MacroMonitor Market Trends

October 2008

MacroMonitor Market Trends is a monthly newsletter from the Consumer Financial Decisions group that highlights topical news and trends of interest to you and your colleagues. If you would like more information about the items in the newsletter or would like to discuss other ways that we can assist you in your research and marketing efforts, contact Larry Cohen, Jon Gray, or Chris Taylor at +1 609 734 2048.

IN THIS ISSUE:

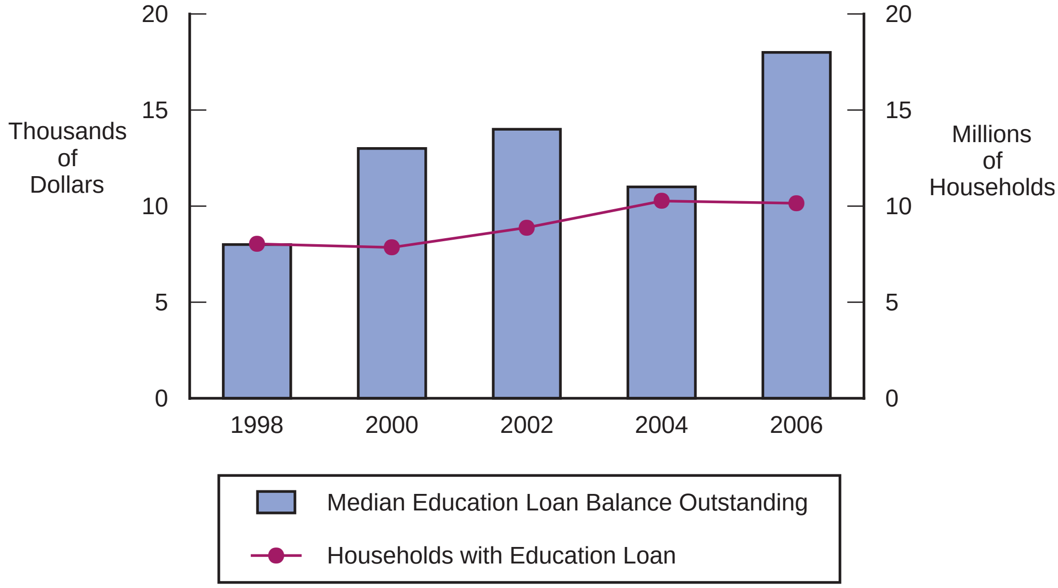
- Growing Number of Education Loans Leads to an Increased Need for Financial Advice
- Housing Downturn Makes Retirement a Daunting Proposition for Many Households
- Banks Should Consider Target When Creating Card Incentives

GROWING NUMBER OF EDUCATION LOANS LEADS TO AN INCREASED NEED FOR FINANCIAL ADVICE

According to the National Center for Education Statistics, the average cost of a college education (which includes tuition, fees, and room and board) for a student attending a public or private four-year university has grown 217% from 1985 to 2006. The estimated costs for the 2005–06 academic school year are $10,454 for a public university and $26,889 for a private one. The astronomical jump in the price of higher education means that a growing number of students are graduating from college with more debt than ever before. **MacroMonitor** data indicate that in the past eight years, the number of households that borrowed to fund an education increased steadily until 2004 and then began to level off. During this period, the median balance outstanding among households with education loans also increased, from $8,000 in 1998 to $10,000 in 2004. The median amount owing increased sharply between 2004 and 2006—by $7,000; the number of loans leveled off, reflecting the soaring cost of a college education in the most recent years.

The increases in both the number of households with an education loan and the median balance outstanding on these loans creates a unique opportunity for financial institutions to provide advice and financial planning to borrowers. According to **2006–07 MacroMonitor** data, of those households with an education loan, 66% are concerned that their household has more debt than it should, and 40% plan to obtain debt-consolidation or education-expense planning in the next 12 months. Moreover, 26% of households with an education loan (in comparison with just 19% of all U.S. households) indicate they are interested in learning more about managing debt. Thus, financial institutions would do well to offer these households services that will help them manage, consolidate, and reduce education debt. Also, given that the primary heads of households with an education loan are younger than the primary heads of households overall (median ages of 35 and 51, respectively), financial institutions could benefit from forging relationships with these young consumers now in hopes of providing them a wider array of financial products in the future as they pay down debt and begin to grow nest eggs.

Figure 1
EDUCATION LOANS:
NUMBER OF HOUSEHOLDS WITH LOANS AND THEIR MEDIAN LOAN BALANCE OUTSTANDING



Base for Median Education Loan Balance Outstanding: Household Has Education Loan

Source: **The MacroMonitor**

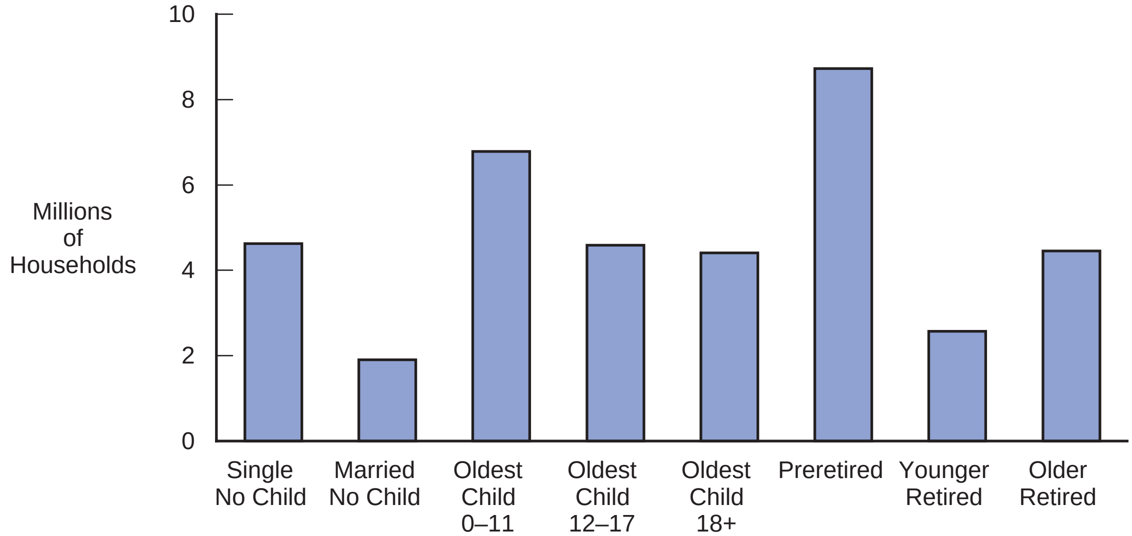
HOUSING DOWNTURN MAKES RETIREMENT A DAUNTING PROPOSITION FOR MANY HOUSEHOLDS

The **2008–09 MacroMonitor** is likely to show much smaller home-equity values than those in 2006. The recent decline in the national median home value means a decreased net worth for many households. And for many households, this decrease can be devastating. The **2006–07 MacroMonitor** showed that 35% of U.S. households would worry about their retirement income if their home were not increasing in value. It's a safe bet that the majority of these households now have reason to worry.

Although younger households have plenty of time to rebound from the downturn, households on the verge of retirement have few options: Stay in the workforce longer, change their plans for retirement, or play the lottery. And none of these options seem at all appealing. As Figure 2 shows, of those households that indicated that they are depending on an increase in their home equity, more than 8 million are in the Preretired Life Stage—households in which the primary head is older than 45 years, that do not support any children, and that are not yet retired.

Although housing and equity markets probably won't spring back overnight, financial institutions have an opportunity to provide planning to ensure that, going forward, these at-risk households are better diversified, better protected against downside risk, and in a better position for their financial futures. The CFD group eagerly awaits the soon-to-be-released **2008–09 MacroMonitor** data that will give it a holistic view of consumers' current financial behaviors and attitudes, including their preparedness for retirement and their needs for retirement planning and advice.

Figure 2
IF MY HOME WERE NOT INCREASING IN VALUE, I WOULD WORRY ABOUT MY RETIREMENT INCOME



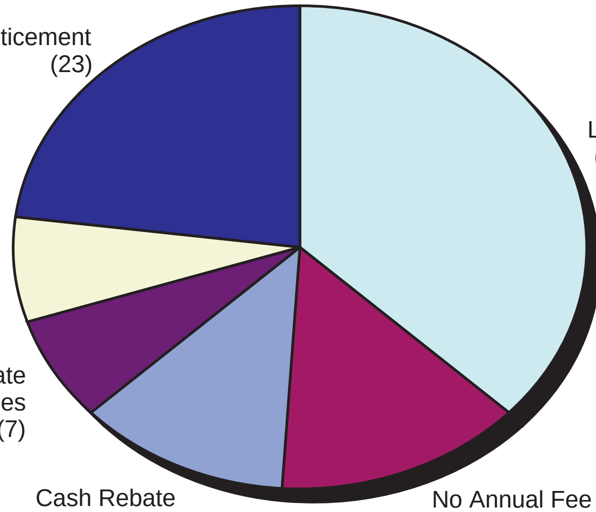
Base: All U.S. Households

Source: **2006–07 MacroMonitor**

BANKS SHOULD CONSIDER TARGET WHEN CREATING CARD INCENTIVES

Banking institutions have come up with more and more rewards programs through the years in an attempt to win customers in the credit-card market. Now that banks are looking to include rewards with the debit cards they issue in order to win consumers and market share, the time is good for them to consider what rewards to offer and which consumers to target with which rewards.

Figure 3
MOST IMPORTANT FEATURE THAT WOULD CAUSE SOMEONE IN HOUSEHOLD TO SWITCH CREDIT CARDS
(Percent of Households)



Base: All U.S. Households

Source: **2006–07 MacroMonitor**

The **2006–07 MacroMonitor** shows that simple offerings of low interest rates and no annual fees could entice the majority of credit-card owners to change to a new credit card. However, households differ about the importance of rewards features—other than offers of a low interest rate or no annual fee—that would cause them to switch credit cards. Figure 4 ranks the next-most-important features that are most likely to cause consumers in each Age Cohort segment to change to a new credit card—showing the most important feature at the top.

Figure 4
MOST IMPORTANT CREDIT-CARD FEATURES THAT WOULD CAUSE A HOUSEHOLD TO CHANGE TO A NEW CREDIT CARD, BY AGE COHORT
(In Descending Order from Most Important to Least important)

Generation X/Y	Boomers	WWII Generation	Retirees
Cash Rebate	Cash Rebate	Cash Rebate	Cash Rebate
Zero-Percent Interest Rate on Transferred Balances	Zero-Percent Interest Rate on Transferred Balances	Identity-Theft Protection	Identity-Theft Protection
Point-Rebate System	Fixed Interest Rate	Frequent-Flyer Miles	Zero-Percent Interest Rate on Transferred Balances
No Telemarketing	Frequent-Flyer Miles	Fixed Interest Rate	

Base: Household Owns Credit Card

Source: **2006–07 MacroMonitor**

Cash is king. For all generational cohorts, a cash rebate for purchases is the most important reward feature that would cause a household to change to a new credit card. The next most important feature for the younger Age Cohort households is a zero-percent interest rate on balance transfers. Retirees and WWII Generation households, by contrast, consider identity-theft protection one of the most compelling features that would cause them to change to a new credit card. Gen X/Yers then rate as next in importance a point-rebate system and a desire to be left alone (that is, no telemarketing). Secondarily, offers of frequent-flyer miles and a fixed interest rate can entice Boomers and WWII Generation households to make a change.

This brief analysis of credit-card owners and the rewards that might cause them to change to a new credit card gives a quick overview of what banks might consider when offering rewards with their debit cards. Effective targeted marketing not only would include different rewards for different household targets but also would include consideration of the target households' attributes, such as finances, attitudes, and life stage, as well as—and perhaps most important—their consumer psychographic profile. Consumer psychographics combines consumer psychology with key demographic information and provides marketers with the consumer insights necessary to set their brands and product offers apart from those of their competitors. Consumer insights provide a real understanding of the underlying motivations that drive behavior and that companies can leverage to develop strategy and communications that resonate with a target population on a deep emotional level.

