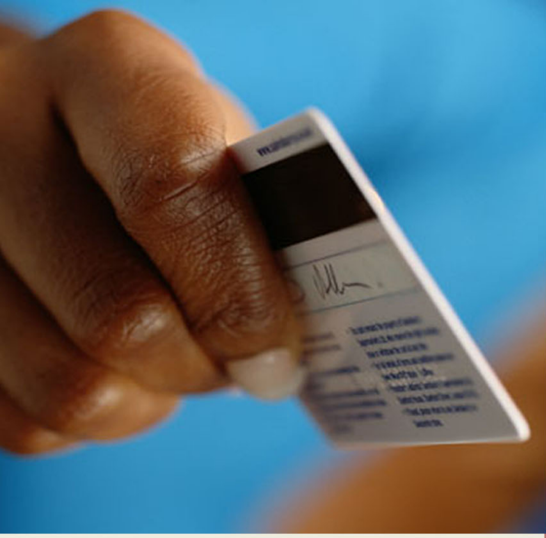

Living WITH debt

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Living WITH debt

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LIVING WITH DEBT:
A Life Stage Analysis of Changing Attitudes and Behaviors

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Chapter I

INTRODUCTION: The Democratization of Consumer Credit: Empowerment or Impediment in the Pursuit of the American Dream

Consumer credit has played a central role in enhancing the standard of living of American families throughout the history of the United States.[1] Traditionally, rural farmers depended on credit to manage cash flow pressures between the planting and harvest seasons; bank loans were required if the harvest was poor or farmers wanted to expand their production capacity through the purchase of land and machinery. In the cities, urban residents relied on diverse networks of consumer credit in order to mitigate employment and income fluctuations arising from the vagaries of the business cycle. Prior to government-sponsored unemployment and poverty relief programs of the New Deal, urban workers relied on multiple sources of credit from employers, merchants, family, friends, churches, and fraternal organizations. Furthermore, Americans disciplined their household spending in order to save money for unexpected needs as well as wants by tithing to the church or "saving for a rainy day." This is reflected in the historic U.S. household saving rate that rarely dipped below eight percent after the Great Depression—peaking at more than 25 percent during World War II.[2]

In the 20th Century, formal and informal credit contributed to the lifeblood of small communities—especially those without banks—as the United States was still primarily a rural society until World War I. Big corporations with finance departments and small local merchants with informal "book" credit satisfied the "needs" and "wants" of Americans through "convenient" installment loan programs. These included "big ticket" items such as a thresher, tractor, or a car as well as smaller items such as a sewing machine, shoes at the General store, or even food at the grocery. In pre-World War II America, household savings and the prudent use of consumer credit became the twin financial pillars of the family budget. Furthermore, personal trust and social reputation or "honor" in accepting personal responsibility were crucial factors in receiving a consumer loan. Also, unlike today, a substantial down payment was required in order to qualify for a consumer loan. Hence, the most "trustworthy" borrowers had demonstrated their worthiness by repaying previous financial obligations, and their prudent budgeting skills were rewarded with new consumer loans.[3]

After World War II, urban manufacturing centers began to be replaced by sprawling suburban Levittowns as the residence of choice for American middle-class families. Although "cash and carry" and "lay-away" still reigned supreme, new federal spending and loan programs accelerated the reshaping of the American Dream. For example, returning U.S. soldiers qualified for the GI Bill and VA Loans, which provided low-cost loans and credit insurance for U.S. veterans to attend college and to buy new homes. The booming post-war period featured rising U.S. wages and an escalating standard of living even though single-income households were the norm. Faced with suburban communities that required private transportation, home furnishings, appliances, and landscaping, the demand for consumer credit soared as American families eagerly assumed a multitude of installment loans. In summary, the growth of consumer borrowing was influenced by traditional cultural attitudes (Puritan ethos) that promoted "good" debt such as an asset accumulating home over "bad" debt such as a rapidly depreciating new sports car. This delicate balance between satisfying household needs versus wants was often arbitrated by risk averse community bankers whose underwriting standards tended to err on conservative estimates of consumer debt capacity.

By the 1970s, the economic forces of globalization had begun transforming the U.S. economy as it shifted from goods production to consumer services. De-industrialization in American cities and the expansion of international corporate subsidiaries led to a sharp decline in unionized, blue-collar employment that contributed to the decline in real wages (adjusting for inflation). Together with spiraling inflation in the late 1970s, Americans' receptivity toward consumer credit began to change, as debt-based consumption became a rational, cost-efficient strategy for balancing household budgets. In fact, President Jimmy Carter attempted to suspend the extension of new credit card accounts in 1978, further eroding public support for his domestic economic policies.[4] After the election of Ronald Reagan in 1980, double-digit inflation fell to less than four percent within three years, an important condition that contributed to less restrictive consumer lending. Moreover, the plethora of national and international pressures on the U.S. banking system resulted in a policy of federal "de-regulation" that resulted in a dramatic shift from wholesale (corporate lending) to retail banking or consumer financial services.[5]

The dismantling of Depression-era banking regulations such as the liberalization of interstate branching privileges by national banks and the repeal of the 1933 Glass-Steagall Act which separated commercial (consumer) banking from investment (securities) banking is responsible for the first trillion dollar, financial services conglomerate (Citigroup) in 1998.[6] In the process, the consolidation of the U.S. banking industry proceeded at a breakneck pace, from 14,351 FDIC Insured Commercial Banks in 1980 to 7,630 at the end of 2004.[7] This contributed to the rise of super-regional banks outside of the traditional money center cities of New York, Chicago, and Los Angeles. Furthermore, the absorption of state-chartered, FDIC- insured institutions eroded the market share of local community banks. These factors, along with the increasingly sophisticated use of technology in the underwriting process, have contributed to the "democratization" of consumer credit, making more credit products available to more people. A new source of financial empowerment and a powerful tool in household consumption decisions, this trend has greatly enhanced America's present material standard of living. It has also led to changes in social attitudes toward the appropriate use of credit and debt in satisfying needs, wants and desires. The result is that consumer credit has been recast from an earned privilege to a social entitlement with the consequence that Americans have assumed unprecedented levels of both "good" and "bad" debt. This has led to growing concern over use of consumer credit as mirrored in escalating consumer bankruptcy rates over the last two decades.[8]

The Spiral of Consumer Debt: Financial Band-Aid or Household Cash-Flow Crisis?

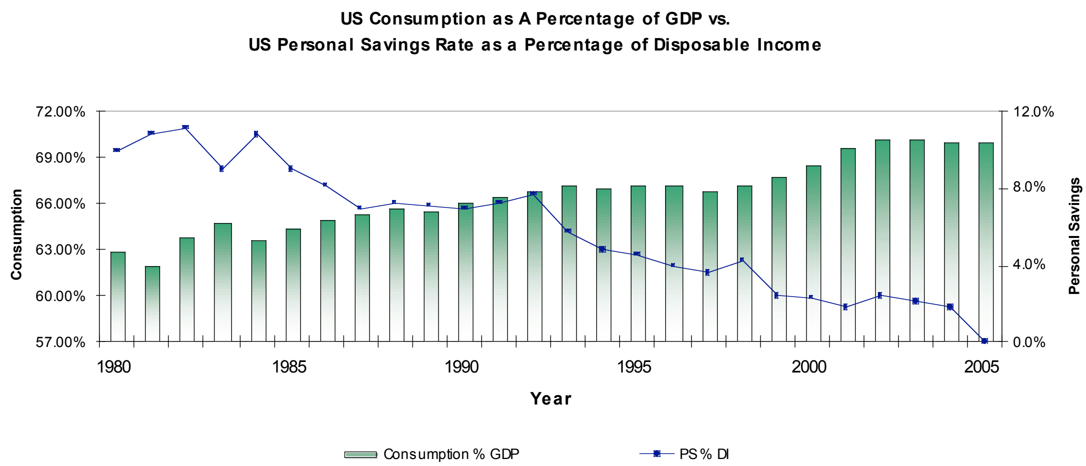
The sharp growth in the consumer debt levels of American households is a topic that has recently gained the attention of public policy-makers and the national media. Some economists and government officials have argued that it is not a serious national problem since it reflects an associated increase in net household wealth over the past ten years. That is, the enormous growth of stock market wealth in the 1990s and housing equity in the 2000s have made Americans wealthier than past generations. According to this view, the household "wealth effect" has spurred many Americans to enjoy an enhanced standard of living through installment loans (autos, furniture, electronics), revolving credit (credit cards), and more recently "cash out" mortgage refinancing and home equity loans.[9]

On the other hand, critics of "easy credit" policies warn that escalating consumer debt levels have substantially increased middle-class household debt service obligations and thus their vulnerability to unexpected family crises such as health care expenses, job loss, and divorce.[10] This view points out that primarily the top

10 to 20 percent of income earners has enjoyed the wealth effect and that most Americans have experienced a much greater increase in household debt than assets.[11] This view tends to portray consumer dependence on debt-based consumption such as home equity loans as a serious problem that threatens the economic stability of middle- and working-class households. They conclude that the majority of Americans are more vulnerable to rising consumer debt burdens as their household assets are disproportionately concentrated in home equity that will decline or at least stagnate with the eventual deflation of the "housing bubble."[12] As will be shown, the extraordinary range of borrowing options that characterizes the post-1980 banking era has provided tremendous opportunities for asset formation and quality of life enhancements for some households while creating unprecedented levels of burdensome debt for other households.

Clearly, in examining the major socio-economic trends of the past 25 years, the role of American consumers has emerged as a defining feature of the post-industrial economy. As reported in Figure 1, the proportion of total U.S. economic activity that is accounted for by consumers has climbed from 62 percent in 1980 to over 70 percent in 2005.[13] This trend highlights the critical importance of sustaining the purchasing power of American households—both for the United States as well as the global economy.[14] Indeed, in the post-9/11 era, spending rather than saving has become the civic "duty" of patriotic Americans. Today, the ability of families to sustain their "effective" demand or purchasing power is based on a combination of the following: (a) rising wages, income, and wealth formation, (b) lower household savings rates, and (c) greater borrowing through consumer loans. As will be shown, recent fluctuations in the former have intensified pressure on the latter two factors.

FIGURE 1

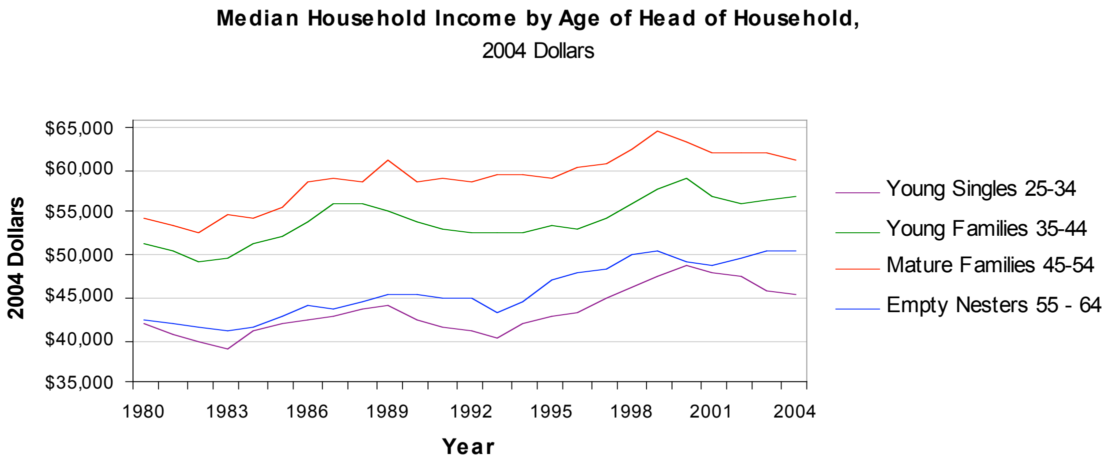


**Data for 2005 U.S. Personal Savings Rate is for the second quarter of 2005.*
***Data for 2005 Consumption versus GDP is based on the second quarter of 2005.*

Sources: *U.S. Bureau of Economic Analysis, "Personal Income and Its Disposition" (Table 2.1) and "Gross Domestic Product (billions of Dollars)," seasonally adjusted at annual rates (Table 1.1.5) available at* http://www.bea.gov/bea/dn/nipaweb/SelectTable.asp?Selected=Y

The soaring purchasing power of American households in the mid- to late 1990s contributed to the record $600 billion U.S. balance-of-trade deficit in the early 2000s.[15] First, as shown in Figure 1, American families opted to drastically reduce their household savings rates. The national household saving rate fell from nearly eight percent in the aftermath of the 1989-91 recession to -0.6 percent in the second quarter of 2005.[16] Second, as shown in Figure 2 and Table 1, the traditional economic pillars of wage/salary growth registered substantial gains between 1993 and 2000.[17] Similarly, as reported in Table 2, net household wealth accumulation (house equity, stocks, mutual funds) increased substantially in the late 1990s—albeit the vast proportion was received by the top 20 percent or most affluent U.S. households.[18] Significantly, even during the robust economic conditions that preceded the 2000 recession, American consumers dramatically increased their consumer debt obligations. For example, non-mortgage consumer liabilities (installment, revolving) jumped from $865.7 billion in 1993 to $1.7 trillion in 2000.[19] See Table 3 and Figure 3.

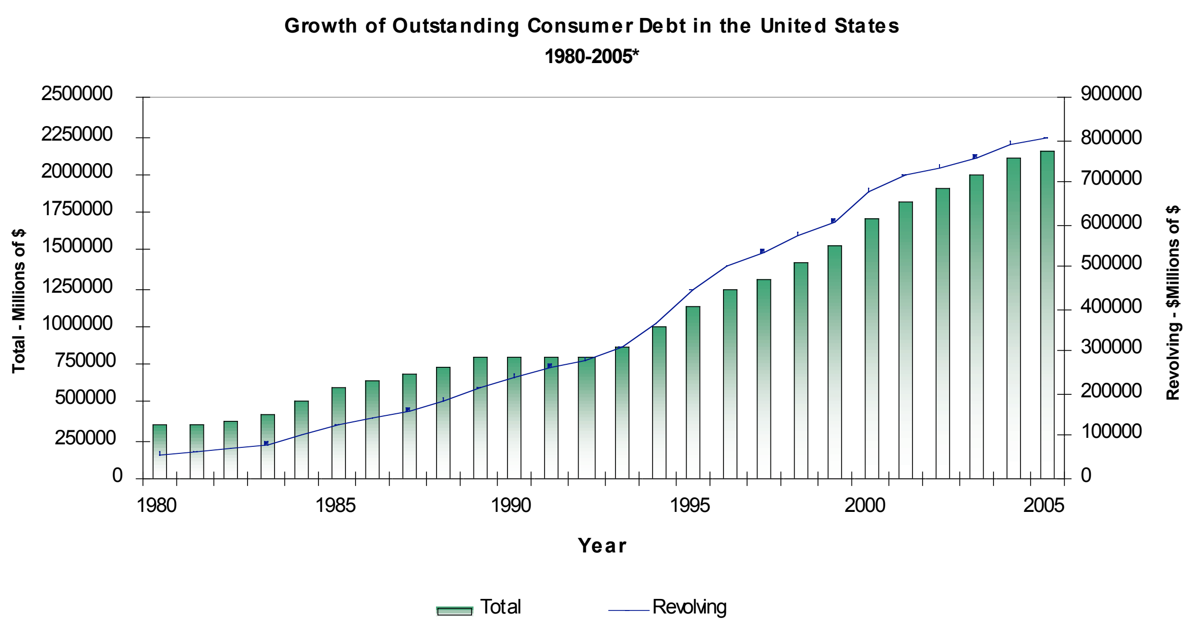
FIGURE 2



**These age categories are not directly comparable to the life stage groups due to the inclusion of single and dual income households.*

Source: *U.S. Census Bureau, Historical Income Tables, "Age of Head of Household: All Races" (Table H-10), available at http://www.census.gov/hhes/www/income/histinc/h10ar.html*

FIGURE 3



Source: *U.S. Federal Reserve Statistical Release, "Consumer Credit Outstanding," G.19, (July, 2005) available at http://www.federalreserve.gov/releases/g19/hist/cc_hist_sa.html*
** 2005 data as reported for July.*

Since the collapse of the NASDAQ in 2000, the escalating levels of consumer debt have overtaken the wealth effect of financial assets. Indeed, falling real household income in the 2000s has been compounded by the decline in non-housing financial assets. For example, the overall annual growth in total net worth of all American households averaged a post-World War II high of 4.4 percent in the period 1989 to 2000. In terms of financial assets, the booming equity markets produced impressive yields of 8.9 percent for stocks, 14.4 percent for mutual funds, and 10.2 percent for stock and mutual funds. Even so, the growth in household financial assets was outstripped by the increase in consumer debt for most middle- and working class families. For example, between 1989 and 2001, the middle or third economic quintile of American households (40 percent above and 40 percent below) reported stock/investment gains that jumped from $4,000 to $12,000 compared to an increase in total non-mortgage consumer debt that climbed from $37,000 to $50,500. Indeed, the overall increase in net worth of these middle-class households—from $63,900 to $75,000—is primarily attributed to the appreciation of their homes.[20] See Table 2. Furthermore, total net worth also declined between 2001 and 2003 by an annual average of -2.9 percent led by stocks at -6.7 percent. Fortunately, net financial assets during this period rebounded by an average of 4.2 percent (primarily housing assets) followed by mutual funds at 4.1 percent.[21] The financial savior for most American families has been the appreciation of the asset value of their homes. Hence, a striking feature of the past five years is that housing prices have soared while median wage and income levels have declined.

Numerous factors contribute to the record-setting debt burden of American households—especially middle-class families. First, as measured by share of disposable income, the 1980s and 1990s feature the unprecedented growth of aggregate household consumer debt—from 73.2 percent of disposable personal income in 1979 to 114.5 percent in 2003. The overwhelming proportion (75.7 percent) of these financial liabilities is attributed to escalating home mortgages.

Between 1979 and 2001, the share of discretionary household income allocated to housing jumped from 46.1 percent in 1979 to 85 percent in 2003. In addition, home equity loans, which were not offered in the late 1980s, jumped to more than one-tenth (10.9%) of disposable personal income in 2003.[22] See Table 4. According to Harvard University's Joint Center for Housing Studies, home equity loans climbed from $86 billion in 2001 to $108 billion in 2002 and to $139 billion in 2003.[23] This trend has contributed to the decline in average homeowner equity: from 68.3 percent in 1973 to 55 percent in 2004.[24] The enormous increase in housing costs over the past decade has diverted discretionary income that previously had been allocated for other personal or family needs. Although mortgage and home equity debt are generally the least expensive consumer loans, this sharp increase has squeezed the ability of households to pay for other purchases and/or finance unexpected expenditures such as medical expenses or auto repairs.

Not surprisingly, most American families have steadfastly defended their standard of living by financing household expenditures with lower personal savings and greater credit card and installment loans. In fact, as the personal savings rate fell to record lows in the late 1990s—plummeting to zero in the last quarter of 1998—credit cards became the financial "safety net" for financially distressed and economically vulnerable households. In 1980, three-fourths (74.5 percent) of all non-mortgage consumer debt was financed through installment loans such as for furniture, appliances, and electronics. During and immediately after the 1989-91 recession, revolving credit card debt soared—from 37.9 percent of installment debt in 1989 to 54.9 percent in 1992. This was accompanied by marketing campaigns that promoted credit card use for wants as well as needs such as groceries, rent and mortgage payments, and even income taxes. By 1998, outstanding credit card debt peaked at 68.8 percent of outstanding installment debt.[25] See Table 3. This proportion has fallen due to new debt consolidation options such as mortgage refinancing and home equity loans, as well as the marketing of low-interest auto loans.

In the decade following the 1989-91 recession, the longest economic expansion in U.S. history, net credit card debt surged from about $251 billion in 1992 to over $804 billion in mid-2005, while installment debt jumped from $532 billion to $1.35 trillion.[26] Scholars disagree over whether these high debt levels can be maintained without sharp income growth or low interest rates. Juliet Schor of Boston College has received national attention for asserting that much of this debt is avoidable, since the pressures of competitive consumption are social and thus can be resisted by embracing values such as thrift, frugality, and material simplicity that discourage unnecessary consumption. Hence, Schor asserts that "keeping up with the Joneses" is a voluntary decision that can be rejected by "downshifting" to a simpler, less expensive, and environmentally sustainable lifestyle.[27] On the other hand, Harvard University's Elizabeth Warren and Amelia Warren Tyagi argue that soaring debt due to the "two-income trap" is primarily attributable to middle-class necessities such as housing in good school districts, automobiles, and insurance. Their highly influential book contends that the dependence of middle-class households on two-incomes leaves them highly vulnerable to income fluctuations (loss of job, overtime, commuting expenses) and therefore they have little recourse but to assume higher debt burdens as a rational response to increasing economic pressures such as job loss/interruption, medical crises, and education-related costs.[28]

As debt levels of middle-class households have climbed over the last decade, two measures of financial distress as measured by the U.S. Federal Reserve merit attention. They are households with high debt burdens (40 percent or more of household income) and late payment (60 days or more) of bills. For instance, between 1992 and 2001, lower income groups reported the most economic difficulty. The high debt service burdens of low-income households (less than

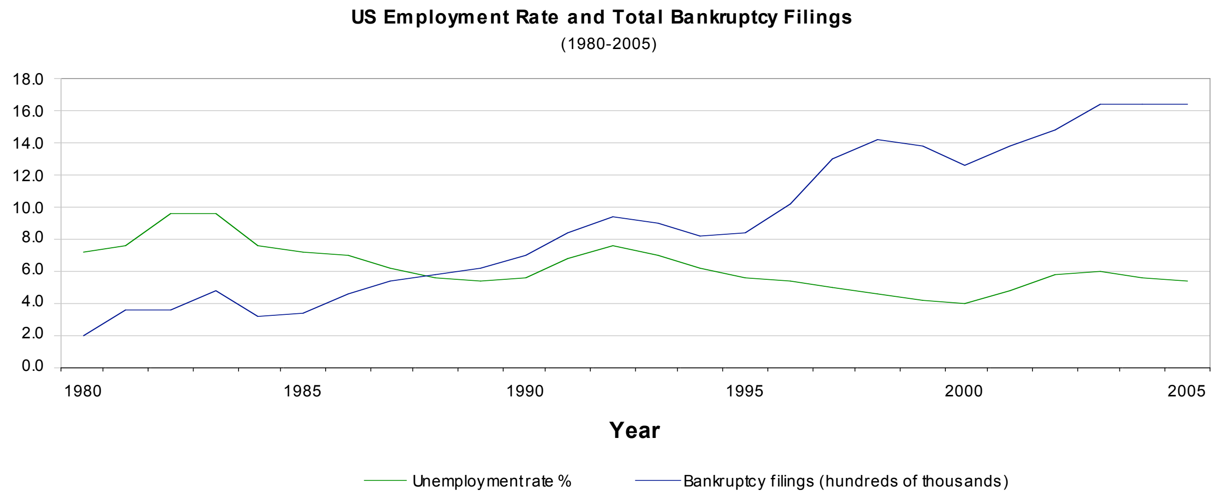
$20,000) rose from 26.4 to 27.0 percent while modest-income households ($20,000 to 39,999) increased from 15.1 to 16.0 percent and moderate-income households ($40,000 to $59,999) rose from 10.1 to 11.7 percent. The higher household income groups declined the most sharply; upper income ($60,000 to $79,999) fell 7.6 to 5.6 percent and high ($90,000 to $100,000) fell from 2.5 to 2.0 percent. Only the $80,000 to $89,999 group increased from 2.9 to 3.5 percent while all other groups registered a sharp decline from 1998. Similarly, late payments increased among the low-to middle-income households (less than $60,000 and especially under $40,000) while the upper income groups experienced a marginal increase or modest decline. All groups reported a sharp improvement since 1998 which suggests that rising interest rates will probably increase debt burden distress and late payments.[29]

Significantly, since the sharp decline in consumer interest rates beginning in late 2000, lower finance costs have provided some measurable financial relief to American households. That is, a profound shift in family finances has occurred. Improving a household financial situation does not necessarily entail increasing income/revenues or reducing consumption/costs. Rather, all things being equal, negotiating more favorable terms of borrowing can be as important as negotiating a higher job salary or bonus. This is a new source of financial empowerment that prudent use of consumer credit offers to American households. Even so, it is important to note that the major beneficiaries of this low interest rate period are those groups with the highest family incomes. Between 1992 and 2001, middle- and upper-income households ($40,000 - $89,000) experienced an aggregate increase in their debt service burden (as a share of household income) whereas upper income households have experienced a significant decline—from 11.2 to 8 percent. Overall, the debt service burden of the upper income-earning households ($90,000-$100,000) is about one half of the level of lower- and middle-income households (8.0 percent versus 15.9 percent).[30]

The association between household income and cost of credit/debt service is consistent with credit card debt rates whereby convenience users receive free credit (plus loyalty rewards such as free gifts and cash) and revolvers pay double-digit interest rates and high penalty fees. Admittedly, the working poor (under $20,000 household income) have witnessed a modest decline in their debt service burden, from 15.8 percent in 1992 to 15.3 percent in 2001.[31] However, some important sources of financial liabilities are not included by the Federal Reserve in its reports on outstanding non-mortgage consumer debt and thus understate the degree of household economic distress—especially among lower income families. These include car leases, payday loans, pawns, and rent-to-own contracts. As a result, the data indicate that during the recent decade of robust economic growth, the lower and middle income households utilized increasing levels of consumer credit while straining to service their escalating debt levels—albeit at lower rates than 1998.

One particularly salient outcome has been the extraordinary rise of consumer bankruptcy—from 0.6 million in 1989 to over 1.6 million in 2004. It is particularly noteworthy that—for the first time in U.S. history—unemployment declined in the late 1990s whereas bankruptcy filing jumped sharply.[32] It was not until the 2000 recession that the traditional relationship between unemployment and personal bankruptcy resumed. See Figure 4. Furthermore, ongoing research suggests that the sharp appreciation of housing values in major metropolitan suburbs has served to delay rather than evade the rise of personal bankruptcy among upper- and middle income households.[33]

FIGURE 4



**2005 unemployment data is the average of monthly national unemployment figures through August.*
***Bankruptcy data for 1980-2005, year ending June 30.*

Sources: *U.S. Bankruptcy Courts (2005) at http://www.uscourts.gov/Press_Releases/603f2.xls; http://www.uscourts.gov/bnkrpctystats/1960-0312-MonthJune.pdf and U.S. Census Bureau (2005) at http://www.census.gov/popest/states/tables/NST-EST2004-01.xls and http://www.census.gov/statab/hist/02HS0003.xls.*

LIVING WITH DEBT: A Life Stage Approach to Changing Attitudes and Behaviors

The increasing importance of credit and debt in American society underlies the persistent duality of their resonating influences: financial independence/bondage, asset formation/financial loss, and economic optimism/pessimism. Indeed, when consumers are well educated and understand the advantages of the skillful use of credit, then the *ying* of economic prudence can overcome the *yang* of financial exuberance. Clearly, as this study shows, careful examination of personal attitudes toward spending and saving together with educational programs that promote an efficacious approach to utilizing the increasingly complex array of consumer credit/loan products can have a profound impact on self-awareness and understanding of the socio-cultural forces that shape our economic behavior. These historically-conditioned attitudes can not be neatly compartmentalized in our economic consciousness nor can their social impacts necessarily have benign outcomes.

Today, the number one source of conflict within personal relationships is over the prudent/irresponsible conduct of personal and household finances.[34] In fact, it is becoming increasingly common for potential spouses to conduct credit history investigations in order to better assess their partner's compatibility in a long-term relationship. As will be shown, the inherent incompatibility of "oil and water" is analogous to an attitudinal "saver" coping with the behavior of an intractable "spender." Indeed, many participants in this study report that they adapted to their spouse's attitudes toward spending (conservative and liberal) simply to minimize marital discord. Similarly, employers are more likely to examine the personal-financial affairs of prospective employees as indicators of the prudent/moral qualities that they value in the workplace. Furthermore, the increases in consumer debt can provoke intense cognitive struggles over the personal anguish resulting from the loss of personal control and perceived social failure.[35] Not only is consumer debt strongly associated with emotional distress (a sharp contrast to its often liberating personal empowerment) but its lingering effects can engender other negative emotional and behavioral responses such as overeating, chemical dependency, and despondence. For the first time, a national survey at the end of 2004 found that concern over personal consumer debt exceeded the anxiety over finding and retaining employment. In fact, 50 percent of the 1,000 adult respondents reported that they worry about the total amount of their debt "at least some of the time" and 42 percent replied that their debt causes a "great deal" of stress.[36] Only after peeling a large number of socio-psychological-historical layers of American's views toward borrowing and saving can these conflicted attitudes be objectively examined.

In an attempt to better understand America's rapidly changing attitudes and behaviors on the topic, this study specifies a complex life stage approach.[37] More specifically, it examines six distinct age and family structure cohorts based on the assumption that their experiences illuminate current and future trends related to consumption and saving/borrowing patterns: College Students (17-27 years old), Young Singles (under 35 years old), Young Families (under 35 years old), Mature Families (35-54 years old), Empty Nesters (45-64 years old), and Seniors (65 years and older). This approach helps to distinguish the unique influences of particular household dynamics from behaviors and experiences that vary across historical periods or what is commonly referred to as "cohort effects."

The central research question of the study is whether the six basic life stage groups have different attitudinal and behavioral responses toward the use of consumer credit and debt. The underlying assumption is that different generational, family structure, and work/career factors influence the views and use of consumer credit in American society. Hence, each life stage group is specified as a methodologically and sociologically discrete category; two focus groups comprised of randomly selected members of each of the six specified life stage groups were conducted on consecutive days in three distinctly different geographic regions. In order to enhance the representation of the socio-demographic variation of U.S. society, the regions were selected based on the following criteria: type and vibrancy of the local economy, cost of housing, and mix of educational/skill demands. Ultimately, Rochester, New York, was selected as a declining industrial city with moderate cost of living; Washington, D.C., as a rapidly-growing new economy city with high skill demands/salaries and high cost of living; and Orlando, Florida, was selected as a mixed Sun Belt city with a rising but moderate standard of living. Hence, the research methodology—by specifying regional differences—permits the explicit examination or methodological "control" of crucially important factors such as cost of housing in influencing changing attitudes and behaviors toward personal finance (budgeting), intra-regional mobility, and investment decisions.

TABLE 1
Median Household Income by Age: 1980-2004 (2004 dollars)

Year	Young Families 25-34	Mature Families 35-44	Empty Nesters 45-54	Seniors 55 - 64
1980	$41,986	$51,301	$54,544	$42,442
1981	$40,715	$50,383	$53,678	$41,763
1982	$39,880	$49,417	$52,443	$41,368
1983	$39,126	$49,800	$54,610	$40,983
1984	$41,066	$51,532	$54,529	$41,687
1985	$42,002	$52,016	$55,628	$42,792
1986	$42,585	$53,913	$58,638	$44,029
1987	$42,881	$55,950	$59,162	$43,825
1988	$43,586	$56,085	$58,630	$44,346
1989	$43,873	$55,366	$61,085	$45,339
1990	$42,546	$54,040	$58,751	$45,357
1991	$41,714	$53,220	$59,174	$45,044
1992	$41,218	$52,583	$58,630	$44,851
1993	$40,269	$52,602	$59,483	$43,092
1994	$41,796	$52,533	$59,585	$44,419
1995	$42,713	$53,500	$59,153	$46,868
1996	$43,019	$53,246	$60,500	$47,726
1997	$44,802	$54,409	$60,882	$48,537
1998	$46,374	$56,074	$62,668	$49,959
1999	$47,709	$57,592	$64,497	$50,627
2000	$48,717	$58,971	$63,227	$49,199
2001	$48,105	$56,898	$61,940	$48,942
2002	$47,615	$56,219	$61,996	$49,582
2003	$45,982	$56,523	$61,861	$50,538
2004	$45,485	$56,785	$61,111	$50,400

Source: U.S. Census Bureau – Historical Income Tables
Table H-10. Age of Head of Household: All Races
http://www.census.gov/hhes/www/income/histinc/h10ar.html

TABLE 2

Households Assets and Liabilities by Wealth Class in the U.S.: 1962-2001

(Thousands of 2001 US dollars)

Assets & Liabilities	Top 1.0%	Top 9.0%	Next 10%	Next 20%	Middle 20%	Bottom 40%	Average
Stocks[1]							
1962	$2,617.4	$133.9	$14.9	$4.8	$1.2	$0.3	$41.6
1983	1699.5	109.7	13.1	5.0	1.7	0.4	30.1
1989	1,282.8	141.0	27.6	9.7	4.0	0.7	31.7
1998	2,743.7	316.7	86.4	29.9	10.0	1.8	78.0
2001	3,568.4	512.3	131.9	41.3	12.0	1.8	106.3
All other assets							
1962	$2,847.4	$491.6	$233.6	$129.9	$70.3	$16.7	$142.0
1983	6,540.8	849.0	343.2	176.6	86.9	18.3	235.8
1989	9,090.9	933.3	368.9	201.5	96.8	21.0	279.3
1998	8,649.8	897.7	360.0	196.8	106.0	25.9	267.3
2001	9,449.5	1,221.1	438.4	234.6	113.5	26.6	328.3
Total debt							
1962	$193.3	$37.8	$28.0	$29.0	$28.7	$16.1	$25.9
1983	444.5	74.0	53.5	36.4	28.3	13.6	34.9
1989	484.7	98.7	53.3	48.2	37.0	26.1	46.3
1998	307.1	114.0	71.7	51.5	49.7	26.5	51.7
2001	325.8	122.3	79.9	60.5	50.5	25.5	54.5
Net Worth							
1962	$4,271.5	$587.7	$220.4	$105.7	$42.8	$0.9	$157.7
1983	7,795.8	884.7	302.8	145.2	60.3	5.1	231.0
1989	9,889.0	975.6	343.2	163.0	63.9	-4.4	264.6
1998	11,086.4	1,100.3	374.7	175.3	66.3	1.2	293.6
2001	12,692.1	1,611.0	490.3	215.3	75.0	2.9	380.1

[1] *All direct and indirect stock holdings.*

SOURCES: Unpublished analysis of Survey of Consumer Finance data by Edward B.Wolff (2004), cited in Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, The State of Working America, Ithaca: Cornell University Press, 2005, page 28

TABLE 3
Growth of Outstanding Consumer Debt in the U.S. 1980-2005

YEAR	Total	Revolving	Non-Revolving	Revolving as a % of Non-Revolving
1980	351920.05	54970.05	296950	18.51%
1981	371301.44	60928	310373.44	19.63%
1982	389848.74	66348.3	323500.44	20.51%
1983	437068.86	79027.25	358041.61	22.07%
1984	517278.98	100385.63	416893.35	24.08%
1985	599711.23	124465.8	475245.43	26.19%
1986	654750.23	141068.15	513682.08	27.46%
1987	686318.77	160853.91	525464.86	30.61%
1988	731917.76	184593.12	547324.64	33.73%
1989	794612.17	211229.83	583382.34	36.21%
1990	808230.57	238642.62	569587.95	41.90%
1991	798028.97	263768.55	534260.42	49.37%
1992	806118.69	278449.67	527669.02	52.77%
1993	865650.58	309908.02	555742.56	55.76%
1994	997126.89	365569.56	631557.33	57.88%
1995	1140994.6	443491.83	697502.72	63.58%
1996	1242862.6	499624.58	743237.97	67.22%
1997	1320091.3	536720.95	783370.31	68.51%
1998	1417306.8	577987.78	839319.04	68.86%
1999	1530387.5	606826.23	923561.25	65.71%
2000	1707386.3	678529.59	1028856.75	65.95%
2001	1838832.9	716597.69	1122235.25	63.85%
2002	1925543.9	736357.02	1189186.91	61.92%
2003	2015335.5	758277.91	1257057.6	60.32%
2004	2110064.3	793514.52	1316549.75	60.27%
2005*	2156527.6	804995.54	1351532.08	59.56%

Source: *Federal Reserve Statistical Release. G.19 - Consumer Credit Outstanding.*
** 2005 data as reported for July.*

TABLE 4
U.S. Household Debt by Share of Disposable Income and Type of Consumer Debt: 1949-2003
(Percent)

	As share of disposable personal income				**As share of assets**[1]	
	All Debt	*Mortgage*	*Home Equity Loans*	*Consumer Credit*	*All Debt*	*Mortgage*
1949	32.9%	19.6%	n.a.	10.2%	6.1%	15.0%
1967	69.1	42.5	n.a.	18.8	12.0	30.8
1973	66.9	39.6	n.a.	19.7	12.6	26.3
1979	73.2	46.1	n.a.	19.5	13.7	27.5
1989	86.4	57.1	n.a.	19.8	14.8	31.4
1995	94.3	62.4	6.2%	20.7	15.8	40.2
2000	106.8	70.3	9.2	22.7	15.4	40.2
2003	114.5	85.0	10.9	24.0	18.3	44.1
Annual percentage point change						
1949-73	2.8	1.6	n.a.	0.8	0.5	1.1
1949-79	2.4	1.5	n.a.	0.6	0.5	0.9
1989-2000	1.8	1.2	n.a.	0.3	0.1	0.8
2000-03	2.6	4.9	0.6	0.4	1.0	1.3

[1] *All debt as a share of assets; mortgage debt as a share of real estate assets.*

Source: Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, The State of Working America, Ithaca: Cornell University Press, 2005, page 299.

ENDNOTES

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[2] U.S. Bureau of Economic Analysis, "Personal Income and Its Disposition," available at http://www.bea.gov/bea/dn/nipaweb/SelectTable.asp?Selected=Y.

[3] David M. Tucker, *The Decline of Thrift in America: Our Cultural Shift From Saving to Spending,* New York: Praeger, 1991; Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit,* Princeton: Princeton University Press, 2000; and Robert D. Manning, *Credit Card Nation: America's Dangerous Addiction to Debt,* New York: Basic Books, 2000, Chapter 4.

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[11] Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America,* Ithaca: Cornell University Press, 2005, Chapter 4.

[12] Juliet B. Schor, *The Overspent American: Why We Want What We Don't Need*, New York: Harper Perennial, 1998; ; Elizabeth Warren and Amelia Warren Tyagi, *The Two-Income Trap,* New York: Basic Books, 2003; Theresa Sullivan, Elizabeth Warren and Jay Lawrence Westbrook, *The Fragile Middle Class: Americans in Debt*, New Haven: Yale University Press, 2000; and Robert D. Manning, *Credit Card Nation: America's Dangerous Addiction to Debt,* New York: Basic Books, 2000.

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[15] Robert D. Manning, "Neoliberalism and the Global Expansion of the Consumer Economy: The Decline of US Economic Hegemony?" in Robert D. Manning (ed.), *Globalization and Democracy: American Leadership or Autocracy in the New World Order?, New York, Rochester Institute of Technology Press*, (forthcoming 2006).

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Chapter II

CREDIT RULES, REALITY BITES: COLLEGE STUDENTS LEARN THE POWER OF PLASTIC AND THE PERIL OF DEBT

The analysis of American attitudes and behaviors toward consumer credit and debt begins with the first adult life stage: College Students. In this chapter, a representative mix of College Students from Metropolitan Rochester, New York are examined that reflect the varied social and economic backgrounds of American College Students; it includes private and public universities with the inclusion of a few graduate students and junior College Students.[1] Overall, 86 percent of the students are undergraduates and 13 percent are graduate (M.A.) students. They include 73 percent from four-year institutions and 26 percent from two-year community colleges; 54 percent of the participants attend public schools. There are slightly more female (55%) than male (45%) students, as mirrors the general college population, with nearly one-third (31.8%) minorities (Latino, African-Americans). The age range is from 19 to 27 years old.

The selection of colleges in the Rochester Metropolitan area was designed to explicitly examine the influence of parental/family values on students' attitudes toward saving and spending. That is, whether students' consumption/lifestyle activities differ between those remaining strongly attached to their families (many are commuters to local public and private universities) and those from outside the Upstate New York area whose activities are not directly monitored by their parents. Hence, the key research question to be addressed concerns the primary influences that shape young adults' behavior toward spending and saving. Are students with strong personal ties to their families more likely to mirror their parents' relatively more conservative attitudes toward consumer credit or reflect the more liberal attitudes of peers as influenced by social relationships on college campuses?

The social and cultural forces that profoundly shape the consumer credit and debt experiences of college and increasingly high school students is dramatically different from their parents' generation. This is due to four key factors. First, the inability of families to adequately save for their children's college expenses, combined with the soaring costs of higher education, have led to a sharp increase in the dependence on educational loans and other forms of borrowing.[2] Second, as shown in Chapter 5, the traditional Puritan values (*"A Penny Saved is a Penny Earned"*) that were passed on to their parents (Mature Families) by their grandparents (Seniors) have not been embraced by their teenage and young adult children (16-24 years old). This resistance to conducting financial affairs within the strict economic confines of a personal budget—based on current income—is a pattern that has become most pronounced in the recent efforts of parents to enhance the lifestyle activities of their children in particular and family in general. This is discussed in more detail in Chapters 4 (Young Families) and 5 (Mature Families). Third, the intensifying "competitive consumption" pressures on college campuses—fueled by easy access to consumer credit—has substantially increased the social acceptance and even desirability of increasing levels of personal debt.[3] Finally, the lack of personal finance education in high school and college has created a sense of complacency and even resignation among those students unaware of the long-term financial consequences of their reliance on credit.

The Democratization of Higher Education: The Spiraling Costs of Borrowing to Pay for College

In the academic year 2004-05, more than six million students were enrolled in over 5,000 post-secondary education institutions and more than one-half of young adults have attended college or vocational school. About two-thirds matriculate in public colleges and universities and about 15 percent in private institutions. The fastest growing component of the U.S. post-secondary system is in the burgeoning junior college system with its large proportion of non-traditional and foreign-born students. The rest are enrolled in private vocational and technical institutes.[4] The multitude of institutional revenues, public monies, and subsidized loans that flow into the U.S. college system underscore its central mission: the democratization of higher education for all Americans. This huge allocation of public resources is justified based on the assumption that education is the great "equalizer" in American society and that individual benefits will spur the social and economic prosperity of the entire nation. Indeed, the GI Bill and Federal Student Loan programs are arguably the most successful government loan programs of the post-World War II period.

The most striking trend in higher education is the widening affordability gap. Over the last thirty years, the cost of a college degree has soared due to declining federal and state financial contributions to colleges and universities as well as sharply rising inflation beginning in the late 1970s. Overall, college affordability began to decline in 1975-76 as average government grants and institutional aid peaked at about $3,000 per student or about 85 percent of total financial aid packages. By 1982-83, government grants and institutional aid had dropped to only about $1500 per year and remained at that level through the late 1990s. Today, government and institutional grants average about 30 percent of financial aid packages with the rest in the form of subsidized and unsubsidized student loans.[5] As shown in Figure 1, both the cost and the amount of student loans required for an undergraduate degree have soared. For instance, tuition and fees in current dollars for a private college has jumped from $2,534 in 1976-77 to $20,082 in 2004-05 while the cost of public university has spiraled from $617 in 1976-77 to $5,132 in 2004-05; the comparable cost for junior college jumped from $283 in 1976-77 to $2,076 in 2004-05.[6] Together with declining household savings, especially over the last 15 years, most families have shifted to borrowing in order to finance their children's college expenses through a patchwork of government and private bank loans; in 1992-93, about 40 percent of College Students received loans, which jumped to nearly two-thirds at the end of the decade. For example, Nellie Mae reports that average total undergraduate student debt has nearly tripled since its first survey in 1987, rising 236 percent between 1991 and 2002 to $18,900—an almost 50 percent increase since 1997. Overall, it reported average total debt for public school graduates at $17,900 and $21,200 for private school graduates in 2002.[7] Not surprisingly, student credit card debt also has risen dramatically during this period.[8]

Figure 1

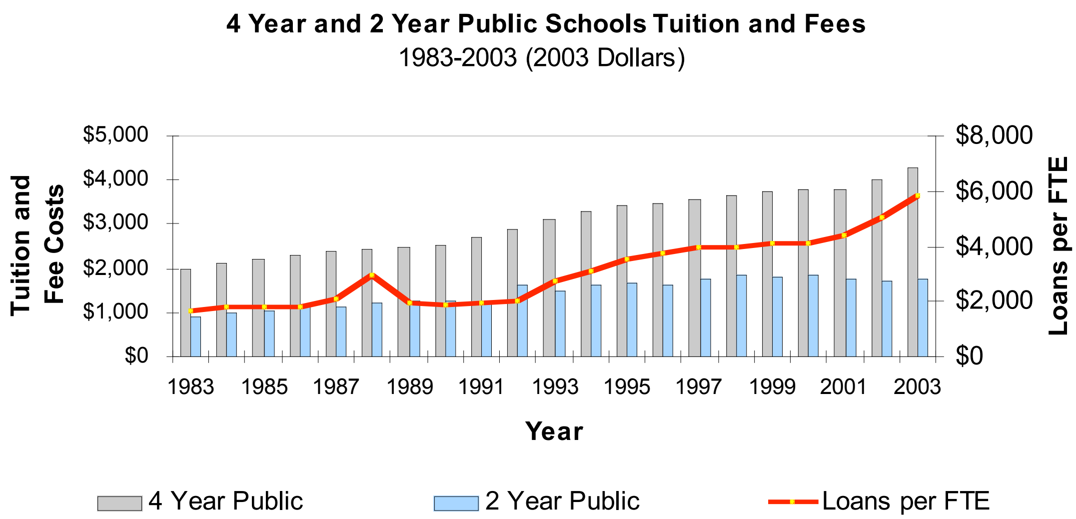
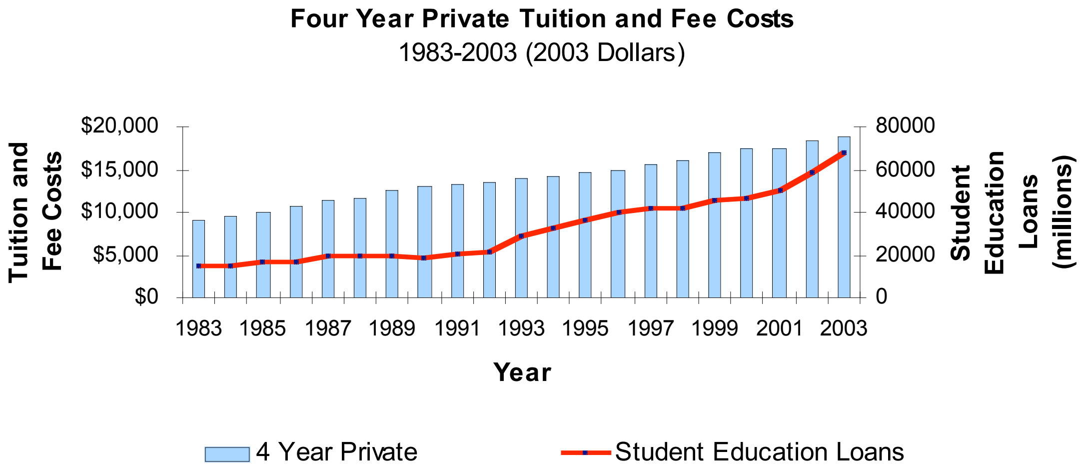


Figure 2



Source: Data from Annual Survey of Colleges, The College Board, New York, NY (1987-88 to 2004-05), weighted by full-time undergraduate enrollment; data for 1976-77 to 1986-87 are from Integrated Postsecondary Education Data System (IPEDS), U.S. Department of Education, National Center for Education Statistics, weighted by full-time equivalent undergraduate enrollment. See Trends in College Pricing and Trends in Aid, 2004.

Decline of Parental Influences Makes Way for "New School" Financial Values:

The Cognitive Shift from Earned Privilege to Social Entitlement of Consumer Credit

The most influential factors that shape students' attitudes toward credit and debt are family based. Parents/guardians are the single most formative influence with almost 90 percent of the study participants citing early educational experiences with their parents, grandparents, or older siblings. The centrality of the family in passing on traditional attitudes toward personal finance is crucial for three reasons. First, enhanced lifestyle activities and rising material expectations contribute to the intensification of peer "competitive consumption" pressures outside the purview of parental control. Second, students' access to revolving and installment credit is occurring at a progressively younger age—even in high school before full-time employment.[9] Third, few students remembered any personal finance curriculum during high school; less than 15 percent of the student participants reported any formal instruction in secondary school.[10]

For example, 21-year-old Peter is a senior at a public university whose college-educated parents stressed the importance of managing money: *"My parents started me saving money when I was five and always said that saving was important for college. They just started planning really early with me. They are definitely the biggest influence in my spending habits because they wouldn't let me spend money frivolously. ... I'm glad for it now."* Peter has three credit cards with an aggregate balance of less than $200. Similarly, Holly is a 25–year-old MBA student in a private university whose college-educated parents are economically prosperous in comparison to Metropolitan Rochester household incomes. Their strict emphasis on frugality and industriousness have been the most important formative influences in her attitudes toward spending: *"My parents saved money since I was born for me to go to school… so I didn't have to take out loans to go to school. In my family loans are frowned upon…and so I've never taken out a loan for anything…I think my parents [would] look at it as a failure if they take out a loan."* Holly has eight credit cards but insists on paying her outstanding balance in full each month.

Early emphasis on saving and deferring immediate gratification is an important attitudinal factor in distinguishing between good versus bad debt. Robert, a 24-year-old MBA student from a single parent household in Upstate New York, describes the importance of his parents encouraging him to save and manage his personal resources:

> *My first experience was when I was little. We always got this weekly allowance from my parents and they said 'It's yours, you can do whatever you want with it.' And then [my siblings and parents] would go out to a store and I'd want [to buy things]. Well, you can't have it. [My parents would say] 'Do you have the money for it? No, okay, so you have to start saving for it.' It was like they were indirectly teaching me how to save money for things that I wanted to get and couldn't necessarily have it now. I kind of had the same experience in college…*

Both parents do not always agree on the importance of frugality and debt, which sends contradictory signals to their children. For instance, William is a MBA student whose family endured financial difficulties in his early childhood but is now financially secure; his father is a plumber and his mother, a corporate risk assessment administrator. William did not receive guidance in personal finance from his parents as a child and is now "training himself" via challenging life experiences following the loss of his job and marriage in his mid- 20s. Today, William has between $40,000 - $45,000 in consumer debt obligations and $60,000 in student loans; he routinely uses student loans to pay down his credit card debt. According to William, he experienced cognitive confusion as a child due to the divergent attitudes and behaviors of his parents toward personal financial issues:

> *My dad always stressed paying for everything in cash. My mother had a problem with spending money on credit cards and I knew that. My father, on the other hand, as much as he would tell us to save our money, pay the bills, pay everything in cash, he never really had any money [after paying bills]. [So] here he is telling us to be financially responsible, and he would spend all that extra money.*

For the most part, I was spoiled. If my mom wasn't giving it to me, Daddy!!! If they weren't giving it to me, Grandma!!!... I grew up with the delusion that everyone's going to give me everything, this is awesome… -Aleesha, 23

On the other hand, many parents with good intentions seek to insulate their children from financial pressures at an early age and, in the process, often fail to adequately prepare them for the economic realities of adulthood. In the case of Aleesha, a 23-year-old community college student who regrets her parents' reluctance to teach her personal financial discipline, this educational deficiency is having serious economic consequences on her:

> *For the most part, I was spoiled. If my mom wasn't giving it to me, Daddy!!! If they weren't giving it to me, Grandma!!! So it was always coming from somewhere else. I grew up with the delusion that everyone's going to give me everything, this is awesome…*

Lastly, 22-year-old Jeff who is from Upstate New York and experienced financial sacrifices throughout childhood: *"All my friends had money to buy baseball cards and new bikes. I got hand-me-downs and didn't have any money to waste."* Jeff learned his economic lessons without parental guidance and emphasizes the importance of individual responsibility through personal experiences:

> *I learned [my] first value of a dollar when I turned 16 and I had to buy a car. But I never got a real understanding of personal financial management until I graduated high school… coming from a large family of seven, it was OK you have to pay for [the car]. I [then] applied to 11 colleges and got [accepted] and had to start making some money … so I put myself through [college] and that's how I got an understanding … that savings is going to come first over spending, cash and carry—you have to free up your credit. So my views are all personally driven.*

Although nearly all of the study's participants responded positively to their early personal finance learning experiences, as guided by their parents, it is striking that their views are changing so rapidly today. The traditional or "Old School" emphasis of saving, living on a budget, and self denial is being successfully challenged by a "social entitlement" ethos or "New School" values where you can have it all—without personal sacrifice—through the use of consumer credit and acceptance of debt. The focus on instant gratification and the cognitive denial of long-term consequences shifts the view of responsible spending from living within a budget to more quickly acquiring the material accoutrements associated with professional success. Indeed, mass marketing campaigns and young adult social pressures promote such new school financial attitudes as spending over saving as a strategy for escaping parental or self-imposed denial (loss of socio-financial freedom) whereas debt-based behaviors are portrayed as assertions of adulthood/independence, freedom, and market-based self worth/social status. As a popular credit card advertisement marketed to College Students exclaims, *"Free from parental control at last, now all you need is money. Cha-ching."* Hence, students can demonstrate their personal empowerment through consumption that does not differentiate between debt- versus cash-based purchases.

The most notable feature in the cognitive development of students' financial values is the dramatic decline in parental influences as shaped by the growing power of peer-based, competitive consumption pressures. The overwhelming majority (nearly 80 percent) of project participants report resisting *"parental influences intended to modify* *[your] consumption behavior"* because their parents are *"Much More Conservative"* or "*More Conservative"* in their views on personal spending. This underlies a much more expansive definition of "good" versus "bad" debt as well as the priority of time-frames: long- versus short-term. As one female undergraduate student asserted: "*Living within your means is… not necessarily where you are now but what you expect to need [in the future]."* This helps to explain why, at the cognitive level, more than 90 percent of the students responded that "*Saving"* was "*Very Important"* or *"Important"* at *"this stage of your life"* whereas at the behavioral level only one-tenth reported that they sought to respond responsibly by "hav[ing] a monthly budget." A similar pattern emerges in regard to the self-reported importance of "Financial Planning." In summary, College Students recognize the importance of creating and following a financial "game plan" but believe that their economic circumstances are already too constrained to make modest lifestyle adjustments that will have little positive impact on their long-term financial future.

The changing attitudes and receptivity toward consumer credit and debt are striking. As LaShana, a 20-year-old African-American Business student from Brooklyn explained:

> *I definitely believe that debt is good. I definitely agree [that] buying a house, a car, paying for [college] education and… even general family things… the basics that I need and have to leverage [consumer credit] to get what I want. [But] I do agree that over indulging via the wrong [reasons] of envy can lead to [bad] debt… I personally know that this bad debt has gotten me a lot of stuff that I want and from a psychological standpoint, indulging has actually shaped, redefined, and bettered myself as an individual. So from a sociological standpoint, there is that [bad] debt. But then it comes down to the point that even bad debt can be viewed as good…*

Peter explained that the distinction should be based on long-term financial returns:

> *I would say that any debt could be good or bad depending on your financial circumstances. If you plan on getting a job where you're not going to make a lot of money, I don't think that you should go to a school [and] pay $25,000 for tuition [per year]. If you're going to be a teacher, you should go to a school that is affordable. I have a friend that just bought a house [that] he couldn't afford, it's only a $100,000 house… As long as you're living within your means, I don't think it is necessarily bad to have debt unless you've got credit cards and have debt that you are still paying for after [the purchases] are gone.*

Other students defined good debt as based on realistic personal expectations even if it required long-term dependence on credit. Stephanie, a 21-year-old Biology major from rural New York, described good debt as *"school and a house and a car as long as its not a $80,000 or $100,000 car, that would be a little extreme to take out a loan for… I think it's a case of planning … For example, they might have money to pay their rent and other [expenses] but they haven't taken a vacation in 10 years. So that would be something they need and they'll be able to pay it off eventually assuming that it's not a ridiculous vacation."* Andrea, a 21-year-old Latina Psychology major from Brooklyn who attends a local public university, describes her changing views:

As I was growing up, I was taught [by my parents] that debt was bad. As I got older, I realized that debt was going to be something that would always be with you so… I'll always be in debt.
-Andrea, 21

As I was growing up, I was taught [by my parents] that debt was bad. As I got older, I realized that debt was going to be something that would always be with you so… As long as I'm here in America, I'll always be in debt. Because U.S. society is… so materialistic. So when I have kids, even though I might not think clothes and stuff are important, I know when they go to school, that they're going to want to look nice, so either way, debt will be fine. Debt is good!

For others, consumer credit is less of a want than a need. For example, Clenita is a 25-year-old single mother who attends a local community college. Clenita must work as a receptionist in her campus activities center in order to pay tuition and other childcare-related expenses. Despite receiving personal financial training during high school, which included managing a personal budget, Clenita has approximately $10,000 in consumer debt – accrued over six credit cards which she later consolidated; her parents did not discuss with her the potential problems of credit card debt. Clenita's attitude toward various forms of personal debt (furniture, student, pawnshop, automobile, payday, rent-to-own loans) is ambivalent, describing them as *"neither good or bad…[but] depends on the situation and the person."* This reflects her father's view toward consumer credit as a valuable, empowering resource for achieving a variety of personal goals: *"When I was a teenager, my father wanted to get a sports car – and he told me and my sister, if you want to get* *something, you can take out loans or use a credit card… if you want something bad enough you can always get it."*

Is a Starving Student Still Hungry?
The Rise of Competitive Consumption

Like Young Families who view consumer credit as a reward for their hard work, College Students similarly justify their elevated lifestyle demands as a reward for unpaid "work" in school. Significantly, this generationally perceived social "right" or entitlement to material goods is no longer tied to one's current level of income or to a realistic budget that includes a savings component. Moreover, it is reinforced by college administrators and loan providers who assert that higher education is the most important investment that students will make. According to this perspective, students can and should enjoy their college social life since they will obtain a great job and salary after graduation. This attitude is articulated by Holly: *"I don't keep a budget now because – compared to all my friends – I'm a 100 times better off than them [in terms of consumer debt] and it just got to my head… I kinda feel like I earned it. Once I finish grad school – I'll go back to that lifestyle where… you have to plan a budget."* In contrast, Robert remarks that the end of a thrifty lifestyle is a cherished goal of students: *"I think everyone is trying to rush towards the American Dream. Nowadays people are graduating and they want everything now…the house…the car and the picket fence… and you can pay for it later because the money is available to us now."*

> ***Nowadays people are graduating and they want everything now…the house…the car and the picket fence… and you can pay for it later because the money is available to us now.***
> ***-Robert, 23***

Like other life stage groups, College Students are not immune from the pressures of "competitive consumption," even among the fiscally prudent. A key point of departure for College Students is that most are still financially and emotionally dependent upon their parents, who serve as a form of social control over inappropriate spending. For example, Stephanie is financially cautious but she explained that her spending activities could offend her family with potentially serious consequences:

> *Around Christmas time, everyone was going shopping [and] it was about the time that I got my student loan refund… I was planning [on] $600 but it turned out that it was only $100. [Later in the week a] credit card came in the mail… and it had a $1200 limit on it. I went shopping three days over the week and on the fourth day I got [my credit card] declined… I did not even realize that I had spent $1200 on gifts. I would never get another credit card… [Futhermore] my parents are always there to help me out if something comes up that I need. [Even so,] I know that if I were to buy all this stuff and tell my parents…they would cut me off. So if I did make a big purchase, I would definitely try to hide it from them.*

Josh, a 19-year-old sophomore whose father is a financial planner in suburban Rochester, New York noted his generally frugal attitudes and rejection of a consumer-oriented lifestyle. Even so, Josh often finds himself succumbing to peer consumption pressures such as when his buddies want to hang out at a sports bar. Last year, he made a shockingly impulsive purchase that he still regrets due to the economic and emotional costs:

> *This past winter I got my scholarship check in the mail. One of my friends happened to mention to one of his buddies that we were going to pick up my scholarship check. They stopped me and said we've got to go and look at this snow mobile we saw on sale. I said oh no – I got to get home. [And] about four hours later, didn't I have this brand new snowmobile sitting in my driveway. I had to hear about that from my parents for weeks.*

Even financially disciplined Holly acknowledged the influence of peer pressure on her spending behavior: *"When student loan checks come in [the mail]…Rochester is alive that weekend. [Last year] I was working three jobs and could go out and spend more…You'd [feel the need] to have to keep up with everyone."*

The pressure to consume is often attributed to the newfound power of "plastic" and the strong sense of empowerment derived from its use. Indeed, the lack of

> ***I don't want to rely on money that I don't have. People in my family and others that I know have horrible experiences with credit cards and I shy away from them…***
> ***-Jermaine, 25***

preparation for this financial responsibility often results in high levels of debt due to the "cognitive disconnect" between the understanding of one's income and the standard of living that it can support.[11] One important finding is that some students accumulate high levels of credit card debt within weeks and even within days of receiving their line of credit. Oftentimes, this "shopping spree" phenomenon reflects the psychological need to satisfy cravings for independence, self-esteem, and financial freedom as students cope with a plethora of personal, emotional, social, academic, and economic issues in their lives. For example, Clenita notes that: *"When I first got my credit card, I spent $500 the first day and I bought stupid things."* Catherine, a 19-year-old community college student, explained: *"When I first got my credit card, I waited two weeks. I pondered and then I just went out and spent $300 on shoes and clothes. I kept putting it off and the interest accumulated and I ended up paying $900. I had to get a student loan to pay it off."* And, as Robert noted, *"It provides you with an opportunity to get what you want now…without really thinking of the consequences…"*

Of course, not all students succumb to the temptations of "easy credit," including those from economically disadvantaged backgrounds. For some, the negative experiences of family members provide a psychological deterrent for controlling impulsive and irresponsible spending behavior. As Jermaine, an African-American computer science major from Brooklyn explained,

> *I don't want to rely on money that I don't have. People in my family and others that I know have horrible experiences with credit cards and I shy away from them... when I was 18 or 19, I kind of got forced out of my house by my mother and I had to start living on my own, so right there I really had to start saving my money. I've done pretty good I think…especially when I have family members who are homeless… I never wanted it to be me, so I made sure I saved my money.*

Student Financial [Il]Literacy:

Balancing the Development of Job Skills with Personal Finance Education

Numerous media accounts have described the undisciplined spending behavior of young College Students that have resulted in excessively large consumer debts with occasionally tragic consequences. But, even among seemingly unrepentant student debtors, the demand for financial education is palpable —especially among those whose learning curve has matured. This is especially significant since poor personal credit histories can impact the ability to obtain future college loans, rent an apartment, and even obtain a job. Consequently, for many College Students, their ignorance of the consumer credit system and how it can negatively affect their lives has contributed to increasingly persistent efforts to assume personal responsibility through financial education programs. As Aleesha declared:

> *If you weren't taught then you don't know. They don't sit you down when they give you [a credit card] and say, 'Listen dear, we're giving you this credit card, but you have to understand that if you can't pay the bills you're going to pay 20 times more than what you expected… After all, they make a lot of money off [interest]... and that's why they make it sound so good. I had a credit card that was 21percent and I ended up losing a job that I didn't expect to lose… I ended up paying $80 for a $20 pair of pants!*

Similarly, even assertive proponents of personal responsibility and free-market business policies emphasize the need for educational guidelines and contract disclosures. As Jeff, a recent Business School graduate remarked:

> *I think that there should be an educational requirement… you should have 100 percent full knowledge of the contract that you are signing. If you had the proper education you might not get into that situation. Maybe there should be a $500 limit for when you first start out…*

**If you weren't taught then you don't know. They don't sit you down when they give you [a credit card] and say, 'Listen dear, we're giving you this credit card, but you have to understand that if you can't pay the bills you're going to pay 20 times more than what you expected…
-Aleesha, 23**

Finally, students' general lack of personal finance knowledge underscores their naïve view of their personal credit reports which further reinforces their negative attitudes toward the financial services industry. Many students assume that you start with a positive credit report or that a negative credit report will benignly "wash away" by the time that they graduate. Other students expressed outrage that late payments while in school are used as indicators of their credit worthiness before obtaining a job and that negative information remains on their personal credit reports for seven years; few understood how their credit score is calculated and the various ways that it is used. Indeed, a large number of students expressed shock that credit reports are used to justify job rejections and higher cost loans. According to Aleesha:

> *You need education before you get a credit card… I just heard the other day from someone that credit could affect you getting a job – and I'm 23! I'm going to be 30 by the time I have good credit. If I had known that it would affect me [in terms of] getting a job or a house…I would've never done some of the things that I've done.*

In fact, Jeff retorted*, "I have had three different employment opportunities where I've had to give them the right to review my credit report. You are going to need that 700-800 credit score for them to say yes. It was the very first question."*

These issues are especially important since the banking experiences of most students are based on de-personalized interactions such as online bank solicitations, payment systems, and correspondence. According to Peter: *"the banks don't know who you are or seem to care."* As a result, students are becoming increasingly cynical about the financial services industry, which is perceived as encouraging individual responsibility and yet often relying on confusing or misleading contract disclosures and financial naiveté in their marketing campaigns. A particularly frustrating topic for Students is the emphasis of the banking industry on building a healthy "financial DNA" early in their adult careers while being aggressively marketed loan products that exceed their ability to repay. Not surprisingly, then, the limited employment experiences of students and their lack of understanding of the consumer financial services system often produce a state of emotional paralysis.

As LaShana explains:

> *I haven't really looked down the line…it's really hard to make plans for years ahead exactly to achieve what you want. So, the best I can do for now is to evaluate my [economic] situation now, my job now. Until better days come along, then I will start planning [for my future].*

ENDNOTES

[1] The selection protocol sought to include a representative distribution of racial and ethnic minorities (African-American, Latino, Asian) as well as a relatively equal composition by gender.

[2] Robert D. Manning, *Credit Card Nation, America's Dangerous Addiction to Credit*, New York: Basic Books, 2000 and Sandy Baum and Marie O'Malley, *College on Credit: How Borrowers Perceive their Education Debt, Results of the 2002 National Student Loan Survey, (*Nellie Mae: Braintree, MA, 2003).

[3] See Robert D. Manning, *"Credit Cards on Campus: The Social Costs and Consequences of Student Debt,* Washington, D.C.: Consumer Federation of America, 1999 and Robert D. Manning, *Credit Card Nation, America's Dangerous Addiction to Credit*, New York: Basic Books, 2000, Chapter 6.

[4] 1987-88 to 2004-05: data from Annual Survey of Colleges, The College Board, New York, NY, weighted by full-time undergraduate enrollment; 1976-77 to 1986-87: data from Integrated Postsecondary Education Data System (IPEDS), U.S. Department of Education, National Center for Education Statistics, weighted by full-time equivalent undergraduate enrollment.

[5] Laurence Mishel, Jared Bernstein, and Heather Boushey, *The State of Working America*, (Cornell: ILR Press, 2003), page 305.

[6] 1987-88 to 2004-05: data from Annual Survey of Colleges, The College Board, New York, NY, weighted by full-time undergraduate enrollment; 1976-77 to 1986-87: data from Integrated Postsecondary Education Data System (IPEDS), U.S. Department of Education, National Center for Education Statistics, weighted by full-time equivalent undergraduate enrollment.

[7] Sandy Baum and Marie O'Malley, *College on Credit: How Borrowers Perceive their Education Debt, Results of the 2002 National Student Loan Survey*, (Nellie Mae: Braintree, MA, 2003). Among post-graduate respondents, they averaged $31,700 in loans after the completion of their undergraduate degree—much more among medical and law students.

[8] In the late 1980s, less than 40 percent of College Students had credit cards (primarily co-signed by parents) while today it is over three-fourths. Overall, average credit card debt upon graduation among student borrowers is estimated at over $3,000 in the early 2000s and would be higher if not for the use of student loans to pay down "revolving" debt. For a review of empirical studies on this topic, see Robert D. Manning, *Credit Cards on Campus: The Social Costs and Consequences of Student Debt,* Washington, D.C.: Consumer Federation of America, 1999 and Robert D. Manning and Ray Kirshak, "Credit Cards on Campus: Academic Inquiry, Objective Empiricism, or Advocacy Research," *Journal of Student Financial Aid*, Vol. 35, No. 3, (Spring, 2005), pages 39-48; and Sandy Baum and Marie O'Malley, *College on Credit: How Borrowers Perceive their Education Debt, Results of the 2002 National Student Loan Survey*, (Nellie Mae: Braintree, MA, 2003).

[9] National Public Radio, "Credit Card Companies Target Kids," February 6, 2005 available: http://www.npr.org/templates/story/.php?storyId=4488488.

[10] See *Lewis Mandell, Financial Literacy: Are We Improving?,* Washington, D.C.: Jump$tart Coalition, 2005 for a time-series, survey-based analysis of financial literacy among high school students (1997-2004). In the late 1990s and early 2000s, student financial literacy scores fell to dismal levels and Mandel reports with optimism regarding the modest statistical reversal of this trend in 2004.

[11] Robert D. Manning, *Credit Card Nation, America's Dangerous Addiction to Credit*, New York: Basic Books, 2000, Chapter 4.

Chapter III

Free From Parental Control and Professors, Too: Young Singles Pursue the Unlimited Opportunities of the New Economy

The transition from student (high school, vocational, junior college, college/university) to young adult entails the balancing of a new professional career/job and active social life with the responsibilities of financial independence. In this chapter, a representative mix of Young Singles (25 to 34 years old) from Metropolitan Washington, D.C. are examined as they participate in a rapidly growing regional economy and adapt to the financial challenges of a soaring real estate market. Overall, the socio-demographic characteristics of the participants represent a broad group of white-collar clerical and professional occupations with a wide educational range. The median age is 28 years old with more men (59%) than women (41%). Like the general profile of the D.C. Metropolitan suburbs, the group is primarily White with almost one-fourth (22%) minorities and very highly educated; nearly two-thirds (63%) have a college degree and nearly one-fourth (22%) have a graduate degree. Not surprisingly, the median income is moderately high, nearly $50,000, ranging from less than $20,000 to over $90,000. Significantly, all expressed a strong desire to own their homes, both to control the cost of spiraling rents and as a major asset-building investment. Even so, only about one-fourth (27%) are homeowners—evenly split between condos and townhouses. This reflects the problem of housing affordability in the region and the geographic mobility of this highly educated pool of workers.

As an example of the "post-industrial city,"[1] the Metropolitan Washington, D.C. area (Northern Virginia, District of Columbia, Maryland) was selected for its dynamic and rapidly growing metropolitan economy (mix of high-tech, public sector, consumer services) in the Mid-Atlantic States region. By attracting highly educated white-collar professionals and unskilled blue-collar laborers, it has become the engine for enormous demographic and spatial growth of the Metropolitan Washington, D.C. area—especially its proliferating suburbs and exurbs. In addition, these conditions have attracted an unprecedented influx of blue- and white-collar immigrants, who have contributed to the sizzling housing market—one of the fastest growing and most expensive in the nation. The "effect" of escalating housing prices on individual attitudes toward spending, saving, and investing offers an important methodological "control" for comparisons with other project participants residing in the lower cost metropolitan areas of Rochester and Orlando.

The social and cultural forces that profoundly shape the consumer credit and consumption experiences of Young Singles differ sharply from their parents' generation. This is due to four key factors. First, the traditional Puritan values ("*Saving for a Rainy Day")* that were passed on to their parents (Mature Families of Chapter 5) by their grandparents (Seniors of Chapter 7) have not been embraced by Young Singles. Second, this resistance to adhering to a strict personal budget based solely on current income—the "cognitive connect"[2]—is a pattern that was reinforced in college with its debt-based lifestyle (featuring escalating student loan obligations) that promotes immediate gratification as reported in Chapter 2. Third, relatively high starting and early-career salaries among young adults who have not experienced major macro-economic fluctuations (high inflation, employment loss, falling property values) have created a heightened sense of optimism about their economic resources, which is reflected in their high debt obligations. Lastly, soaring real estate prices have shifted their focus from long-term investment planning to allocate much more of their income to the purchase and maintenance of a home, condo or townhouse.

Not Broke But in Debt:

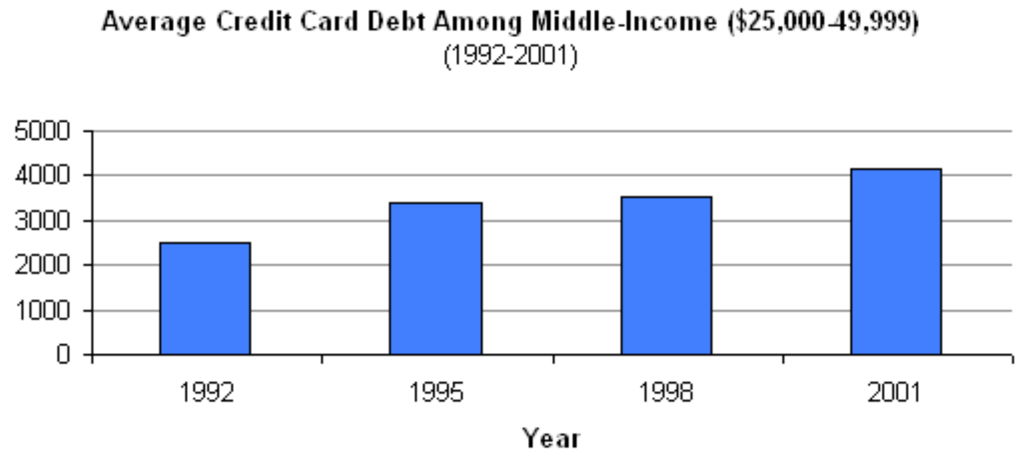
Rising Expectations and Negative Cash Flow

The most significant financial decision affecting future wages of young adults is the decision to attend college and to acquire the job skills for pursuing a professional career. As shown in Table 1, the economic returns to high school educated, blue-collar workers have shrunk significantly—especially among unionized, male workers.[3] This decline has been most pronounced in the 1980s and early 1990s. For example, the average hourly entry wage of high school educated men in 1979 was 75.9 percent of college educated men (who averaged $16.75 per hour); the proportion for entry-level women with a high school degree was 70.9 percent of the $13.25 per hour earned by college educated women. By 1995, the wage rate for high school educated men had fallen to 59.8 percent of $15.98 per hour for college educated men, and dipped to 56.3 percent of $18.64 in 2003; women fell at a similar rate from 55.4 percent of $14.68 in 1995 to 55.2 percent of $16.20 in 2003 (all reported in 2003 dollars).[4]

Over the last 25 years, the financial returns to higher education have benefited white-collar and professional workers. For example, the annual salary of all males between 25 and 34 was $34,051 in 1992, rising to $45,756 for those with at least a bachelor's degree; young women's salaries were lower at $27,834 and women with at least a bachelor's degree averaged $36,177. In 2001, all young males averaged $35,778 with college-educated workers averaging $48,782; in 2002, the average fell slightly for all males ($35,487) and rose slightly for the college educated ($48,955). Among women, the income trend is moderately more favorable as all young women earned $30,093 in 2002 while college educated workers earned $40,021.[5] Today, a recent college graduate in a major metropolitan area can expect a starting salary of almost $39,000.[6] As explained in Chapter 2, however, the cost of attending college has nearly doubled since 1990, with most of this increase financed with student loans.[7] And, rising costs are not the only burden borne by recent graduates. According to Nellie Mae, when it asked its borrowers in 2002, *"To what extent do you feel burdened by your student loan payments?"* 55.5 percent reported that they were *"Burdened"* compared to 17.4 percent that reported that they were "*Not Burdened.*" Similarly, when asked, *"If you could begin again, taking into account your current experience, would you borrow:"* the response was 54.4 percent *"Less"* versus 44.7 percent "*About the Same.*"[8]

Over the last decade, young adults have endured more frequent job interruptions such as the recession of 2001 while the rise of part-time and contingent work has reduced income and subsequently increased dependency on consumer credit.[9] Furthermore, sizzling real estate markets have made Young Singles more vulnerable to rising rents. Harvard University's Joint Center for Housing Studies reported that 3.2 million households earning between $17,500 and $50,000—which includes the median earnings of Young Singles—spent over half of their income on housing expenditures (rent, mortgage) in 2001.[10] This is confirmed by the U.S. Department of Labor's Consumer Expenditure Survey data, which reports that young adults spent over 10 percent more of their incomes (in inflation adjusted dollars) on rent and on transportation between 1992 and 2002.[11] In addition, large purchases, such as automobiles and entertainment systems, are increasingly financed by young adults almost entirely on credit. The result is spiraling consumer debt obligations. For example, according to a recent analysis of the 1992, 1995, 1998 and 2001 Survey of Consumer Finance surveys, credit card debt among young adults (25-34 years old) with an annual income between $25,000 and $49,999 jumped from $2,510 in 1992 to $4,152 in 2001.[12] See Figure 1. Due to measurement flaws and data collection biases, these debt levels are probably understated by 25 to 40 percent.[13]

Figure 1



Source: *Demos calculations based on data from 1992, 1995, 1998, and 2001 Survey of Consumer Finances (SCF), cited in Tamara Draut and Javier Silva, Generation Broke, The Growth of Debt Among Young Americans, New York: Demos, 2004, page 4.*

Not surprisingly, the Survey of Consumer Finance data indicates that the average debt service-to-income ratio for young adults has jumped from 19 percent in 1992 to 24 percent in 2001; this trend is understated due to rising rents, car leases, and other consumer borrowing ("payday" loans, rent-to-own) that are not recorded as formal "debt."[14] As a result, the proportion of young adults in debt hardship—defined as debt payment to income of over 40 percent—jumped from 7.9 percent in 1992 to 13.3 percent in 2001. As shown in Table 2, only the highest income category ($50,000 - $74,999) registered a decline, from 7.8 percent in 1992 to 5.2 percent in 2001. The middle income category—between $25,000 to $49,999—doubled from 6.7 percent in 1992 to 13.4 percent in 2001.[15] It is in this context that consumer bankruptcy trends have experienced a dramatic increase among young filers—with young adults having become the second largest filing group after 35 to 44 year olds.[16] This is significant since they have had the least amount of time to accumulate consumer debt since graduating from college.

To Save or Not To Save:
The Waning Influences of the Generation of Scarcity

Young Singles are coping with the economic reality of a credit-dependent lifestyle while struggling with the cognitive conflict over the traditional values that shaped their parents' and grandparents' attitudes toward saving and debt. Indeed, the influence of these generational influences of thrift and saving on their cognitive views toward spending is striking. For example, over 90 percent of the Young Singles participants report that saving is either *"Very Important"* or *"Important"* at this stage of their lives. The past experiences of scarcity resonate through many personal anecdotes. For instance, Justin, a 29-year-old architect who is originally from Lancaster, PA recounted:

> *[My grandfather] was one of seven and they had no money whatsoever so the men would scarf down food because that was [all they had]. Whatever was in front of them… whoever got [to the food], got it first. I honestly have never seen a meal last more than five to 10 minutes. So, there are the memories that they have [of scarcity]. I think their general attitude towards money is that it doesn't grow on trees… My grandfather would empty his pockets at the end of the day and [with the change] buy a savings bond at the end of every month with it…*

For Glenn, a 31-year-old analyst with an international organization in Washington, D.C. and originally from Fairfield, CT, his childhood attitudes toward saving were strongly shaped by his mother: *"She's always the type of person who has a rainy day stash. She puts money in this location where she says if she needs it for an emergency [when] she doesn't have any cash on her [then] she goes into her little cup or where ever she keeps it… it's her rainy day money."*

For some Young Singles, the generational ethos of frugality is a good attribute that, when taken to an extreme, can become an irrational "end" rather than the "means to an end." As Tanya, a 29-year-old African-American public employee of Prince Georges' County, MD, relates about her father, a D.C. building contractor:

One thing I've noticed in my family is that sometimes saving for that rainy day is almost a detriment [because] you put things off. My dad is very much like this. He's a very good saver and I admire him for that but sometimes he doesn't do things that he should do for himself. [Such as] buying a new car, he just keeps repairing the old one to the point where it's beyond repair or putting off house repairs… he has the money but he doesn't want to spend it because [life] could get worse, there could be worse times coming.

[Historically], you had liquid assets [for] those rainy days. Now I think in society you have your credit limit… so if they have an emergency they can just swipe it. -Brian, 26

The generational experience with material scarcity has profoundly influenced older cohorts' views toward money, especially the time horizon and "earned" rewards for planning. This perspective is explained by Helen, a 34-year-old insurance agent from Arlington, VA:

Both of my grandfathers were veterans of World War II and one set of grandparents was very much affected by the [Great] Depression… especially my grandmother, she's a wonderful woman and she's incredibly generous, kind and giving but she has a tendency to focus so much on money. With regards to purchases, to providing financial opportunities for her grandchildren, whatever. She doesn't keep tabs on where her money goes in terms of providing money for her grandchildren per se but everything is qualified with regards to money. I've often times asked her about it and it can be a very sensitive topic.

Of course, not all members of this generation are culturally averse to spending money on themselves. As 27-year-old Jennifer, a criminologist in Chantilly, VA related:

My grandparents didn't have a lot of money when they were growing up. My grandfather was in the military and my grandmother didn't work since she was raising four kids on her own. So they had to watch their money a lot. He was in the military for 27 years so he has a retirement plan [and] his second job has a pretty big pension… Now they have all these benefits and they do have a lot of money. So they spend a lot more and they take every opportunity to take trips and do things because they feel like it's their time now to spend money.

The waning influence of these generational attitudes is reflected in the conflicting views toward saving and spending. For example, 26-year-old Eryn, a first-generation college graduate from Virginia Beach, discussed her views of the contemporary influences of traditional values toward thrift and frugality: *"I think today it means that* *because everything in this country is so consumption minded that anything that you save is almost the same as earning or working for it because so many people just spend, spend, spend as soon as they get any money.*" Similarly, 26-year-old Brian, a biologist in Manassas, VA explained:

> *[Historically], you had liquid assets [for] those rainy days. Now I think in society you have your credit limit. I think people just leave a buffer on their credit limit available, so if they have an emergency they can just swipe it. They don't worry about saving for a rainy day. It is just the [available] credit that they need for a rainy day.*

These remarks highlight the changing socio-historical forces that shape and transform the role of consumer credit and debt in American society. As Glenn explained: *"My grandparents' attitudes toward savings were largely shaped by the Great Depression, and their attitudes are different from my parents, and [my parents' attitudes] are definitely different from mine."*

Out of College and Into Debt:

The Erosion of Puritan Values and the Rise of the Cognitive Disconnect?

The cognitive attitudes of young adults are fundamentally shaped by past familial influences as well as formal school experiences and the realities of life in the 'new' economy with its ubiquitous mass marketing campaigns. Although more than 90 percent of the participants responded that *"At this stage of [my] life… saving money is"* either *"Very Important"* or *"Important,"* this attitudinal priority is not mirrored in their behavioral responses; only 52 percent reported devising a monthly budget and fewer reported adhering to it. Furthermore, among those with budgets, about 40 percent do not specify any savings such as for investments. This lack of budgetary discipline is facilitated by the role of consumer credit in their daily lives. Nearly 70 percent described consumer credit as either *"Important"* or *"Somewhat Important"* in their monthly consumption decisions. For instance, Peter, a 32-year-old book editor from Louisville, KY, has no student loans and minimal consumer debt: *"I may buy on credit* *towards the end of the month if cash is tight…I have purchased many things I could not pay for with cash… and have taken cash advances from credit cards to pay bills [on occasion].”* Elaine, a 33-year-old researcher confides: *“I'd rather not use it but it really makes things accessible. With 0 percent APR and time to pay it off, it has become much easier [to borrow].”*

Unlike older life stage groups, their lack of concern over minor financial expenditures—implicitly rejecting *“A Penny Saved is a Penny Earned*”—clearly distinguishes their spending behavior and underlies their inability to save effectively. As noted by 31 Glenn:

> *No, I'm not big on [spending] rules. It's a very puritanical philosophy that still exists in our society. Do you need to be miserly to be a prudent manager of your money? That may be true if you look at a few pennies per day of interest earned or not earned, accumulated over a time, sure. But if you're looking at a budget or how you spend your money, I'm not going to look at expenses under $5 in my daily expenses. The places I'm going to look to cut [are much larger] expenses, you know. It doesn't make sense to me [otherwise].*

As a result, smaller daily “wants” that have become intertwined with lifestyle “needs” are rarely recorded/tracked on a monthly basis and the cumulative costs of these “routine” indulgences are seldom acknowledged. This is illustrated by Jason, a 29-year-old college-educated technology specialist: *“You buy a Starbucks here and there… next thing you know you're spending $8 a day on Starbucks that adds up.”* Joseph, a 33-year-old graduate student, notes the impact of consumer credit in his rational calculus as it undermines the cognitive connect: *“When spending cash, there is a moment of reflection [that occurs for me] where you are considering where that money came from, the effort that went into obtaining that money. So you think, do I really need that $4 latte? Whereas with credit, you think, I'll worry about it at the end of the month.”* Hence, these purchases are viewed as “off-radar” spending entitlements–the *“Latte factor”*–so long as they do not exceed self-imposed limits that are as high as $20.

No, I'm not big on [spending] rules.
-Glenn, 31

The generational changes in attitudes towards spending and saving may appear nuanced but have profound ramifications. For instance Rosalyn, a 25-year-old college-educated communications specialist from San Diego, CA, who has been living in Northern Virginia for several years, explains:

> *I'm a bargain shopper [in order] to save money, but being a bargain shopper can be a bad thing too. I think the difference between a spender and a saver is if you see something on sale and its half off… a saver is someone who is excited because they got half off… a spender is someone who says, now I can get two.*

It is not a surprise, then, that 71 percent of the participants report that *"parents/family [still] attempt to influence [my] consumption behavior*" as their generationally-defined "needs," "wants," "desires" become more distinct from their parents' and grandparents'. Furthermore, as a more risk tolerant generation, Young Singles are more likely to recognize the powerful economic leverage of credit and recast their behavioral views toward "good" versus "bad" debt in a more rational, cost-benefit analysis. As Jason, a transplant from Crystal Lake, IL explained:

> *Debt is debt. I don't see how a house is a good debt versus [bad debt]. Look at it mathematically. You can have debt and investments at the same time. If you're reasonably confident that over 10 years your investments are going to out gain whatever debt you have at whatever the interest rates are, then that debt is fine.*

The Financial Pressures of Starting From Scratch:

Young Singles Balance the Reality of Cash Flow with Rising Home Prices

One of the most powerful forces shaping attitudes towards savings and debt among Young Singles is the booming regional housing market; only 27 percent of the participants are home owners. Significantly, both groups—owners and renters—share the popular view that purchasing a home simultaneously fulfills the need for shelter while serving as an attractive investment vehicle. Furthermore, the rapid appreciation of the D.C. Metropolitan housing market over the last decade has engendered a psychological receptivity to high levels of consumer debt (student loans, credit cards, auto loans). Not unexpectedly, the median down payment of five percent reported by the study's homeowners reflects the dual reality of booming regional housing costs and their lack of saving discipline and success.

The reality of accumulating high financial liabilities together with the building of a personal investment portfolio underlies the emergent view of consumer debt as a dual economic relationship. That is, generational empowerment (accumulating wealth such as homeownership) and impoverishment (high debt service for past lifestyle needs) fundamentally shape this group's behavior toward rising levels of debt. Among older age cohorts, such as Empty Nesters and Seniors, strategic investment decisions are typically delayed until household indebtedness is "retired," or at least until "bad" debt is retired. Today's Young Singles, in contrast, are eager to jump into the home ownership market despite rising property values and an average of more than $14,000 in total consumer debt. As a result, new loan products such as interest-only loans appeal to this group by contributing to their social status and wealth accumulation goals.

The equity in my house provides a little comfort blanket; and you definitely take that into consideration in your consumption habits.
-Jason, 29

The current generation of Young Singles expects bountiful career opportunities in the technologically driven "new" economy while acknowledging that economic forces outside of their control may disrupt the achievement of personal objectives. Although some experienced major financial setbacks during the stock market decline of 2000, most view home ownership as a financial security blanket that can insulate them from capricious economic trends. This increases the psychological importance of home ownership as a stabilizing factor in an increasingly uncertain world. For instance, Jason commented that, *"the equity in my house provides a little comfort blanket; and you definitely take that into consideration in your consumption habits."* This "wealth effect" is especially important to Jason, an airline employee, since he faces regular job uncertainty while repaying $26,000 in consumer debt. For 29-year-old Jeremy, the erosion of corporate loyalty underlies his increasing economic insecurity, *"it's no longer 40 years and the gold watch… there's no sense of loyalty between you and the company you work for [anymore]."*

Most Young Singles commented enthusiastically about the soaring Metropolitan Washington D.C. area housing market. This newfound financial anchor, however, entails greater spending and less liquid saving for unexpected financial demands (e.g. job loss, medical expenses). Also, many participants confided that they were less motivated to begin long-term financial planning due to the housing-driven wealth effect. As a result, very few are financially prepared for the possibility of short-term housing flattening or depreciation and the subsequent budgetary response of increasing personal savings that would be required. Rosalyn, a 25-year- old native of San Diego, CA, who has resided in the Washington Metropolitan area for the last few years commented: *"I just bought my condo before it was too late to enjoy [housing appreciation]. I'm assuming that it is going to go up. Don't even scare me. It's already gone up and so I'm happy about that."* When probed about the possibility of housing depreciation, 33-year-old Elaine optimistically replied, *"maybe the real fact is that if this economy continues to get better and better, then we may never have the bubble burst."*

Although home ownership is the primary preoccupation of this group, the vast majority are renters, and their anxiety is exacerbated by sharply rising housing prices that constrain their opportunities for home ownership. For example, Helen, who rents a three bedroom apartment in Arlington, VA for more than $1,500 per month, commented: *"I guess I could've afforded a house in Alexandria – but it would've only been a two bedroom…and I have a 6-year-old and a 7-year-old, and there is no way [that would've been possible]."* Helen's situation is worrisome since her annual, pre-tax income is less than $50,000, which indicates that housing expenses exceed 40 percent of her income. With approximately $15,000 in consumer debt, higher rental costs may preclude Helen's ability to enter the real estate market and thus the possibility of accumulating home equity in the future.

Smart but Needy:

Generational Optimism and the Challenges of Financial Planning

A defining feature of Young Singles is their optimism about the future—they expect career success and upward social mobility. Although they typically have not experienced long-term job loss, their perception of diminished company loyalty has produced a short-term orientation towards early career advancement. For example, the primary strategy of many Young Singles is to enhance their compensation through job and/or geographic mobility. This contributes to their psychological detachment in selecting a home as an investment. As Matt notes:

> *Clearly people aren't looking 30 years out… that's why the one year, five year, seven year ARMs are becoming so popular. I did the same thing. I said, I'm going to do a five year ARM and get a killer rate. I know I'm going to be gone by the time the ARM starts to flex again. So why not? I don't think anybody is thinking I'm going to pay this mortgage off in 30 years. At least in this particular vicinity.*

Clearly people aren't looking 30 years out… that's why the one year, five year, seven year ARMs are becoming so popular. I did the same thing. I said, I'm going to do a five year ARM and get a killer rate. I know I'm going to be gone by the time the ARM starts to flex again.
-Matt, 33

In contrast, several participants expressed their reluctance to buy a home due to uncertainty regarding their career plans. As Jason laments: *"I looked at a condo that was [selling] for $70,000 before the housing boom about seven years ago and I decided not to buy it because I never thought that I would be here. And here I am. That sense of career instability definitely makes it more difficult to make long-term plans."* Others question the imperative of home ownership. As Glenn commented:

> *[It is] weird to be a young person living in Washington, [D.C.] with this sort of housing bonanza, a psycho-frenzy thing going on. It's just so very tiring. Sometimes I feel like for me, yeah, having a house would be great but it's almost become something that I feel like we're being programmed to do, that it is [an unquestioned] part of the American Dream.*

Significantly, Young Singles pride themselves as financially savvy, often attributable to their educational achievement and generational arrogance via their technological sophistication in the new economy. As a result, they tend to be financial risk-takers with little professional guidance. This tendency raises important questions about their ability to effectively manage their assets. As Glenn explains: *"There is a feeling that you can secure your future better than these companies [can]. Just look at all those people [who lost everything] with Enron."* This willingness to pursue financially aggressive and even risky investment strategies is echoed by Terak:

> *I studied finance… I learned about stock investments when I was 18 or 19. I took money that I saved since I was a kid and invested in stocks. It was $10,000. I made it into $80,000 in 2 years in stocks. But I had $150,000 invested because of margin and I lost all of it. Now I'm looking at the real estate market. I'm like, huh. I learned my lesson in the stock market. Should I sell my real estate that has gone up in value by 80 percent?*

The generational bravado of Young Singles tends to manifest in status anxiety as expressed through competitive consumption pressures. These include personal wardrobes, new automobiles, furniture, and other household accoutrements. As 26-year-old David, a real estate management professional, exclaimed:

> *I want to seem like the smartest person, the one that's going to give them the best deal, the most intelligent person so I'll go out and spend more money on a suit so it makes me look better when I come face to face with a client because it's the President of HP and she's sitting across the table. She's got on the best suit so, being so much younger, I kind of have to raise myself up… I certainly want to look better and project a better perception of myself.*

The emphasis of Young Singles on projecting an image of being "hip" and "successful" through lifestyle accessories is illustrated by Alesha, a 27-year-old MBA and HUD employee. According to Alesha, demonstrating success through lifestyle-based consumer purchases is paramount, *"…like with an iPod. It's all about the image and if you can project it, regardless of if you can afford it, or if you are getting the best MP3 player."* Alesha's annual salary is about $60,000 but she has $42,000 in debt mostly due to college expenses, plus an additional $8,000 in consumer debt. She continues: *"Where*

> **You're taught constantly to have everything and if you don't have everything you don't fit in, if you don't fit in then you're nobody.**
> **-Jennifer, 27**

are our values? It's all about projecting that you can maintain a certain lifestyle even if you can't afford it."

Similarly, Eryn, who has approximately $7,000 in credit card debt, notes: *"I bought a brand new car when my [old] car was perfectly fine and I still owed money on the previous car… my older car was worth less than the trade [but] it was a prettier car. To me my automobile is everything. It projects the image of what I want people to think about me."* Jennifer, a 27-year-old airline employee, summarizes the underlying dynamics of competitive consumption that leads to escalating consumer debt levels: *"You're taught constantly to have everything and if you don't have everything you don't fit in, if you don't fit in then you're nobody. So all this insecurity grows and everybody feels that they have to have something, so as soon as they get a check they go out and keep up with the Jones."*

Balancing the Optimism of Youth with the Responsibility of Financial Independence:

A Beacon of Light at the End of the Financial Tunnel?

Despite this group's intellectual savvy, many are uncertain as to where to turn for financial guidance. The small number of Young Singles with financial advisors tends to defer to their professional expertise. However, most are not seeking professional advice and continue to rely on family members, followed by friends, for information regarding personal financial issues. As Eryn lamented: *"I think that they're the only people I can trust, my parents. And they don't know too much about it so it's like, where do I go?"* Overall, less than one-tenth of the participants rely on a professional financial advisor. Significantly, a much greater number of participants read financial publications and Internet sources than meet with trained experts for financial advice.

"Who do I go to at this stage in my life to learn how to figure how [financial] risk and interest work? I don't know where to go from here? How do I know that they are not going to screw me over or try to make money off me?" asks Jennifer, a 27-year-old North Carolina native, who does not have any student loan or other consumer debt. Another participant responded: "*Where do you go to trust someone that is going to tell you really what you should do. I can talk to my dad, but he's going to tell me what his [plan] is. Who do I go to at this stage of my life to learn?"* Jamal, a 35-year-old African-American event manager from Pittsburg complains, *"I look at financial education as one of the most important types of education that anyone can have in America; and I find it appalling that they don't teach it in high school. No one teaches you the repercussions of credit card debt – no one taught us this when we were in high school."* Although Jamal does not have any consumer debt, he still owes about $7,000 in student loans.

Finally, in terms of establishing a family in the near future, almost one-half of Young Singles indicate that their current debts will influence when they will be able to marry; about 40 percent expect that their debts will probably delay their plans to start a family. In fact, the participants reported that they expect to begin their families with substantial debt burdens. This suggests that psychologically they have accepted the integral role of consumer credit and debt in establishing their households—even with two incomes. As David explains: *"I think you go through three different phases. You go to debt, typically where people start. Then you figure out at some point how to get that turned around into a savings. Then you get comfortable in a savings mode where then you can move into the third stage, which is more of an investment mode."* Not surprisingly, few respondents have begun to develop retirement investment goals, despite the fact that 90 percent describe financial planning as either *"Important"* or *"Very Important."* This point is further demonstrated

Who do I go to at this stage in my life to learn how to figure how [financial] risk and interest work? I don't know where to go from here? How do I know that they are not going to screw me over or try to make money off me?
-Jennifer, 27

by the fact that more than 60 percent are already either *"Concerned"* or *"Very Concerned"* about saving for their future retirement. Participants also expressed skepticism about the future viability of U.S. government retirement programs such as Social Security as well as company-sponsored pension plans. Instead of resulting in more committed savings plans, 26-year-old Brian exclaimed: *"I think that I will have to work forever."*

TABLE 1

Hourly Wages of Entry-Level and Experienced Workers By Education: 1973-2003

(reported in 2003 dollars)

High School	1973	1979	1989	1995	2000	2003
Men						
Entry *	$12.61	$12.71	$10.30	$9.56	$10.46	$10.50
	18.03	18.20	15.92	15.27	15.90	15.98
	19.00	19.41	17.25	17.25	17.11	17.11
Women						
Entry *	$9.24	$9.39	$8.42	$8.14	$8.94	$8.94
	10.6	10.97	11.04	11.18	11.85	12.18
	11.05	11.29	11.62	11.72	12.46	12.99
College						
Men						
Entry **	$16.73	$16.75	$17.23	$15.98	$19.32	$18.64
34-40	26.99	26.03	25.49	26.12	28.93	30.58
49-55	27.82	28.86	28.66	28.96	29.8	30.26
Women						
Entry **	$14.02	$13.25	$15.00	$14.68	$16.40	$16.20
34-40	16.72	15.19	17.32	19.52	21.31	22.72
49-55	15.95	15.37	16.81	19.7	20.56	20.99

* Entry level wages measured as wage of those from 19-25 years of age.

** Entry level wage measured as wage of those from 23-29 years of age.

Source: *Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Hourly Wages of Entry-Level and Experienced Workers by Education, 1973-2003," The State of Working America, Ithaca: Cornell University Press, 2005, page 158.*

TABLE 2

Young Americans (25-34 years) in Debt Hardship: 1992-2001
(Debt Payment to Income Ratio Greater Than 40 Percent)

Income Group (25-34)	1992	2001
Overall	7.9%	13.3%
Income Group		
Under $10,000	37.1%	57.6%
$10,000 - $24,999	8.4%	22.3%
$25,000 - $49,999	6.7%	13.4%
$50,000 - $74,999	7.8%	5.2%

Source: *Demos calculations based on data from 1992 and 2001 Survey of Consumer Finances (SCF), cited in Tamara Draut and Javier Silva, Generation Broke, The Growth of Debt Among Young Americans, New York: Demos, 2004.*

ENDNOTES

[1] Robert D. Manning, "Multicultural Washington, D.C.: The Changing Social and Economic Landscape of a Post-Industrial Metropolis," *Ethnic and Racial Studies* (March 1998):328-355; Joel Garreau, *Edge City: Life on the New Frontier*, New York: Doubleday, 1991.

[2] Robert D. Manning, *Credit Card Nation, America's Dangerous Addiction to Credit*, New York: Basic Books, 2000, Chapter 4.

[3] As reported in Table 1, there have been some moderate wage gains for high school educated women over the last 15 years although real wages have declined among the youngest of these age cohorts. See Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Hourly Wages of Entry-Level and Experienced Workers by Education, 1973-2003,"*The State of Working America,* Ithaca: Cornell University Press, 2005, p. 158. Also, Stephen Henry Lopez, *Reorganizing the Rust Belt,* Berkeley: University of California Press, 2005 and Bennett Harrison and Barry Bluestone, *The Great U-Turn: Corporate Restructuring and the Age of Flexibility,* New York: Basic Books, 1988.

[4] Between 1979 and 1995, "real" (inflation adjusted) entry-level wages for young men (19-25 years old) with a High School degree fell from $12.71 to $9.56 per hour. In 2000, it had risen modestly to $10.46 and remained nearly constant at $10.50 in 2003. This trend is similar for young women with a High School degree. Their average entry-level hourly wage fell from $9.39 in 1979 to $8.42 in 1989 and has risen only marginally to $8.94 in 2003. See Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Hourly Wages of Entry-Level and Experienced Workers by Education, 1973-2003," *The State of Working America,* Ithaca: Cornell University Press, 2005, page 158.

[5] National Center for Education Statistics, based on data from U.S. Department of Commerce, Bureau of the Census, March Current Population Surveys, 1972-2003 cited in Tamara Draut and Javier Silva, *Generation Broke, The Growth of Debt Among Young Americans*, New York: Demos, 2004, page 5.

[6] Tamara Draut and Javier Silva, *Generation Broke, The Growth of Debt Among Young Americans*, New York: Demos, 2004 and Alexis M. Herman, "Invasion of the College Grads," MonsterTrak, Young Money Interactive available at www.youngmoney.com/careers/monstertrack/job_hu7nt/053.

[7] According to Nellie Mae, average total undergraduate student debt among its borrowers rose 236 percent between 1991 and 2002 to about $18,900; for those attending graduate school, the combined student loan debt jumped to $34,900. See Sandy Baum and Marie O'Malley, *College on Credit: How Borrowers Perceive their Education Debt, Results of the 2002 National Student Loan Survey*, Nellie Mae: Braintree, MA, 2003. Also, credit card debt has jumped sharply with the average balance among student debt "revolvers" exceeding $3000 at graduation in the early 2000s. For a review of empirical studies on this topic, see Robert D. Manning and Ray Kirshak, "Credit Cards on Campus: Academic Inquiry, Objective Empiricism, or Advocacy Research," *Journal of Student Financial Aid*, Vol. 35, No. 3, (Spring, 2005), pages 39-48

[8] See Sandy Baum and Marie O'Malley, *College on Credit: How Borrowers Perceive their Education Debt, Results of the 2002 National Student Loan Survey*, Nellie Mae: Braintree, MA, 2003, 12.

[9] Heather Boushey and John Schmitt, *Hard Times in the New Millenium*, Washington, D.C.: Center for Economic and Policy Research, November 2003.

[10] Harvard University Joint Center for Housing Studies, "The State of the Nation's Housing," June 2003.

[11] U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey Tables for age 25-34, years 1991-1992 and 2000-2001, adjusted for 2002 dollars available at http://www.bls.gov/cex/home.htm.

[12] Tamara Draut and Javier Silva, *Generation Broke, The Growth of Debt Among Young Americans*, New York: Demos, 2004, page 5.

[13] Robert D. Manning, *Credit Card Nation, America's Dangerous Addiction to Credit*, New York: Basic Books, 2000, page 319.

[14] Tamara Draut and Javier Silva, *Generation Broke, The Growth of Debt Among Young Americans*, New York: Demos, 2004, page 5.

[15] Tamara Draut and Javier Silva, *Generation Broke, The Growth of Debt Among Young Americans*, New York: Demos, 2004, page 5.

[16] Teresa A. Sullivan, Deborah Thorne, and Elizabeth Warren, "Young, Old, and In Between: Who File for Bankruptcy?," *Norton Bankruptcy Law Advisor,* Issue No. 9A September.

Chapter IV

YOUNG FAMILIES STRUGGLING TO MAKE ENDS MEET: RISING MATERIAL EXPECTATIONS COLLIDE WITH THE "TWO INCOME TRAP"

Traditionally, Young Families (household head under 35 years old) face the most difficult financial pressures of the six life stage groups. On the one hand, like the transition from financially dependent college students to employed single adults, Young Families often have unrealistically optimistic expectations of future income growth since both spouses are typically at the beginning of their respective careers. This is based on the assumptions that they will reduce their living expenses (previously based on two separate residences) and increase their discretionary resources as dual-income households. This cognitive issue is compounded since Young Families tend to underestimate and/or neglect to accurately plan for the loss of household income due to a spouse's temporary (less than a year) or long-term withdrawal from the full-time labor market during the early child-rearing years. In fact, young couples are much more likely to contribute consumer debts rather than savings or other assets to the establishment of their new households. These include educational debts, automobile loans and hefty credit card balances. Furthermore, Young Families must assume costly household "start up" expenses such as home furnishings, a "family" car such as a minivan, soaring child rearing expenses and eventually the purchase of a house or condominium.

In this chapter, a representative mix of White, suburban Young Families from Metropolitan Rochester, New York are examined. With sharp employment reductions in major corporate employers like Kodak and Xerox, Rochester represents a demographically declining, de-industrializing, old Northeast city. Moreover, the affordability of middle-class housing in the region offers a comparison with high-cost housing markets such as Washington, D.C. and its impact on household saving and spending patterns. More than two-thirds of the participants are homeowners. In terms of the socio-demographic characteristics of the project participants, they range in age from 23 to 34 years old (mean of 29 years old) with from one to four young children. The participants are fairly evenly divided between men (55 percent) and women (45 percent) with 55 percent dual-income and 45 percent single-income households. Most participants had earned at least a bachelor's degree (60 percent) while 35 percent had a community college degree; only 5 percent reported having only a high school degree. Due to the large amount of mothers who had voluntarily withdrawn from the workforce, the household income range is relatively narrow—from the high $30,000s to the low $90,000s; the median household income is the mid-$50,000s. Both blue-collar skilled and white-collar professionals are represented in this broad mix of occupations.

The social and cultural forces that profoundly shape the consumer credit and consumption experiences of Young Families differ sharply from the experiences of their parents' generation. This is due to three key factors. First, the traditional Puritan values ("*Saving for a Rainy Day")* that were passed on to their parents (Empty Nesters of Chapter 6) have not been readily embraced by Young Families. This reflects declining parental influences and the rise of mass marketing campaigns with access to "easy" consumer credit. Second, the resistance to a strict household budget based solely on current income—the "cognitive connect"[1]—is a pattern that reflects prior debt-based college lifestyle experiences which underlies the current household saving crisis. Third, the "democratization" of consumer lending provides Young Families with easier access to credit for use in stabilizing household cash flow problems and satisfying the increasingly expensive lifestyle wants and needs of their children. The rapidly rising cost of raising children has led to greater dependence on consumer credit and debt rather than a rejection of competitive consumption pressures.

The financial "squeeze" encountered by most American families underlies the record-setting debt burden of U.S. households.[2] On the one hand, U.S. Bureau of the Census data indicates that middle-class families have experienced a real (after inflation) decline in household income during the 2000s, a nearly 5 percent decline between 1999 and 2004. Overall, median U.S. household income (reported in 2003 dollars) has remained virtually unchanged since the late 1990s, rising from $52,675 in 1998 to $54,191 in 2000 and then falling back to $52,680 in 2003. For Young Families (household head 25-34 years old), the sharp increase in income during the late 1990s (from $43,176 in 1995 to $49,019 in 2000) was followed by a surprising decline to $47,622 in 2003.[3] At the same time, this unexpected decline in household income coincides with one of the most robust housing markets in U.S. history. These twin economic pressures have been especially burdensome for Young Families since they were most likely to have bought their first home during this period and thus are least likely to have enjoyed the financial windfall of real estate price appreciation. Indeed, for the majority of economically distressed American families, net asset formation offers only modest financial relief. For instance, between 1998 and 2001, the bottom 40 percent of American households registered less than a $2,000 gain in net worth while the next 20 percent or "middle" quintile registered less than a $9,000 gain in net worth.[4]

Not surprisingly, Mishel, Bernstein, and Allegretto reveal in their analysis of the most recent U.S. Federal Reserve data that American households in general and Young Families in particular responded by maintaining their standard of living through lower savings rates and the greater use of consumer credit. Over the last two decades, American households assumed unprecedented amounts of consumer debt—climbing from 73.2 percent of disposable personal income in 1979 to 114.5 percent in 2003. Of course, the overwhelming proportion of this new household debt is due to escalating home mortgage debt. Between 1979 and 2003, the share of discretionary household income allocated to housing soared from 46.1 percent to 85.0 percent.[5] This enormous growth in housing costs absorbed previous discretionary personal income that was used for other personal or family needs. Although mortgage debt is the least expensive consumer loan, this sharp increase has squeezed the ability of households to pay for other purchases and/or finance unexpected expenditures such as medical expenses or auto repairs. As a result, the last decade has witnessed a sharp escalation in other forms of consumer debt. Between 1995 and 2003, consumer loans such as credit cards jumped from 20.7 to 24.0 percent of disposable personal income while home equity loans nearly doubled from 6.2 to 10.9 percent.[6]

The Psychology of Debt: Decline of 'Old School' Values of Sacrifice and Rise of 'New School' Values of Indulgence

The young family life-cycle illustrates the ongoing generational shift in personal attitudes toward debt—from frugality and thrift to self-indulgence and instant gratification. In fact, disciplined fiscal restraint is becoming an attitudinal anachronism among Young Families in sharp contrast to the prevailing values that fundamentally shaped American behavior only a generation ago. During the 1960s and 1970s, social attitudes were clearly defined by "good" ('need' such as home mortgage) as opposed to "bad" ('want' such as a fancy car) debt; the accumulation of consumer debt was typically frowned upon as evidence of personal indolence. Those unable to pay their debts were stigmatized by the social shame of bankruptcy.[7] My, how times have changed!

Today, social attitudes—especially influenced by mass marketing campaigns—associate frugality with "old school" values of past generations as distinct from the "hip" values of contemporary U.S. society.[8] The following responses from participants in the Rochester, New York study illustrate this point. For example, Nicole, a 31-year-old college-educated mother of a four-year-old son explained the centrality of consumer credit and debt in America and how sharply it deviated from her childhood experiences: *"It's [just] not a stigma to be in debt anymore, it's [more] commonplace."* For middle-income households like Nicole's (mid-$60,000 annual income), use of consumer credit is "*Very Important*" in managing household resources and making consumption decisions. As she emphasized, *"especially for big purchases… the need for [extended] time to payoff is very important."*

A core theme of household consumption decisions among Young Families is the increasing importance of consumer credit in the purchasing process, particularly for larger non-essential goods and services. As a strategy for augmenting one's standard of living, consumer credit functions as a mechanism for stretching the household's purchasing power, even when earnings from dual incomes are insufficient. The use of consumer credit, of course, has a long tradition in satisfying household needs during periods of cash-flow shortages as well as in cases of family emergencies. However, the most notable influence on household consumption attitudes is the growing use of credit for satisfying wants such as a hot tub and desires such as a vacation cruise that could hardly be rationalized as addressing family "needs" such as auto repairs or a new roof. Indeed, consumer credit has emerged as the struggling family's "best friend"—by providing rewards for a stressful day with the kids or a hard day at the job.

It's [just] not a stigma to be in debt anymore, it's [more] commonplace. -Nicole, 31

Greater access to consumer credit is clearly identified as a major facilitator of 'purchase upgrades,' even as it relates to the fulfillment of basic functional needs, e.g., housing, transportation, furnishing and clothing. In many cases, the families included in this study subconsciously used consumer credit for status competition, by satisfying wants rather than fulfilling household needs. These decisions were made regardless of the individual household's ability to afford such costly purchases. Even among those with a strong commitment to a traditional "cash only" policy, the temptations of consumer credit can radically alter purchasing decisions. For example, Dave, a 34-year-old blue-collar father of two, who repeatedly emphasized his frugal and financially industrious lifestyle, confided with a degree of embarrassment about the acquisition of his costly and seldom used personal "toy": *"I have a Harley [motorcycle]. I don't need a Harley. I desired a Harley. I did not have $24,000 cash that I could spend on a Harley; but I did anyway because of credit."* This view is exemplified by Cassandra, a 32-year-old stay-at-home mom and part-time real estate agent:

> *I think a lot of it is peer pressure. I live in a 1,500 square foot home; and when I show these homes [that are] 2,500, 2,800, [and] 3,000 square feet, I come home and [I feel like] we need a new house. We don't need a new house. I just want it because I see it and its better than what I have. It's like there is always something better; and it's really not that much better…it's just that you want it. I know that's my problem.*

A significant psychological factor in escalating indebtedness among Young Families is the self-justification that treating oneself to finer material accoutrements is a well-earned reward for hard work and a stressful lifestyle. This rationale is buttressed by the view that succumbing to personal wants and desires represents a form of generational reparations for past childhood experiences, largely shaped by conditions of scarcity and self-denial enforced by earlier generational norms. These sentiments of generational resistance to the social control effects of living "within the limits of a budget" are expressed with a strong sense of entitlement—the right to enjoy life now—not after some ambiguously defined period of self-sacrifice.

I have a Harley [motorcycle]. I don't need a Harley. I desired a Harley. I did not have $24,000 cash that I could spend on a Harley; but I did anyway because of credit.
-Dave, 34

For instance, as a college-educated 29-year-old stay-at-home mom with three children, Christine's preference is to adhere to the family budget. Nevertheless, Christine acknowledged that she frequently turns a blind eye to her household's financial realities and openly stated that, *"the attitude now is …we deserve those things… and work really hard and so you deserve to spend your money on stuff,* *[although] you may not really need [them]."* This sense of generational entitlement is a recurring theme that shapes consumption choices among household decision makers. It is especially influential in their evaluation of "appropriate" purchasing decisions in regard to their peers ("keeping up with the Joneses") and their parents' material achievements (upward mobility).

According to Stacy, an employed mother with three kids: *"I work hard and I'm not willing to sacrifice some things… I work just as hard as everyone else, [and] I have to come home to three screaming kids. You work hard and you think, I want to have a little something. And it's not necessarily the best answer, because where am I going to be [financially] in a couple years?"* For younger families, this highlights the rebellion against those Puritan values that elevate discipline, work, and saving over fun, leisure, and debt.

I work hard and I'm not willing to sacrifice some things… I work just as hard as everyone else, [and] I have to come home to three screaming kids.
-Stacy

An expected finding of this study is that Young Families are likely to spend more money when using a credit card or other forms of consumer borrowing in comparison to cash purchases. This result is consistent with other social science research that reports the role of effective marketing campaigns in manipulating the psychological relationship between the use of credit and the greater likelihood of more costly expenditures.[9] This is illustrated by 33-year-old Brian; a computer technician and father of six children, whose moderate household income provides little discretionary income for family activities. When asked about the psychological factors that influence consumer purchasing decisions, Brian responded that consumer credit offers the opportunity to explore purchasing decisions that are outside the scope of a 'pay as you go' budget and thus offers a constant temptation to spend more than you earn: *"I think with cash, if you're going out to dinner, you say, this is all I have, let's get the 'special'… But with credit you may say, let's get the appetizers, let's get dessert."* Brian's parents, on the other hand, view this behavior as irresponsible since it encourages living beyond his financial means and incurring costly consumer debt obligations that will impede other financial goals such as saving/investing for retirement.

The Household Savings Conundrum: Financial Realities Clash with Inflated Consumption Aspirations

Despite rising household indebtedness, Young Families in the Rochester, New York sample were loath to make appropriate financial adjustments in response to rising lifestyle costs and falling "real" incomes. Instead, consumer credit appears to serve as the financial bridge between declining purchasing power on the one hand and increasing household expenses on the other. Indeed, recent home purchases and low housing appreciation underscore the limited "wealth effect" that these families have enjoyed. This explains the paucity of home equity loans among these households. A notable exception is the soaring cost of gasoline. The immediate impact on household cash flow prompted some Young Families to economize by switching from SUVs to smaller, more fuel-efficient vehicles. Significantly, these transportation-related savings were not used to increase mortgage payments, college or retirement investments, or reduce other financial obligations. Instead, such household savings tended to be reallocated to other budgetary needs or simply reduced the monthly financial deficit.

A striking cognitive feature of these Young Families is their acknowledgement that saving and debt reduction are crucial to their long-term financial prosperity; the overwhelming response was a savings goal of 10 to 20 percent of annual household income with some families specifying even higher goals (25-30 percent). Yet, with the exception of employer-matched contributions to 401(k) pension plans, none of the families achieved their savings goals; only two families reported a five to ten percent savings rate whereas the overwhelming majority increased their household debt levels. Indeed, the cognitive disconnect between understanding the importance of saving (emergencies, college tuition, retirement) and the failure to implement necessary spending reductions suggests a future financial crisis among many members of this life stage group. This is intriguing since many respondents talked passionately about the current period of economic uncertainty, with specific references to the future of Social Security, rising medical expenses, and the downsizing of corporate America in which jobs are being relocated to low-wage countries. Although the rational behavioral response to economic uncertainty is to cut back on household expenditures and increase saving rates, very few respondents replied that they were willing to pursue such drastic strategies. Interestingly, higher income white-collar households were willing to assume much greater debt-to-income levels than lower income, blue-collar households.

Rather than shaping household consumption decisions based on realistic economic assumptions, most Rochester, New York participants asserted that their future income growth would compensate for their currently rising debt levels, despite acknowledging negative employment and wage trends in the Upstate New York regional economy. Hence, many of these Young Families justified their ability to assume higher levels of consumer debt on optimistic financial assumptions that defy many prevailing economic and sociological trends. This view is epitomized by Alison, a 32-year-old MBA graduate, who is currently a stay-at-home mother with four kids: *"My husband always says, this is the least that [he is] ever going to be making in order to justify doing something ridiculous like buying a [new] house or a car."* According to Alison, her husband exclaimed, "*If we can't afford it right now…in five years we'll have more money. So why [should we] wait?"* Such rosy economic forecasts overshadow the need to save for financial emergencies and thus increase the future household dependence on consumer credit.

The ramifications of "living for today" and without saving for unexpected economic crises is illustrated by Barbara, a 35-year-old high school graduate and mother of a nine-year-old daughter and three-year-old son. In 2004, the family moved from rural Maryland to suburban Rochester, New York. With two incomes, Barbara purchased a horse that she always wanted for her daughter. She paid $2,000 by taking a cash advance from her credit card with the expectation that her impending federal tax return would pay off the balance. Unfortunately, Barbara's husband became ill soon after moving to Rochester and has been unable to work full-time. Instead of paying off her credit card, Barbara found herself encumbered with the initial cost of the horse and monthly boarding fees while abruptly adjusting to a single household income.

Faced with the perilous reality of her family's financial circumstances, Barbara candidly admitted that the access to easy consumer credit seduced her to fulfill the desire for a horse rather than focusing on the need to pay off their debts and begin an emergency saving fund: *"We have a lot of debt! Unfortunately my husband has been in and out of the hospital for the last five or six months, and I've had to use credit cards to pay those [medical bills]. It's [credit cards that] have kept us financially afloat for that length of time. Unfortunately, the unexpected has put us in a situation where we have tripled our debt."* Although Barbara dislikes her job as a shift manager at a fast food restaurant and would like to find a job with a more "family friendly" work schedule, she is unwilling to quit because of the health insurance benefits that she receives. Such examples underscore the peril of families that refuse to plan for unexpected financial hardships.

It's every year [we say this] and then every year goes by and [instead] we go and buy furniture, or we buy a new house, and so we need [more] new furniture. This year we want to finish our basement. And so by the time our children get to college [age] we're not going to have any money.
-Kyle, 33

The inability to cope financially with unexpected household emergencies raises serious questions about the importance of financial planning and personal management skills. What are the primary influences in setting family financial goals? Indeed, all of the Young Families expressed a desire to increase their savings rate. Nevertheless, most contended that current economic conditions precluded the pursuit of this goal or they were reluctant to make the necessary lifestyle adjustments. For example, even with two incomes, 33-year-old Kyle related his frustration in failing to save for important financial goals: "*Every year we go, next year after we do this and this, we'll start savings for the kids' education, [and] then we'll start saving for retirement more. It's every year [we say this] and then every year goes by and [instead] we go and buy furniture, or we buy a new house, and so we need [more] new furniture. This year we want to finish our basement. And so by the time our children get to college [age] we're not going to have any money."*

This resistance to fiscal discipline illuminates how middle-class families are unwittingly fostering an inter-generational cycle of consumer debt dependence that is exacerbated by the erosion of traditional attitudes toward consumer debt and a lack of training in the field of personal finance. Not surprisingly, the availability of revolving credit cards has displaced the traditional need to save for household emergencies. Almost every family that participated in this study agreed that their household's line of credit served as their principal source of crisis funds. As one respondent remarked: *"I don't agree with it…but that's what it is."*

Early instruction (both good and bad) on personal financial issues were primarily provided by the respondents' parents. Although nearly all families in this study were able to clearly distinguish good from bad consumer debt, it is apparent that a variety of social and economic pressures have created more ambiguous categories of socially defined needs, wants, and desires. Even so, parents still exercise considerable influence over the consumption decisions of their adult children. This is partly explained by the scarcity of personal finance classes in high schools and college. The consensus is that the lack of formal financial education is a severe deficiency and contributes to generally poor or undisciplined financial planning/management. This view is succinctly summarized by Alison, the self-anointed "queen of the credit card." According to Alison: *"Even in college [there was no talk of personal finance]. I'm an MBA and an economics major, and I don't remember a class…not one... about credit or personal finance."* In fact, parental warnings about the potential pitfalls of consumer indebtedness appear to have had a greater influence among Young Families than the few admonishments circulated on high school and college campuses.

Despite the acknowledged role of family influences in molding consumption decisions, the Young Families involved in this study showed a conscious and often deliberate rejection of the Puritan ethos of their parents. Indeed, more than three-fourths of the respondents stated that their use of consumer credit was much more *"Liberal"* than their parents. In many cases, there was a conscious effort to hide their most imprudent financial decisions from parents and other family members. As 29-year-old Nicole explained: "*I bought an SUV when I was 22 and my grandmother had a really tough time with it… she said that it cost more than she paid for her house. And so I couldn't drive it to my grandmother's house; I would take my mother's car to [my grandmother's] house so I wouldn't get verbally beat up about it."* Casandra, a 26-year-old working mother of two, was so concerned about her father's criticism of her "extravagant purchases" that: *"When we purchased a hot tub, I had to cover it up and hide it when my father came over to visit."* Even Alison was fearful of her parents' reaction to the decision to lease rather than buy a new car. She confided that, *"I didn't tell my parents for two years."*

**Nowadays if I can afford the monthly payment then [that means] that I can afford it… For example, if you get the monthly payments in my range, then I can afford that car.
-William**

Now consider Dave, who finds it difficult to justify his Harley to his parents:

I have a motorcycle that sits in my garage. What little time I have to myself I like to go out on it. But it pretty much sits there…and my mother wanted to strangle me when she found out. Looking back I love having it, but ultimately I didn't need [the motorcycle], it was just one of those things that I could be as happy without it. But I bought it…because of [consumer] credit.

Significantly, affordability today is typically based on the ability to make the specified monthly payment rather than an assessment of the total cost of borrowing. This decision-making calculus is illustrated by William, a service team leader at grocery chain for 15 years, who explained that the use of consumer credit is *"Very Important"* in his household consumption decisions, especially since he and his wife do not follow a monthly budget: *"I sometimes 'rob Peter to pay Paul' [Ultimately,] if I can afford the monthly payment then it's all okay."* In discussing a purchase of a new automobile, he explained that the sale price was less important than the financing terms: *"Nowadays if I can afford the monthly payment then [that means] that I can afford it… For example, if you get the monthly payments in my range, then I can afford that car."*

Most Young Families in the Rochester, New York cohort are not sufficiently disciplined to prepare and adhere to a household budget. According to 31-year-old Lisa, a stay-at-home mom with three children, it's like trying to commit to an exercise/weight loss program: *"We've tried budgets but we always blow it... we can never stick to it."* Not surprisingly, budgets are not viewed as a positive tool for managing household resources and maximizing potential savings. To the contrary, they are perceived as a method for monitoring self-denial and rarely are designed with annual or even semi-annual savings or consumption objectives. The budgeting objective of Young Families is to simply manage household cash flow on a month-to-month basis, as explained by Stacy, whose budgetary purview extends almost exclusively to her list of monthly bills. As a result, budgetary scrutiny is limited and seldom involves meticulous itemization of possible tax deductions. The Ben Franklin adage that "*A Penny Saved is a Penny Earned"* falls on deaf ears among this group, who may think nothing of spending more than $3 for a cup of coffee without considering the total monthly expenditures for this discretionary purchase. Psychologically, the families in this sample appear to cope by plugging the gaping holes in their financial ship and avoiding even rudimentary accounting of household expenditures. According to Kyle, a 33-year-old assistant in a family business: *"Credit is turning a lot of people into irresponsible spenders... No one is really educated about how to make a true budget. You can major in whatever in college to do a certain thing, [but] who is there to*

We've tried budgets but we always blow it… we can never stick to it.
-Lisa, 31

really teach you how to [make, much less] keep a budget or to check a budget… and so no one knows how to do it."

All Flash, No Cash:
The Perils of Raising Kids on Plastic

The single most important factor underlying the debt accumulation patterns of Young Families is the elevated lifestyle activities of their children. First, the efforts of parents to provide their children with a standard of living that exceeds the material conditions of their own childhood is striking. This often assumes a form of vicarious adolescence whereby young parents relive their childhood through the material objects that they were denied by their own parents. Second, the desire of parents to provide their children with life experiences and material accessories that facilitate acceptance within their preferred peer group. As Cassandra, noted: *"The kids…you want to make them happy. Personally I have an attitude that I want to give them a better life than I had when I was a kid and we can now. So it's like the difference when I was a kid, I want them to have that stuff because I didn't."* Furthermore, expenditures on children have become the justification for activities that would normally be deemed unnecessary or too costly. This is explained by William: *"I am more likely to spend on something that I want to do or something that we could do as a family, without regard to how I'm going to pay for it later. Just to have things that are important in life that you can't really afford but you want."*

The kids…you want to make them happy. Personally I have an attitude that I want to give them a better life than I had when I was a kid and we can now.
-Cassandra, 26

The culture of peer-based competitive consumption not only shapes the lifestyle activities of young adults but, through the target marketing of their children, can indirectly influence household purchasing decisions. The desire of Young Families to acquire for their children the material accoutrements that were previously denied them by their parents–as loyal adherents to the Puritan ethic—underscores the effectiveness of these mass marketing campaigns. Savvy marketers, armed with sophisticated demographic and socio-cultural research, are carefully refining and marketing a proliferating array of brands that are designed to stimulate the consumption appetites of adolescents and even toddlers—as young as two or three years old.[10] Sadly, these parents rationalize the overindulgence of their children (extra-curricular activities, personal accessories, entertainment, travel, and gifts) as conscientious efforts to better prepare them for adulthood at the expense of saving for their college education. This unintended consequence underscores the importance of personal finance education for even the most well-intentioned parents.

Harmonizing Divergent Spousal Attitudes: For the Good of the Family

For young parents, the attitudinal challenge of affirming traditional values toward credit and debt is exacerbated because many households include partners that have sharply divergent attitudes toward saving and spending. With mounting external economic pressures and the anxiety of accommodating/resisting the more restrictive consumption expectations of their parents, many fiscally conservative spouses tolerate and eventually even adopt less disciplined attitudes toward the use of consumer credit in order to reduce marital discord. This trend is reinforced by the general lack of financial education and long-term planning by Young Families in pursuing their household economic objectives.

Divergent spousal attitudes towards spending and debt are significant factors that shape household behaviors toward consumption, especially as it relates to the use of consumer credit. As Alison explained:

> *I never had any credit card debt [before getting married]. When my husband and I got engaged and I saw his level of credit card debt… I was horrified. [Only] two years [later] I was the 'queen of the credit card'… and I wasn't agonizing about it [whereas] in the beginning I was so crazy about it… now I just think that we'll pay it later. He has definitely been influential in me not being concerned about [consumer debt] anymore.*

For Christine, a recently remarried 34-year-old with two children, the stress of adhering to a strict personal budget while working overtime to reduce her consumer debt was exacerbated by her husband's irresponsible spending sprees. Today, she equalizes his spending habits by increasing her own personal expenditures in an attempt to reduce their marital conflicts. Christine justified this decision by complaining that, *"When my husband goes out and spends $50 on drinks with friends, I feel like I should be able to go out and buy some shoes."* Although household finances are so tight that they can not save for retirement or pay down their debts, Christine believes that she is entitled to make discretionary purchases since her husband does not feel obligated to curtail his spending. In this case, embracing more spendthrift attitudes as a coping mechanism in order to save the marriage is a problematic response since financial strains are the most common factor in marital dissolution.[11] Even so, harmonizing personal attitudes toward household spending appears to be an important factor in sustaining long-term relationships.

When my husband goes out and spends $50 on drinks with friends, I feel like I should be able to go out and buy some shoes.
-Christine, 34

ENDNOTES

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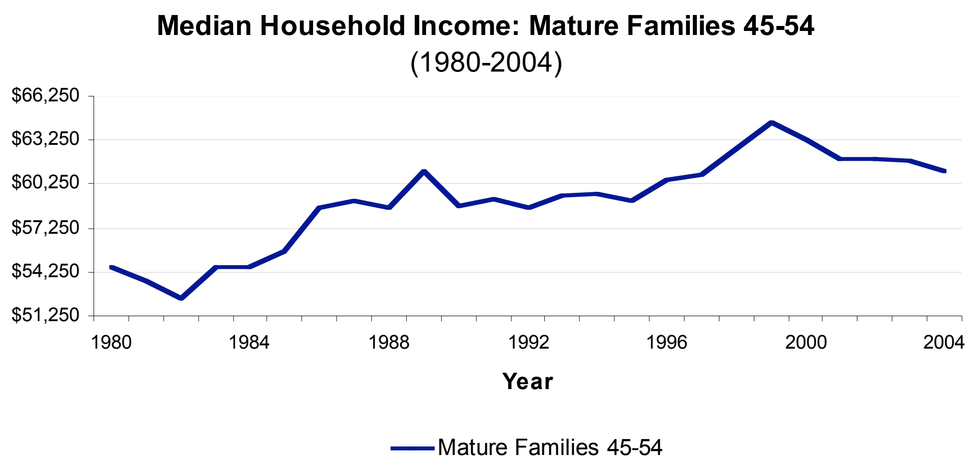
Chapter V

Mature Families Confront the Savings Gap: The Challenge of Balancing Children's "Wants" with Parents' "Needs"

In comparison to the economic struggles of Young Families (Chapter 4), the Mature Family life stage (45 to 64 years old with teenage children) features a sharp improvement in household finances and prosperity. By virtue of their age and experience, these middle-aged citizens are enjoying the prime of their professional/work careers. This enables many of them to pursue realistic saving and investment plans for retirement while preparing to send their remaining teenage children to college or helping them to establish independent residences. Overall, the study participants range in age from 42 to 57 years-old (median age of 49) and were randomly selected from the Washington, D.C. Metropolitan area, including the suburbs of Virginia and Maryland. Approximately 60 percent of the project participants are men and 40 percent are women with almost one-fifth racial/ethnic minorities (primarily African Americans).[1] The Washington D.C. Metropolitan area was chosen due to its booming regional economy (high-tech, government, services) and soaring demand for blue- and white-collar skilled labor as well as its flourishing housing market, which is one of the most robust in the United States. About three-fourths of the participants have earned at least a college degree which is consistent with the high educational levels of the region; their median annual household income of over $120,000 is more than twice the national average yet typical for the local economy. Moreover, nearly all participants are homeowners and most have experienced enormous appreciation of their homes—especially since 1999.

Figure 1

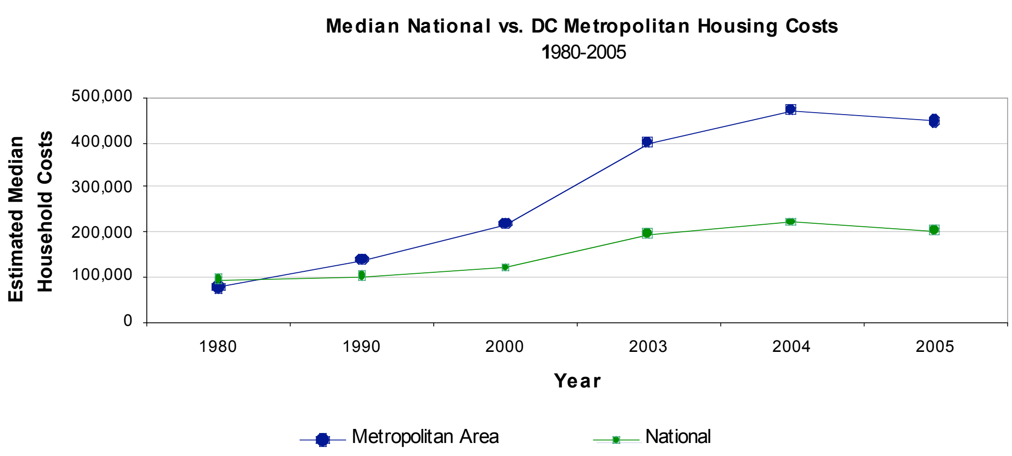


Source: U.S. Census Bureau, Historical Income Tables, Table H-10. Age of Head of Household: All Races, available at http://www.census.gov/hhes/www/income/histinc/h10ar.html

Unlike Young Families, this group has accumulated substantial net assets since their income is peaking, assets are growing (especially real estate), and their consumer debt is typically declining (with lower interest rates)—especially home mortgages and credit card balances. Indeed, as shown in Figure 1, the late 40s and 50s are the prime income earning years of the lifecycle as the median income of dual-earner households peaked at over $74,500 ($64,500 in 2004 dollars for all households in this age range) in 1999.[2] For dual-income households (divorce is the most common factor for single-income households in this life stage), combined family income continues to rise due to professional advancement—especially women who have returned to the workforce after their children have entered school. Interestingly, the traditional relationship between income growth and housing prices has ruptured during this period—defying fundamental economic principles. For example, median household income (adjusted for inflation) has declined more than six percent since 1999 for this age group (over two percent in 2005),[3] whereas housing prices have more than doubled since 1999 in the Washington, D.C. Metropolitan area.[4] See Figure 2 and Table 1. Most Mature Families have experienced an enormous increase in their home values—even recent buyers. For example, 46-year-old John, a military retiree and consultant for a defense contractor, purchased his first house in 1998 for $210,000 in a Northern Virginia suburb. It is now worth over $500,000 and climbing.

The attitudes and behaviors of Mature Families toward credit and debt reflect the financial demands of their specific life stage and the unique historical experiences that conditioned their material aspirations. In this chapter, three distinguishing factors are examined. First, the generational conflict over saving and socially-appropriate spending that affirms the cultural values underlying "good" versus "bad" debt. For this age cohort, the Puritan ethos of frugality and thrift still reigns supreme in shaping their consumption decisions but has been largely resisted by their children. Second, satisfying the costly "wants" and "desires" of their children not only underscores the generational conflict over these core values but has also contributed to reduced household savings rates. This is having a profound impact on their long-term financial planning. Third, the unexpectedly low household savings rate is exacerbated by the fiscal realities of their under-funded retirement programs and the soaring costs of college for their children. The resolution of these competing demands will profoundly influence the timing and quality of life of their future retirement.

Figure 2



Sources: U.S. Census Bureau's Decennial Survey, 1940-2000, available at http://www.census.gov/hhes/www/housing/census/historic/values.html. 2005 data from U.S. Department of Housing and Urban Development and estimates based on U.S. Census Housing Inflation Index for Northeast Urban Size Class A cities.

From the Scarcity of the Great Depression to the Abundance of the Consumer Society:

Generational Conflict over Saving and Spending

For most Mature Families, the formative development of their attitudes and behaviors toward consumer credit and debt were either directly or indirectly influenced by the culture of scarcity that was shaped during the Great Depression and World War II.[5] Stories of rationing, personal sacrifice, and even deprivation were shared by parents or grandparents as cognitive guideposts for influencing socio-cultural attitudes that emphasized work over leisure and saving over debt. Nancy S., a 47-year-old college-educated administrator in the U.S. Marshall's Office, described how her grandparents suffered during the 1930s as banks were unable to return depositors money and rural families had to become self-sufficient by growing their own food and canning vegetables and jams during the winter. Murray, a 55-year-old lawyer, recounted his parents' lack of some basic foods such as fresh milk while 42-year-old Veronica, an African-American hair dresser, recounted stories of her parents' experiences with rationed food, household items, and gasoline during World War II. These childhood experiences of thrift and savings profoundly shaped their contemporary attitudes toward borrowing as well as personal definitions of needs versus wants. They also constitute the attitudinal foundation for transferring these values to their children.

For these parents, traditional notions of good versus bad debt were reinforced by local community bankers who strictly limited the types of loans they were willing to approve; informal credit from small shopkeepers and installment loans from banks were the primary borrowing options of their parents as well as themselves until the early 1980s. For most of these participants, consumer credit was considered a privilege that was earned through hard work and careful financial planning—a reward for prudent financial management. Indeed, Mature Families' psychological commitment to hard work underscores their cognitive anxiety toward potential scarcity by maximizing the accumulation of limited resources through saving and minimizing future financial obligations through avoidance of debt. This is in sharp contrast to younger age cohorts who tend to immediately use the resources that are available to them, and willingly borrow on the expectation of higher future earnings. Unlike Young Families, who have not endured the financial distress and professional uncertainty of a major recession, most Mature Families remain devotees of saving for the proverbial "rainy day" and maintain cash reserves and access to other liquid assets in case of emergencies. Their relatively high incomes and access to home equity loans reduce their reliance on borrowing from credit cards, which they view with disdain as corrosive influences on the Puritan ethos of thrift and industry.

However, nearly three-fourths of Mature Families describe themselves as *"More Liberal"* or *"Much More Liberal"* in the use of consumer credit than their parents. Even so, compared to Young Families, their disciplined behavior toward budgeting and personal finance is similar to Empty Nesters and Seniors. For instance, this group is more careful about maintaining a budget and they are meticulous about monitoring household cash flow even if the process is intuitive or recorded in ledger journals. As a result, they are more likely to make spending adjustments on a month-to-month basis in response to fluctuations in income or expenses. Intriguingly, the "Latte Factor," the minimum financial threshold for recording expenditures, tends to be lower among Mature Families than Young Families even though the incomes of the latter are much smaller. This is illustrated by John, who works for a defense contractor in Northern Virginia. With a combined household income of nearly $140,000 and retirement assets that include over $250,000 in equity investments and $300,000 in home equity, he carefully reviews his monthly budget and expenditures. *"When I am balancing my check book, if it's less than a buck, then I generally don't worry about it. [Otherwise] I'm pretty obsessive about my budget every month. I keep track of it pretty closely."*

As changes in the lending environment have made credit more widely available to all age and income groups since the early 1980s, Mature Families have come to appreciate the easier access and the lower cost of consumer loans. However, they lament the decline of personal relationships with banks that affirmed their credit "worthiness," as well as their perception of bank policies that erode traditional values promoting saving and responsible borrowing. Furthermore, they are concerned about these influences on younger and less financially experienced families who may view credit as a social entitlement and thus do not fully consider or understand their personal and long-term financial responsibilities. Indeed, Mature Families' early experiences with local community banks emphasized the importance of honoring their fiscal commitments—evidence of their moral character—by paying off their debts as soon as possible. For example, Greg, a 50-year-old suburban Virginia account manager complained: *"We do not promote morality… when banks encourage borrowing to pay other debts… It may be profitable for the banks but it does not promote [personal] responsibility."* The importance of personal reputation and relationships with loan officers is illustrated by John. He recounted his experience in obtaining a credit card in the late 1970s with his local branch manager who was a family friend. John recalls vividly the torturous process of obtaining approval from a senior lending officer in another state over the telephone. Following a lengthy conversation, his credit line of only a few hundred dollars was approved.

Today, these middle-aged adults respond contemptuously to the widespread liberalization of consumer credit—which they feel are marketed without an emphasis on personal responsibility, especially as relates to the solicitation of credit cards to inexperienced teenagers. This view assigns much blame for increasing consumerism, indebtedness, and other social problems among younger groups to the perceived irresponsible lending practices of credit card companies and other financial institutions. According to Nancy M., a 46-year-old program executive at a suburban Maryland consulting firm: *"There [seems] to be no conscience with the credit card companies and payday lenders…This used to be called loan sharking…now it's called good business."* In fact, 42-year-old Veronica's experience with credit cards exacerbated her financial problems and led her to cancel all of her credit accounts. A native of the District of Columbia, Veronica asserted that banks prey upon those in desperate financial circumstances and simply seek an excuse to charge usurious interest rates to clients with few economic options. This led her to describe bank credit cards with religious overtones: the "devil in plastic."

When Christmas Comes 'Round Every Day: The Soaring Costs of Satisfying Children's 'Needs' in the Society of Abundance

Despite Mature Families' overwhelming agreement that consumer debt should be avoided and needs should be prioritized over wants, they increasingly make exceptions that offer valuable insights into the psychology of current spending practices. The most notable departure from the traditional values of frugality and thrift relates to the desire to "adequately" provide for the "needs" of their children. Essentially, Mature Families have accepted competitive consumption pressures that dramatically increase the cost of providing their children with socially important lifestyle amenities. Significantly, Mature Families are willing to exceed their budgets in order to satisfy their children's wants while at the same time cutting back on their own personal needs. Hence, this generational clash of attitudes toward spending and debt is resulting in the ascendance of consumption priorities that value spending over saving and "flash" over functionality.

Karen, a 54-year-old public school teacher in the District of Columbia, described the sharply different lifestyle expectations of her children in comparison to her own childhood, *"When I was growing up, we had three pairs of shoes: [everyday for] school, Keds [sneakers], and [dress for] Sunday School… and we had to take good care of them. Today, my son has over 20 pairs of expensive sneakers and I don't even know how many my daughter has…"* She continued by describing costly expenses that we take for granted:

> *There are all kinds of expenses that we have today that my parents didn't have…air conditioning was a luxury back then, now it is a need… I had to pay $500 to pull some [infected] teeth of the [family] dog at the vet… when I was a child, if our dog was sick my father would take 'em to the vet and he would come back with different colored spots… [laughing] He would have gotten us another dog rather than pay for expensive treatments from the vet…*

I think that my kids are pretty typical. They want everything that they see on TV and I probably give in too much to what they want. If they want something, I definitely try and give it to them, versus when I was growing up we didn't have a lot and so you just didn't ask for anything.
-Kris, 43

Similarly, Dan, a 49-year-old police detective, discussed how his parents and all three children shared a single bathroom when he was growing up. *"We didn't think of ourselves as poor, we had the same [material] conditions as everyone else. Today, however, you can't buy a new house without a [separate] toilet for each bedroom. Peoples' expectations are much higher now…*"

Some Mature Families expressed frustration over the continuous spending demands of their children as if this behavior was beyond their control. For example, Rosemary, a 53-year-old employee of a communications conglomerate, explained the difficulty of restraining the spending demands of her children. After taking out a home equity loan to retire $40,000 in consumer debt, she complained: "*I have two teenage girls who are spenders big-time, which prevents me from being a* *spender. I'm trying to be a saver because I am inundated with spenders."* Rosemary's husband was laid off a few years ago and they have depleted most of his retirement account because of his difficulty in finding comparable employment. Due to their unexpected financial plight, Rosemary said she will not be able to help pay for her children's college expenses as she and her husband must pay off their home equity loan in preparation for retirement. Indeed, the financial empowerment offered by the enhanced liquidity of home equity wealth is balanced by the reality that these loans are not free money and must be paid off. The recent popularity of these low-cost loans is reported by the Joint Center for Housing Studies of Harvard University. It estimates that home equity loans totaled $333 billion during the three year period 2001-2003—jumping from $86 billion to $139 billion.[6]

Unlike Rosemary, Kris, a 43-year-old mother of three and a customer service representative, would be considered a disciplined saver by allocating 10 percent of her 2004 annual income to her company's 401(k) program. Yet, Kris notes with a sense of helplessness her children's lack of financial awareness:

> *I think that my kids are pretty typical. They want everything that they see on TV and I probably give in too much to what they want. If they want something, I definitely try and give it to them, versus when I was growing up we didn't have a lot and so you just didn't ask for anything. I just went to buy a car for my daughter and she was going right for the $35,000 and $40,000 cars. It just doesn't seem wrong to them…they just think that they should have this stuff. I am not very diligent about forcing them to save…it's more of a suggestion.*

Kids want to have everything [even] for no special occasion. They don't understand the value of what you spend. It's sad because Christmas used to be so special… [the anticipation of] the gifts that you would get… instead, they already have everything they want…
-Carl, 48

Most of the study's participants agreed that this emergent "culture of want" embraced by most of their children views saving as a form of denial and spending as an expression of independence and empowerment. For teens who embrace competitive consumption, the Mature Families concurred that it is the responsibility of parents to rein in the impulsive, short-term focus of their children. But, with intense peer pressures, most found themselves retreating from their unpopular and often isolated positions as the family "Scrooge;" they related that the parents of their children's friends tend to accede to the consumption demands of their children. This led Carl, a 48- year-old property manager in Northern Virginia, to exclaim: *"Kids want to have everything [even] for no special occasion. They don't understand the value of what you spend. It's sad because*

Christmas used to be so special… [the anticipation of] the gifts that you would get… instead, they already have everything they want… It's hard to pick out gifts [for special occasions]."

The failure of Mature Families to pass on their traditional financial values to their children is a striking feature of this life stage. Significantly, Mature Families view these unrestrained consumption impulses as now typical of the current generation of teenagers. This highlights the common parental assumption that the elevated lifestyle of teenagers has become a contemporary social norm. However, when compared to teenage consumption patterns of only a generation ago, the magnitude of this attitudinal shift is truly profound. Indeed, the psychological desire of Mature Families to satisfy the needs and wants of their children appears to underlie an increasing cognitive paralysis that affects even highly disciplined families. This contributes to lower household saving rates and higher consumer debt levels that create further stress and obstacles to achieving their long-term financial goals.

[My wife and I] have no credit card debt! [Having a credit card] – it's just a convenience and I have always operated on the principle of pay it off every month. But when it comes to the children, I'm always spending [like] crazy…
-Bernie, 49

This cognitive conflict is illustrated by Bennie, a 49-year-old African-American from the District of Columbia, who works two full-time jobs as an alarm and assembly technician as well as a retail clothing vendor. Despite very traditional and conservative views toward consumer debt (especially credit card debt) that are shared by his wife, a financial auditor, Bennie's spending behavior is radically different when it concerns his two sons who are 11 and 13 years old. In compensating for his materially deprived childhood, Bernie is often unable to control his consumerist impulses—even against the explicit wishes of his wife:

> *[My wife and I] have no credit card debt!" [Having a credit card] – it's just a convenience and I have always operated on the principle of pay it off every month. But when it comes to the children, I'm always spending [like] crazy. [Admittedly,] my children are spoiled and mostly it's because of me. Every time they want to stop somewhere or to get something I usually oblige, much to the disagreement of my wife... When they wanted a new bicycle, I got them the nicest one that I could find [reminded that] my parents could not afford one for me… It's my fault because they are spoiled.*

Some Mature Families prefer not to economize when encouraging their children to participate in socially beneficial life experiences and educational activities. Fitting in and being accepted in the "right" social groups underscores the growing influence of teenage peer groups on the spending decisions of Mature Families. As Nancy S. noted: *"The band trip, and the soccer uniforms, all of these things have been elevated to necessities to fit within the social group and to have the opportunity exposed to them so that as they get older they narrow their interests and have some life skills."* Other Mature Family participants noted the soaring cost of some school activities: $500 prom gowns, $2,500 trombones, and $3,000 summer camps. Carl continues: *"I am probably just as conservative as my parents in spending money [on myself], but with my sons I'm not. To think about all the money that I spend on my kid just so that he can kick a soccer ball..."*

As the children of Mature Families seek financial independence and work part-time jobs, their parents lament their declining influence over spending and consumption decisions. Karen discussed this challenge concerning her 18-year-old daughter whose job at a coffee shop provides an income for financing her lifestyle activities: *"I try to encourage her to save as much as possible but I'm not very successful. She needs to learn to save for unexpected problems like when the brakes in her car wore out… Instead, she saves for what she wants [to buy]…"* As a result, Mature Families often resort to teaching their children how to become "target" savers. Such fiscal compromises serve to selectively encourage a work and saving ethic while failing to curb their children's consumption desires. This trend highlights a major shift in parental guidance that once prepared children to discipline their spending habits and save their earnings for long-term, personal "investment" goals such as college tuition or a used car.

The band trip, and the soccer uniforms, all of these things have been elevated to necessities to fit within the social group and to have the opportunity exposed to them so that as they get older they narrow their interests and have some life skills.

-Nancy, 47

Cutting the Financial Purse Strings:

Competing Demands for College Tuition and Saving for Retirement

The most important fiscal challenge confronting Mature Families is financing the educational expenses of their children while simultaneously planning their rapidly approaching retirement years. Overall, two-thirds of the Mature Family participants reported being *"Very Concerned"* about their saving for retirement and the rest reported being *"Concerned."* Similarly, almost 85 percent reported being *"Worried"* about saving for their children's college education while more than 70 percent responded that they faced a *"Conflict"* over saving for their children's education versus saving for their retirement; less than one-half had saved any money for their children's education and only one-fourth had saved at least $30,000. A common matter-of-fact response—even among households with combined incomes over $100,00—was *"The kids are going to have to pay for most of their college education rather than [us] borrowing against our retirement."* This sentiment is shared by Carl. Although his annual household income exceeded $100,000 last year, illustrating the economic opportunities available to blue-collar workers in the regional economy, Carl is committed to enhancing the career options for his children by financing their college educations. However, with three children–the oldest recently graduated from college, the next a current college student, and the youngest soon to enter high school—Carl describes the stress arising from these economic demands:

> *I am wondering if I am doing the right thing by mortgaging my retirement for [my sons'] education and how far do I go with that. What about me now that I am getting older? You run into a scare where a company cuts back and where does that leave you?*

Despite fiscal prudence in their own consumption habits, the challenge of saving for retirement and their children's college education has been difficult for most Mature Families to effectively manage, particularly those with more modest household incomes. Aside from unexpected medical problems, paying for college expenses is the most significant financial factor in curtailing

I am wondering if I am doing the right thing by mortgaging my retirement for [my sons'] education and how far do I go with that. What about me now that I am getting older. You run into a scare where a company cuts back and where does that leave you?

-Carl, 48

the retirement expectations of Mature Families. In fact, some have already accepted the reality of postponing their retirement until their late 60s or even early 70s. As a result, planning for retirement and saving for college consistently rank among the top three major financial concerns of Mature Family members. This is especially striking since several participants in the study are less than ten years away from their anticipated retirement. And, some face not only continued financial demands from their children but also from aging parents and relatives (aunts, uncles). For example, Nancy S., who recently divorced, has a daughter who starts college in 2006 and a younger son who will attend college in four or five years. Nancy expects that she will soon have to assume some of the financial burden of caring for her elderly parents, both of whom are over 80 years old and, together, receive less than $15,000 per year in retirement benefits. Nancy confided: *"I can't afford to retire soon. I was hoping that by now I'd have a half a million [saved but right now] I don't know how I am going to get there."*

In most cases, Mature Families are willing to provide for the educational expenses of their children, with the expectation that they will accumulate sufficient household assets to maintain a comfortable lifestyle in their retirement years. The general assumption is that they will discontinue their financial support after the completion of their children's high school or college degrees; an expectation that is consistent with the view expressed by Young Families in the preceding chapter. Nevertheless, this may be an unrealistic assumption based on the experiences of Empty Nesters and Seniors as reported in the following chapters. Even parents in retirement have been reluctant to terminate financial assistance to their needy adult children. This emotional strain is revealed by Joy, a 48-year-old African-American entrepreneur, who works from her home in the health wellness industry: *"Once the kids get to an age where you're supposed to push 'em out, it's hard, and I'm sort of having that quandary right now. My daughter is still in school and working. You want to give them a sense of responsibility but I don't want to force her out of school if her income is not enough yet."*

For most Mature Families, the assumption is that they will accumulate the bulk of their retirement assets after supporting their children through college and paying off their home mortgage. This view assumes that more careful financial planning will increase household assets through appropriately diversified wealth-building investment vehicles such as stocks, bonds and home equity. However, a startling finding is that less than 20 percent of Mature

Families have regularly consulted a professional financial planner. Most have relied on friends or family members in the past and now look to financial advice periodicals (print and online) as well as investment advisors available through their employers. Only a few members of this group have an estimated asset accumulation target for their retirement; less than one-half could offer an estimate of how much they needed and less than one-fourth were pursuing a financial strategy to achieve their financial goals. Although some Mature Families have consulted financial advisors, they expressed uncertainty regarding the underlying rationale for achieving their investment goals as well as their associated risks. They also expressed skepticism about deferring to the expertise of some of the more reputable financial planning firms, largely due to declining professional trust and recent industry scandals.[7] With asset retirement goals ranging from $400,000 to $2.5 million, it is unlikely that more than one-third will come close to accumulating the assets necessary to sustain their expected lifestyle in retirement. As a result, most of the participants felt perplexed, having remained faithfully frugal and industrious their entire lives yet still far from achieving their financial goals. As Lee, a 57-year-old teacher and business owner exclaimed: "*How has this happened [to me]? How is it that my father with a lot less education and a lot less financially had everything and here I am still not quite where I need to be?*"

How has this happened [to me]? How is it that my father with a lot less education and a lot less financially had everything and here I am still not quite where I need to be?
-Lee, 57

A new source of wealth for Mature Families in major metropolitan areas is home equity due to the recent appreciation of their homes. Almost all respondents (87 percent) in the project are homeowners and they reported that the value of their homes have appreciated tremendously. The current value of their homes range from $220,000 to $900,000 with a median price of $500,000. Overall, the participants reported that their homes have doubled in price since 1999, nearly tripled since the early 1990s, and quadrupled since the mid-1980s. For example, Trish bought her modest home in a Northern Virginia suburb for $115,000 in 1986 and it is worth $385,000 today. More recently, Lee bought his house in a Northern Virginia suburb in 1999 for $225,000 and its market value is reported at $600,000. Hence, the bulk of the net worth of Mature Families is the equity value of their homes which has primarily occurred over the last decade—especially since 1999.

Due to the relatively low cost and ease in obtaining home equity loans in the early 2000s, this sharp increase in the household assets of Mature Families has created unexpected investment opportunities. For example, in response to the high financial returns in the regional housing market, some Mature Family members have withdrawn capital from their equity accounts and mutual funds in order to invest in the booming regional housing market. Others have taken advantage of the increased liquidity of their home equity and pursued investments in real estate or the equity markets. Indeed, one of the significant psychological trends is the changing view of housing as a "need" to housing as a combined investment/residence. Not surprisingly, 87 percent of the participants responded that they view their home as a combination of shelter/investment versus 13 percent viewing it solely as necessary shelter. This cognitive shift has created a financial rationality for the purchase of bigger houses, assumption of larger mortgages (more than 30 percent of household monthly income), and use of home equity "cash out" loans for household expenses based on the assumption that it is a prudent investment strategy for maximizing household wealth due to modest returns in alternative investment markets. Indeed, this housing "dividend"—a spin-off of the household "wealth effect"—has contributed to a recent surge in home equity and home re-financings. More than one-third (35 percent) of the project participants have borrowed from the equity in their homes—ranging from a low of $10,000 to a high of $168,000.

In some instances, Mature Families do not fully understand the positive value of their personal credit histories and are subsequently unaware of the appropriate borrowing rates, making it more difficult for them to make informed and prudent financial decisions. As a result, even though many Mature Families have taken advantage of low interest rates to refinance their homes and obtain home equity loans, they are not adequately prepared to make strategic investment decisions for improving the financial fundamentals that will fund their future retirement. For these households, financial workshops and personal finance classes that promote smarter borrowing could save considerable amounts of money. This is an important issue since most members of the Mature Family group expressed their concern about making the "best" investment decisions due to the realization that they have little margin for error with retirement looming on the horizon.

Finally, a popular argument that challenges the dire economic forecasts of the Baby Boomers' retirement prospects is the expected intergenerational transfer of several trillions of dollars through family inheritance and gift giving practices.[8] However, among the Mature Families, only 39 percent believe that they will receive any future inheritance and less than one-half of this group expect that their inheritance will significantly improve their financial situation in retirement. Some, like 47-year-old Rick, a PhD economist employed by a non-profit organization in Northern Virginia, received a moderate inheritance more than 15 years ago and used it to finance his graduate studies. Others, like Veronica who inherited her principal residence a decade ago from her mother, have already incorporated these assets into their current lifestyles.

More commonly, medical and burial expenses leave only modest amounts of wealth to be divided among several family members since their parents' homes tend to be much more modest by contemporary standards and tend not to be located in rapidly appreciating metropolitan markets. Indeed, a more typical reality for Mature Families is the experience of Nancy, who does not expect to inherit any assets from her parents. Furthermore, she anticipates the additional financial strain of supporting elderly family members will erode future savings and contributions to her retirement/investment accounts. Although many plan to work part-time to augment their limited retirement resources, a commonly discussed strategy is to sell their homes and use their proceeds to retire to a smaller residence in a less expensive area such as Central Florida, West Virginia, or Pennsylvania. This has become an increasingly popular strategy that can have substantial lifestyle and cost-of-living advantages. However, this retirement strategy entails severing ties with longstanding social support networks in their local communities such as family, friends, and fraternal/religious organizations, which will likely require unexpected expenses in the future.

Table 1

Median Prices of Houses Sold by Region

Year	National	Washington, DC Metro Area	Inflation Index
1940	30,600	n/a	
1950	44,600	n/a	
1960	58,600	n/a	
1970	65,300	n/a	
1980	93,400	75,747	0.811
1990	101,100	139,215	1.377
2000	119,600	218,150	1.824
2003	195,000	398,190	2.042
2004	221,000	469,404	2.124
2005	203,800	446,322	2.190

Sources: U.S. Census Bureau's Decennial Survey, 1940-2000, available at http://www.census.gov/hhes/www/housing/census/historic/values.html. 2005 data from U.S. Department of Housing and Urban Development and estimates based on U.S. Census Housing Inflation Index for Northeast Urban Size Class A cities.

ENDNOTES

[1] The selection protocol excluded Non-English speaking, recent immigrants. This sampling restriction was based on the decision that the small number of project participants would not adequately reflect the diversity of the region's immigrant population.

[2] Mishel, Lawrence, Jared Bernstein, and Sylvia Allegreto, *The State of Working America 2004-2005,* Ithaca: Cornell University Press, 2005, page 56.

[3] Agence France Presse, AFP News Report**,** "25-year record US inflation surge sparks debate," October 14, 2005 and U.S. Census Bureau, Historical Income Tables (Table H-10), "Age of Head of Household: All Races," available at http://www.census.gov/hhes/www/income/histinc/h10ar.html

[4] U.S. Census Bureau, 1940-2000 Decennial Surveys, available at http://www.census.gov/hhes/www/housing/census/historic/values.html. Other data from U.S. Department of Housing and Urban Development and estimates based on U.S. Census Housing Inflation Index for Northeast Urban Size Class A cities.

[5] Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit,* Princeton: Princeton University Press, 2000 and Robert D. Manning, *Credit Card Nation, America's Dangerous Addiction to Credit,* New York: Basic Books, 2000, Chapter 4.

[6] Joint Center for Housing Studies, *The State of the Nation's Housing,* Cambridge, MA: Harvard University, page 7.

[7] The results are consistent with the finding of a recent survey of investor attitudes. See Oppenheimer Funds, *Investing for Retirement Survey*, New York: Oppenheimer Funds, 2005. The sample selection universe of the study was higher income households (minimum annual income of $75,000 or $300,000 investment portfolio) between 45 and 75 years old.

[8] For a discussion of the factors that are responsible for the decline in expected inheritance levels, see Lois A. Vitt (ed.), *Encyclopedia of Retirement and Finance*, Westport, Conn: Greenwood Press, 2003

Chapter VI

Are the Children Gone Yet? Empty Nesters Plan for Their 'Golden Years' in the Age of Uncertainty

The Empty Nester life stage includes members of the same age cohort as Mature Families. The distinguishing feature of this group is that they started their families at an earlier age and their children have graduated from high school and either are in college or are pursuing their professional careers. Indeed, Empty Nesters are not financially burdened with the daily lifestyle expenses of raising children although some are financially supporting children in college or paying for educational expenses with student loans. In addition to lower household expenses, Empty Nesters are in the prime of their professional/work careers and are increasing their savings for retirement. Since this is the homestretch of their full-time employment, they are mindful about financial planning, fearful about making mistakes in maximizing their assets (few have annuities or "defined" pensions), and evaluating their residential options such as downsizing to a smaller home and/or exploring the purchase of a second home. For those who have not amassed significant financial assets, this is their final opportunity to save and invest for retirement.

Overall, the Empty Nester participants range in age from 45 to 63 years old (median age of 54) and were randomly selected from the Orlando, Florida Metropolitan area. Approximately 60 percent are women and 40 percent are men with almost one-fourth racial/ethnic minorities (Latinos, African-Americans).[1] The Orlando, Florida Metropolitan area was selected based on the following criteria: its geographic location in the southeastern Sun Belt, its dynamic regional economy (high-tech, entertainment, services), its rapidly expanding population, its booming yet reasonably-priced housing market and its popularity as a destination for retirement including low taxes. Since many residents have moved to the area during their work careers, this setting provides insights into the social and economic strains of geographically-dispersed families as well as household strategies for planning retirement in communities with a lower cost of living. Nearly two-fifths of the participants have earned a college degree and almost one-fifth have earned a junior college degree; 44 percent have earned only a high school degree. This is generally consistent with the region and represents a substantial improvement over the educational attainment of their parents (18 percent college graduates). Two-thirds of the participants report dual-incomes and the annual household income ranges from a low of about $27,000 to a high of more than $120,000; median household income of the participants is approximately $55,000. All participants are homeowners. Most have experienced substantial appreciation of their homes—at least 150 percent—primarily since 1999.

The attitudes and behaviors of Empty Nesters toward credit and debt reflect the changing financial demands of their specific life stage and the unique historical experiences that conditioned their material aspirations. In this chapter, four key factors are examined. First, the intergenerational conflict over saving and socially appropriate spending that affirms the cultural values underlying "good" versus "bad" debt and the importance of personal responsibility in satisfying financial obligations. Second, the Puritan ethos of frugality and thrift still reigns supreme among this age cohort but it has been largely resisted by their children. This has long-term consequences to Empty Nesters since many of their children are reluctant to terminate financially-dependent relationships. Third, the concerted effort to minimize and hopefully eliminate consumer debt before retirement with particular concern over the continued financial drain of their children. And finally, strategies to maximize their financial assets as they prepare for their "Golden Years" in retirement.

The ability of Empty Nesters to successfully resolve these competing demands will fundamentally influence the timing and quality of life in retirement.

The Best of Economic Times?

Maximizing Financial Resources in the Impending Age of Scarcity

The attitudes of Empty Nesters toward consumption and debt remain significantly influenced by past social, cultural and family experiences with economic scarcity—especially familial experiences during the Great Depression and rationing during World War II. Their most formative personal experiences with consumer credit were shaped by the personal nature of the pre-1980 community banking system with its guiding tenets of risk aversion and installment loans, low debt-to-income underwriting standards and promotion of household asset accumulation. This set of attitudinal values and institutional policies emphasized borrowing to satisfy household needs rather than desires and a sense of personal responsibility and commitment to meeting debt obligations. Hence, financial security enables Empty Nesters to pursue what they consider a "morally superior" cash-based rather than debt-based lifestyle that signifies their prudent social and economic behavior.[2]

The most salient feature of Empty Nesters, as a group, is their anxiety over their economic future in retirement. This fear has emerged despite the group's responsible behavior as industrious financial managers who save and invest. At this stage of their lives, the expected reward of economic security in retirement diverges sharply from the reality of intensifying economic demands in the present (health care, children, parents) which in turn are exacerbated by their perception of increasing future financial uncertainty (potential pension and Social Security cuts, job loss, meager investment returns). Most Empty Nesters believe that their responsible financial conduct is being unfairly "punished" in comparison to past generations due to escalating economic pressures that are outside of their control.

In terms of household resources, Table 1 shows that the income of Empty Nesters has already passed its financial peak (all numbers in 2004 dollars). In 1993, for example, the median household income of Empty Nesters ($43,092) was 27.5 percent less than Mature Families ($59,483). During the economically robust 1990s, median household income jumped to $50,627 for Empty Nesters (a 17.5 percent increase) and to $64,497 for Mature Families (an 8.4 percent increase). After enjoying this sharp wage growth, Empty Nesters have experienced an unexpected decline in their real earnings. Between 1999 and 2004, median household income declined to $50,400 (a 0.5 percent decrease) for Empty Nesters and to $61,111 (-5.2 percent decrease) for Mature Families.[3] In 2005, real wages have continued to fall, nearly 2.5 percent.[4] This constitutes a serious blow to the savings goals of Empty Nesters since most are in the last decade of full-time employment.

For most Empty Nesters, falling real household income in the 2000s is compounded by the recent decline in non-housing financial assets.[5] Overall, slightly more than one-half (51.9 percent) of U.S. households directly or indirectly owned stocks in 2001[6] while the top 10 percent of U.S. households owned 79.8 percent of net financial assets.[7] About 30 percent of U.S. households possessed a net wealth of less than $10,000 in 2001.[8] In comparison, housing assets are more equally distributed; the top 10 percent of U.S. households own 50.6 percent of housing equity and the bottom 90 percent own 49.4 percent in 1998.[9] For most middle and lower-income Americans, the growth in non-housing financial assets has been outstripped by the increase in consumer debt over the last decade—especially since 2000.

For example, between 1989 and 2001, the middle or third economic quintile of American households (40 percent above and 40 percent below) reported stock/investment gains from $4,000 to $12,000, compared to an increase in total non-mortgage consumer debt from $37,000 to $50,500. Indeed, the overall increase in net worth of these households – from $63,900 to $75,000 – is primarily attributed to the appreciation of their homes. For the bottom 40 percent of American households, net worth improved an average of about $7,300 over this 12-year period.[10] The trend of rising housing appreciation is worrisome for Empty Nesters, who are contemplating whether to "downsize" to a smaller residence or stay put on the assumption that their homes will sell for a higher price in the future. Indeed, as reported in Table 2, total non-housing net worth declined between 2001 and 2003 by an annual average of -2.9 percent led by stocks at -6.7 percent. Fortunately, net financial assets during this period rebounded by an average of 4.2 percent (primarily housing assets) followed by mutual funds at 4.1 percent.[11] Nevertheless, for Empty Nesters, each year of stagnant wages and investment returns is very difficult to make up as they approach retirement.

Who Do You Trust?
Empty Nesters Formative Experiences with Credit and Debt

The psychological influences that shaped the formative consumption and credit/debt behaviors of Empty Nesters have exacerbated the cognitive anxiety over their impending retirement even though their present circumstances may be financially stable. A contributing factor relates to the group's concern over the rapidly changing practices and policies of the modern financial services industry. For instance, most Empty Nesters have previous borrowing experiences where decisions were almost exclusively made according to the discretion of the local bank manager. From this perspective, access to consumer credit was an earned privilege that could only be maintained through the cultivation of local social relationships and the meticulous repayment of outstanding loans. Today, Empty Nesters are sufficiently experienced with the modern banking system, and they recognize that the financial gate keeping function has shifted responsibility to individual borrowers who are expected to accurately understand their debt capacity and contractual obligations. In the past, when bankers and loan officers used subjective underwriting criteria including their personal relationship with the client, financial decisions were carefully scrutinized and even subject to local moral standards. Today, the emphasis on more objective underwriting standards—such as the use of credit scores—is important in improving access to credit among previously discriminated groups as well as facilitating the approval of emergency funds to Empty Nesters with considerable home equity. Significantly, this change tends to be overlooked by Empty Nesters due to their reproval of debt in general and especially in the latter life stages.

For some Empty Nesters, the distinction between good versus bad debt has religious connotations. That is, criticism of credit cards and other forms of consumer credit was often guided by local religious tenets where fiscal prudence was tied to appropriate social conduct including consumption patterns, credit use and the accumulation of debt.[12] Imprudent consumption activities and high debt burdens were commonly moralized as "wrong" with accompanying social condemnation. The traditional 10 percent tithe to the church not only constrained discretionary household resources and the means for pursuing indolent behavior but served as a voluntary contribution for financing local community projects and assisting needy families. These cultural attitudes helped to define more traditionally held views of good versus bad forms of debt which ultimately affirmed religious values that associate responsible consumption practices with one's commitment to faith, ethics and sound personal character.

It seems there's a lifestyle and cultural difference that was prevalent then that doesn't [exist] now. You lived within your means, my folks did. If you could afford it, you bought it. If you couldn't afford it, you didn't buy it.
-Stuart, 56

As Daniel, a 47-year-old truck driver and Florida native who is currently experiencing very serious financial difficulties explained: *"Little churches always tried to get you to be good stewards of your money ... [I was] taught that you're not supposed to be in debt and not supposed to owe any man."* Such strong religious influences were instrumental in molding basic attitudes toward credit and debt among many Empty Nesters in the South. This emphasis on fiscal temperance was echoed by 57-year-old Jim: *"Moderation, everything in moderation. . . Isn't that what most churches teach? If you're going to do something, [buy a house, a car, vacation] be moderate about it.*" Others discussed the importance of personal responsibility and trust which reduced the risk of default to banks because people did not want to borrow money that they could not repay in the future. According to Stuart, a 56-year-old substitute teacher:

> *There was honor then. There was honor in your word. A handshake meant something and if you couldn't make it happen, then you were thought of differently than you would be today, certainly less honored… It seems there's a lifestyle and cultural difference that was prevalent then that doesn't [exist] now. You lived within your means, my folks did. If you could afford it, you bought it. If you couldn't afford it, you didn't buy it.*

My mother died with millions of dollars. Her only entertainment was TV. She only got two channels, one of them quite snowy. I said, 'Mom why don't you get cable TV?' … she said, 'I can't afford it.' -Runet, 54

Of course, the key social institution in the intergenerational transfer of traditional values is the family and, especially, the role of parental influences in shaping attitudes toward saving and spending. This is illustrated by Runet, a 54-year-old entrepreneur, who was born in New York City: "*my mother died with millions of dollars. Her only entertainment was TV. She only got two channels, one of them quite snowy. I said, 'Mom why don't you get cable TV?' … she said, 'I can't afford it.'*" Runet elaborated on the impact of these formative experiences on her personal spending behavior: *"[I] always spend less than [I] make and save the difference. Those were the lessons we were taught growing up. Save, save, live within your means and save for that rainy day... In case that rainy day's going to come."* Jan, a 56-year-old mother of two, who has been married for 27 years, describes similar childhood experiences:

> *My mom and dad… they came from Puerto Rico, and my dad was in the [military] service…later he went to college and medical school. I can still remember when I was in high school and college… my mother would go for [retail] sales, she'd drive 10 miles to save $1 or whatever. Even after dad's [financial] success… she still had the mentality of save, save, save!*

Despite these early family influences, fiscal conservatism has declined significantly among Empty Nester households, even among the thriftiest respondents. For example, more than 50 percent of the participants described their household budgets as *"More Liberal"* or *"Much More Liberal"* than their parents at the same age. This pattern is consistent with the responses that more than one-half of Empty Nesters' parents still attempt to influence their budgetary practices. Significantly, nearly two-thirds of these respondents wish that their children's spending and credit practices would be *"More Conservative."* Of course, not all childhood experiences encouraged responsible financial behavior. As 53-year-old Dave explains, his parents were raised in the rural farm economy where little money and a subsistence lifestyle prevailed: *"My parents … were not frugal at all. They taught us kids all the wrong things … [and] today, they've lost all their money… Two years ago, I was forced into bankruptcy and I was just like my parents were with credit card and other [debts]. It was humiliating for me and I never want to experience it again."* Currently, Dave financially supports his parents (including medical expenses) while also providing some financial assistance to a young adult daughter.

Fearing 'The Monster That We Have Created': Cultural or Economic Factors in the Birth of "The Generation in Debt"

As loyalists of the Puritan ethos, most Empty Nesters have made conscientious attempts to pass on their personal financial attitudes to their children. Almost 70 percent provided some form of personal financial training to their children. Even so, Empty Nesters candidly admit that they have not succeeded in their efforts to transmit their generational values of thrift and self-discipline to their children and grandchildren. Some are adamant in assigning blame to themselves—as parents—due to their ineffective instruction and lack of fiscal "tough love" discipline. According to Stuart:

> *Where temporary needs are met, they [parents] don't have to be responsible. I think that's basically what it is in this [historical period]. Pleasure without responsibility is in… We're in an era where we want pleasure but we don't want to be responsible for it. I think we show that to our children. As long as we can provide more stuff, we can temporarily satisfy our own lack of desire to educate and be responsible, spend time with them, and do the moral and ethical things that we as parents ought to be doing to raise our kids right.*

This is exemplified by Empty Nesters' desire to provide their children with the material accoutrements that they were denied in their own childhoods. By acceding to the wants and desires of their children and grandchildren, Empty Nesters acknowledge the possible life-long financial dependence of the younger generation which increases the importance of maximizing their household resources. Although based on noble intentions, the persistent financial demands of adult children ultimately undermine the ability of Empty Nesters to amass sufficient resources for their own retirement. Sadly, these economic "ties that bind" often remain a source of financial strain—even in retirement—as illustrated by the experiences of some Seniors in the next chapter.

A related issue for Empty Nesters concerns the increasing commercialization of social and family leisure activities that were previously community-based and available for free or at a low cost. The implications of commercialized recreation are especially significant for American households when viewed in the context of competitive, family-based consumption. For example, visiting an expensive theme park versus a free or inexpensive public zoo, or taking a vacation at a local beach versus booking an expensive cruise. Personal guilt or even childhood memories of material deprivation profoundly influence the desire of Empty Nesters to indulge their children and grandchildren with costly consumer expenditures while exercising personal restraint and resisting self-indulgent purchases for themselves.

> ***I wanted my children to have a whole lot more than I had. I wanted them to have all this stuff and be happy and I related happiness with stuff... Did I, did we create these monsters?***
> **-James, 53**

Indeed, it is striking that many respondents profess a willingness to sacrifice their own consumption aspirations in order to pay for the wants and desires of their children and/or grandchildren. In the process, the costs associated with entertainment and therefore "happiness" imply that the more one spends then the more "fun" one will have. As 53-year-old James, a Buffalo native and career truck driver notes: *"When I was a kid, we used to go out and play tackle football or go play baseball, anything that didn't cost money back then. I thought it was great. I loved it."* Similarly, 52-year-old Beth commented:

> *The towns would have picnics and [other social activities]. And everybody would come and bring food. You'd have sack races. [It did] not cost anything. You were entertaining*

yourself because you didn't have the money. Now, it's marketed so that you have to spend this to be able to do that. I can remember going to the creek swimming. Now you have to pay $40 to go down a [water] slide.

Empty Nesters are also concerned about social pressures on their children to exceed the standard of living of past generations. These intensifying consumption pressures, together with the desire by Empty Nesters to give their children more material items than they enjoyed in their youth, have led to the erosion of the very cultural values that they cherish and that contributed to their current economic comfort. In this regard, Empty Nesters view the actions of parents as the key factor in shaping their children's most basic attitudes toward spending and debt. This is consistent with the findings of the College Students life stage, in which parents are the leading source of financial advice and instruction. As James observed:

> *[Our children] want … to have more, bigger, better, fancier … I wanted my children to have a whole lot more than I had. I wanted them to have all this stuff and be happy and I related happiness with stuff. So without me being aware of it, maybe I'm partly the reason that they are thinking the way that they are thinking. Because I trained them that for the kids to be happy, you have to give them all this stuff… Did I, did we create these monsters?*

Similarly, 52-year-old Jenny, originally from San Juan, Puerto Rico, explains: *"[It] doesn't matter what we tell them, it is our example that educates them. It is what we do. And if we're going to handle finances, the way we handle our life, the way we deal with other people, that's what they learn."* Significantly, such self-criticism differs sharply from the responses of Young Families (Chapter Four) who are more inclined to attribute larger societal forces, competitive social pressures, and target marketing as the primary reasons for escalating household indebtedness.

[It] doesn't matter what we tell them, it is our example that educates them. It is what we do. And if we're going to handle finances, the way we handle our life, the way we deal with other people, that's what they learn.
-Jenny, 52

Seeing the Light at the End of the Tunnel:

The Financial Health of Empty Nesters as They Approach Retirement

The inevitable departure of children from the household – typically soon after the completion of high school or college – signifies the long-awaited severing of financial ties and economic dependency. Increasingly, Empty Nesters are realizing that the period of time between supporting their offspring and saving for retirement has shrunk dramatically, with the prospect of inadequate resources for retirement. Indeed, most are learning that even though they have been conservative with their household budgets, they are still not adequately prepared financially for retirement. They feel this is largely due to financial pressures related to lingering economic ties with their children. Now, as they approach the final phase of their work careers, Empty Nesters are primarily concerned about maximizing their assets for retirement, their ability to eliminate existing debt and their preparedness for dealing with unforeseen medical expenses. In addition, they are confronting the reality that they may have to remain employed full-time for longer than initially planned. And, the final report card on their personal finances may not be the expected "A" as graded by their performance on savings, investments and lack of consumer debt.

Empty Nesters are very fiscally disciplined and motivated to effectively channel their relatively high discretionary income into specific programs for achieving their financial goals. When asked how they describe their spending behavior, three-fourths of the project participants describe themselves as *"Savers"* in terms of their reluctance to buy new items and preference to defer instant gratification. For example, less than one-fourth responded that consumer credit is important in their personal consumption decisions. Stuart, who has lived in Orlando for approximately 30 years, summarized the view of his fellow Empty Nesters: *"I try to limit [my use of] credit to what I have in hard cash."*

This underscores the role of consumer credit as primarily a transactional convenience of Empty Nesters; almost one-half describe consumer credit as only *"Somewhat Important"* in their personal consumption behavior. In the context of their personal experiences with material scarcity, Empty Nesters tout their budgetary prowess as an important factor in their current economic stability. As George, a 54-year-old blue-collar factory worker explained, "*When I first started my family 30 years ago, every silver dime I found … change and quarters … I save[d] it all and [I'd] have a big collection of it in case [of an unexpected need].*"

If it isn't in the budget, and we haven't saved for it, we don't get it.
-William, 63

As retirement looms, Empty Nesters are the most serious in regard to the urgency of financial planning; nearly 80 percent describe financial planning as either *"Important"* or *"Very Important"* at this stage in their lives. In fact, similar responses are reported when Empty Nesters are asked about how important they perceive planning for future medical expenses for themselves and for elderly family relatives. Nearly 80 percent have monthly budgets and they generally view themselves as prudently managing their household resources. *"If it isn't in the budget, and we haven't saved for it, we don't get it,"* noted William, 63, who has five credit cards and no credit card debt. Yet, despite their limited reliance on credit cards, Empty Nesters are overwhelmingly *"Very Concerned"* or *"Concerned"* about their financial planning for retirement; almost three-fourths of the project participants expressed anxiety about their ability to save enough for the "glory days."

Not surprisingly, most Empty Nesters are more comfortable about pursuing household asset enhancement strategies that emphasize the reduction of expenditures than the increase in investment revenues. This reflects their lack of confidence in the equities markets as well as their personal memories of major market fluctuations that produced significant losses to small investors. A 2004 study by Oppenheimer Investments, which surveyed Americans' financial knowledge (sample of 1000 respondents between 45 and 75 years-old), found that only five percent considered themselves "Excellent" and about 40 percent "Good" investors. The most important need reported by the respondents was information on investment techniques and strategies.[13] Even so, it is shocking that so few Empty Nesters (less than one-fifth) had an informed understanding of the necessary resources/investment portfolio for ensuring an adequate standard of living throughout their retirement years. This is consistent with the findings of the Oppenheimer Funds study.

A substantial proportion of Empty Nesters have accepted the reality of postponing their retirement (at least one-third) while about one-half expect to work at least part-time after the age of 65—assuming that they are healthy. This situation is articulated by James, a 57-year-old manufacturing worker: *"I'll probably drop dead on the floor of the work place. I don't have … insurance. Things are too temporary. I had a job for nine years. But with it, when they [company] went defunct, everything went, so I have nothing [saved for retirement]."* Other studies report similar trends of financial distress among America's seniors. The Oppenheimer Funds study reports that approximately 40 percent of its respondents were employed during their early retirement years and estimated that at least one-fifth of the Empty Nester and Mature Family age groups in the survey expect to retire with some credit card debt.[14] This is supported by a recent study of consumer debt levels that found average household credit card balances among those between 55 and 64 years old had jumped from $2,778 in 1992 to $4,088 in 2001.[15] Even among the Empty Nester participants, 45 percent reported a balance on their credit cards—at a median level of $1300.

In comparison, some public employees and those with private pensions are fortunate to have guaranteed or defined pensions that provide a specified monthly income. This desirable situation is illustrated by 54-year-old Beth, who has a bachelor's degree in accounting and is employed as a payroll clerk: *"Right now I'm vested with Sears, Albertson's, and Interstate. I will be debt free, meet my [retirement] goal[s], and [then] I will sell my house and pay cash for whatever we do…so I'll be getting from $3,000 to $4,000 a month depending on what happens with Interstate."* Not surprisingly, the high cost of adequately funding these programs has led to a sharp decline in eligible participants. Indeed, Beth's experience is not shared by other respondents in the study who were much more likely to report the loss or severe reduction in their pension and health care benefits. As the rate of participation in defined pension programs falls, planning for retirement will become increasingly dependent on market outcomes as well as the ability of individuals to save and invest for the future. These contrasting examples are illustrative of the increasingly disparate economic realities that are shaping the lifestyles of Baby Boomers in retirement.

Although Empty Nesters as a group do not possess a sophisticated understanding of the Central Florida real estate market, they are very concerned about the rapid rate of housing appreciation. For most, housing is not a commodity to be bought and sold like a speculative investment; only 17 percent reported that they purchased their home primarily as an investment. In particular, they are fearful of the economic pressures that rising housing costs will impose on their children who they tend to describe more as "spenders" than "savers." This fear is compounded by uncertain macro-economic trends, such as concerns over unexpected job loss and rising interest rates, which could increase consumer debt burdens and create greater financial insecurity among the children of Empty Nesters. As James emphasized: *"my house has gone through the roof as far as what I paid and what it's worth today—in just the last three years. I am kind of scared for my son. How much money is he going to have to make in order to have a house?"* As 63-year-old William declared: *"That is one thing [housing appreciation] that frightens me now. How are people going to afford to even have a roof over their head?"* Indeed, the project participants have enjoyed an extraordinary increase in the asset value of their homes. The median period of time in their current house is 16 years and the median appreciation for the group (all are home owners) is more than 300 percent.

My house has gone through the roof as far as what I paid and what it's worth today—in just the last three years. I am kind of scared for my son. How much money is he going to have to make in order to have a house?
-James, 53

These views reflect both the cognitive and economic anxieties of Empty Nesters. They are fearful that the social value of self-sufficiency will be undermined by economic forces outside of their control. Significantly, the monthly mortgage payments of Empty Nesters are typically within the conservative 25-30 percent range of total household income. This generally frugal approach to home ownership contributes to the ability of Empty Nesters to pay off their mortgages long before they begin retirement. In comparison to Mature Families in northern metropolitan areas, the housing budgets of these Empty Nesters have enabled them to save and direct more of their household income into a more diversified investment portfolio. Nevertheless, it is striking that while one-half of the participants report having a home equity loan, very few have refinanced their modest-sized mortgages; the median reported interest rate is 7.5 percent. Clearly, greater awareness of the financial advantages of "smart borrowing" could provide considerable savings to this generally economically savvy group.

Is It Too Late to Save My Retirement?
Empty Nesters Struggle to Cross Their Financial Finish Line

Planning for retirement offers a final report card for evaluating the successful attainment of personal financial goals. Typically, Empty Nesters aspire to be debt free, financially independent, and economically prepared to handle unexpected health care-related expenses. Despite prudent attitudes toward spending and debt, most Empty Nesters have not accumulated sufficient wealth to pass on to succeeding generations. This is significant since it implies that few financial assets will be passed on to younger family members through inheritance. In fact, less than 15 percent of the participants indicated that they themselves expect to receive an inheritance that would substantially improve their retirement lifestyle. Instead, most commented that they had already either received a modest inheritance or that their parents' assets are less than expected after medical and burial expenses. For instance, as 53-year-old Linda explained, *"My dad left me $25,000 which is long gone. I take care of my mother [now]. She is 80 years old and she lives with me on $800 a month, her assisted care [payment]."* Others worried that they would have to spend some of their retirement savings to assist their aged parents or other family members. According to 61-year-old Eunice,

> *I know there's no inheritance for me. We're working right now on retirement… before we were working on the girls' education… we're both working desperately to try to create a retirement [nest egg]. We're nowhere near what I figure we will probably need. I did talk to a [financial] counselor and he shocked me on what he thought we would need to survive to pay for medications, etc. I'm nowhere near that. I will be debt free by the end of the year but I'm afraid that even with working until I'm 65, I probably won't have the [amount] of money that I'm going to need.*

Fortunately, less than 20 percent of Empty Nesters expect to financially assist an elderly relative. There are, however, other continuing financial pressures that loom on the horizon of retirement. That is, many of their children and grandchildren will remain an enduring source of economic strain even after the Empty Nesters retire. As Stuart confided: *"I have one boy in need. Not because he isn't trying, it's just hard [for him to be financially independent]. As a parent, you still have to be compassionate and have empathy for your children. So yeah, he comes to me and needs help, sure. Here's whatever help I can give you."* Added James: *"I'm the CEO for First National Bank of Mom and Dad and that's a bad mistake because when they [ask] not for a want, but for a need, they can always come to us."* As demonstrated by some of the Seniors in the next chapter, this financial responsibility may continue indefinitely.

I'm the CEO for First National Bank of Mom and Dad and that's a bad mistake because when they [ask] not for a want, but for a need, they can always come to us.
-James, 53

As illustrated by the prior chapter on Mature Families, the conflicting demands of saving for retirement and for children's college education exacerbates household financial anxieties. In the worst case scenario, it can result in the serious under funding of both savings needs. For older households that appreciate higher education, saving for college tends to be a priority, with the proviso that the kids will not rely on their parents' financial benevolence after completing their formal education. Randy, a 56-year-old entrepreneur, epitomizes this view,

> *When my kids were growing up, they were going to go to college, and it was much more important for me to save for that than it was to save for my retirement…I sacrificed for their college fund. I thought if I got them through school, a good education, then I wouldn't have to worry about them suffering and needing help…I thought once they got through college and they got a good education, my job was done and I wouldn't have any further financial burden. [Unfortunately], that didn't happen.*

I thought once they got through college and they got a good education, my job was done and I wouldn't have any further financial burden. [Unfortunately], that didn't happen.
-Randy, 56

Yet, more than half of the participants reported that they did not save for their children's college education. This underlies the increasingly common reality that financially inexperienced teenagers will eventually become encumbered with high levels of student loan debt, potentially protracting the financial dependency of their children on their Empty Nester parents.

Although the median price of the participants' homes has more than doubled over the last decade to $250,000, some Empty Nesters are beginning to explore relocating to even less expensive areas, especially with the rising cost of living in the Orlando Metropolitan area. Indeed, they see little evidence that they will receive much financial relief through inheritance or other forms of intergenerational wealth transfers. As a result, many Empty Nesters are confronting the prospect of delaying their retirement. Significantly, most replied that they would prefer to extend their full-time employment rather than assume the risk of more aggressive investment strategies.

Table 1

Median Household Income by Life Stage of Family: 1980-2004

(reported in 2004 dollars)

Year	Young Families 25-34	Mature Families 35-44	Mature Families 45-54	Empty Nesters 55 - 64
1980	$41,986	$51,301	$54,544	$42,442
1981	$40,715	$50,383	$53,678	$41,763
1982	$39,880	$49,417	$52,443	$41,368
1983	$39,126	$49,800	$54,610	$40,983
1984	$41,066	$51,532	$54,529	$41,687
1985	$42,002	$52,016	$55,628	$42,792
1986	$42,585	$53,913	$58,638	$44,029
1987	$42,881	$55,950	$59,162	$43,825
1988	$43,586	$56,085	$58,630	$44,346
1989	$43,873	$55,366	$61,085	$45,339
1990	$42,546	$54,040	$58,751	$45,357
1991	$41,714	$53,220	$59,174	$45,044
1992	$41,218	$52,583	$58,630	$44,851
1993	$40,269	$52,602	$59,483	$43,092
1994	$41,796	$52,533	$59,585	$44,419
1995	$42,713	$53,500	$59,153	$46,868
1996	$43,019	$53,246	$60,500	$47,726
1997	$44,802	$54,409	$60,882	$48,537
1998	$46,374	$56,074	$62,668	$49,959
1999	$47,709	$57,592	$64,497	$50,627
2000	$48,717	$58,971	$63,227	$49,199
2001	$48,105	$56,898	$61,940	$48,942
2002	$47,615	$56,219	$61,996	$49,582
2003	$45,982	$56,523	$61,861	$50,538
2004	$45,485	$56,785	$61,111	$50,400

Source: U.S. Census Bureau, Historical Income Tables (Table H-10), "Age of Head of Household: All Races," available at http://www.census.gov/hhes/www/income/histinc/h10ar.html

Table 2

Growth of Household Wealth, 1949-2003
Annual growth of net worth per household

Type of Wealth	1949-67	1967-73	1979-89	1989-00	2000-03	2001-03
Total net worth*	2.3%	-0.8%	2.3%	4.4%	-6.4%	-2.9%
Net tangible assets**	2.7	-0.4	2.5	4.2	-3.9	-0.6
Net financial assets***	1.9	3.0	1.2	0.3	3.0	4.2
Financial Assets						
Stock	7.0	-8.1	4.0	8.9	-12.4	-6.7
Mutual Funds	11.7	-8.7	19.9	14.4	-1.3	4.1
Stock and Mutual Funds	7.2	-8.1	5.6	10.2	-8.9	-3.2

* Includes all households, personal trusts and nonprofit organizations
** Consumer durables, housing and land assets less home mortgages
*** Financial assets less non-mortgage debt

Source: Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, The State of Working America, (Ithaca: Cornell University Press, 2005), page 280.

ENDNOTES

[1] The selection protocol excluded Non-English speaking, recent immigrants. This sampling restriction was based on the decision that the small number of project participants would not adequately reflect the diversity of the region's immigrant population.

[2] Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit,* Princeton: Princeton University Press, 2000 and Robert D. Manning, *Credit Card Nation, America's Dangerous Addiction to Credit,* New York: Basic Books, 2000, Chapter 4.

[3] The Empty Nester income gap, in comparison to Mature Families, is partially explained by the relatively lower educational attainment of this age cohort and erosion of unionized blue-collar employment as well as transitional work schedules of many Empty Nesters from full- to part-time employment, voluntary and involuntary early retirement due to employer mandated layoffs, and employment interruptions due to health related problems. For wage data trends, see U.S. Census Bureau, Historical Income Tables (Table H-10), "Age of Head of Household: All Races," available at http://www.census.gov/hhes/www/income/histinc/h10ar.html

[4] Agence France Presse, AFP News Report**,** "25-year record U.S. inflation surge sparks debate," October 14, 2005.

[5] The overall annual growth in total net worth of all American households averaged a post-World War II high of 4.4 percent in the period 1989 to 2000. In terms of financial assets, the booming equity markets produced impressive yields of 8.9 percent for stocks, 14.4 percent for mutual funds, and 10.2 percent for stock and mutual funds. See Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Growth of Household Wealth, 1949-2001," *The State of Working America,* Ithaca: Cornell University Press, 2005, page 280.

[6] Non-housing investment gains primarily accrue to a small proportion of Americans. For example, the top 10 percent of U.S. households owned 77.0 percent of all common stock and 84.8 percent of all non-equity financial assets in 2001; 90 percent of American households own less than 23 percent of all outstanding common stock. Similarly, in the last year of data available on the distribution of stock ownership (2001), one-fifth (21.3 percent) of U.S. households owned stock and 47.7 percent indirectly own stocks through a mutual fund or 401(k)-style, defined contribution pension plan. See Edward Wolff cited in Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Share of Households Owning Stock, 1989-2001," *The State of Working America,* Ithaca: Cornell University Press, 2005, page 287.

[7] Edward Wolff cited in Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Distribution of Income and Wealth, 2001," *The State of Working America,* Ithaca: Cornell University Press, 2005, page 279.

[8] Edward Wolff cited in Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Households with Low Net Wealth, 1962-2001," *The State of Working America,* Ithaca: Cornell University Press, 2005, page 285.

[9] James M. Poterba, "Stock Market Wealth and Consumption," *Journal of Economic Perspectives,* Vol 14 (2), pages 99-118.

[10] Edward Wolff cited in Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Average Household Assets and Liabilities by Wealth Class, 1962-2001," *The State of Working America,* Ithaca: Cornell University Press, 2005, page 289.

[11] See Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Growth of Household Wealth, 1949-2001," *The State of Working America,* Ithaca: Cornell University Press, 2005, page 280.

[12] See David M. Tucker, *The Decline of Thrift in America: Our Cultural Shift From Saving to Spending,* New York: Praeger, 1991; Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit,* Princeton: Princeton University Press, 2000; and Robert D. Manning, *Credit Card Nation: America's Dangerous Addiction to Debt,* New York: Basic Books, 2000, Chapter 4.

[13] Oppenheimer Funds, *Investing for Retirement Survey*, New York: Oppenheimer Funds, 2005.

[14] Oppenheimer Funds, *Investing for Retirement Survey*, New York: Oppenheimer Funds, 2005. The sample selection universe of the study was higher income households (minimum annual income of $75,000 or $300,000 investment portfolio) between 45 and 75 years old.

[15] Tamara Draut and Javier Silva, *Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the '90s,* New York: Demos, 2003, p. 25. The study is based on an empirical analysis of the Survey of Consumer Finance (1989 to 2001).

Chapter VII

"I'M SPENDING MY CHILDREN'S INHERITANCE" SENIORS STRUGGLE TO ENJOY RETIREMENT AND THEIR GRANDCHILDREN

The Senior life stage (typically 65 years and older) features the transition from full-time employment and a professional career/job to a much less structured lifestyle of part-time work, volunteer programs, and leisure/family activities. For most, their home is their primary asset, and it has appreciated dramatically over the past decade. Moreover, as a generation, Seniors are more likely to receive public and private pensions than their Baby Boomer children. However, Seniors are much more likely to have debts (such as mortgage, home equity, credit cards) in retirement than their parents were, and are concerned that their retirement income may not be adequate for their needs. This explains why increasing numbers of Seniors are working part time and are moving to lower-cost retirement areas such as Central Florida. Finally, as Seniors move from their 60s into their 70s and 80s, they are seeking to simplify their lifestyles by moving into condominiums, retirement developments, and assisted-living complexes. For many, cost-cutting is an important strategy for coping with higher medical expenses as well as the financial reality that many of their children and grandchildren will remain economically dependent upon them.

Overall, the Senior participants range in age from 62 to 74 years old (median age of 67) and were randomly selected from the Orlando, Florida Metropolitan area. The sample was evenly distributed between men (50 percent) and women (50 percent) with one-fourth racial/ethnic minorities (Latinos, African-Americans).[1] The Orlando, Florida Metropolitan area was selected based on the following criteria: geographic location in the southeastern "Sun Belt," dynamic regional economy (high-tech, entertainment, services), moderately priced yet rapidly appreciating housing market, and its popularity as a destination for retirement (low taxes and extensive medical facilities).[2] Like Empty Nesters, since many Seniors have moved to Central Florida during their work careers (from places such as Alabama, Georgia and Tennessee), this setting provides insights into the social and economic strains of geographically-dispersed families. About three-fourths of the participants earned a high school degree and about one-fifth earned a college degree. This is generally consistent with the regional profile and educational attainment of this age cohort. For income, about half of the participants rely on a combination of Social Security payments and a company pension; one-third report investment income and about one-third work part time. The median household income of the participants is between $50,000 and $59,999. Almost all (95 percent) own their own residences (condos, houses) and long-time residents have experienced enormous appreciation of their homes—particularly since 1999.

The attitudes and behaviors of Seniors toward saving and consuming are profoundly shaped by personal experiences with economic scarcity and macro-economic fluctuations such as recessions and booming business cycles. In this chapter, four key factors are examined. First, historical and social forces that shaped the cultural values underlying "good" versus "bad" debt and the importance of personal responsibility in fulfilling financial obligations. Second, concern over the "modern" financial services system and its perceived role in eroding social values that affirm traditional attitudes toward saving, spending, and investing. Third, the failure of Seniors in particular and society in general to effectively pass on to their children and grandchildren the "old school" cultural attitudes that value work over leisure and saving over spending. Lastly, we explore the challenges of managing household finances in retirement, where medical costs continue to climb, children and grandchildren remain a financial drain, inheritance provides little help, consumer debt is growing, and rising home values offer an unexpected economic windfall.

The Society of Abundance Collides with the Economics of Retirement:

The Perilous Financial Safety Net of America's Seniors

The aging of the U.S. population is one of the most important social and demographic trends of the 21st Century. This graying of American society reflects recent advances in preventive health and geriatric medical care as well as declining U.S. fertility rates.[3] Over the next 25 years, the portion of the population 65 years and older will increase sharply—from about 13 percent of the U.S. population to more than 20 percent, peaking at about 21 percent in 2070. Furthermore, these trends will dramatically increase the 85 and older group—tripling to five percent of the U.S. population by 2070.[4] The latter reflects the significant increase in U.S. life expectancy. For example, Americans born in 1950 are expected to live an average of 68.2 years, and those born in 2000 are expected to live an average of 76.9 years. There are, moreover, significant mortality rate differences by gender. Men born in 1950 can expect to live an average of 65.6 years and women 71.1 years. In 2000, the life expectancy gap remains stable at 74.1 years for men and 79.5 years for women with notable differences by race, ethnicity, and socio-economic background.[5]

The aging of the U.S. population profoundly impacts the workplace, residential communities, leisure and entertainment industries, older lifestyle activities, and the very nature of "retirement." In terms of the latter, millions of Americans will enjoy many healthy and productive years after retiring from full-time work. For Americans who were 65 years old in 2000, women can expect to live an additional 19.2 years and men 16.3 years.[6] In addition, the median age at retirement has fallen, leveling off at 63 years.[7] The combination of longer life expectancy and fewer working years underlies the financial predicament in current planning for retirement. For most Americans, the lack of financial preparedness for retirement is due to lack of focus on retirement planning and misconceptions about the cost of retirement.[8] For instance, an analysis of 2000 Census Bureau data found that the median value of retirement accounts (IRA, 401(k), Keogh) for workers age 55 to 64 (50 percent had at least one account) was only $56,000 and for workers age 45 to 54 (48 percent had at least one account) only $48,000.[9] These trends have long-term societal consequences since Americans are living longer and enjoying a much higher standard of living in their late 60s, 70s, and 80s.

Significantly, rather than responding to this future reality with higher asset formation rates, most Americans (as explained in previous chapters) are facing asset shortfalls through lower household savings rates, erosion of employer-sponsored pension programs, and low returns in the equity and bond markets. Fortunately, for older Americans, the recent rise in national home ownership rates (which increased to more than 66 percent in 2005) has been associated with the sharp appreciation of home values. For example, the total value of all non-stock assets—comprised primarily of housing equity—held by the middle 20 percent of U.S. households was $113,500 in 2001. This is more than nine times larger than the average stock holdings ($12,000) for the same group in 2001.[10] Nevertheless, while more households meet the government's minimum level of financial adequacy upon retirement (defined as one-half of pre-retirement income),[11] net asset retirement wealth rates have been lowest among middle income households ($50,000 to $74,999) in the early 2000s[12] as Americans are increasingly likely to retire with debt rather than with savings.[13]

Traditionally, most Americans' retirement was based on a three-legged stool: Social Security benefits, asset/saving yields, and pension income. For many Seniors, the past decade has been financially difficult. As reported in Table 1, the 2002 income of Americans 65 years and older ($34,536 in 2003 dollars) is only 56.7 percent of the 55-64 year old cohort ($60,885 in 2003 dollars). This is a decline from 62.5 percent in 1995.[14] The complicated patchwork of income sources that underlie the income of Americans in retirement is reported in Table 2 by income level. The data shows the wide range of income sources of retirees. For example, Social Security benefits contribute a high of 82.1 percent of income of the poorest retirees and only 19 percent of the most affluent. Similarly, asset-related revenue accounts for 22.5 percent of the income of the top 20 percent of retirees and only 2.4 percent of the lowest 20 percent, whereas pensions account for 19.8 percent of income for the richest and 3.2 percent of the poorest retirees.[15]

A striking aspect of Table 2 is the contribution of employment earnings to the incomes of the most affluent retiree groups.[16] Clearly, retirement is no longer a life stage that is without paid employment. Instead, working has become an increasingly important "fourth leg" of the retirement stool. At the same time, another trend has emerged over the past two decades: consumer debt. According to a recent analysis of the Survey of Consumer Finances, the sharpest increase in credit card debt accumulated by U.S. households during the 1990s was among the 65 and older population: from a household average of $1,626 in 1989 to $4,041 in 2001.[17] This is consistent with a study by SRI Consulting Business Intelligence. Between 1992 and 2000, SRI found that debt levels among households under 65 years old increased 95 percent compared to a 164 percent increase among households over 65 years old.[18]

'If You Get Enough Holes in Your Ship, You're Going to Sink' The Society of Scarcity Still Shapes 'Old School' Values

The attitudes of Seniors toward consumption and debt are largely influenced by traditional religious and secular (*Poor Richard's Almanac*) moral tenets. These beliefs have been reinforced and affirmed through personal and family experiences including the negative consequences of economic deprivation and material scarcity (such as farm foreclosures) during the Great Depression and rationing programs during World War II. As a result, fiscal conservatism and self-discipline are the hallmarks of this generation and its adherents to Benjamin Franklin's *"A Penny Saved is a Penny Earned."*

For Seniors, prudent use of credit is emblematic of an honorable personal character, as borrowing reflected the trust that was earned through responsible repayment histories. Conversely, persistent debt reflected imprudent behavior and the loss of trust and social respect. Again, the personal nature of the community banking system served the social function of restraining impulsive household consumption. In the process, the local system of lending institutions clarified notions of "good" versus "bad" forms of debt as well as clearly differentiating household needs, wants and desires. As 62-year-old Helen, a retired cosmetologist, remarked: "*Being in debt meant that you couldn't manage your money… you were irresponsible or had a drinking habit or something else [bad].*"

This cohort makes a very clear association between indebtedness and irresponsibility. In this sense, management of the household budget – consumption habits, saving and borrowing practices – became one of the foremost measures of defining social identity. Betty, 69, has two daughters – both described as spenders. After retiring from a naval hospital, she moved to Florida about 11 years ago. She notes: *"I feel like if you are 70 years old and haven't paid off your house, then you've got problems."* For Seniors, the expectation is that retirement implies freedom from debt, which ultimately serves as the final report card or assessment of a person's ability to effectively manage a lifetime of household earnings and expenses. Lillian, who retired after working for 40 years in the consumer financial service industry comments: *"If you couldn't manage your money there was a stigma that you were irresponsible."*

I feel like if you are 70-years-old and haven't paid off your house, then you've got problems. -Betty, 69

Their experiences with scarcity dictated that limited household resources had to be meticulously allocated and necessitated moderate levels of savings in order to be prepared for unexpected events such as job loss or medical emergency. Foy, a 68-year-old retiree from a telephone company, adds: *"The Depression influenced us and* *[helped us determine] what we wanted versus what we needed. Kids today are not influenced by that dynamic."* In 1956, Foy moved to Florida from Georgia and bought a pest control company. He continues: *"If you have what you need, and you go into debt for what you want, in my mind that is foolish."* Indeed, the cultural dynamic of "scarcity" is the leading *psychological* factor in forming basic attitudes toward consumption and debt among this age cohort. For this life stage, the prevalence or trappings of wealth were less overtly employed in status competition and thus essentially reduced competitive pressures among families from the Depression era. According to Daliah, a 67-year-old homemaker from the Florida Panhandle: *"Years ago, if a family was poor, the children didn't know they were poor. It was just a way of life. You didn't even think about it. If you had money to do [things]… you just accepted what your parents gave you. Everyone was in the same situation so no one realized that they were poor.*" Fred B., a 20-year military serviceman and small businessman, affirmed this view: *"I didn't spend on anything frivolous because the people around us had so little; and the people further from us even had less."*

The Depression influenced us and [helped us determine] what we wanted versus what we needed. Kids today are not influenced by that dynamic. -Foy, 68

Overall, two-thirds of the participants report that they are either *"More Liberal"* or *"Much More Liberal"* in their spending patterns than their parents at a similar age. Yet, almost three-fourths describe themselves as financial *"Savers."* About two-thirds still adhere to a household budget and the same proportion attempted to instill in their children the basic skills of personal finance management. One of the key issues related to budgeting concerns the careful monitoring of household cash flows. This is summarized by 72-year-old Harold, a blue-collar tradesman and Florida native: *"[Being in debt] is like bleeding to death, if you don't stop the flow of blood you're eventually going to die."* Said differently, 'If you get enough holes in your ship, you're going to sink.' Indeed, Harold was flabbergasted by the escalating cost of common purchases such as coffee: *"I don't really like spending a buck and a half for a cup of coffee, regular coffee. And, if you get a latte at Starbucks, it's $3.50… I can go to McDonald's and get a senior cup of coffee* *that tastes just as good for a quarter."* When asked how consumer credit influenced his budgetary decisions, 74-year-old Ken, a retired airline pilot, responded tersely, *"Only if I have the money in the bank!"*

Establishing a budget is necessary but pointless if not followed. David, a native of Puerto Rico who moved to Central Florida more than 30 years ago, explained: *"I had to figure out the payments for the house, 25 percent of my income is going to be for the mortgage, so if it was more than that, I couldn't afford it. That was my line, when I crossed the line I got into trouble."* Some Seniors acknowledge the direct impact that social values played in developing their own conservative fiscal attitudes. For example, 63-year-old Jane, who is ten years into retirement, was a career employee for a regional telephone company. She explained:

> *I remember when we first married and lived in a mobile home… then we bought our first house. For years we had no furniture, we ate on a card table and our first furniture was a bedroom set. As time went on we'd save money and I budgeted our money. I wanted to take a year off [from working] the year our daughter was born, and I knew that was going to be a difficult year. I had budgeted exactly how much I could spend on groceries a week, and I never went over the $20 a week, and I never bought, you know impulse items because we wanted to save and buy furniture for the house. It took a long time.*

For some, needs are so narrowly defined that there is an adamant refusal to pay finance charges for any expenses (except for housing), regardless of their functional value. Robert, who retired from the Boston police force five years ago, describes what most would agree is an extreme case involving his first-born son. After a bitter dispute with the hospital, which argued that Robert had to take out a loan with a local bank and pay the medical expenses, Robert refused: *"I couldn't get my son out of the hospital because I refused to pay any finance [costs]."* Robert's situation is unusual but illuminates the depth of his generation's psychological opposition to consumer debt – even unquestionably "good" or necessary debt. Even so, others noted that debt outside of a budget, if it was "good" debt, was sometimes necessary and even desirable. Victoria, a 67-year-old seamstress from Springfield, Mass., was insistent:

Good debt is like a business, [such as] buying a sewing machine… to make clothes, draperies, everything for the house… it's necessary for employment, to live and generate some income… If you're sick, even if you didn't have the money but you needed medical attention, that was still a good debt – or buying a car. Maybe not a new car. We don't have those limitations on people anymore, do we?

The Modern Banking System: Enforcing or Eroding Personal Responsibility?

In the past, household consumption patterns were molded by the personal nature of banking, which delegated considerable authority to community bankers in terms of deciding which applicants were worthy of a loan.[19] Without assurances that a loan would be approved, regardless of the economic condition of the prospective borrower, Seniors were forced early in adulthood to demonstrate their trustworthiness to lenders. As John, a retired local retailer explained: "*Your local banker could literally say 'I think that car is too expensive for you' … even if you could actually make the payment – that doesn't mean he'll give you the loan.*" This subjective evaluation process served to maintain community standards for borrowing that underlay the social and cultural foundation of the local lending system. Although fraught with interpersonal conflicts of interest, community banks established broad guidelines for loan approval that included non-economic criteria. They also provided tacit guidelines for Seniors to ascertain more generalized definitions of good vs. bad debt.

Your local banker could literally say 'I think that car is too expensive for you' … even if you could actually make the payment – that doesn't mean he'll give you the loan.
-John

Seniors profess a disdain for the consequences of greater access to consumer credit, which they attribute mostly to what they see as irresponsible lending practices. The topic of easy credit provoked a heated exchange among Seniors. Is soaring credit card debt a result of minimal lending standards or lack of personal responsibility? As Helen remarked, *"Maybe 20 years ago we would have started doing the same thing if it was available. It is not the people buying the cars, it is the people loaning the money – it is too easy… Of course, it's possible that if we were to have all these temptations that people would be begging us on TV to take their credit cards, we would have done this 20 years or more ago… "* Hence, it is not surprising that Seniors, like Mature Families, are disdainful of what they perceive as overly liberal lending practices of modern financial institutions. This is exemplified by the aggressive marketing of unsecured loans to young adults before demonstrating financial responsibility. Neva, a lifelong stay-at-home mom who describes her two daughters as spenders, remarks:

> *That's what they do at colleges, they try to give all their credit to kids and they know they don't have a job and…I think the [finance] companies should have to eat all of it. I think that if they're that irresponsible that they give people credit cards knowing that they have no income, then they should have to be held responsible.*

Explains Barbara, rather than seeing your local banker, now *"It all goes to credit cards. You didn't have to explain why you wanted it; it is just like it was put out there on a platter and here it is. You deserve it, help yourself and the attitude is yeah I work hard."*

That's what they do at colleges, they try to give all their credit to kids and they know they don't have a job and…I think the [finance] companies should have to eat all of it.
-Neva

In response, Helen declared: "*It's usually the younger ones [who don't understand]. It is like my nephew says 'why don't you go and buy a new car'… they cannot understand why, if you have the money, you don't go out and buy a new car."* Furthermore, Fred B. explained, affordability for young adults is no longer defined by the ability to repay but by the ability to buy: *"When you sell somebody a house now, the young ones, they don't ask what the price of the house is; they ask what the monthly payment is. That is all they are interested in – they don't care what the price of the house is.*"

These comments illuminate the moral dimensions of Senior's attitudes toward consumer credit and debt. In particular, what they view as the irresponsible use and accumulation of debt is associated with unethical behavior. Furthermore, Seniors question the intent of more objective lending policies that have revolutionized the consumer financial services industry. That is, how can objective lending systems rate retired Seniors without debts and with considerable assets such as homes as less qualified or worthy of a consumer loan than their grandchildren, many of whom have yet to work a full-time job?

This distrust of financial institutions spills over into financial planning. Seniors were also wary of financial planning professionals, who they see as simply being after their money. This has repercussions, as only about one-fifth has ever seen a personal financial advisor, despite having a large amount of equity amassed in their homes. Instead, most prefer to obtain investing and financial management information from financial publications, and about half rely on family and friends for specific financial planning advice.

Save the Children!

The Failure to Pass on Traditional Values toward Saving and Spending

Like Empty Nesters, Seniors acknowledge their shared personal responsibility for enabling the "generation of debt," though they believe that part of their failure to transfer saving attitudes to the new generation is due to changes in the financial system. Despite also assigning some blame to marketing, television and competitive consumption, Seniors are more candid than other groups in accepting responsibility for what they view as their own failure to transfer fiscal values to their children. *"I blame myself for the way my kids are today,"* says Helen. *"We never denied them anything. It's my fault that they are the way that they are by giving them too much."* This insight integrates symmetrically with some of the expressed goals of Young Families, which mainly involved providing their children with a standard of living that was better than their own childhood, without realizing the potential that such actions could have on the development of their children's own personal finance habits.

> ***I blame myself for the way my kids are today. We never denied them anything. It's my fault that they are the way that they are by giving them too much.***
> **-Helen, 62**

Seniors now realize the subtle instruction that this parenting practice provided to their children and the role that it played in corroding the values that they themselves so firmly clung too. Fred S. echoes earlier sentiments expressed by younger families: *"I think that parents want their children to have more opportunity and material things than they have."* This phenomenon of generational competition adds high-octane fuel to the pursuit of the American Dream. That is, the dimensions of social competition assume a relative rather than an absolute standard in shaping the expectations that every generation should exceed their parents' material achievements in terms of evaluating their success or failure.

Needs are less liberally defined among Seniors when compared with younger groups, which is a psychological construct that greatly influences the consumption and debt practices this group has developed. As Ken remarked: *"Just because you can afford to buy it doesn't mean you should."* This is demonstrated by Seniors' perception of good versus bad debt. In many respects, Seniors had what some would likely call the stripped-down version of the American Dream–characterized by the mere necessities for survival. Bernice, 70, a career social worker who retired to part-time work, comments:

> *To me my needs [were] more important than what I wanted. All I wanted to do was raise the kids properly and get them an education, which I did. We could have had more money coming in and we could have been more financially [stable], you know had more finances.*

Household Finances in Retirement: The Challenge of Budgeting for Unexpected Costs

Few Seniors involved in this study have received or expected to receive any inheritance from their parents. Fred S. notes: *"When my dad passed, my mother sold the house and used that money for long-term care so there was nothing left."* For many study participants, money that was planned for inheritance was quickly depleted to pay for medical care or burial expenses and was not available to substantially impact their financial health. In some cases, Seniors had to absorb the cost of their parents' or elderly relatives' final expenses. *"I had to bury my mother and father and pay all the expenses. The same for my wife's parents,"* said John. Daliah adds, *"Neither one of my parents or my husband's parents had anything. We actually wound up having to bury them. [Furthermore] we just had to pay the funeral expenses of someone else in my family."* This further illustrates that intergenerational wealth is not only scarce; but that it can also be negative. For John, as a lifetime of material scarcity and financial struggle flashed before him, he remarked: "*I think about inheritance often. I am thinking about spending for that new car and I think I'm spending my kids' inheritance… I'm planning to come exactly even so I'm going to spend everything.*" As John's comment shows, few Seniors expect to transfer wealth to their children and grandchildren.

> ***I think about inheritance often. I am thinking about spending for that new car and I think I'm spending my kids' inheritance… I'm planning to come exactly even so I'm going to spend everything.***
> **-John**

To understand the financial health of today's Seniors, we simply look at the common career and retirement paths that were pursued by many of the study participants. A primary observation is that many spent their entire career with a single company, sometimes two or three. Notes David: *"My future was my company. There was a time when you worked for a company for life. That was my main thing that I was relying on the company to do for me. When that was cut off – there was a big downside."*

This meant retirement planning for many Seniors was tied to whatever company benefits were available or to government-based benefits such as Social Security or veteran's benefits. Although he doesn't represent the voice of a majority of Seniors, we hear this position articulated in Harold, who retired seven years ago from a purchasing company: *"I live strictly off of Social Security and that's not easy for a lot of people."*

For many, inadequate retirement resources have forced some to seek out areas where the cost of living is moderately cheaper. Some participants believed that the decision to move to the Florida area likely reduced their retirement expenses by as much as 50 percent. This is a common roadmap that will likely be followed by retirees in areas with higher housing costs. In fact, home values are a bright spot for many Seniors, as their most important asset has appreciated greatly after their retirement. Nearly all participants are home owners and the median period of owning their homes is 16 years.

In contrast to other cohort groups, who view housing primarily as an investment, Seniors tend to view their homes in terms of functionality first, followed by investment potential. Indeed, 33 percent reported that they perceived their homes primarily as shelter, whereas only 14 percent responded that their homes were primarily investment vehicles; the remaining 53 percent responded that they perceived their homes as a combination of shelter/investment. For the participants who have owned their homes for more than 20 years, they indicated that their homes have appreciated at least 100 percent over the last decade, nearly tripled over the last 20 years, and quadrupled over the last 30 years. Many have either paid off their mortgages or will finish paying them off within the next five years. Although nearly one-half have taken home equity loans, only one-fifth responded that they would consider a reverse mortgage.

Compounding the problem for Seniors is that some still have not severed financial ties with their kids. Fred B. jokingly notes: "*When I hit 70 I am going to say no to all my* *kids*." Fred had the same goal at 65, at 60, and of course, at 55. And Fred's is not an isolated situation. After health care costs, the most important concern of Seniors is the ability to maintain their financial ties to their children and grandchildren. Almost half of Seniors reported that they expected that they would have to financially support an immediate family member.

TABLE 1

Median Family Income by Age of Household Head:
1979-2002
(2003 Dollars)

	Under 25	25-34	35-44	45-54	55-64	Over 65
1979	$30,549	$45,334	$53,801	$59,403	$51,455	$25,583
1989	$24,446	$44,229	$57,594	$66,045	$53,928	$33,069
1995	$22,482	$43,176	$55,770	$65,961	$54,256	$33,923
2000	$28,345	$49,019	$62,044	$72,724	$59,517	$35,092
2002	$27,248	$47,622	$58,875	$70,765	$60,885	$34,536
Growth Rate						
79-89	-2.2%	0.2%	0.7%	1.1%	0.5%	2.5%
89-00	1.4%	0.9%	0.7%	0.9%	0.9%	0.5%
95-00	4.7%	2.6%	2.2%	2.0%	1.9%	0.7%
00-02	-2.0%	-1.4%	-2.6%	-1.4%	1.1%	-0.8%

Source: Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, The State of Working America, (Ithaca: Cornell University Press, 2005), page 51.

TABLE 2

Sources of Income Among Persons Age 65 and Older by Income Level, 2001

	LOWEST FIFTH	SECOND FIFTH	THIRD FIFTH	FOURTH FIFTH	HIGHEST FIFTH
TOTAL	100.0	100.0	100.0	100.0	100.0
SOCIAL SECURITY	82.1	81.4	65.4	45.8	19.0
ASSET INCOME	2.4	4.6	8.6	11.8	22.5
PENSIONS	3.2	7.1	14.9	23.2	19.8
EARNINGS	1.4	3.2	7.8	15.8	36.3
PUBLIC ASSISTANCE	9.2	1.8	0.8	0.3	0.0
OTHER	1.7	1.8	2.5	3.1	2.3

Reference population: These data refer to the civilian non-institutional population.
Source: U.S. Bureau of the Census, March 2002 Current Population Survey.

ENDNOTES

[1] The selection protocol excluded Non-English speaking, recent immigrants. This sampling restriction was based on the decision that the small number of project participants would not adequately reflect the diversity of the region's immigrant population.

[2] Over the last two decades, Florida ranks as the state with the largest proportion of Seniors at about 18 percent. See Linda Hetzel and Adam Smith, *The 65 Years and Older Population:2000,* Washington, D.C.: U.S. Bureau of the Census, 2001.

[3] The immigration of younger age cohorts to the United States is an important countertrend to the aging of American society. This source of younger workers is especially important to the future solvency of the U.S. Social Security system since they have many years of contributing to the program before becoming eligible for financial benefits. See George J. Borjas, *Heaven's Door: Immigration Policy and the American Economy,* Princeton, Princeton University Press, 2001.

[4] U.S. Census Bureau, "Populations Projections Program," Population Division, available at http://www.census.gov/population/www/projections/natsum-T3.hyml.

[5] Carl L. Himes, "Elderly Americans, *Population Bulletin*, 56, No. 4, Washington, D.C.: Population Reference Bureau, 2001.

[6] Carl L. Himes, "Elderly Americans, *Population Bulletin*, 56, No. 4, Washington, D.C.: Population Reference Bureau, 2001.

[7] Gary Burtless and Joseph F. Quinn, "Is Working Longer the Answer for an Aging Workforce?" Center for Retirement Research, Boston College, December 2002.

[8] Matthew Greenwald & Associates, *2003 Retirement Survey*, Employee Benefit Research Institute and American Savings Council, Washington, D.C: Employee Benefit Research Institute, 2003.

[9] Patrick Purcell, *Retirement Savings and Household Wealth in 2000: Analysis of Census Bureau Data*, Washington, D.C.: Congressional Research Service, 2002 and Edward Wolff, *Retirement Insecurity: The Income Shortfalls Awaiting the Soon To Retire*, Washington, D.C.: Economic Policy Institute, 2002.

[10] Edward Wolff cited in Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Average Household Assets and Liabilities by Wealth Class, 1962-2001," *The State of Working America,* Ithaca: Cornell University Press, 2005, page 289.

[11] Edward Wolff cited in Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Retirement Adequacy, 1989-2001," *The State of Working America,* Ithaca: Cornell University Press, 2005, page 297.

[12] Between 1998 and 2001, the income group with an annual earning of over $100,000 gained more than 10 percent while those in the $75,000 to $99,000 income range had only slight gains in mean retirement wealth. The income cohort of $50,000 to $74,999, on average, lost retirement wealth from 1998 to 2001. The largest gain of nearly 24 percent was for those in the $35,000 to $49,999 income group while those with incomes less than $35,000 had very modest gains. Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, "Retirement Adequacy, 1989-2001," *The State of Working America,* Ithaca: Cornell University Press, 2005, pages 296-298.

[13] Robert D. Manning, "Aging Into Debt," in Lois A. Vitt (ed.), *Encyclopedia of Retirement and Finance,* Westport, Conn: Greenwood Press, 2003, pages 679-685 and Robert D. Manning, *Credit Card Nation*, New York, Basic Books, 2000, Chapter 9.

[14] Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America,* Ithaca: Cornell University Press, 2005, page 51.

[15] U.S. Federal Interagency Forum on Aging-Related Statistics, "Distribution of Sources of Income for the Population Age 65 and Older, 1974 to 2001," *Older Americans 2000: Key Indicators of Well-Being* available at
http://www.agingstats.gov/tables%202001/tables-economics.html#Indicator%208

[16] U.S. Federal Interagency Forum on Aging-Related Statistics, "Distribution of Sources of Income for the Population Age 65 and Older, 1974 to 2001," *Older Americans 2000: Key Indicators of Well-Being* available at
http://www.agingstats.gov/tables%202001/tables-economics.html#Indicator%208

[17] Tamara Draut and Javier Silva, *Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the 90s,* New York: Demos, 2004, page 25.

[18] SRI Consulting Business Intelligence, "Do You Have Too Much Debt?," available online at http://www.SmartMoney.com/debt/calculator/index.cfm?story+debt-toomuch.

[19] Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit,* Princeton: Princeton University Press, 2000.

Chapter VIII

CONCLUSION:
CONSUMER EMPOWERMENT IN THE AGE OF CREDIT

The increasing complexity of personal financial matters requires that consumers take control of their financial affairs and educate themselves about the behaviors and choices that contribute to the effective use of debt. As the safety nets that helped past generations navigate through difficult times dissolve, consumers are being forced to take more responsibility for their financial well-being. This mandate is especially relevant in light of the recent changes in the bankruptcy law, which leaves little room for error. As our education levels have risen, so too have our expectations for our living standards. Yet, despite rising academic sophistication, people are still finding themselves somewhat unprepared to confront the challenges associated with managing their household finances. Students are graduating from college with higher levels of debt—both student and consumer—than previous generations. Young Families, on the other hand, may benefit from having two incomes but face the budgetary pressures of homeownership, the "loss" of one earner from the workplace as children are born and the decision is made for a spouse to stay home, and the rising costs of developmental activities for their children. Mature Families, most of whom are seeing their earnings peak, struggle with concurrently preparing for retirement and their children's college expenses. Empty Nesters stand on the outer limits of retirement and are uncertain about the future, while some Seniors must re-enter the work force to bridge insolvency gaps.

What results appears to be a loud cacophony that only experts can decipher and that some believe only government or companies can remedy. The saving grace for most however, is not encoded in the complexity of modern financial services; nor is it exclusively found in the hands of legislators or corporate board rooms. For most people, managing the dynamic nature of their personal financial matters requires taking control and actively preparing for the pressures and challenges that will confront them at each stage of their life. For older cohorts, the window of opportunity to confront these issues is invariably constrained by time. Yet, these groups benefit from comparatively higher income levels and should be able to get out from under the weight of their debt – freeing up much needed resources for their children's education and their own retirement. Younger groups, on the other hand, are confronted with a changing environment, where norms have evolved and values have shifted from a previous emphasis on fiscal prudence. Two-income pressures abound, and younger households are perhaps more vulnerable to financial stresses. Yet, they are more educated, increasingly mobile, resilient, and in the best position to take charge of their financial affairs. They are bold and daring, enjoy higher standards of living than proceeding generations, and desperately want to attain their piece of the American dream.

While some larger macroeconomic trends are disconcerting, e.g. negative savings and record levels of debt, there is a light at the end of the tunnel for those who are cognizant of the changes around them. While some critics debate the need for more consumer-oriented regulations, others examine the impact that lending institutions have had on the trend of rising debt levels. Both issues, regardless of one's position, hold undeniable relevance to the subject of debt in America. However, equally as relevant are the actions of ordinary citizens in the context of their own individual situations. In the final analysis, individual households have complete jurisdiction and autonomy over their own affairs – and so it is at the household level where change must begin. It is in taking responsibility for our consumption, savings and borrowing behavior, and commitment to planning (notwithstanding the importance of larger societal factors) that we can effect the most immediate change in our personal financial matters. So the question that follows is – where can someone start?

One of the keys to dealing with personal financial issues, especially the use of credit and debt, is the realization that not all forms of debt are worthwhile or necessary. In the most empirical sense, some types of debt can be classified as either "good" or "bad" – and some consumption decisions can be grouped accordingly to what we "need," "want," and "desire." Understanding the differences between debt classifications and the necessity of some purchasing decisions requires both education and introspection. The first involves gaining the necessary cognitive tools to make informed decisions regarding our financial affairs, and the latter relates to a steady look at what areas require attention. LendingTree has taken a bold step in providing funding for an insightful national study and has gone further by responding to some of the study's findings by producing the "LendingTree Guide to Smart Borrowing" to help people better understand how personal financial decisions – particularly related to debt – affect them. In the short term, consumers are immediately challenged to recognize that the road to personal financial success begins with taking small steps like developing a personal budget, reorganizing spending priorities and making tradeoffs where necessary, and living within the legitimate means of one's income. In the long term, people must become inspired and empowered to plan for future financial needs that they can anticipate, and to develop contingency options for unpredictable situations. Naturally, such broad and sweeping dictums are not meant to encapsulate a thorough "step-by-step" financial roadmap. However, consumers must connect what they believe to be the most rudimentary cognitive truths with behavioral responses that are rational and prudent.

This report highlights some of the major areas where certain cohorts are struggling. We learned from respondents that parents are finding it difficult to pass on "old school" values that once underscored prudence to subsequent generations; and that among younger cohorts, namely **College Students**, competitive consumption pressures are sometimes appeased through the equalizing effects of democratized access to consumer credit. We also uncovered that not only is debt (mostly credit cards and student loans) among college students growing, but few have connected the relevance of their credit history with their future ability to attract employment, or obtain favorable financing for larger durable goods or a home. The declining role of parental guidance in shaping consumption and debt behavior among college students is uniquely relevant, because parents remain the single most important cognitive influence on their children's future fiscal attitudes and behaviors. Another insight is that college students, despite their academic preparation, are mostly unprepared to deal with personal financial matters.

Among **Young Singles**, we identified that pressures facing this cohort related mainly to the desire to assimilate and demonstrate their professional worth, to start a family, and to obtain a home. As a result, this group's debt obligations are especially high, particularly when we consider that most are fresh out of college (with less time to have accumulated debt) and are at the beginning of their income trajectories. In fact, many expect that some of their aspirational goals will likely be delayed because of current debts. In metropolitan areas where high housing appreciation is a factor, Young Singles view home ownership as serving both their shelter needs and investment motives. Many are highly educated, increasingly mobile and view themselves as sufficiently financially savvy to handle their personal financial affairs, despite some evidence to the contrary.

Young Families face some of the more difficult financial obstacles of all groups. They rely increasingly on consumer credit for larger purchases, which may be a reflection of household over-extension in the face of stagnant wage levels. As most have acquired homes and started families, this group exhibits a sense of entitlement about their consumption behaviors, which is possibly attributable to a generational resistance of social control. Despite being aware of the cognitive importance of savings, few adjust their spending and borrowing decisions to accommodate saving for long-term goals, namely their children's college education and their own retirement. Instead, the assumption is that income will increase at a rate that is commensurate with debt levels. We also identified that most do not adhere to monthly budgets, and that the true cost of credit is often overlooked because affordability for purchases is mostly confined to a monthly cash flow analysis. Easily the most distinguishable pressure on Young Families is the rising cost of developmental activities for their children and the desire of parents to afford their children desired material accessories.

Mature Families now benefit from being in the prime of their professional careers and for the most part, remain true to traditional financial values. As a result, most describe themselves as "savers" and the majority track monthly expenses and make appropriate adjustments accordingly. Yet a source of conflict for this group is honoring their budgetary prudence in the face of satisfying the needs and wants of their teenage children, which represents the most common departure from their frugal ethos. Another pressure facing some Mature Families relates to the loss or dilution of company retirement plans, which means that many will not have the safety nets enjoyed by their predecessors. Yet the most significant challenge for Mature Families is preparing for the college education expenses of their children and simultaneously saving for their own retirement. Most resign themselves to ensuring that their children's educational expenses are at least partially covered but realize that this has deleterious impacts on their own preparedness for retirement. Some have already considered relocating to a less expensive area to off-set gaps in future retirement solvency.

Now that their children have left the home, **Empty Nesters** are looking to increase their contribution towards their retirement wealth. Most were industrious financial managers but have found that rising health care costs, in addition to lingering financial ties with their children, continue to be a source of distress. Some have already decided to postpone retirement, while others rely almost exclusively on company and government benefit plans to sustain them once they have stopped working. Few to none have received substantive inheritance, while some lament the possibility of having to absorb health and elder-care costs for parents and other elderly relatives.

Seniors are facing increasing costs for needs such as health care, while still attempting to help support their children and grandchildren financially. While they embrace the traditional values of fiscal prudence, they claim some responsibility for not passing these values onto their offspring; they realize they want the next generations to be better off than they were. They also blame the modernized banking system for instilling a spending-over-saving mentality in their children and grandchildren. This distrust of the financial system extends to other areas of their finances. For example, despite amassing large amounts of home equity, seniors are reluctant to refinance, even if a significantly lower interest rate could save them money. In addition, they prefer to get their financial advice from financial publications or friends and family rather than a professional financial advisor.

In Closing

Used wisely, credit can be a powerful financial tool that contributes to the attainment of important personal goals and ultimately, to financial freedom. Used unwisely, it can lead to higher costs of borrowing or require postponing or giving up on those important personal goals. In the worst cases, it can contribute to financial disaster. Thus, the "democratization" of credit means it's never been more important for borrowers to arm themselves with knowledge and build sound financial management skills in order to maximize the benefits and minimize the risks of these new opportunities.

As this report shows, many consumers lack the information and understanding necessary to make smart decisions regarding credit. The desire for education and information on better managing debt was clear among nearly all life stages. It is our hope that this study will contribute to the national dialog about how Americans are living with debt in their lives, and will help consumers to take those first important steps on the path to smarter borrowing. It's never too early—or too late—to start.

APPENDIX A

RESEARCH METHODOLOGY

The research design of the Living with Debt project is based on a stratified sampling methodology that included focus groups along with a questionnaire administered prior to the discussion. The questionnaires were designed to assess basic financial literacy/education and investment/retirement planning issues. A total of 145 individuals participated in the study after being recruited by market research companies through random telephone solicitations. Potential project participants were pre-screened over the telephone according to qualifying socio-demographic characteristics that distinguished membership in six life-stage groups or sampling "strata": College Students (undergraduate and graduate from public and private schools), Young Singles (under 35 years old), Young Families (household head under 35 years old), Mature Families (household head between 35 and 54 years old with teenage children), Empty Nesters (up to 64 years old with nonresident adult children), and Seniors (household head 65 years and older).

Respondents were provided with dinner and a moderate honorarium ($100 to $125), which contributed to an overall participation rate of 93.5 percent (145 out of 154). Following dinner and the completion of the questionnaire, ten structured, three-hour focus groups were conducted at three research consulting firms (Rochester, N.Y, Alexandria, Va., Orlando, Fla.), as well as two college student sessions on the campus of the Rochester Institute of Technology. All focus groups were conducted between June 5th and June 29th 2005. In addition to the questionnaires completed by the respondents, the focus group sessions were videotaped and professionally transcribed for future analysis.

The central research question of the study is whether the six life-stage groups have different attitudinal and behavioral responses toward the use of consumer credit and debt. The underlying assumption is that different generational, family structure, and work/career factors influence the views and use of consumer credit in American society. Hence, each life-stage group is specified as a methodologically and sociologically unique category. In order to enhance the representation of the socio-demographic variation of U.S. society, three geographically distinct regions of the country were selected for conducting the focus groups based on the following criteria: type and vibrancy of the local economy, cost of housing, and mix of educational/skill demands.

Rochester, N.Y., was selected as an "old industrial" city with moderate-cost housing and a declining metropolitan population due to downsizing at several large, local businesses. The College Student and Young Family focus groups were conducted in this area. The Washington, D.C., metropolitan area was selected as a rapidly growing, high-cost housing, "new economy" city with high education and skill demands. The Young Singles and Mature Family focus groups were conducted in this area. Orlando, Fla., was selected as rapidly growing but occupationally mixed "new economy" with a rising but moderate cost of living. Due to the traditional influx of retirees to Florida, the Empty Nesters and Seniors focus groups were conducted in this area. The project sought to reflect the local socio-demographic distribution of economic and racial/ethnic household characteristics, with the exception of the exclusion of new immigrants (within ten years of arrival).

Overall, the combination of structured questionnaire and focus group formats provided an efficient yield of background, attitudinal, and behavioral information regarding the changing use of consumer credit. Dialogue between project participants, moderated by Dr. Robert D. Manning, produced in-depth responses to personal questions that are typically difficult to accurately obtain via self-reported questionnaires. Also, the research methodology – by specifying regional differences

– permits the explicit examination or methodological "control" of crucially important factors such as cost of housing in influencing changing attitudes and behaviors toward personal finance (budgeting), intra-regional mobility, and investment decisions.

Focus Group Sites: June 5th to June 29th

Rochester, New York:
College Students
Young Families

Alexandria, Virginia:
Young Singles
Mature Families

Orlando, Florida:
Empty Nesters
Seniors

APPENDIX B

RESEARCH STUDY PARTICIPANTS

College Students - Rochester, NY

Initials	Gender	Age	Enrollment	Type of School	Race
June 14, 2005					
RP	Male	23	Graduate	Private	White
JF	Male	22	Undergraduate	Private 4 year	White
JS	Female	19	Undergraduate	Private 4 year	White
AM	Female	22	Undergraduate	Private 4 year	African-American
PK	Male	23	Undergraduate	Private 4 year	White
JS	Male	25	Undergraduate	Public 4 year	African-American
AR	Female	21	Undergraduate	Public 4 year	Latino
AR	Female	23	Undergraduate	Community College	White
CR	Male	23	Undergraduate	Community College	White
HR	Female	24	Undergraduate	Community College	White
June 15, 2005					
HH	Female	25	Graduate	Private 4 year	White
SS	Female	20	Undergraduate	Private 4 year	African-American
JP	Female	23	Undergraduate	Private 4 year	White
WL	Male	30	Undergraduate	Private 4 year	White
AC	Female	21	Undergraduate	Private 4 year	Hispanic
BJ	Male	25	Graduate	Public	White
JB	Male	20	Undergraduate	Public	White
SG	Female	21	Undergraduate	Public	White
PM	Male	22	Undergraduate	Public	White
AD	Male	22	Undergraduate	Public	African-American
CT	Female	27	Undergraduate	Community College	African-American
CG	Female	10	Undergraduate	Community College	White

Young Families - Rochester, NY

Initials	Gender	Age	Education	Household Income	Income	Race
June 7, 2005						
SA	female		4yrs	$75,000 +	Dual	
RL	Male		4 yrs	$40,000-$65,000	Single	
CL	female		4 yrs	$40,000-$65,000	Single	
MP	Male		4 yrs	$75,000 +	Single	
LD	female		4 yrs	$75,000 +	Single	
CJ	female		2 yrs	$65,000-$75,000	Dual	
BS	Male		4 yrs	$20,000-$40,000	Single	
AG	female		masters	$75,000 +	Single	
KJ	Male		4 yrs	$40,000-$65,000	Dual	
KV	Male		4 yrs	$20,000-$40,000	Dual	
June 8, 2005						
DV	Male		2 yrs	$40,000-$65,000	Dual	
DS	Male		2 yrs	$40,000-$65,000	Single	
DB	Male		2 yrs	$40,000-$65,000	Dual	
LM	Female		4 yrs	$75,000 +	Single	
BP	Male		2 yrs	$40,000 - $65,000	Dual	
MD	Male		4 yrs	$40,000 - $65,000	Single	
SW	Female		2 yrs	$40,000 - $65,000	Dual	
ML	Male		HS	$40,000 - $65,000	Dual	
BS	Female		2 yrs	$40,000 - $65,000	Dual	
WW	Female		4 yrs	$75,000 +	Dual	

Young Singles - Washington Metropolitan Area

June 20, 2005

Initials	Gender	Age	Education	Household Income	Income	Race
EH	Female	35	HS	$40,000-$59,000	Single	White
GH	Male	31	Masters / Prof.	$60,000-$79,000	Single	White
JG	Female	27	2 yrs	$20,000-$39,999	Single	White
JU	Male	29	4 yrs	$60,000-$79,000	Single	White
DG	Male	32	Masters / Prof.	$80,000 +	Single	White
TW	Female	33	4 yrs	$40,000-$59,000	Single	African-American
TS	Male	27	4 yrs	$60,000-$79,000	Single	White
JS	Male	26	4 yrs	$40,000-$59,000	Single	White
BC	Male	26	4 yrs	$80,000 +	Single	White
SB	Male	27	4 yrs	$60,000-$69,999	Single	White

June 21, 2005

JB	Male	29	4 yrs	$40,000-$59,000	Single	White
DW	Male	25	4 yrs	$40,000-$59,000	Single	White
MC	Male	33	4 yrs	$80,000 +	Single	White
SC	Female	26	4 yrs	$40,000-$59,000	Single	African-American
ES	Female	26	4 yrs	$20,000-$39,000	Single	White
RD	Female	25	4 yrs	$80,000 +	Single	Asian
EH	Female	29	PhD / MD	$60,000-$79,000	Single	White
JM	Female	27	4 yrs	$40,000-$59,000	Single	White
AB	Female	27	Masters / Prof.	$40,000-$59,000	Single	African-American
JM	Male	35	2 yrs	Under $20,000	Single	African-American
JJ	Male	33	Masters / Prof.	$60,00-$79,000	Single	White
JH	Male	32	4 yrs	$40,00-$59,000	Single	White

Mature Families - Washington Metropolitan Area

June 22, 2005

Initials	Gender	Age	Education	Household Income	Income	Race
MB	Male	55	Masters / Prof.	$120,000 +	Dual	White
KH	Female	54	4 yrs	$120,000 +	Dual	African-American
MC	Male	51	Masters / Prof.	$120,000 +	Dual	White
JY	Male	51	2 yrs	$120,000 +	Dual	White
LH	Female	57	Masters / Prof.	Under $40,000	Single	African-American
GV	Male	50	4 yrs	$80,000-$99,999	Dual	White
JW	Male	46	Masters / Prof.	$120,000 +	Dual	White
LM	Female	49	HS	$40,000-$59,000	Single	African-American
VW	Female	42	2 yrs	Under $40,000	Single	African-American
ND	Female	47	4 yrs	$80,000-$99,999	Single	White
RF	Male	46	PhD / MD	$100,000-$119,999	Single	White

June 23, 2005

RF	Male	54	Masters / Prof.	$120,000 +	Dual	White
RP	Female	53	HS	$80,000-$99,999	Dual	White
DF	Male	49	2 yrs	$80,000-$99,999	Dual	White
BW	Male	49	HS	$120,000 +	Dual	African-American
RT	Male	46	4 yrs	$80,000-$99,999	Single	White
DW	Female	52	4 yrs	$120,000 +	Dual	White
JF	Male	48	2 yrs	$40,000-$59,000	Dual	White
KH	Female	43	4 yrs	$100,000-$119,999	Single	White
CC	Male	55	4 yrs	$120,000 +	Dual	African-American
CM	Male	48	HS	$100,000-$119,999	Dual	African-American
TB	Female	47	2 yrs	$40,000-$59,999	Dual	White
BC	Male	47	4 yrs	$120,000 +	Dual	White

Empty Nesters - Orlando, FL

June 27, 2005

Initials	Gender	Age	Education	Household Income	Income	Race
LB	Female	50	HS	$20,000-$29,999	Single	White
BL	Female	54	2 yrs	$60,000-$69,999	Dual	White
JT	Female	52	4 yrs	$50,000-$59,999	Dual	Latino
SK	Male	56	4 yrs	$30,000-$39,999	Dual	White
JH	Male	53	HS	$40,000-$49,999	Dual	White
ET	Female	58	HS	$70,000-$79,999	Dual	White
JI	Female	57	2 yrs	$50,000-$59,999	Dual	White
IF	Female	61	2 yrs	$30,000-$39,999	Single	Latino

June 28, 2005

DH	Male	47	2 yrs	$50,000-$59,000	Dual	White
NR	Female	60	HS	$20,000-$29,999	Single	White
CP	Female	51	HS	$20,000-$29,999	Single	Latino
TL	Male	53	HS	$90,000-$99,999	Dual	White
WF	Male	63	HS	$60,000-$69,999	Single	White
RR	Male	57	HS	$140,000 +	Dual	White
RD	Female	54	HS	$50,000-$59,999	Single	White
JM	Male	53	2 yrs	$100,000-$119,999	Dual	White
MT	Female	45	HS	$50,000-$59,999	Dual	White
JH	Female	55-65		$100,000 +	Dual	Latino

Seniors - Orlando, FL

June 27, 2005

Initials	Gender	Age	Pension	Investments	Race	
BM	Female	65 +	Yes	No	African-American	
ES	Male	65 +	Yes	No	White	
JV	Female	65 +	Yes	Yes	White	
JF	Male	65 +	Yes	No	White	
DH	Female	65 +	No	No	White	
FB	Female	65 +	No	No	African-American	
HA	Male	65 +	Yes	Yes	White	
MJ	Male	65 +	Yes	Yes	White	
NB	Female	65 +	No	No	White	
KH	Male	65 +	No	No	White	
DA	Male	65 +	No	No	Latino	
LE	Female	65 +	Yes	Yes	White	
BC	Male	47	4 yrs	$120,000 +	Dual	White

June 28, 2005

Initials	Gender	Age	Pension	Investments	Race
BJ	Female	65 +	No	Yes	White
DM	Female	65 +	No	No	White
WJ	Male	65 +	Yes	Yes	African-American
EO	Male	65 +	Yes	No	White
HS	Female	65 +	No	No	African-American
DR	Female	65 +	Yes	No	Latino
VM	Female	65 +	No	Yes	White
RB	Male	65 +	Yes	No	White
BS	Female	65 +	No	No	White
FS	Male	65 +	No	No	White
FB	Male	65 +	No	Yes	White
FB	Male	65 +	No	No	White

APPENDIX C

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