Raddon
A Fiserv Company

Financial Literacy:

Prosperity Begins with Knowledge

Contents

Executive Summary

If you're curious about the average American's state of financial literacy, don't ask the average American. A recent study by Raddon found that almost half of respondents identify themselves as extremely or very financially literate, but fewer than half received a passing grade on a wide-ranging financial literacy quiz that accompanied the study. Only 6% scored an A.

While consumers may be a bit overconfident about their financial literacy, there's no denying that such literacy is important. Those who understand the basics of personal finance will be better equipped to handle unexpected expenses and will prove to be more engaged and more profitable customers to their respective financial institutions. As a result, institutions will find that providing a financial literacy program will benefit both them and their customers, helping both parties develop a deep, loyal relationship.

Raddon Research Insights' Financial Literacy Study provides a valuable snapshot of consumers' opinions about financial literacy. This report covers a range of topics, including:

- Consumer self-assessment and attitudes toward financial literacy
- Consumer self-assessment of credit ratings vs. actual trends in FICO scores
- Investment and loan product usage by financial behavior type
- Results of the Raddon Financial Literacy Quiz, broken down by passing grades by topic, generation, consumer segment and self-reported financial literacy level
- Suggestions for making educational programs relevant across generations and financial life stages
- Most popular topics for financial education programs
- Serving and developing relationships with rate trackers and those who use or have used a budget
- Deposit product usage and financial behavior by literacy levels and generation
- The impact of financial literacy

Financial Literacy: Prosperity Begins with Knowledge

Findings on how well-off Americans are doing financially vary from source to source. According to the Federal Reserve Board's 2017 "Report on the Economic Well-Being of U.S. Households," 70% of American households said they are "living well" or that they are currently "doing OK" financially.[1] On the other hand, in Bankrate.com's latest Financial Security Index, only 39% of Americans could afford to pay an unanticipated $1,000 expense, based on their current financial state.[2]

Publication Date: April 2018.

Regardless of individual statistics, U.S. consumer personal finances are always an intriguing area of exploration and research, particularly in a time when consumer sentiment over the U.S. economy is becoming increasingly more positive from the point of view of both individual households and from small businesses. Raddon explored the concept of financial literacy as a key component of being "well-off"; the interplay financial literacy has with the average U.S. consumer; how it is perceived; and the influence it has on the relationship between the consumer and their financial institution. We also examined the impact of generational attitudes and income levels.

It's in the financial institution's best interest to have customers who are financially literate and well informed. A relationship with customers who can make informed decisions also benefits the customer, who then typically rewards the institution with a loyal, deeper relationship. According to FICO's survey on U.S. customer loyalty, a correlation exists between the financial literacy of the customer and the depth of engagement they have with their financial institution.[3] As part of its study, Raddon administered a financial literacy quiz to assess what concepts are better known or understood than others. This study compares the literate consumer to the less literate consumer by analyzing their financial product usage and financial behavior.

[1] May 2017, Survey of Household Economics and Decisionmaking, https://www.federalreserve.gov/consumerscommunities/shed.htm

[2] January 2018, Most Americans don't have enough savings to cover a $1K emergency, https://www.bankrate.com/banking/savings/financial-security-0118

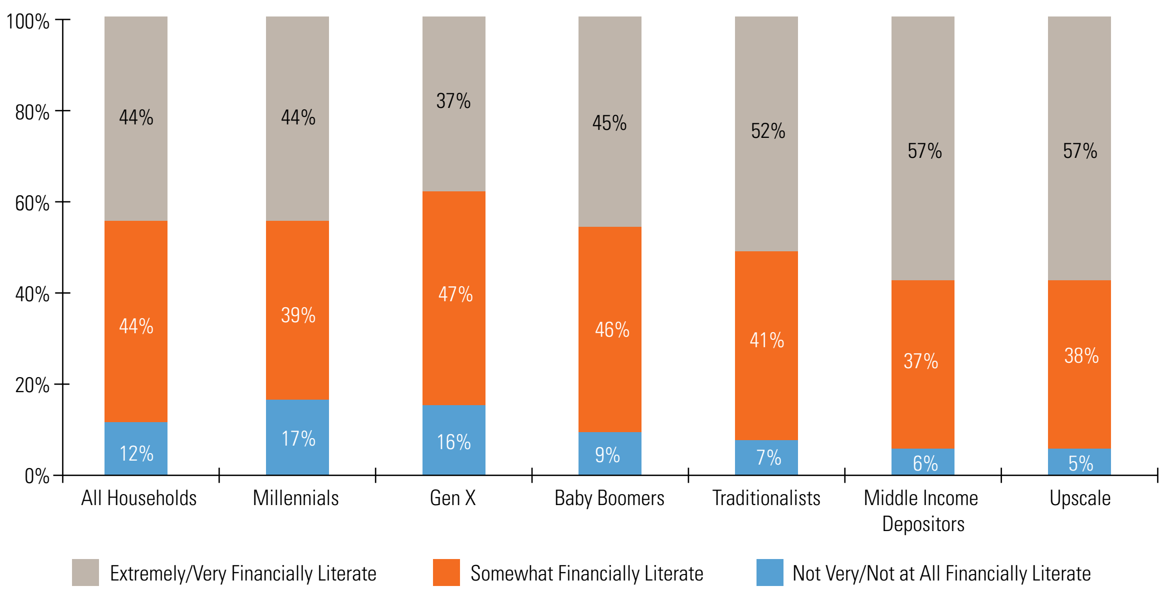
[3] June 2014, FICO Survey: U.S. Banks Under-Leveraging Customer Loyalty http://www.fico.com/en/newsroom/fico-survey-us-banks-under-leveraging-customer-loyalty-06-25-2014

U.S. Consumer Banking Behavior and Attitudes

While it's good to have confidence in one's financial literacy, having a realistic understanding of one's financial strengths and weaknesses is important as well. Many consumers have an inflated sense of their financial knowledge. As a result, financial institutions should remember that consumers are not homogenous and there may be differences between what they think they know and what they actually know.

Currently, almost half of respondents (44%) identify themselves as extremely/very financially literate. Income and age play a role in how literate consumers perceive themselves to be. As consumers age or rise into higher income brackets, they are more likely to identify themselves as extremely/very financially literate. Interestingly, we see a dip in confidence within the Gen X population (37% extremely/very financially literate). With an age range of 39 to 52, this is arguably the generation who felt the deepest impact, personally or through family, of the Great Recession of 2008.

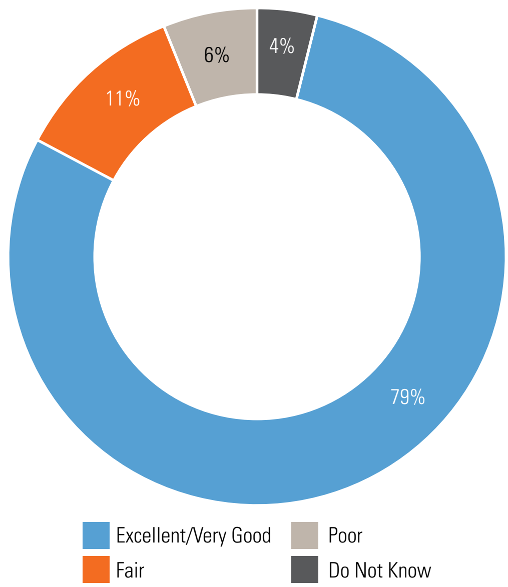
Figure 1. Self-Reported Financial Literacy



Source: Raddon Research Insights

As we'll see throughout this section, U.S. consumers have a relatively self-assured outlook on their individual financial behavior, how they spend, and how they manage their funds. When asked to self-describe their credit rating, roughly eight out of 10 (79%) indicated a top box score of excellent or very good. However, when examining national averages, scores appear lower. According to FICO, the average national credit score just reached 700 as of spring 2017. (FICO scores range from 300 to 850, with the "Good" range starting at 690 and the "Excellent" range beginning at 720.) FICO attributes much of the upward movement in average credit scores to the stable growth in the economy since the Great Recession, as well as an increase in awareness in credit scores, credit education and monitoring credit scores.

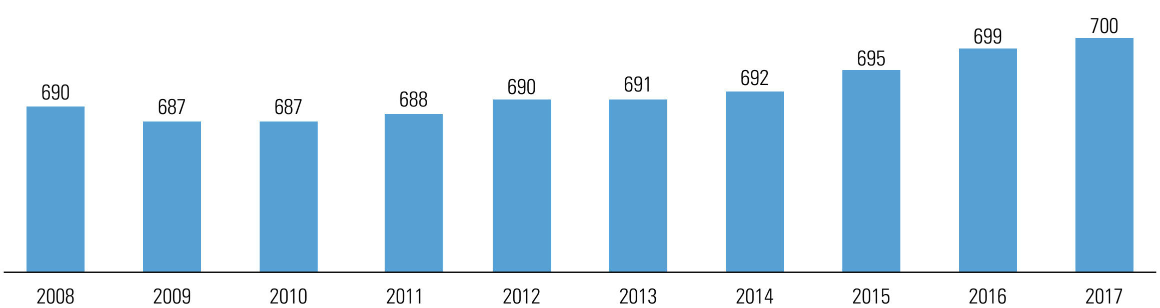
Figure 2. U.S. Consumer Self-Description of Credit Rating



Source: Raddon Research Insights

Figure 3. Average U.S. Consumer FICO Scores

FICO Score Ranges and Description	
Excellent Credit Score	720 – 850
Good Credit Score	690 – 720
Problem Credit Score	650 – 690
Poor Credit Score	350 – 650
No Credit	0 – 349



Source: FICO

[4] April 2017, US Average FICO Score Hits 700: A Milestone for Consumers http://www.fico.com/en/blogs/risk-compliance/us-average-fico-score-hits-700-a-milestone-for-consumers