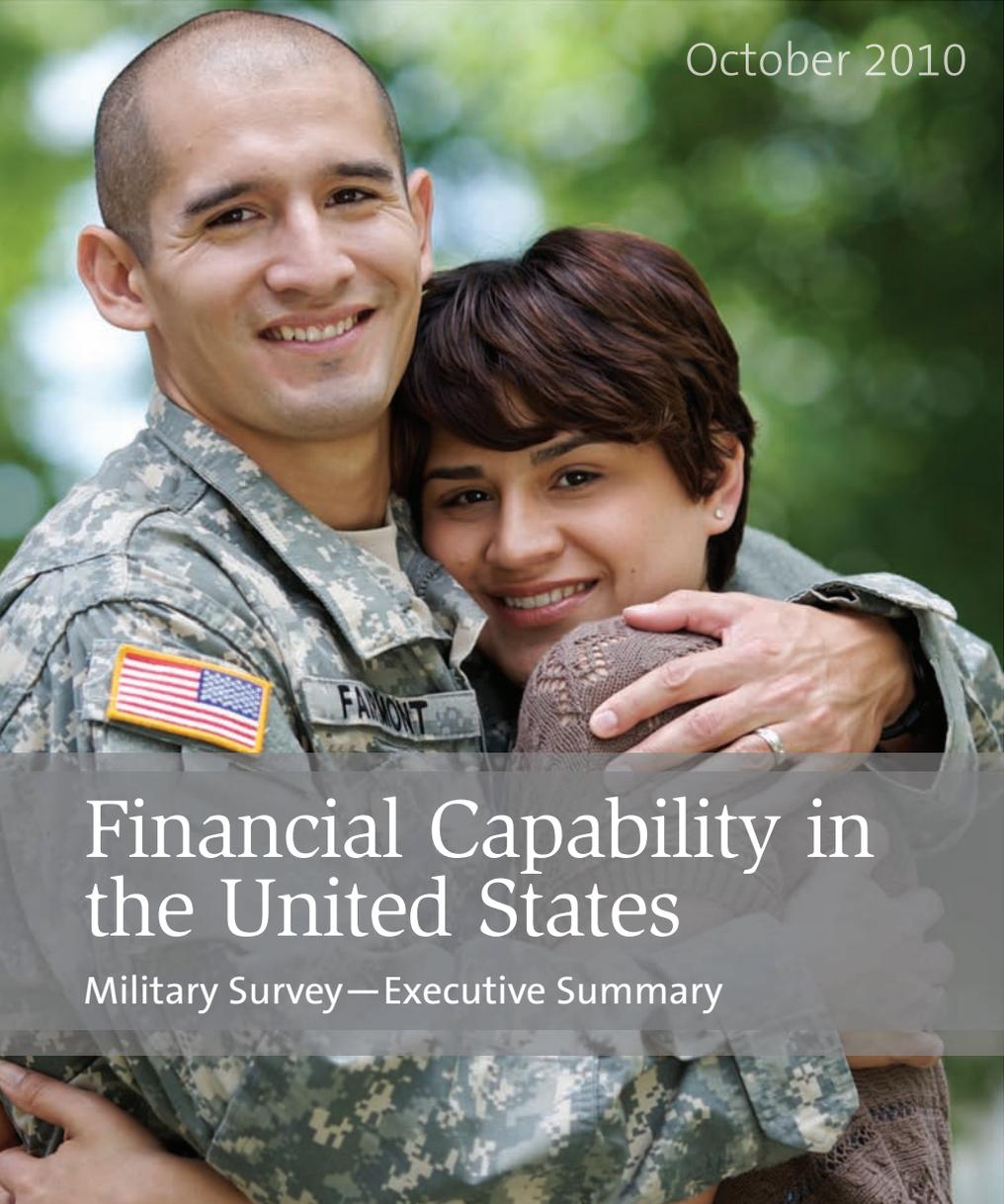


October 2010



Financial Capability in the United States

Military Survey—Executive Summary

Financial Capability in the United States

Report on the Military Survey Component of the National Financial Capability Study—Executive Summary

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These findings can help us to more effectively target financial capability programs for the military and their families.

Michael S. Barr,
Assistant Secretary for
Financial Institutions,
U.S. Department of
the Treasury

The Department of the Treasury is pleased to have been consulted by the FINRA Investor Education Foundation, which commissioned the first comprehensive national study of American adults' financial capability, including a subset focused on military personnel and their families. This Military Survey represents a significant milestone in benchmarking the financial literacy of military personnel and an opportunity to measure progress in the future.

This study provides critical information about how military families are making ends meet, planning ahead, and managing financial products, as well as a clearer picture of their financial knowledge and decision-making. These findings can help us to more effectively target financial capability programs for the military and their families.

The Department of the Treasury looks forward to working with the Department of Defense, the FINRA Investor Education Foundation, the Office of Service Member Affairs of the Consumer Financial Protection Bureau established by the Dodd-Frank Wall Street Reform and Consumer Protection Act, and others to provide our military with the necessary tools to make wise financial decisions.

A handwritten signature in black ink, appearing to read "Michael S. Barr".

The FINRA Investor Education Foundation is proud to support the Military Survey. This is the second of three surveys that make up the National Financial Capability Study, which was conducted to assess the financial behaviors that affect the finances of Americans. The results of the Military Survey give us a wealth of data on how military families save, borrow and plan ahead for their financial future, and can help us improve and focus financial literacy efforts for those who serve our country here and overseas.

Navigating the complexities of today's economy can be challenging for any American, but these results highlight how such challenges can be further complicated by the frequent moves and deployments that the military and their families face. Military personnel who experience serious financial problems can lose their security clearance or even face discharge from the military. That's why financial readiness is often so critical to military readiness.

Since 2006, the Foundation has played a key role in helping meet the unique financial education needs of military families. In coordination with the Department of Defense and military leaders throughout the United States and overseas, we developed a comprehensive program including public awareness activities, on-base educational forums, financial counseling training for military spouses and online and printed educational resources. For example, to help military families prepare for moves and deployment, the Foundation has distributed more than 650,000 copies of *Money and Mobility*, a guide to managing money during deployment and Permanent Change of Station moves.

Together with our partners, we plan to use the data gleaned from the Study to continue building on our Foundation's efforts to help military families manage their money with confidence.



The results of the Military Survey give us a wealth of data on how military families save, borrow and plan ahead for their financial future, and can help us improve and focus financial literacy efforts for those who serve our country here and overseas.

Richard G. Ketchum,
Chairman of the
FINRA Investor
Education
Foundation

Introduction

The complexity of today's financial markets can challenge any consumer, but these challenges are further complicated by the frequent moves and deployments that the military and their families face. And military servicemembers are often young, on their own without the guidance or assistance of family and perhaps with their first significant paycheck. As the Department of Defense noted in its *Report On Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents*, these characteristics have made military families "a market of choice" for non-bank lenders.

Financial problems also can have a direct impact on military readiness. Military personnel who experience serious financial problems can lose their security clearance, face criminal sanctions or be discharged from the military. Against this backdrop, the consequences of not having the necessary skills to make sound financial decisions become even more severe. Financial capability is a key component of military readiness. Whether living on-base or off-base, serving in the United States or deployed overseas, it is crucial that military families have access to financial information and resources that will enable them to make prudent saving and investing decisions for themselves and their families.

The Military Survey is one of three linked surveys that collectively constitute the National Financial Capability Study. Results from the National Survey (civilian) were released in December 2009 and results from the remaining component, a State-by-State Survey, will be released in the fall of 2010. This project aims to assess and establish a baseline measure of the financial capability of U.S. adults. Financial capability cannot be measured simply by looking at one indicator, such as demonstrated knowledge of specific terms or concepts. Instead, financial capability encompasses multiple aspects of behavior relating to how individuals manage their resources and how they make financial decisions (including the factors they consider and the skill sets they use). It is a multi-dimensional concept that requires looking at individual behavior and knowledge from various angles.

This report distills the rich and complex data resulting from the Military Survey, a nation-wide online survey of 700 U.S. military servicemembers and 100 military spouses, focusing on the following four key components of financial capability:

- 1. Making Ends Meet.** Over one-third of military survey respondents reported facing difficulties in covering monthly expenses and paying bills.
- 2. Planning Ahead.** Only half of the respondents have "rainy day" funds set aside for unanticipated financial emergencies and just slightly more than half plan for predictable life events, such as their children's college education or their own retirement.



Financial capability is a key component of military readiness. It is crucial that military families have access to financial information and resources that will enable them to make prudent saving and investing decisions for themselves and their families.

- 3. Managing Financial Products.** More than one in five respondents reported engaging in non-bank, alternative borrowing methods (such as payday loans, advances on tax refunds or pawn shops). And over one-quarter of credit card holders report owing more than \$10,000 in credit card debt.
- 4. Financial Knowledge and Decision-Making.** While most respondents believed they were adept at dealing with day-to-day financial matters, they nevertheless engaged in financial behaviors that generated expenses and fees and some exhibited a marked inability to do basic interest calculations and other math-oriented tasks. In addition, many did not compare the terms of financial products or shop around before making financial decisions.

In general, measures of financial capability are lower among enlisted personnel, junior non-commissioned officers (NCOs) and their spouses, and younger military respondents, indicating that those populations are most vulnerable.

This report includes comparisons of the financial capability of military personnel to the financial capability of civilians when those comparisons reveal noteworthy differences. When interpreting these comparisons, it should be kept in mind that military servicemembers and spouses, overall, skew younger than civilian adults and are more likely to be high school graduates. A description of the panel of respondents participating in the Military Survey follows.

Background and Methodology

In consultation with the U.S. Department of the Treasury and the President's Advisory Council on Financial Literacy, the FINRA Investor Education Foundation commissioned a national study of the financial capability of American adults. The overarching research objectives were to benchmark key indicators of financial capability and evaluate how these indicators vary with underlying demographic, behavioral, attitudinal and financial literacy characteristics.

The National Financial Capability Study consists of three linked surveys:

- ▶ **National Survey:** A nationally-projectable telephone survey of 1,488 American adults
- ▶ **State-By-State Survey:** A state-by-state online survey of approximately 25,000 American adults (roughly 500 per state, plus the District of Columbia)
- ▶ **Military Survey:** An online survey of 800 military servicemembers and spouses

The survey instruments were designed by a multi-disciplinary team including Professor Annamaria Lusardi of Dartmouth College, Applied Research & Consulting LLC (ARC), the FINRA Investor Education Foundation and the Office of Financial Education of the U.S. Treasury Department. Additional input was provided by Craig Copeland of the Employee Benefit Research Institute (EBRI), the American Institute of Certified Public Accountants (AICPA) and Professor Robert Willis of the University of Michigan, among others.

This report outlines the findings of the Military Survey, administered to respondents between June and July 2009. The sample of 800 respondents consisted of 700 current members of the U.S. Armed Services and 100 spouses of current members, all recruited to participate in the survey through a national online research panel and therefore not necessarily representative of the U.S. military population as a whole.

The basis for comparisons with civilian respondents is a national consolidation of preliminary data from the State-by-State Survey which used the same online methodology used in the Military Survey. When interpreting comparisons between military and civilian respondents, it should be kept in mind that military personnel, in general, are much less likely than civilian adults to be over 50 years old, and are more likely to be male, employed full-time and high school graduates. Further, the military panel contained a higher proportion of officers—and lower proportion of the youngest and lowest-ranking servicemembers—than are found in the overall military population.

Below are sample demographics for the Military Survey. The findings presented throughout this report are unweighted.

Pay grade	Percentage	Number of Respondents
E1 - E4	10%	78
E5 - E6	37%	297
E7 - E9	20%	158
W1 - W5	3%	23
O1 - O3	14%	112
O4 - O6	16%	128
O7 - O10	1%	4
Total	100%	800

Age	Percentage	Number of Respondents
18-24	7%	54
25-29	24%	188
30-34	22%	174
35-39	21%	169
40-44	15%	118
45-49	8%	60
50-54	2%	19
55-59	2%	12
60-64	0%	3
65 or older	0%	3
Total	100%	800

Service	Percentage	Number of Respondents
Army	42%	339
Air Force	27%	218
Navy	20%	158
Marine Corps	6%	48
Coast Guard	4%	31
Public Health Service	1%	4
National Oceanic and Atmospheric Administration (NOAA)	0%	2
Total	100%	800

The results of the National Survey were released in December 2009 and the results of the State-by-State Survey will be released in the fall of 2010.

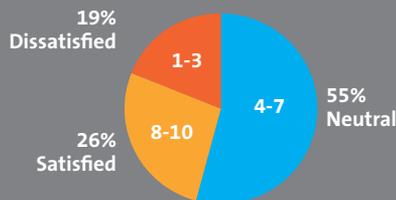
1. Making Ends Meet

A key building block of financial capability is the ability to make ends meet, which can be measured by examining the extent to which people balance monthly income and expenses to avoid over-spending and how they deal with everyday financial matters. Much like the civilian data, the Military Survey data indicate several signs of financial strain among military respondents.

- ▶ More than one-third of respondents (36 percent) reported having trouble keeping up with monthly expenses and bills. While concerning, this figure compares favorably to the civilian population, of which nearly two-thirds reported having such trouble.
- ▶ One-quarter (25 percent) of individuals with checking accounts reported overdrawing those accounts on occasion. Significantly, of those who overdraw their accounts, 64 percent reported finding it very or somewhat difficult to cover their monthly expenses and pay their bills, compared with only 26 percent of those who do not overdraw their accounts.
- ▶ About 10 percent of mortgage borrowers reported having been late on a payment at least once in the last two years, and 3 percent have been involved in a foreclosure process over that time period. Also, 3 percent of military respondents reported having declared bankruptcy over the past two years.
- ▶ A small but significant number of respondents who have self-directed retirement accounts (either an employer-sponsored defined contribution plan such as the Thrift Savings Plan (TSP) or a retirement account they manage on their own) reported tapping into their retirement savings. Specifically, 9 percent have taken out a loan from their defined contribution plan during the past 12 months, and 6 percent have taken a permanent hardship withdrawal from their defined contribution plan.

How satisfied are you with your current personal financial condition?

Given the financial difficulties many respondents reported experiencing, it is not surprising that, when asked how satisfied they are with their current financial condition using a scale from 1 to 10, only 26 percent indicated that they were satisfied.





More than one-third of respondents (36 percent) reported having trouble keeping up with monthly expenses and bills.

Over the past year, household expenses (not including the purchase of a new house or car or other big investments) have been greater than income for about one of every seven respondents (14 percent) and about equal to income for 31 percent. Among enlisted personnel and NCOs, more than half (52 percent) reported not saving, compared with 32 percent of officers. Significantly, a lack of savings is strongly correlated with difficulty in making ends meet, with approximately 58 percent of those who indicated they were not saving also stating they found it somewhat or very difficult to cover their monthly expenses and pay bills, relative to 17 percent among savers.

Perhaps due to the relative stability of military employment, the military survey respondents were less likely than respondents in the civilian survey to have experienced a large, unexpected drop in income over the past 12 months. Among civilians, two in five respondents (40 percent) reported having experienced such a drop. Among military respondents, fewer than one in five (19 percent) reported having experienced a large, unexpected drop.

2. Planning Ahead

Many Americans experience certain predictable life events that require planning, including financing one's retirement and funding the cost of a child's post-secondary school education. And because the future is inherently uncertain, individuals and families also need to make provisions to buffer themselves against financial emergencies or shocks. For military families, planning ahead is acutely critical in light of the unique challenges posed by frequent duty station changes and deployments around the world. The difference between a painful move or deployment and a positive one often depends on the family's level of readiness—especially financial readiness.

“Rainy day” funds

Many military personnel lack emergency savings or “rainy day” funds. Only 50 percent of military respondents reported that they had set aside funds sufficient to cover expenses for three months in case of emergency. Among enlisted personnel and junior NCOs, only 39 percent had set aside rainy day funds, compared with 46 percent of senior NCOs and 67 percent of officers. As a result, many military personnel and families would not be able to draw on personal financial resources if they were faced with an unanticipated financial shock.

Individuals who lacked rainy day funds were more likely to be hit by shocks. Specifically, they were 1.8 times more likely to have experienced a large decrease in income in the past 12 months than those who have an emergency fund (25 percent compared with 14 percent). Fortunately, military personnel and their spouses are less exposed to the financial risks of unexpected medical emergencies than civilians as they are covered by health insurance.

Planning for retirement

Decisions about how much to save in order to afford a comfortable retirement require collecting information about several important variables (including Social Security and retirement plan benefits) and doing some, even rudimentary, calculations. While individuals increasingly have to take responsibility for their financial security after retirement, many Americans, both civilian and military, appear not to have done any retirement planning. Military respondents were far more likely, however, than civilian respondents to report having tried to figure out how much they need to save for retirement, with 54 percent of non-retired military respondents responding positively versus only 35 percent of civilians. This percentage rises to 67 percent among military personnel and spouses who are at least 40 years old.

Respondents who...	Civilian Total	Military Total	Rank			Age		
			Enlisted/Jr. NCO	Sr. NCO	Officer	18-29	30-39	40+
Have tried to figure out retirement saving needs	35%	54%	46%	55%	66%	48%	51%	67%



Only 50 percent of military respondents reported that they had set aside funds sufficient to cover expenses for three months in case of emergency. As a result, many military personnel and families would not be able to draw on personal financial resources if they were faced with an unanticipated financial shock.

Nearly three-quarters of military respondents who are not yet retired acknowledged receiving an annual Social Security statement, which the Social Security Administration has been mailing each year to workers since 1995. Much like their civilian counterparts, a large majority of recipients stated they did not use the information contained in those statements when making or adjusting decisions on when to retire or when to claim Social Security benefits.

Planning for children’s education

Over the past decade, tuition and fees at four-year public colleges and universities have increased more rapidly than they did during the 1980s or 1990s, rising by an average of nearly 5 percent each year (after inflation). With this trend unlikely to abate, an average American family with children can expect to dedicate a sizable share of its resources to paying college tuition. However, only about half (52 percent) of military respondents who have financially dependent children have set money aside for college education. Among those who have, only 37 percent reported having used a tax-advantaged savings account, such as a 529 Plan or Coverdell Education Savings Account. The incidence of saving for children’s college education is considerably higher among families of officers than it is for enlisted personnel and NCOs.

Respondents with financially dependent children who...	Civilian Total	Military Total	Rank		
			Enlisted/Jr. NCO	Sr. NCO	Officer
Have set money aside for college education	41%	52%	40%	48%	73%

3. Managing Financial Products

This third component of financial capability encompasses how people manage cash, how they borrow, which assets they own and their exposure to financial market risks.

Non-bank borrowing

Virtually all military respondents (over 99 percent) reported having some kind of bank account, either a checking account, savings account, money market account or some combination.

Despite their universal access to traditional banking services, a sizable share of military respondents engaged in alternative forms of borrowing, such as taking out an auto title loan or a payday loan, getting an advance on tax refunds, using pawn shops or using a rent-to-own store. These borrowing methods are likely to charge higher interest rates than those charged by banks, credit unions or credit card companies. Moreover, as widely reported in financial literacy literature, use of these products often indicates individuals have poor credit histories, lack of access to more traditional sources of credit or both.

While fewer than one in 10 military respondents reported using any one particular method of non-bank borrowing, more than one in five (21 percent) have used at least one of these methods in the past five years. Enlisted personnel and junior NCOs are far more likely than senior NCOs and officers to use these non-bank borrowing methods.

Notably, while senior NCOs and officers generally use alternative forms of borrowing less often than civilians, the usage rate for enlisted personnel and junior NCOs is significantly higher. As many as one in three (32 percent) of enlisted personnel and junior NCOs reported using at least one method of non-bank borrowing in the past five years, compared with 24 percent of civilians.

Respondents who, in the past 5 years have...	Civilian Total*	Military Total	Rank		
			Enlisted/Jr. NCO	Sr. NCO	Officer
Taken out an auto title loan	6%	7%	9%	3%	7%
Taken out a "payday" loan	9%	7%	11%	1%	6%
Gotten an advance on a tax refund	6%	5%	7%	4%	4%
Used a pawn shop	11%	10%	13%	4%	8%
Used a rent-to-own store	7%	6%	9%	2%	3%
Used one of these methods	24%	21%	32%	11%	12%

*Civilians with a bank account



Despite their universal access to traditional banking services, a sizable share of military respondents engaged in alternative forms of borrowing, such as taking out an auto title loan or a payday loan, getting an advance on tax refunds, using pawn shops or using a rent-to-own store.

The National Financial Capability Study asked about non-bank borrowing for the past five years. A new regulation included in the 2007 National Defense Authorization Act limits to 36 percent the annual percentage rate on payday loans, vehicle title loans and tax refund anticipation loans for active-duty servicemembers and their families. Because this regulation took effect in October 2007, the results from the Military Survey cannot be used to measure its impact. However, as even a cursory search of the Internet reveals, the marketing of payday and other non-bank loans to the military continues. Even at an interest rate of 36 percent, these types of loans remain an expensive form of borrowing.

Credit cards

A more traditional way in which many Americans borrow is through the use of credit cards. The usage of credit cards appears to be even more pervasive among military families than it is among civilians. Among military respondents, more than nine out of 10 (91 percent) reported having at least one credit card, compared with 69 percent of civilians. Significantly, other measures suggest that military personnel and spouses are generally heavier users of credit cards than civilians and are more heavily indebted to credit card issuers.

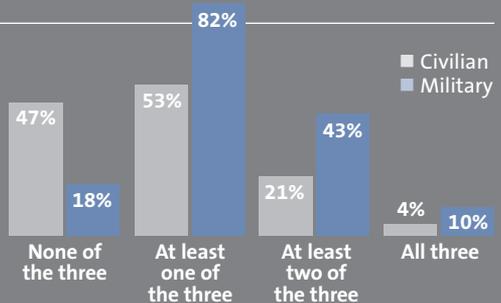
Respondents who...	Civilian Total	Military Total
Have at least 4 credit cards	26%	36%
Have \$5,000 or more in credit card debt	28%	41%
Have \$10,000 or more in credit card debt	16%	27%
Have \$20,000 or more in credit card debt	7%	10%

As illustrated in the table below, most military credit card holders engaged in at least one behavior that results in interest charges or fees. Nearly half (45 percent) engaged in two or more such activities, and 23 percent engaged in three or more. When looking at the subset of behaviors that are likely to generate sizable interest or fees (making only minimum payments, paying late fees, paying over the limit fees or taking cash advances), we see that the borrowing behavior of 48 percent of military credit card holders resulted in either sizable interest payments, fees or both. While the incidence of interest- and fee-generating behavior occurs across all ranks, the proportion of those who paid only the minimum amount due, used the cards for cash advances and paid fees was highest among families of enlisted personnel and junior NCOs.

Respondents (with at least one credit card) in the past 12 months...	Civilian Total	Military Total	Rank		
			Enlisted/Jr. NCO	Sr. NCO	Officer
I always paid credit card in full	41%	37%	25%	31%	55%
In some months, I carried over a balance and was charged interest	56%	65%	73%	72%	53%
In some months, I paid the minimum payment only	40%	40%	53%	43%	22%
In some months, I was charged a fee for late payment	26%	22%	30%	22%	13%
In some months, I was charged a fee for exceeding my credit line	16%	15%	19%	15%	10%
In some months, I used the cards for a cash advance	13%	13%	16%	10%	11%

Total Use of Debt

Almost 82 percent of military respondents reported having at least one of the following: \$10,000 or more in credit card debt, a mortgage on their home or an auto loan. While mortgage debt is not necessarily indicative of a problem, and may in fact be considered a positive, it does factor in to the overall indebtedness of our respondents.





▶ The usage of credit cards appears to be even more pervasive among military families than it is among civilians. Nearly half (45 percent) of military credit card holders engaged in two or more behaviors that resulted in interest charges or fees.

Mortgages

A significant source of borrowing among Americans involves the purchase of a home. Just over half of military respondents (51 percent) reported owning a home, compared with 57 percent of civilians. Nearly all military homeowners (93 percent) reported having a mortgage, a far greater percentage than among civilians (64 percent). The principal driver of this gap is almost certainly the difference in age distributions between the two populations: few military respondents are old enough to have paid off a 30-year mortgage. Among military homeowners, 18 percent reported having a home equity loan.

Homeownership varies significantly by age within the military population. For example, only 31 percent of those between the ages of 18 and 29 reported owning a home, compared with 51 percent of those between 30 and 39, and 72 percent of those who are 40 or older.

Fourteen percent of the military respondents reported having both a mortgage and a credit card balance of \$10,000 or more.

Auto loans

For many Americans, another source of traditional borrowing is auto loans. Nearly two-thirds of military respondents reported currently holding an auto loan. This compares with 32 percent of civilians. Military respondents age 18 through 39 were the most likely to have an auto loan (68 percent).

The survey found that one in 10 military families are bound by a potentially problematic debt load—carrying \$10,000 or more in credit card debt, a mortgage on their home and an auto loan. This compares with only 4 percent of civilians.

Retirement accounts

An increasingly important asset is retirement savings. In 2000, participation in the Thrift Savings Plan, a retirement benefit offered to employees of the federal government, was extended to members of the uniformed services. Thus, all servicemembers should have access to a retirement plan through their employer, the military. Yet more than a quarter (28 percent) of military respondents stated they either do not have or do not know whether they have a retirement savings plan through a current or previous employer. Participation in this benefit varied somewhat by age and by rank, as the table below shows. Despite this gap, military respondents were more likely than civilians to have some kind of retirement plan in place.

Respondents who...	Civilian Total	Military Total	Rank			Age		
			Enlisted/Jr. NCO	Sr. NCO	Officer	18-29	30-39	40+
Have a retirement plan via employer	49%	72%	67%	75%	79%	66%	70%	84%
Have other retirement account(s)	22%	41%	25%	38%	66%	32%	39%	55%

Nearly nine out of 10 (89 percent) respondents across all ranks who have an account that allows personal contributions stated they regularly contribute to these savings vehicles. A substantial majority (76 percent) of plan participants could characterize roughly how much of the assets in their retirement plans are invested in stocks or mutual funds that contain stocks. A smaller majority (61 percent) knew whether or not their assets are invested primarily in a life-cycle or target-date fund.

Stocks, bonds and mutual funds

About 58 percent of military respondents reported investing in securities (specifically, in stocks, bonds, mutual funds or some combination) outside of retirement accounts, compared with 34 percent of civilians. Officers and spouses of officers were more likely to have non-retirement investments than lower-ranked respondents.

Respondents who...	Civilian Total	Military Total	Rank		
			Enlisted/Jr. NCO	Sr. NCO	Officer
Have stocks, bonds or mutual funds outside of retirement accounts	34%	58%	46%	54%	76%

On the one hand, investing in stocks, bonds and mutual funds exposes individuals to financial market risk. On the other hand, investing in these types of products typically allows people to make their wealth grow and to take advantage of the potentially higher returns offered by the securities markets.

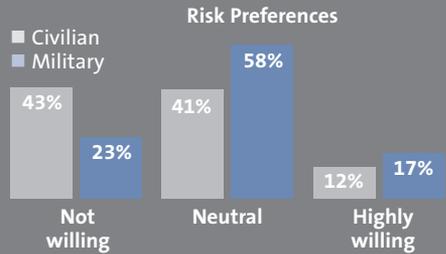
Risk preferences

A factor that affects how individuals make financial decisions is their attitude toward risk. This is an important determinant of portfolio choice and the type of assets into which people choose to invest their private and retirement wealth.

Military survey respondents overall appear to be somewhat less risk-averse than civilians. Almost one-quarter (23 percent) of military respondents indicated low risk tolerance (levels 1 through 3) on a scale from one to 10. By contrast, 43 percent of civilians indicated low risk tolerance, including 22 percent who gave the lowest possible response (level 1), suggesting that they are unwilling to take any risk.

“When thinking of your financial investments, how willing are you to take risks?”

Attitude toward risk is an important determinant of portfolio choice and the type of assets into which people choose to invest. Military survey respondents overall appear to be somewhat less risk-averse than civilians.



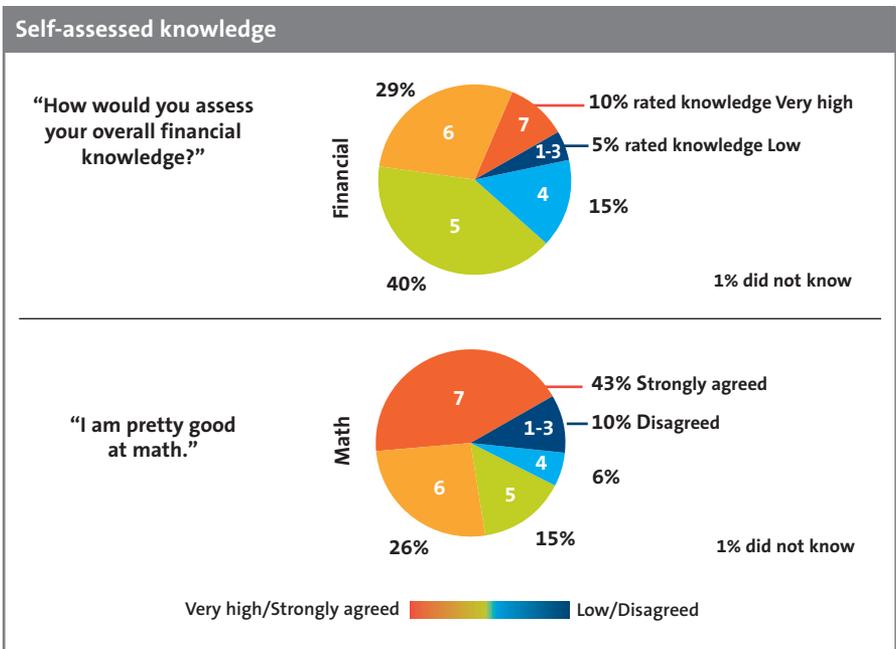
The data reveal a strong correlation between tolerance of risk and knowledge of risk among military respondents. Specifically, 37 percent of the respondents who are not willing to take risks (levels 1 through 3) did not know the answer to a question about risk and diversification, compared with 24 percent in the total military survey population and 11 percent of those highly willing to take risks (levels 8 through 10).

4. Financial Knowledge and Decision-Making

To make sound financial decisions, individuals need to be equipped not only with at least a rudimentary level of financial knowledge, but also with the skills to apply what they know to actual financial decision-making situations. As the survey data demonstrate, at times, a gap exists between self-reported knowledge and real-world behavior.

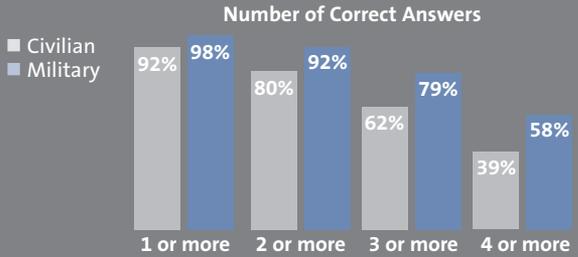
Self-perceptions of financial knowledge

When asked to assess their financial knowledge, most military respondents gave themselves high scores. As the chart below illustrates, 39 percent of respondents rated their financial knowledge at the high end of the scale (with scores of 6 or 7). Because many financial decisions require some knowledge of math, respondents were also asked to rate their math knowledge. Again, self-assessed knowledge of math was high, with 43 percent strongly agreeing they are pretty good at math (with a score of 7).



Financial literacy among the military

While the incidence of correct responses to most of the individual questions exceeded 70 percent, only 58 percent of military respondents answered 4 or more of the 5 questions correctly.



Measuring financial literacy

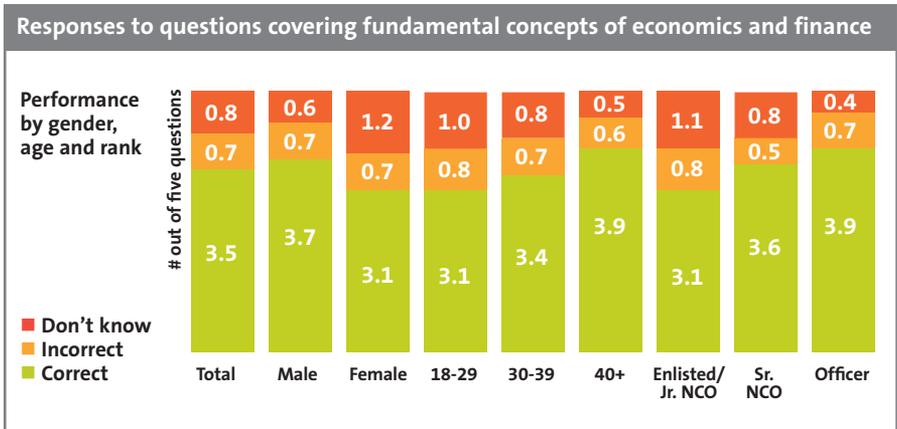
To evaluate financial knowledge, respondents were exposed to a battery of questions covering fundamental concepts of economics and finance encountered in everyday life, such as calculations involving interest rates and inflation, principles relating to risk and diversification, the relationship between bond prices and interest rates and the impact that a shorter term can have on total interest payments over the life of a mortgage.

As illustrated in the table below, the data demonstrate room for improvement in the levels of financial literacy among military families, particularly when it comes to more challenging concepts such as the relationship between interest rates and bond prices.

	Civilians Correct	Military Correct	Military Incorrect	Military Don't Know
Interest rate question	75%	87%	7%	5%
Inflation question	62%	72%	15%	12%
Bond price question	26%	30%	37%	32%
Mortgage question	73%	88%	5%	7%
Risk question	61%	70%	6%	24%

While the incidence of correct responses to most of the individual questions exceeded 70 percent, only 58 percent of military respondents answered 4 or more of the 5 questions correctly.

As shown below, women, younger military respondents, and enlisted personnel and junior NCOs were less likely to correctly answer the financial literacy questions.



Overall, military respondents tended to answer more questions correctly than civilian respondents. This could be due to the fact that, as previously mentioned, the military respondents in our sample were more likely to be high school graduates than civilian respondents.

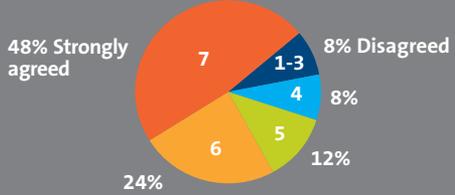
Financial literacy is found to be correlated with behavior that is indicative of financial capability. Specifically, those with higher financial literacy were more likely to plan for retirement and to have an emergency fund, and they were less likely to engage in credit card behavior that generates high interest payments and fees.

The survey data show a disconnect between perceptions and actions in day-to-day financial matters. When asked how good they are at dealing with day-to-day financial matters (such as managing checking accounts and credit cards and tracking expenses), close to half of respondents with credit cards and checking accounts (48 percent) gave themselves the top score of 7. However, almost one-third of these respondents (32 percent) separately indicated they engaged in behaviors that generate fees or high costs (such as using credit cards for cash advances, paying late payment or over-the-limit fees or overdrawing their checking accounts).

Self-perception versus financial behavior

The survey data show a disconnect between perceptions and actions in day-to-day financial matters. Half of respondents gave themselves the top score, however, 32% who strongly agreed and 31% who agreed engaged in behaviors that generated fees or high costs.

“I am good at dealing with day-to-day financial matters”
 Respondents with credit cards and checking accounts



Comparison shopping

To assess how Americans engage in financial decision making and what factors they consider, the survey asked respondents about the extent to which they shop around and compare offers and terms from different providers of financial services. The data reveal that many military respondents comparison shopped for the best prices or terms. Among the 58 percent who did not comparison shop for credit cards, however, 66 percent reported not paying their credit cards in full, which could result in excessive fees or inopportune terms.

Product	% Who Don't Compare Offers
Credit cards	58%
Auto loans	39%
Mortgages	24%

Understanding financial contracts

As with the civilian respondents, some individuals displayed limited knowledge of the terms of their financial contracts and often could not state the interest rate they pay on their loans. For example, about 15 percent of those who have auto loans did not know the interest rate they pay. About 7 percent did not know the interest rate on their mortgages. Of the 63 percent of credit card holders who do not pay off their balances in full each month, 13 percent did not know the interest rate on their credit card with the largest balance.

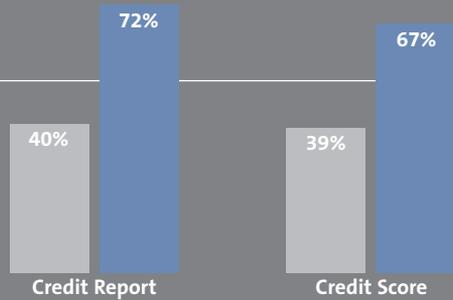
Obtaining credit reports and checking credit scores

Credit scores are a critical determinant of the interest rates one will be charged on mortgages, loans and other financial instruments. In one of the sharpest contrasts between civilian and military respondents revealed by the survey, 72 percent of military respondents said they had obtained a copy of their credit report in the past 12 months, whereas only 40 percent of civilian respondents reported having done so. Similarly, 67 percent of military respondents said they had checked their credit score in the past 12 months, compared with only 39 percent of civilians. This statistic is not surprising given a good credit score is often required for certain military security clearances. Furthermore, there was very little variation in the military survey results on these measures by rank, gender or age.

Obtaining credit reports and checking credit scores

Percentage that have obtained credit report or checked credit score in the past 12 months

- Civilian
- Military



Those military respondents who have higher credit scores (720 and above) tend to engage in fewer interest- and fee-generating behaviors than those with lower scores. For example, 53 percent of military respondents with credit scores of 720 and higher indicated that they always pay their credit cards in full, while only 22 percent of those with lower credit scores do so. Conversely, only 20 percent of military respondents with high credit scores said that, in some months, they paid the minimum only on their credit cards, while 61 percent of respondents with lower credit scores said they had done that.



Military personnel are more likely to have access to traditional financial services than civilians and they perform somewhat better overall on financial literacy measures, but they are also more likely to be heavily indebted to credit card issuers and engage in costly credit card usage behaviors.

Conclusion

The findings from the Military Survey paint a mixed picture of the current state of financial capability in the United States military population. For example, military families appear to display financial capability in the following ways:

- ▶ keeping up with monthly expenses;
- ▶ calculating how much they need to save for retirement;
- ▶ contributing regularly to retirement accounts;
- ▶ shopping around and comparing financial products;
- ▶ checking their credit score and credit report; and
- ▶ demonstrating higher levels of financial literacy.

On the other hand, military families exhibit some of the same shortcomings seen in the civilian population in terms of making ends meet and planning ahead for emergencies, particularly enlisted personnel, junior NCOs and their spouses. Given the prevalence of change in the lives of military families, especially deployments and periodic duty station changes, the lack of financial preparedness is concerning. Of particular alarm is the heavy indebtedness of many military families, especially to credit card issuers. Also problematic was the mismanagement of credit card debt resulting in both fees and interest accumulation. The military is not a homogenous group, however, and families of enlisted and junior NCOs, and in some cases senior NCOs, demonstrate the most vulnerable behaviors.

Improving financial capability is not only important for military servicemembers and their families, but also for the military as a whole. When military families make poor financial decisions, the cost of those decisions can undermine military readiness. The good news is that the findings from the National Financial Capability Study demonstrate that increasing financial capability can have profound implications on the financial security, well-being and prosperity of individuals and families.



In general, measures of financial capability are lower among enlisted personnel, junior non-commissioned officers and their spouses, and younger military respondents, indicating that those populations are most vulnerable.

What are the next steps with the study?

- ▶ We will release the results of the State-by-State Survey in the fall of 2010.
- ▶ We will continue to analyze the National and State-by-State Survey data to generate more findings and to study groups that appear to be less financially capable in more detail.
- ▶ We will make the survey instrument and data available online at www.finrafoundation.org/capability so that policymakers, researchers and others can gain additional insights from the study.
- ▶ We intend to repeat the study in the next three to five years to assess the impact of efforts to increase the financial capability of Americans.



A copy of this summary and the full report can be found on www.finrafoundation.org/capability or by calling (202) 728-6964.

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