MacroMonitor
Market Trends

November/December 2009

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, please contact Larry Cohen, Jon Gray, or Chris Taylor at +1 609 734 2048.

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ANNOUNCEMENT:
STRATEGIC BUSINESS INSIGHTS

On 1 November 2009, SRI Consulting Business Intelligence (SRIC-BI) changed its name to Strategic Business Insights (SBI).

Our relationships with government and commercial clients have had an increasingly strategic business orientation. The new name better reflects the work we do and the value we provide: providing insights to our clients about opportunities in a changing environment. Our team, offerings, and locations will not change. Our former parent, SRI International, is an investor in our company, and a customer of our services. We continue to reside on SRI's campus in Menlo Park, California, but Strategic Business Insights is an independent company.

ONLINE ACCOUNT AGGREGATORS AND ELECTRONIC TRANSACTIONS TO END CONSOLIDATION?

The natural trend toward simplification and consolidation in financial products as well as relationships as households mature and enter into older life stages (in other words, into preretirement) has been evident in the **MacroMonitor** data consistently in the past 30 years. This desire for simplification is, in part, driven by the commoditized nature of financial products. Even as marketers and product managers try to differentiate their offerings, many financial-services products are more or less the same. A CD from one institution is effectively no different from a CD from another institution. A consumer with no constraints or transaction costs will gravitate toward the CD with the more favorable term and rate. A new regulatory structure likely on the horizon for the financial-services industry leads us to believe that many products, from mortgages to mutual funds, will likely remain rather vanilla for some time, implying a continuation in the commoditization of financial-services products.

Other large drivers of consolidation are the many frictions in the financial marketplace, like the time necessary to shop for a higher rate and the inconvenience of holding accounts at multiple institutions. These barriers make it difficult to hold products at many institutions. These frictions, however, are easing as the marketplace and advances in technology provide economic solutions:

- It is now easy to shop for rates online using rate-comparison sites such as bankrate.com .
- People can easily move funds from account to account at low (or no) cost with the click of a mouse.
- Account aggregators and personal-finance tools such as mint.com and wesabe.com allow users to track all their financial accounts and products in one place.

These technological advances lead to a rise in the benefits (for example, simplicity) of not consolidating accounts and relationships; some of the costs (for example, the cost of moving funds between accounts) are falling. A low rate of penetration still exists with some of these Web tools and aggregators; the **2008–09 MacroMonitor** data show that only 1% of all U.S. households currently use a Web-based budgeting tool. But as the technology evolves and market penetration increases, implications for financial-service providers will likely be real.

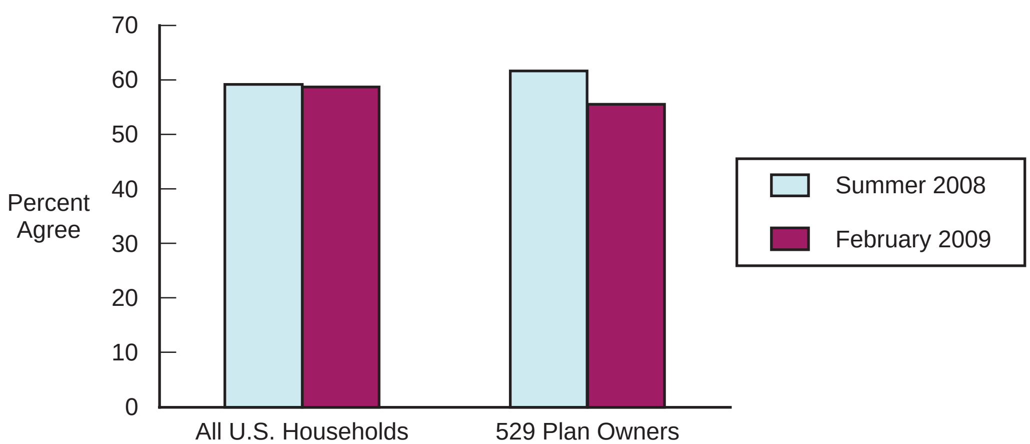
529 PLAN OWNERS AT RISK

Despite falling consumer prices and sinking stock market valuations, the price of a college education rose yet again in 2008: The College Board reports that tuition and fees increased 6.5% at public colleges and 4.4% at private colleges. In an effort to combat rising college costs, many states offer 529 plans—state-sponsored college savings or investment plans to encourage savings for future college costs while providing special tax benefits to the individual who establishes the plan. Two types of 529 plans exist: a savings plan that functions like a 401(k) or an IRA in which contributions are invested in mutual funds or other investments and a prepaid plan that allows households to buy all or part of a public in-state education at present-day prices. According to the *New York Times* article *Prepaid College Savings Plans Might Not Cover All Costs*, more than 1 million households have invested in prepaid 529 plans during the past two decades. The stock market freefall of the past year, in combination with the growing cost of a college degree, however, has put many of these 529 plans in jeopardy: In 2009, all but 2 of the 18 states that offer prepaid 529 plans are experiencing shortfalls in funding for these plans. Even with the recent market climb, market losses have led some states to impose new, higher fees, which could amount to thousands of dollars more a year for account owners.

MacroMonitor data provide context about and insight into 529 plan owners. In 2008, 5.2 million households own a 529 plan and have an average total value of $16,200 in these plans. Interestingly, more than half of plan owners have more than one 529 account, and almost one in five own three or more. The overwhelming majority established their 529 plan for their children (90%); one in ten established it for their grandchildren. The type of institution where these plans are held varies: 35% of owners hold this account at a financial-planning company, 19% at a mutual-fund company, 13% at a stockbrokerage, and 12% at a depository (a bank or credit union).

As Figure 1 indicates, data from the **2008–09 MacroMonitor Recontact Study** show that 529 plan owners have grown more dissatisfied with their current financial situation since the onset of the economic and financial crisis than have households overall: The percentage of 529 plan owners who agree they are satisfied fell significantly from 62% in the summer of 2008 to 55% in February 2009. In comparison, the incidence of agreement for all U.S. households remained stable at 59%. This growing dissatisfaction is likely a reflection of the disproportionate effect that the crisis has had on households with children. Many households with college-age children are feeling the squeeze of not only funding their children's education, but saving for retirement and taking care of aging parents. Thus, higher fees and tuition costs would mean even further financial despair for these households.

Figure 1
"I AM SATISFIED WITH MY HOUSEHOLD'S CURRENT FINANCIAL SITUATION"



Base: All U.S. Households

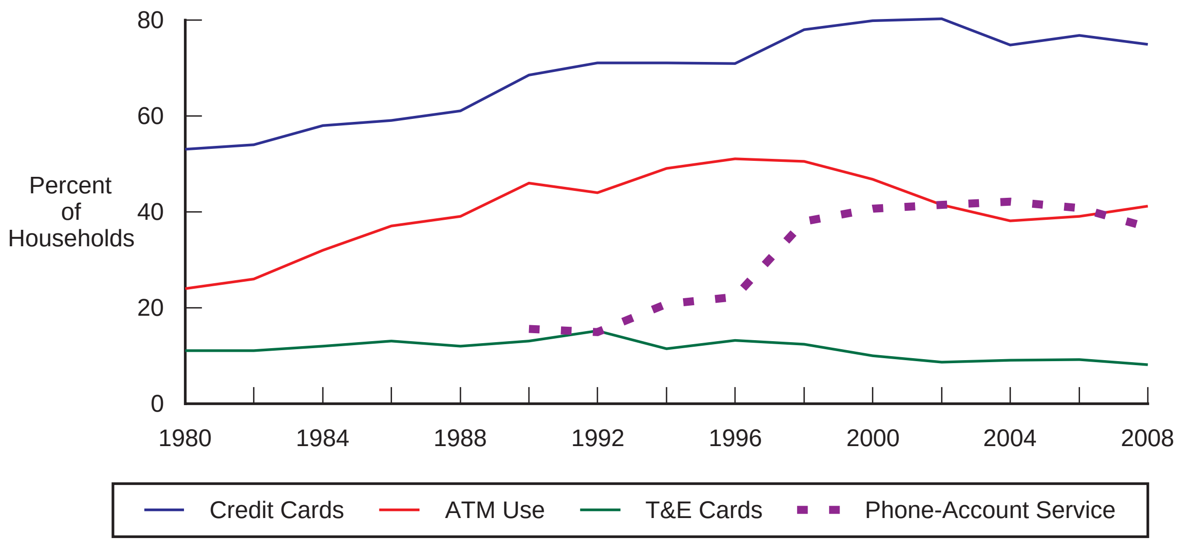
Source: **The MacroMonitor**

All in all, it will be interesting to see how and if states fulfill their 529 plan obligations and how households that have invested in these types of plans inevitably pay for their children's education. Given the large number of households that depend on these plans and the uncertainty surrounding their savings, financial institutions may do well to step in and provide the tools and advice necessary to help these households revise their financial plans and work toward their financial goals.

FINANCIAL-TRANSACTION EVOLUTION

Since 1998 a shift has occurred in the types of financial transactions that households use. Some media have clearly become quite mature (see Figure 2).

Figure 2
PAYMENT TRENDS I: CREDIT CARDS, ATMS, TRAVEL AND ENTERTAINMENT (T&E) CARDS, AND PHONE-ACCOUNT SERVICE



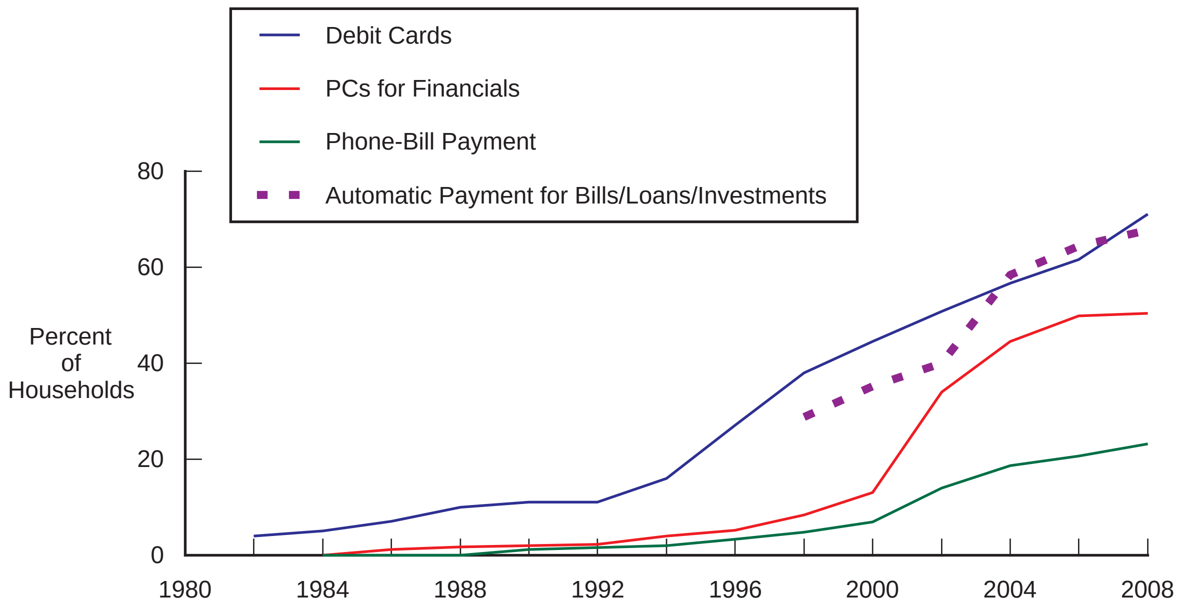
Note: Data about phone-account service is unavailable before 1990.

Base: All U.S. Households

Source: **The MacroMonitor**

At the same time, growth among other, newer media is rapid (see Figure 3).

Figure 3
PAYMENT TRENDS II: DEBIT CARDS, PERSONAL COMPUTERS, PHONE-BILL PAYMENT, AND AUTOMATIC BILL PAYMENT



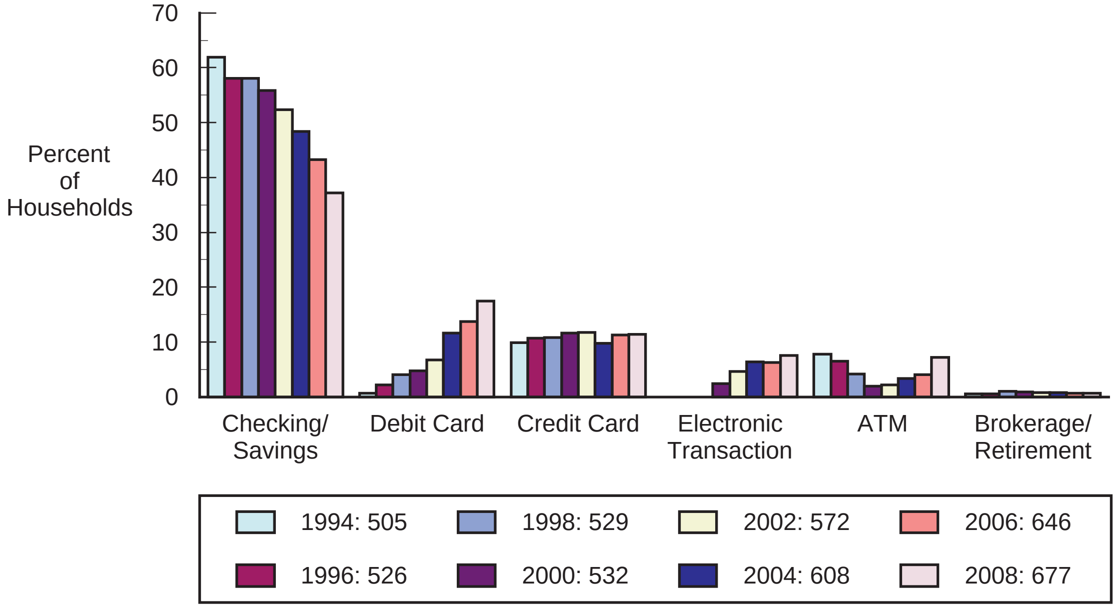
Note: Data about automatic payments is unavailable before 1998.

Base: All U.S. Households

Source: **The MacroMonitor**

Overlaying the growth in new financial media is the huge shift in the number of financial transactions that financial media are capturing instead of cash transactions. In Figure 4, the average number of transactions captured by any financial media increased by only 27 from 1994 through 2000 but increased by more than that number every year since 2000.

Figure 4
PROPORTION OF HOUSEHOLDS' ANNUAL NONCASH TRANSACTIONS USING VARIOUS TYPES OF FINANCIAL PRODUCTS



Note: ACH, transfers, loan payments, and the like are not in this figure. The legend shows the total annual noncash transactions per household.

Base: All U.S. Households

Source: **The MacroMonitor**

And as Figure 4 shows, checking and savings transactions continue to decline as a proportion of the total number; credit-card transactions remain about the same. ATMs, debit cards, and electronic media display marked growth in the incidence, the proportion, and the absolute number of average transactions each year.

The implications are that anyone providing transaction services is in for some huge changes. These trends are unsustainable, too. But by exploring the underlying demographics and overlaying the consumption shifts, one should be able to come up with a model for anticipating how these changes will play out in the near term.

