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Most Americans Haven't Planned for Retirement and Other Areas of Concern

The financial status of American households may be even darker than we thought.

The "troubling picture of the state of financial capability in the United States" comes from [a new working paper](#) published by the **National Bureau of Economic Research**, authored by Professor **Annamaria Lusardi** of the **George Washington School of Business**.

"Americans' Financial Capability" surveyed nearly 1,500 Americans in the summer 2009 and found that not only is the household financial hole deep, but people might not be able to dig themselves out of it as easily as they thought.

Much of this data was released by Treasury at the end of 2009, but this paper pulls back the curtain all the way and adds some analysis. The results aren't pretty. Some key findings:



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More Americans may not be prepared for retirement.

–When given a basic list of questions on economics and finance in everyday life, less than 10% of respondents are able to answer all questions correctly.

–Half of survey respondents said they had trouble keeping up with monthly expenses such as bills. Only half of those surveyed said they had rainy day funds set aside that would cover them for three months in the event of a severe loss of income, such as a layoff or illness. Only a quarter of those earning \$25,000 or less had rainy day funds, half (53%) of those with incomes between \$25,000 to \$75,000 said they did and a quarter of those earning more than \$75,000 did.

–As much as a quarter (23%) of those surveyed said they have used some flavor of high-cost borrowing, such as a pawn shop, advance on tax refund or payday loan. When it comes to credit cards, nearly one third of respondents engaged in a behavior that resulted in an interest charge or fee. About half of respondents (54%) said they always paid a card in full.

–In spite of the demise of pension plans "the majority of Americans have not done any retirement planning," Prof Lusardi writes. Only 42% of those surveyed said they have tried to figure out how much to save for retirement. Among those who are 45 to 59 years old, 51% said they had yet to calculate how much they'll need. Only half (51%) of those surveyed said they had a retirement account through an employer. About a quarter (28%) said they had another retirement account.

–And they aren't really sure what's in those accounts. When asked how much of their portfolios were invested in stocks or mutual funds that contained stocks, 17% didn't know the answer to the question. When respondents were asked whether their retirement savings were invested primarily in a target-date fund, 37% said they didn't know the answer.

–In the last year, about one in ten (9%) of respondents who have a retirement account such as a 401(k) or IRA said they tapped their retirement savings. Most of those withdrawals were seen among those earning between \$25,000 and \$75,000 a year.

–Efforts to make people essentially their own money managers may also be futile. Only 21% to 25% of respondents said they have used information sent to them from Social Security. “It’s hard to equip people with information,” Prof. Lusardi says.

–A third of those surveyed said they experienced a “large and unexpected drop in income” in the last year. ([That correlates with deeper analysis of jobs numbers.](#)) Among those earning \$25,000 or less, 41% reported a drop in income.

–Some 12% of those surveyed didn’t know what their down payment on their home was. Two percent didn’t know what type of mortgage they had. And 10% of mortgage borrowers said they didn’t know the interest rate they were paying on their mortgage. When asked if they had an interest-only mortgage or a mortgage with an interest-only option, 20% did not know the answer.

–About 20% of consumers surveyed who had auto loans didn’t know the interest rate they pay. Of the 46% of credit-card holders who carry a balance, 12% didn’t know the interest rate on the card in their wallet with the largest balance.

These findings will have interesting conclusions for policymakers and educators who are the crux of both debates about financial literacy programs and a [new flow of bad economic data](#).

So who is to blame? “It’s hard to point a finger,” Prof. Lusardi says. “It takes two to tango. But it’s certainly true that this economy in the past 10 years has made it very difficult for people to make decisions. We’ve shifted the responsibility to individuals and they don’t have the capability to make those decisions. Still, some of the things we found in the survey are going to be with us for several years.”

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