

A Solid Foundation: Financial Literacy Fast Facts

The current and future crisis

Premise

The lack of financial literacy poses an increasing threat for every income group in our society. It will have a growing impact on the nation's ability to cover the costs of many services not planned for by many Americans. While most Virginians and Americans think they are adequately planning for their current and future financial needs, recent data indicates otherwise.

According to a national survey commissioned by the American Institute of CPAs (conducted by the Roper Poll), the gap between financial preparedness and financial readiness is significant.



Reliance on Social Security

- Fewer than **20 percent** of Americans under the age of 65 believe Social Security will cover half or more of their retirement needs. But savings, including contributions to 401(k) plans, are at an all-time low, reflecting a lack of long-term planning.
- Only **37 percent** of Americans 65 years of age or older are “very confident” they have the knowledge they need for retirement planning.

Awareness of the Basics of Financial Planning

- Only one in four Americans (**23 percent**) with incomes of at least \$75,000 feel they are doing “very well” financially.
- Americans do not show meaningful familiarity with financial tools that can impact their financial planning.
 - ⊙ Only **51 percent** of Americans are very familiar with the impact of a 401(k) plan.
 - ⊙ **76 percent** of Americans have never heard of ERISA, the federal law established in 1974 to protect their pension benefits.
 - ⊙ Income replacement — retirement funds or other money needed to replace a current salary — is a foreign concept to **61 percent** of Americans.
 - ⊙ Portfolio diversification appears in more than **95 percent** of investment guidance given by financial advisors. However, **30 percent** of Americans have never heard of this concept.



Unexpected medical costs/financial emergencies

- **35 percent** of Americans would borrow or incur credit card debt to cover the cost of a medical emergency in excess of \$15,000.
- When asked how they would handle an unmanageable financial emergency:
 - ⊙ **51 percent** would borrow money from their family.
 - ⊙ **49 percent** would sell their house, car or other valuables.
 - ⊙ **24 percent** said they would have to resort to filing for bankruptcy.
- More than one out of every three Americans in two-income households or larger have no contingency plan in place beyond 12 months, should they lose one of these incomes.

College tuition

- **63 percent** of Americans with household incomes of at least \$75,000 believe financial aid will pay for at least part of their children's tuition.
- **38 percent** of Americans with household incomes less than \$20,000 believe financial aid will pay for at least half of college tuition.

Other financial facts:

- The United States has the lowest national savings rate in the industrialized world.
- A 2006 study revealed employees spend five or more hours each month worried about or dealing with their personal financial situations at work.
- In 2006, 617,660 Americans filed for bankruptcy.
- The average American family spends \$1.22 for every dollar it earns.
- One in five American families with annual household income of less than \$50,000 is spending 40 percent of after-tax income to service its debt.
- The average family saw its credit card debt grow by 53 percent during the 1990s.
- As of May 2007, the average American household owed \$9,900 in credit card debt, compared to \$2,600 in 1989.
- College students carry an average of three credit cards, each with an average balance of \$2,748, or a total of more than \$8,000. At an annual interest rate of 16 percent, paying off the cards at the minimum payment each month would take more than 27 years.
- Only 47 percent of women are covered by a pension, compared to 88 percent of men.
- After collectively earning lower salaries and for fewer years, women receive half the Social Security benefits that men do.

VSCPA financial stats:

According to a survey of Virginians conducted by the Southeastern Institute of Research for the Virginia Society of CPAs, CPAs are considered the premier advisor to the public on fiscal responsibility and financial planning:

- **81 percent** of Virginians feel CPAs should be somewhat to very active in helping educate the community on wise personal financial planning and budgeting.
- **82 percent** of Virginians find free personal financial planning and budgeting materials and resources from the CPA profession a very valuable service.

For more information about these statistics and the VSCPA Financial Fitness initiative, contact VSCPA Media & Public Relations Specialist Shawnte Reynolds at (800) 733-8272 or sreynolds@vscca.com.