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## **DATA: AMERICAN CONSUMERS LOSE \$30-50 BILLION ANNUALLY DUE TO LOW-INTEREST SAVINGS ACCOUNTS**

**More than \$1 Trillion Now Held in Traditional Savings Vehicles;  
Survey Reveals Lack of Awareness About Higher-Rate Savings Options.**

**Washington, D.C. -- October 17, 2000 --** American consumers could earn \$30-\$50 billion in additional interest each year by shifting the more than \$1 trillion they now keep in low-yielding savings accounts into higher-rate savings vehicles that are just as safe, according to a new analysis of Federal Reserve data commissioned by the Consumer Federation of America (CFA) and Providian Financial Corp.

A related CFA/Providian public opinion survey by Opinion Research Corporation International (ORCI) suggests that millions of Americans understand little about the more lucrative savings options available to them. The Fed data and opinion survey findings both indicate that older Americans lose the most by not using higher-interest savings alternatives.

"Savers who keep over \$1 trillion in low-yielding accounts lose not only tens of billions of dollars in interest income annually but also an important reason to save," said CFA Executive Director Stephen Brobeck. "Even saving as little as \$100 a month over a lifetime will result in \$100,000 in additional interest income for a family."

"Financial institutions should help their customers save wisely - through education and by offering attractive savings options," Providian Chairman and CEO Shailesh Mehta said.

While \$30-\$50 billion in additional annual interest payments is a large sum, those figures do not capture the full sense of how the long-term American savings picture could change for the better if consumers moved their money into higher-interest alternatives. The roughly \$1 trillion in low-interest savings accounts at the current 2.1 percent interest average will yield a total of \$2.3 trillion in savings in 40 years -- reflecting a doubling of the original sum. By contrast, the same amount of money invested for 40 years at 7.1 percent would yield \$15.5 trillion -- more than twelve times the original principal. (See table below.)

### **Americans Keep More Than \$1 Trillion in Low-Rate Savings Accounts**

According to data reported in recent Federal Reserve Bulletins, Americans keep well over \$1 trillion in low-rate passbook saving, statement saving, and money market

deposit accounts. These accounts pay on average, according to Bank Rate Monitor, 2.1 percent in interest.

According to the Fed's Survey of Consumer Finances, well over half of all households (62 percent) maintain savings accounts. These accounts are widely distributed throughout the population, with at least one-half of households in all age groups, major ethnic groups, and income groups (except those under \$10,000) having a saving account.

However, a small minority of households -- the 7 percent with at least \$25,000 in these accounts -- hold the majority of these savings deposits (70 percent). And these households, 43 percent of which are headed by someone at least 65 years of age, are much older than the rest of the population.

AARP Director of Life Resources Katie Smith Sloan commented: "AARP is deeply concerned about improving the financial security of people as they age. These findings underscore a tremendous opportunity for education of AARP members and the population at large on low-risk, higher-yield, savings vehicles."

### **Savers Lose Tens of Billions of Dollars in Interest Income**

Savers forego huge sums annually when they keep substantial deposits in low-yield savings. If they shifted all deposits to high-rate savings accounts, CDs, or Series EE Savings Bonds paying at least 3 percentage points higher interest, they would earn at least \$30 billion more in interest annually. If they shifted all deposits to Series I Savings Bonds paying at least 5 percentage points higher interest, they would earn at least \$50 billion more in interest annually. (After the first six months, Savings Bonds can be redeemed with only a three-month interest penalty.)

Because of the "magic" of interest compounding, these interest losses become enormous over time, as the following table shows:

#### **POTENTIAL IMPACT OF ADDITIONAL INTEREST PAYMENTS**

	10 YEARS	20 YEARS	40 YEARS
\$1 TRILLION 2.1 % interest	<b>\$1.2 TRILLION</b>	<b>\$1.5 TRILLION</b>	<b>\$2.3 TRILLION</b>
\$1 TRILLION 5.1 % interest	<b>\$1.6 TRILLION</b>	<b>\$2.7 TRILLION</b>	<b>\$7.3 TRILLION</b>
\$1 TRILLION 7.1 % interest	<b>\$1.9 TRILLION</b>	<b>\$3.9 TRILLION</b>	<b>\$15.5 TRILLION</b>

Source: Providian Financial, 2000.

"If savers understood how much interest income they lost over time, they would likely not only shift savings into higher-yielding accounts but also put more of each paycheck into savings," said Brobeck.

### **Lack of Saver Awareness Helps Explain Huge Low-Rate Deposits**

The CFA/Providian survey results suggest that an important reason for the size of household deposits in low-rate savings accounts is lack of awareness about interest rates of various savings options:

- \* Most of those with a saving account (57 percent ) do not know the interest rate on this account.
- \* A significant minority (30 percent) erroneously thinks there is little difference in the interest paid by savings and by a certificate of deposit (CD). (Most CDs currently pay rates that are at least 3 percentage points higher than rates on savings accounts.)
- \* Nearly half of Americans (45 percent) do not consider U.S. Savings Bonds an attractive savings vehicle. (Yet, Series I bonds currently pay rates that are more than 5 percentage points higher than rates on savings accounts.)

The survey also suggests that many Americans believe that it is far more convenient to keep savings in a traditional account than in higher-yielding alternatives that are also insured or guaranteed by the federal government. Well over half (63 percent) keep their largest savings deposits in a local bank or credit union where they maintain a checking account. An even higher proportion (80 percent) says that convenience of making deposits is an important reason for choosing an institution. And 59 percent say that the availability of branches with tellers is an important reason for this choice.

One important reason that savers do not shift funds from savings accounts to CDs is the desire to preserve liquidity. Not wanting to tie their money up is the most frequently cited reason (by 46 percent) not to make the shift.

### **Many High-Rate Savings Options Are Easy to Purchase**

There are three main high-rate savings options that are insured or guaranteed by the federal government:

- \* Certificates of deposit. CDs that can be purchased for as little as \$250 at many institutions. Savers worried about liquidity can keep some of their money in traditional savings accounts. Plus, the penalty for cashing in a CD early is typically only several months lost interest.
- \* Savings Bonds. Series EE or I U.S. Savings Bonds that can be purchased for as little as \$50 from most banking institutions or directly from the U.S. Treasury. The Easy

Saver plan allows automatic deductions from a savings or checking account to purchase these bonds.

\* Higher-rate savings accounts. Some of these require automatic deposits from a checking account to earn a high rate. But these accounts are easy to purchase by phone or on the Internet. A bank representative can fill out the application form and then mail it to you for your signature.

Providian's Mehta said: "We're going to do our part by supporting CFA's education efforts and by offering a new account that pays a better rate than traditional savings accounts, but doesn't require a big deposit or lock up people's money for several years."

### **About the Data Sources**

The Fed's Survey of Consumer Finances (SCF) is the most frequently used source of data on family finances. The 1998 data used for the CFA/Providian calculations was released in February 2000. Family Economics Professor Catherine Montalto of Ohio State University analyzed SCF data for CFA and Providian.

The national opinion survey was conducted by CARAVAN Opinion Research Corporation International (ORCI). Telephone interviews were conducted among a national probability sample of 1008 adults comprising 507 men and 501 women 18 years of age and older, living in private households in the continental United States. Interviewing for the survey was conducted during the period of July 13-16, 2000. All participants were contacted via random digit dialing to ensure a representative sample of consumers nationwide. The margin of error is plus or minus 3 percent.

### **About CFA and Providian**

Consumer Federation America ([www.consumerfed.org](http://www.consumerfed.org)) is a nonprofit association of more than 250 pro-consumer groups, which, since 1968, has sought to advance the consumer interest through advocacy and education.

San Francisco-based Providian Financial ([www.providian.com](http://www.providian.com)) is a leading provider of lending and deposit products to customers throughout the United States and offers credit cards in the United Kingdom and Argentina. Providian helps customers build, protect and responsibly use credit. Providian has more than \$27 billion in assets under management and over 14 million customers.

### **FOR MORE INFORMATION:**

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### **SEE THE SURVEY RESULTS ON THE WEB AT**

[www.consumerfed.org/savemore.html](http://www.consumerfed.org/savemore.html)

Table 1. Percent of Households with Savings Accounts, Money Market Deposit Accounts, or Either Type of Low Yield Account, and Median Value of These Accounts for Households with the Accounts (1998) (Aggregate savings in low rate accounts: \$771.2 billion)

Characteristic	Total sample	Savings account			Money market deposit account			Saving account or MMDA		
		Percent owning	Mean value	Median value	Percent owning	Mean value	Median value	Percent owning	Mean value	Median value
<b>All households</b>	100.0%	55.8	\$7,966	\$2,000	13.3	\$23,099	\$5,000	62.1%	\$12,093	\$2,650
<b>Age of respondent</b>										
less than 35 years	23.3	53.1	3,760	900	6.4	8,948	2,000	56.0	4,585	1,000
35 to 44 years	23.3	63.4	5,245	1,800	9.7	19,935	4,000	67.5	7,793	2,000
45 to 54 years	19.2	61.2	8,325	2,800	15.0	20,842	5,500	67.9	12,126	3,700
55 to 64 years	12.8	56.4	10,264	3,000	19.3	24,023	5,000	65.4	15,945	4,000
65 years and over	21.4	45.1	15,333	4,800	19.7	30,782	10,000	56.1	23,126	6,500
<b>Education of respondent</b>										
less than high school	19.1	35.6	5,538	1,300	5.8	21,916	9,000	39.3	8,232	1,540
high school graduate	29.3	56.4	6,577	1,540	12.4	13,507	4,000	61.8	8,702	2,000
some college	25.0	63.8	5,977	1,920	12.0	27,003	5,000	69.6	10,118	2,130
bachelor's degree	15.6	62.5	11,131	3,000	18.6	21,773	5,000	70.8	15,537	3,500
graduate school	11.0	61.3	13,910	4,000	24.5	33,496	6,100	73.6	22,757	5,000
<b>Race/ethnicity of respondent</b>										
White nonhispanic	77.7	58.4	8,638	2,100	14.5	23,520	5,600	65.3	12,958	3,000
Black nonhispanic	11.9	46.8	3,605	800	6.6	11,249	2,200	49.0	4,951	1,100
Hispanic	7.2	43.0	5,550	1,050	9.8	29,882	5,000	49.5	10,712	1,600
Nonhispanic of other races	3.2	53.7	8,640	2,200	16.7	22,587	5,500	63.0	13,351	4,000
<b>Marital status and sex of respondent</b>										
Married	58.5	59.4	8,929	2,200	15.3	23,211	6,000	66.8	13,249	3,000
Unmarried female	27.2	51.6	5,659	1,700	10.2	19,105	5,000	56.3	8,634	2,000
Unmarried male	14.3	49.0	7,811	1,500	11.3	29,308	4,000	54.5	13,097	2,000
<b>Total household annual income</b>										
less than \$10,000	12.8	30.5	2,172	300	2.8	9,558	2,000	32.4	2,881	400
\$10,000 to \$24,999	24.6	45.8	5,392	1,100	9.7	18,767	5,000	50.7	8,471	1,500
\$25,000 to \$49,999	29.0	59.6	5,657	1,470	12.7	15,419	3,000	65.6	8,115	2,000
\$50,000 to \$99,999	25.1	72.3	8,752	3,200	16.5	19,770	6,500	79.5	12,067	4,000
\$100,000 and over	8.5	60.4	22,973	5,500	32.2	43,976	10,300	77.0	36,425	10,000
<b>Census region</b>										
Northeast	19.3	59.9	11,212	2,800	13.0	23,666	7,700	64.5	15,154	3,400
North Central	24.0	58.2	8,029	2,000	14.4	19,954	4,500	64.5	11,684	2,620
South	35.6	49.9	5,938	1,900	13.5	19,196	5,000	57.6	9,649	2,300
West	21.1	59.1	7,783	2,000	12.1	34,130	5,000	65.0	13,438	2,200

SOURCE: 1998 Survey of Consumer Finances (SCF98) represents 102.6 million U.S. households; All statistics are calculated using the SCF final nonresponse-adjusted sampling weights (X42001)

Table 2. Subsample of Households With At Least \$25,000 in Low Yield Accounts: Percent of Households with Savings Accounts, Money Market Deposit Accounts, or Either Type of Low Yield Account, and Median Value of These Accounts for Households with the Accounts (1998) (Sample represents 7.0 million households and \$535.7 billion dollars of aggregate savings in low rate accounts)

Characteristic	Total sample	Savings account			Money market deposit account			Saving account or MMDA		
		Percent owning	Mean value	Median value	Percent owning	Mean value	Median value	Percent owning	Mean value	Median value
<b>All households with at least \$25,000 in low yield accounts</b>	100.0%	76.7%	\$50,270	\$33,000	56.0%	\$67,745	\$33,000	100.0%	\$76,536	\$46,330
<b>Age of respondent</b>										
less than 35 years	6.1	83.9	55,556	42,000	55.1	44,582	30,000	100.0	71,183	42,000
35 to 44 years	16.3	80.5	36,517	31,900	46.5	72,492	34,000	100.0	63,074	36,000
45 to 54 years	19.9	81.7	47,558	33,000	58.2	62,521	26,000	100.0	75,245	42,000
55 to 64 years	16.0	68.0	60,936	37,800	66.6	69,266	42,000	100.0	87,536	52,000
65 years and over	41.7	75.2	52,851	33,000	54.9	71,528	32,000	100.0	78,970	48,000
<b>Education of respondent</b>										
less than high school	9.8	73.1	38,182	30,000	44.1	65,127	32,000	100.0	56,609	32,000
high school graduate	24.3	83.0	44,091	35,000	48.8	44,267	26,000	100.0	58,219	48,600
some college	20.7	73.9	41,857	30,000	63.3	78,216	30,000	100.0	80,491	42,000
bachelor's degree	23.7	76.3	59,711	32,000	55.2	59,716	35,000	100.0	78,568	46,330
graduate school	21.5	74.3	60,794	40,000	63.5	86,613	46,000	100.0	100,220	53,500
<b>Race/ethnicity of respondent</b>										
White nonhispanic	87.9	78.3	50,928	35,000	54.6	67,941	32,000	100.0	76,947	46,000
Black nonhispanic	4.5	78.0	26,775	28,000	67.6	37,011	26,000	100.0	45,918	42,700
Hispanic	3.9	50.0	67,541	29,000	64.5	111,319	50,000	100.0	105,539	50,000
Nonhispanic of other races	3.7	66.9	51,752	27,200	67.4	57,740	67,000	100.0	73,552	33,400
<b>Marital status and sex of respondent</b>										
Married	71.6	77.0	50,607	31,900	56.7	62,712	32,000	100.0	74,566	42,600
Unmarried female	15.3	77.5	46,812	36,000	56.2	73,183	28,000	100.0	77,396	48,000
Unmarried male	13.1	74.1	52,581	32,000	52.1	90,823	55,000	100.0	86,288	53,500
<b>Total household annual income</b>										
less than \$10,000	1.4	99.8	27,523	27,050	35.0	68,082	70,000	100.0	51,308	30,000
\$10,000 to \$24,999	14.0	72.4	46,186	33,500	52.1	71,047	31,000	100.0	70,498	40,000
\$25,000 to \$49,999	23.2	79.8	38,255	29,300	47.9	58,686	37,000	100.0	58,602	41,000
\$50,000 to \$99,999	23.4	78.1	48,064	30,000	58.1	50,515	30,000	100.0	66,879	42,700
\$100,000 and over	27.9	73.5	67,560	46,800	63.5	90,890	92,000	100.0	107,353	54,000
<b>Census region</b>										
Northeast	25.3	88.7	57,808	37,800	51.2	56,993	34,000	100.0	80,460	51,000
North Central	22.1	81.4	54,690	35,000	49.2	72,466	32,000	100.0	80,181	42,000
South	29.1	64.5	40,460	30,000	63.5	59,819	31,000	100.0	64,101	41,000
West	23.6	74.5	46,584	30,000	58.4	84,724	35,000	100.0	84,237	46,800

SOURCE: 1998 Survey of Consumer Finances (SCF98), represents 102.6million U.S. households; Sample in this table represents 7.0 million U.S. households. All statistics are calculated using the SCF final nonresponse-adjusted sampling weights (X42001)