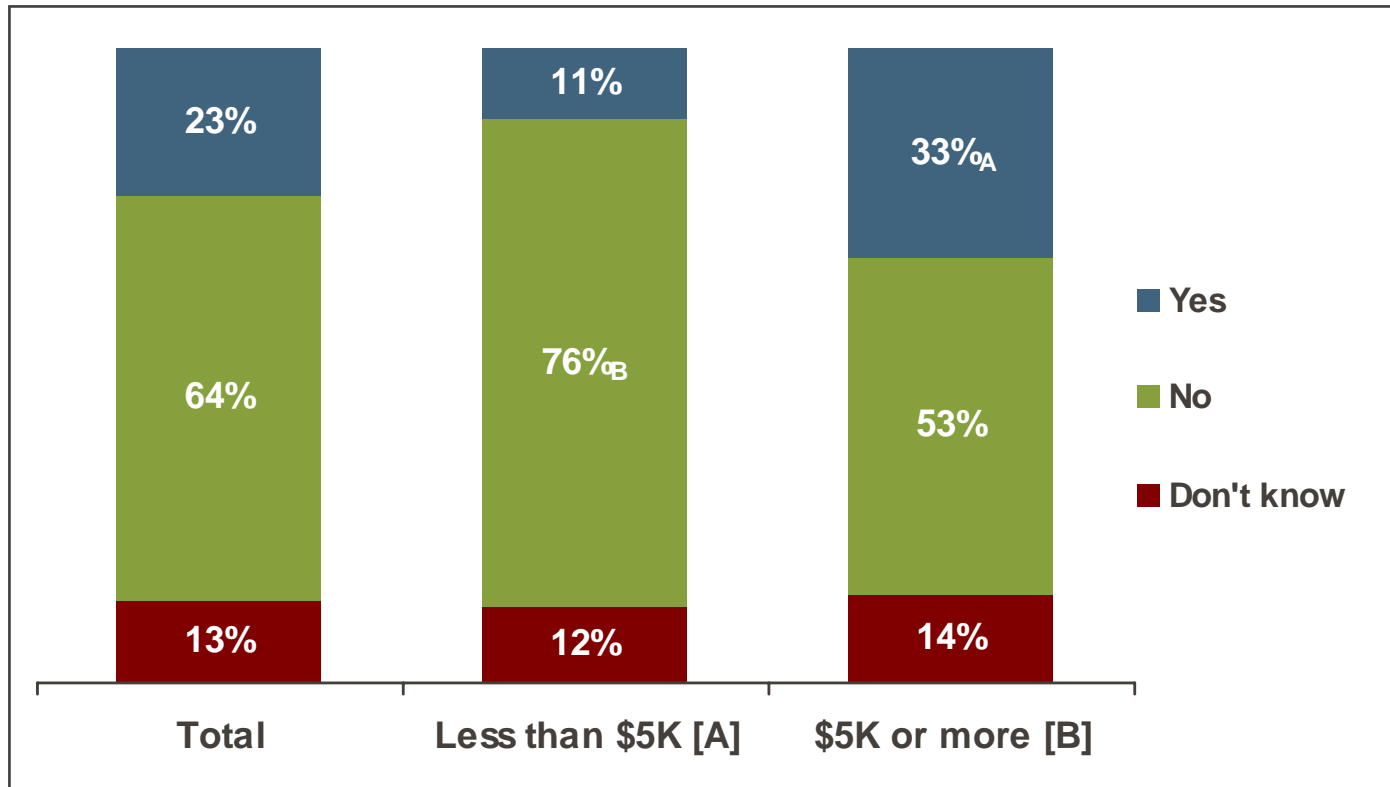
Have Employer Match Plan: By Level of Savings



Source: Q14. Do you or does someone in your household have an employer-sponsored retirement plan where your employer will match your contribution up to a certain amount? (Base = With retirement plan: 702); Q15. Do or does someone in your household contribute the maximum amount matched by your employer? (Base = Has employer who matches contributions to retirement plan, by savings amount: 577/266/311)

# Maximum 401(k) Plan Contributions

## CONTRIBUTE IRS MAX TO RETIREMENT PLAN



Source: Q13. In 2008, will you or someone in your household be contributing the maximum amount allowed by the IRS (\$15,500) to an employer-sponsored retirement plan? (Base = With retirement plan: 702/322/380)

# Credit Card Debt

## INTEREST-BEARING CREDIT CARD DEBT

All Respondents

	TOTAL
Credit card debt	59%
\$1 to \$1,000	14%
\$1,000 to \$2,499	10%
\$2,500 to \$4,999	8%
\$5,000 to \$7,499	7%
\$7,500 to \$9,999	5%
\$10,000 to \$14,999	6%
\$15,000 or more	9%
Do not know	1%
Mean	\$7,218
Median	\$2,948
No credit card debt	40%

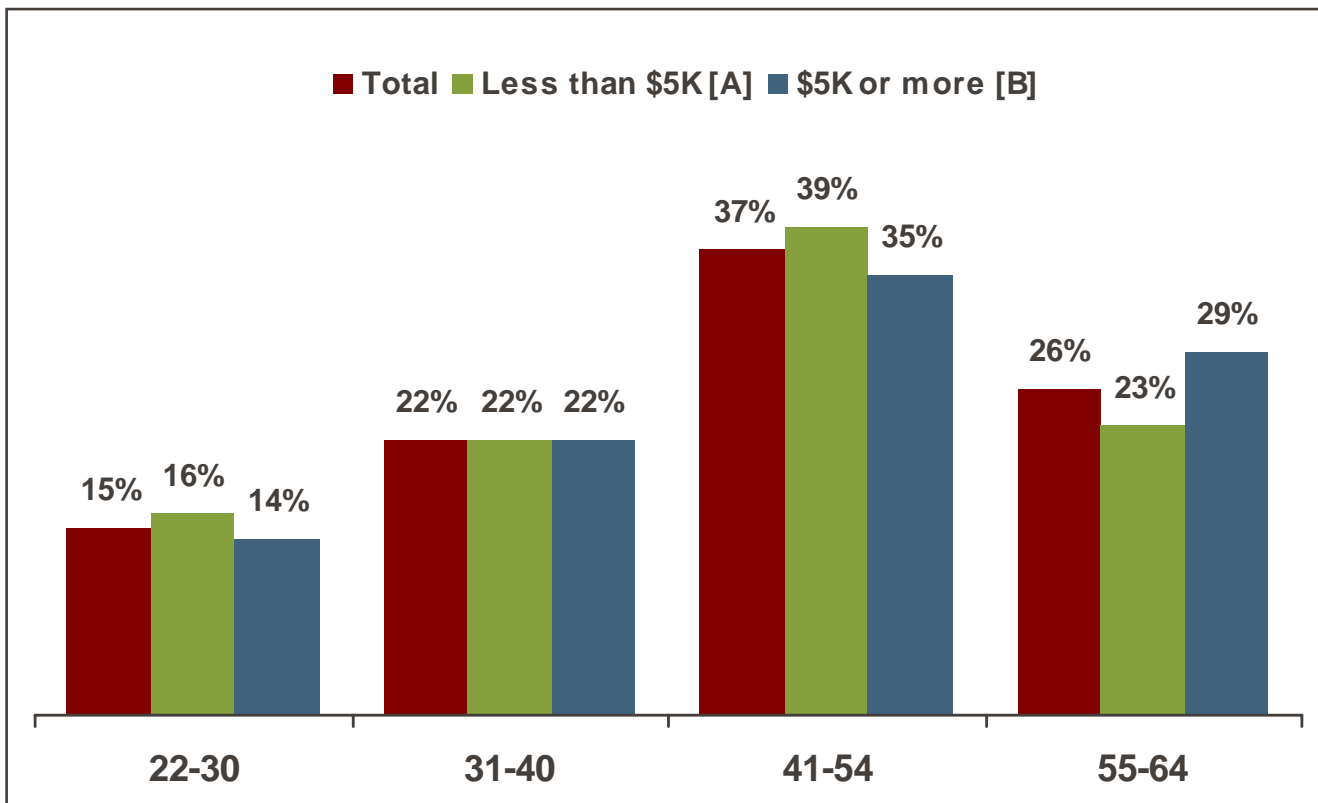
Source: Q11. What is the amount of credit card debt that you are paying interest on, if any? (Base = All respondents: 1004)

# Demographics

# By savings level, U.S. Savers in the current study are similar in age

## AGE OF RESPONDENTS

By Level of Savings



Median Age:

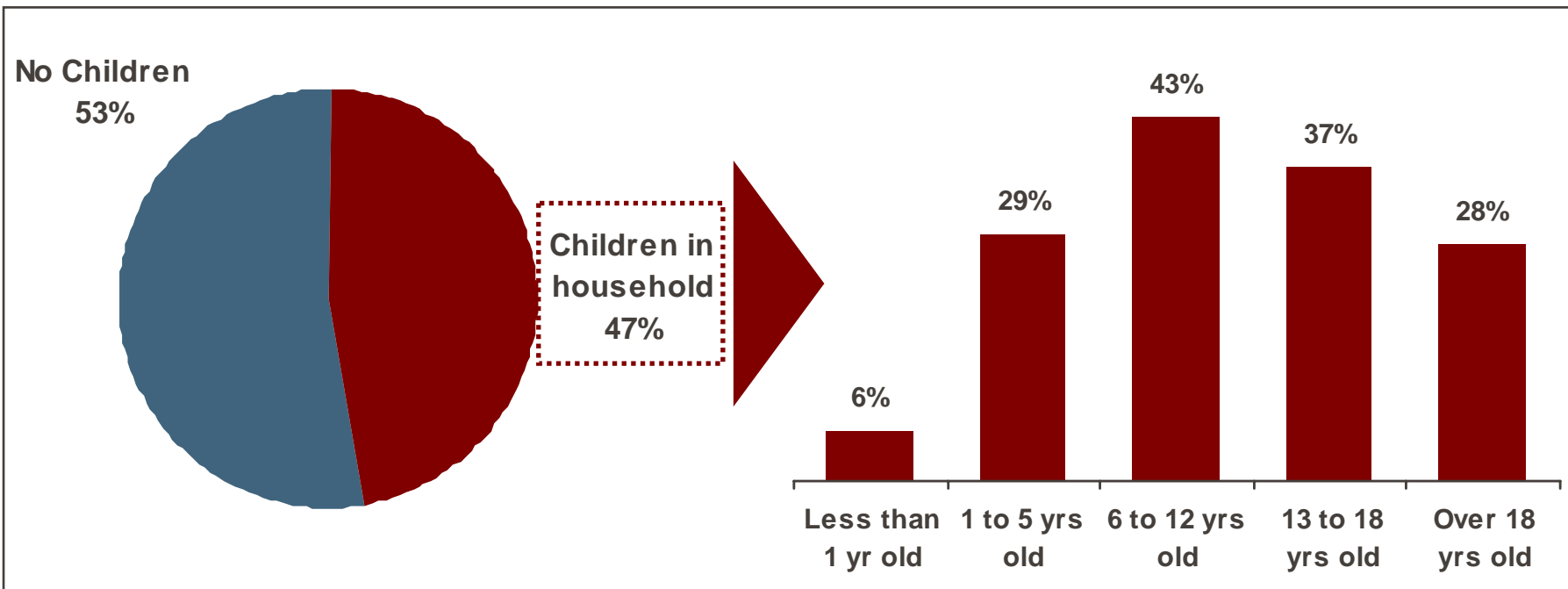
- Total: 44.9
- Less than \$5K: 44.0
- \$5K or more: 46.2

Source: Q2. In what year were you born? (Base = By savings amount: 1004/502/502)

# About half of the respondents have children in their households

## AGE OF CHILDREN IN HOUSEHOLD

Among Respondents With Children



### By Savings Level

- By savings level, respondents report similar frequencies for having children and by age of children.

### Retirement Plan

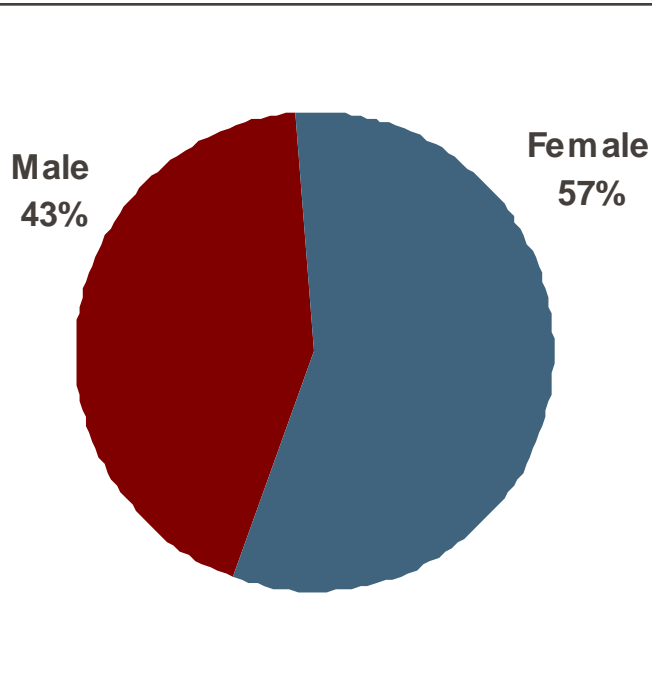
- Respondents with no children living in their household are less likely to have a retirement plan.

Source: Q6. Please select the age categories of the children who live in your household, if any. (Base = By respondents with children: 474)

# Nearly six out of ten respondents to this survey were women

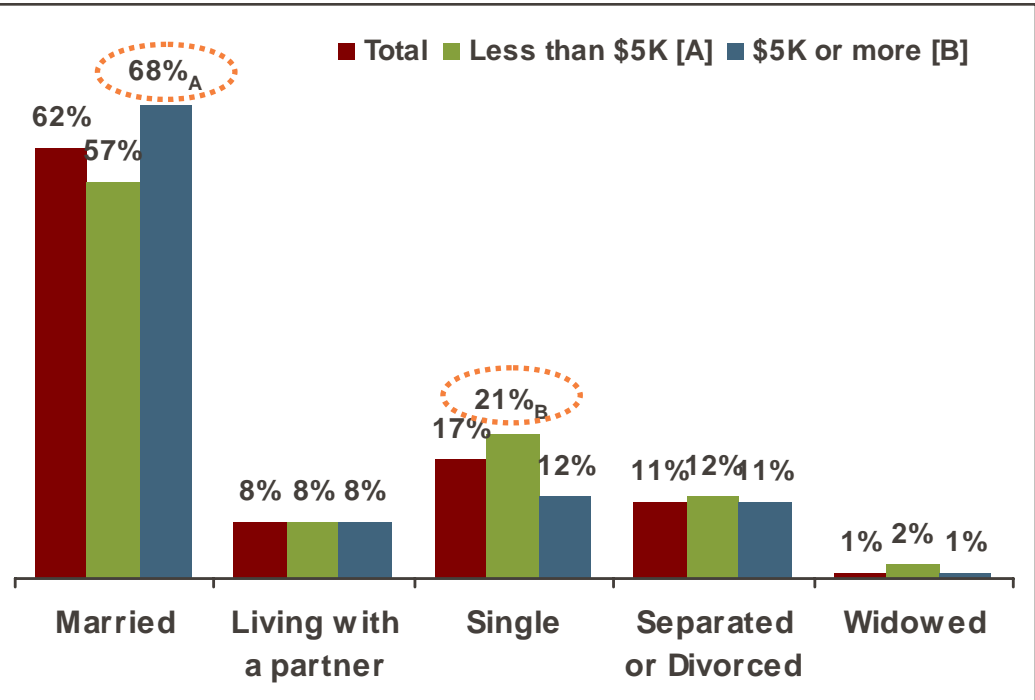
## GENDER

All Respondents



## MARTIAL STATUS

By Level of Savings



### Retirement Plan

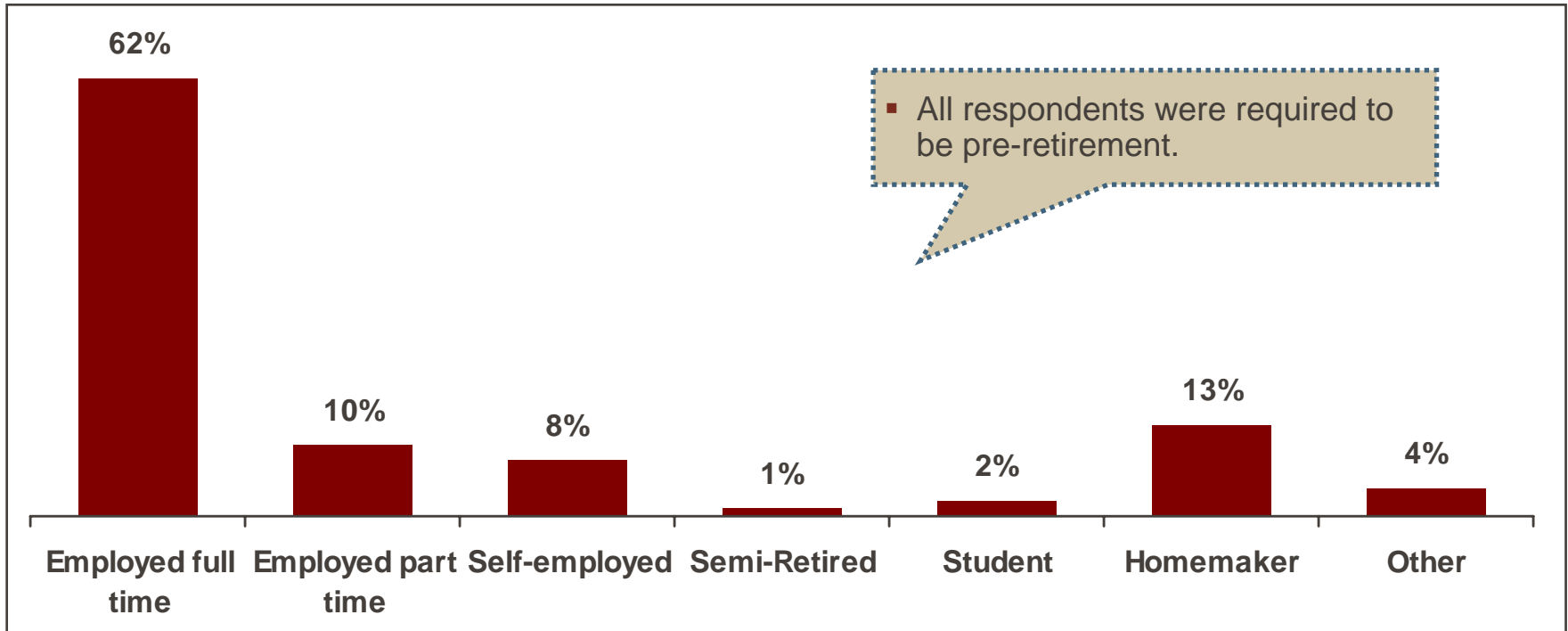
- Married respondents are more likely to have some form of retirement plan.

Source: Q24. Which of the following best describes you? (Base = By savings amount: 1004/502/502); Q26. Gender (Base = All respondents: 1004)

# Most respondents are employed full time

## EMPLOYMENT STATUS

All Respondents



### Savings Level

- Respondents by savings level report similar levels for employment status.

### Retirement Plan

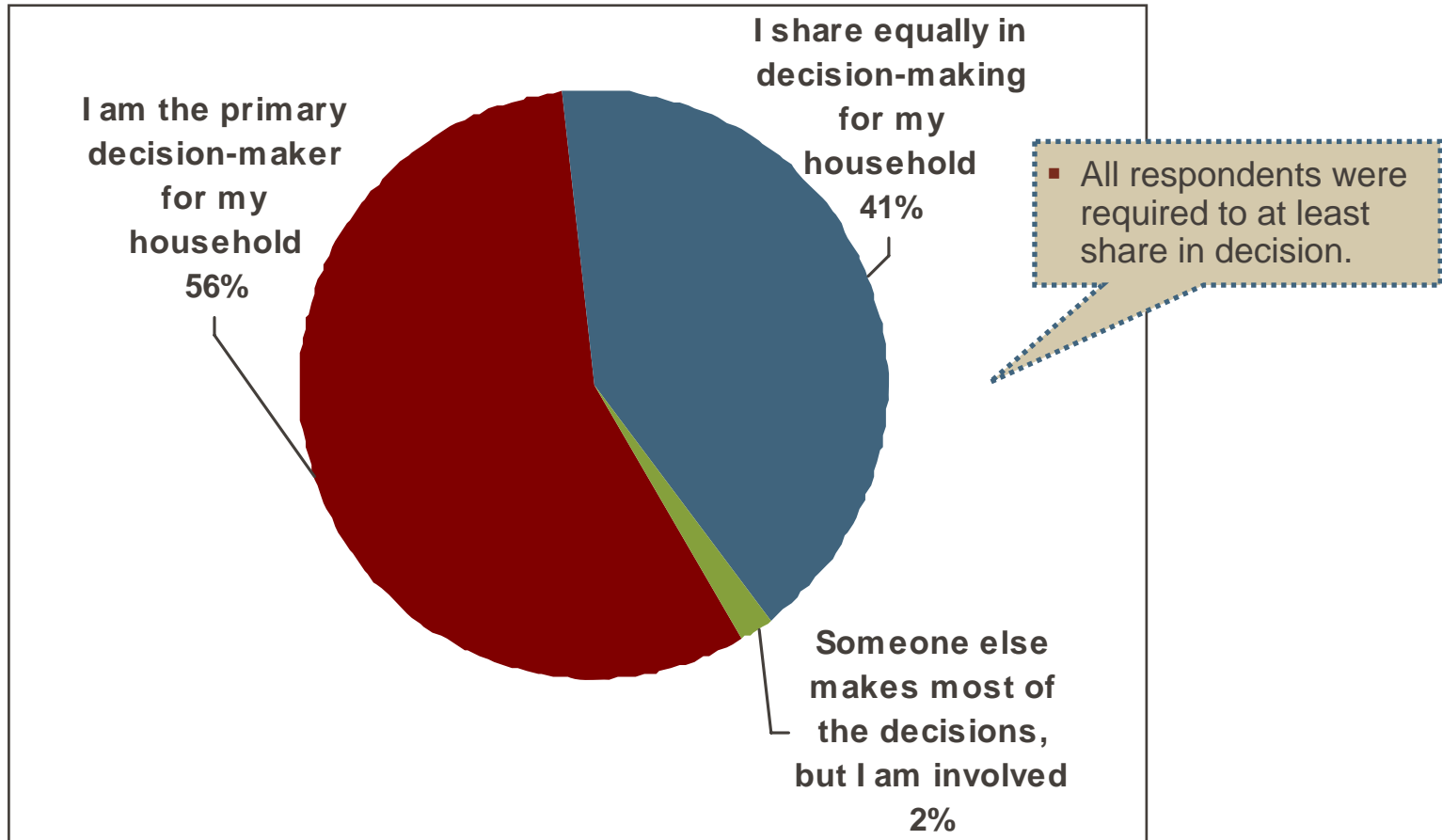
- Respondents that are employed full time are most likely to have a retirement plan.

Source: Q5. What is your current employment status? (Base = Total: 1004)

# Over half of the respondents are the primary finance decision-makers for their household

## ROLE IN DECISION-MAKING

All Respondents



Source: Q1. How would you describe your role in decisions regarding savings and expenses for your household? (Base = All respondents: 1004)

# Appendix

# Description of Trade-off Exercise

▪ Respondents were shown a set of instructions

▪ Then asked to complete the exercise, selecting one item per each column, per scenario.

▪ Items they rated:

- *In the next set of questions, please think about how you are allocating your savings during the next year. You will be shown a set of different potential ways you may choose to allocate your savings. For each scenario, please select the one that describes how you are least likely, and the one that describes how you are most likely, to allocate your savings this year. Please select the one that most applies to your situation.*
- *For these questions, your immediate, first answer is generally your best and most accurate response, so please try to complete each group of questions quickly. If you see multiple options of equal interest, pick the one that first comes to mind. If an option is not clear or unfamiliar, we suggest that you pick another item of interest.*

Like Least		Like Most
<input type="radio"/>	Contribute to child's college savings plan or save for child's education	<input type="radio"/>
<input type="radio"/>	Contribute to household emergency expense fund	<input type="radio"/>
<input type="radio"/>	Purchase a household good such as TV or furniture	<input type="radio"/>
<input type="radio"/>	Put money in a brokerage or investment account	<input type="radio"/>
<input type="radio"/>	Reduce or eliminate credit card debt	<input type="radio"/>

- Contribute to child's college savings plan or save for child's education
- Contribute enough to your company retirement plan to get the maximum company match
- Contribute maximum allowed by IRS (\$15,500) in employer-sponsored retirement plan
- Contribute to household emergency expense fund
- Save for a down payment on a house
- Reduce or eliminate credit card debt
- Make additional payments or increase amount of current mortgage payments
- Pay for a vacation
- Purchase a household good such as TV or furniture
- Put money in a brokerage or investment account

Compared to the U.S. population, respondents of the current study are more likely to be married and have higher education levels

## RESPONDENTS OF THE CURRENT STUDY COMPARED TO THE NATIONAL POPULATION

	SAVINGS FUNDAMENTALS SAMPLE	U.S. CENSUS DATA
Income**	<ul style="list-style-type: none"> <li>▪ Median=\$52,000</li> <li>▪ Mean=\$75,000</li> </ul>	<ul style="list-style-type: none"> <li>▪ Median=\$48,451</li> <li>▪ Mean=\$65,527</li> </ul>
Gender*	<ul style="list-style-type: none"> <li>▪ Male 43%</li> <li>▪ Female 57%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Male 49%</li> <li>▪ Female 51%</li> </ul>
Marital Status**	<ul style="list-style-type: none"> <li>▪ Married 62%</li> <li>▪ Single 17%</li> <li>▪ Separated/Divorced 11%</li> <li>▪ Widowed 1%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Married 50%</li> <li>▪ Single 31%</li> <li>▪ Separated/Divorced 13%</li> <li>▪ Widowed 6%</li> </ul>
Education**	<ul style="list-style-type: none"> <li>▪ High school graduate 13%</li> <li>▪ Some college 31%</li> <li>▪ College graduate 31%</li> <li>▪ Completed graduate school 13%</li> </ul>	<ul style="list-style-type: none"> <li>▪ High school graduate 30%</li> <li>▪ Some college 20%</li> <li>▪ College graduate 25%</li> <li>▪ Completed graduate school 10%</li> </ul>
Primary Residence**	<ul style="list-style-type: none"> <li>▪ Own primary residence = 75%</li> <li>▪ Rent primary residence = 23%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Own primary residence = 67%</li> <li>▪ Rent primary residence = 33%</li> </ul>

Source: Accessed 10/20/2008

\*www.census.gov 2001

\*\*www.factfinder.census.gov 2006\*\*