

# Demographics & Consumer Behavior



## Highlights

- The average age of adult credit union members has increased from 40 to 47 over the past two decades.
- Youth and young adults may be your credit union's greatest untapped resource.
- The up to 40 million unbanked consumers represent an undeniable opportunity for credit unions.
- The strategies and tactics for reaching unbanked and underserved markets are different than for traditional markets.
- Over the next decade, racial and ethnic minority populations will drive increasing homeownership rates as will the large number of baby boomers moving into peak home owning years.
- Second-home sales account for an estimated seven percent of the entire home market.
- Study after study shows that consumers lack an understanding of basic financial concepts and are failing to prepare for their future financial needs.
- Experts believe that the earlier we begin to teach money management, the more likely these lessons will influence children's adult behavior.
- The vast majority of Americans believe corporations must do more to improve their ethical reputations.

Of all the issue areas covered in CUNA's Credit Union Environmental Scan—demographics, economics, marketing, technology, products & services, human resources, and legislation/regulation—demographic trends are without a doubt the most predictable. Perhaps that's because demographics change at a relatively slow pace compared to other issue areas such as technology.

Last year this chapter took an in-depth look at racial/ethnic minority and small-business-owner markets. Clearly in a year's time the issues relating to those markets are still viable. That suggests that credit unions should continue with their feasibility assessments and program development efforts regarding these emerging markets.

This year, we focus on the aging credit union membership, the untapped potential of underserved markets, future homeowners, the need to increase financial literacy, and the erosion of corporate trust.

But credit unions should also monitor the following trends: the growing multiracial segment resulting from interracial marriages, the legitimization of same-sex couple households, an

increasing number of single-parent households, and the growing number of singles living alone. These subgroups have distinct lifestyles that may require special attention by credit unions.

## An aging membership

The U.S. population is getting older by the minute. While the total population grew 22% between 1984 and 2001, the number of consumers age 45 and older increased 33% during that same time period. Credit union members are aging as well—in fact, CUNA's research shows that the average age of adult credit union members has increased from 40 to 47 over the past two decades. Given that the average adult credit union member has now left his or her prime borrowing years (25 to 44), alarms should be sounding in credit unions across the nation. Luckily, banks are in the same boat as credit unions—or perhaps even worse off—as some evidence suggests that consumers who use only banks are even older, on average, than those who belong to credit unions.

That's not to say that members over the age of 44 won't use credit union loan services. In fact, those

age 45 and older spend more than any other consumer age segment. According to AARP, few older consumers (less than 20%) are debt-free, and roughly 10% say they have more debt than they can financially manage. A recent CUNA survey discovered that 49% of consumers between the ages of 45 and 54 have vehicle loans, 38% have home equity loans or second mortgages, and 54% are still paying off a first mortgage loan. But research suggests that your older members need retirement planning advice and assistance much more than they need loan services.

Older consumers own a variety of investment products, according to AARP. Six in ten own a 401(k) retirement plan, and four in ten have mutual funds and/or stocks. More than 25% invest in money market accounts or certificates of deposit and two in ten own government bonds or annuities. Yet investment products designed to provide retirement income require more attention and decision-making than defined benefit plans of the past. Receipt of inheritances and retirement funds from former employers also prompt a need to make wise investment decisions.

Time constraints and the increasing complexity of financial products and services add to the difficulty and uncertainty surrounding financial decisions. Credit unions have an opportunity to act as an advocate on behalf of their older members by providing aids and advice that cut through the complex financial services marketplace and lighten decision-making burdens. It is through advocacy that credit unions can secure member loyalty, satisfaction, and referrals.

While it's important to focus on serving your current members, it's

also important to expend resources that will entice youth and young adults into becoming members of the credit union family. These young Americans – also known as generation Y – use computers with ease, are optimistic, confident, ambitious and empowered. They have integrated cell phones into their social lives, and are known for their ability to multi-task. Members of generation Y have close relationships with their parents, and most (60%) plan to move home after college graduation. And they are more ethnically diverse than any previous generation, with more than 40% of kids under age 15 of Asian, African-American or Hispanic/Latino descent.

Young adults are attending college, starting jobs, buying cars, and moving to new residences. Each subsequent life event can trigger another financial service need. A 2002 study commissioned by State Farm Insurance reports ownership of financial products

and services by 18 to 29 year-olds as follows:

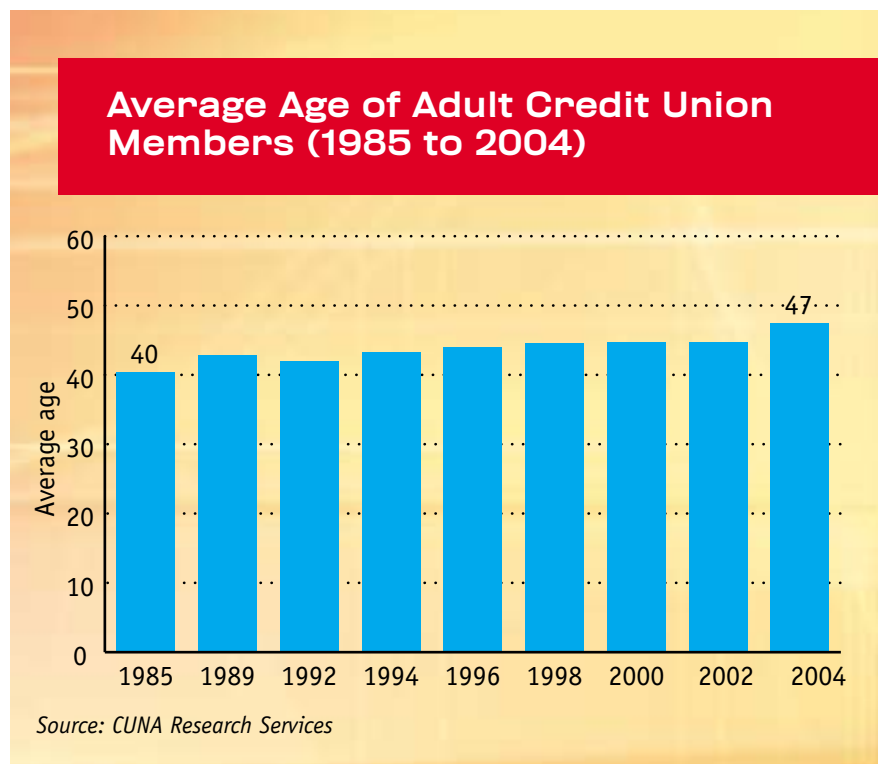
- 77% have a savings account;
- 81% have a checking account;
- 64% have a credit card;
- 40% have a vehicle loan;
- 20% have a home mortgage;
- 31% have a retirement

savings plan.

Members of generation Y are already entering the prime borrowing years. Few actually belong to credit unions, yet serving them is critical for credit unions that plan to grow and thrive.

## The untapped potential

A recent *Futurist* article suggested that the largest market in the world is absent from the radar screens of most corporations. The author, a global business consultant, notes that no more than 40% of people – those with the greatest spending power – are tapped as markets for the vast majority of goods and services



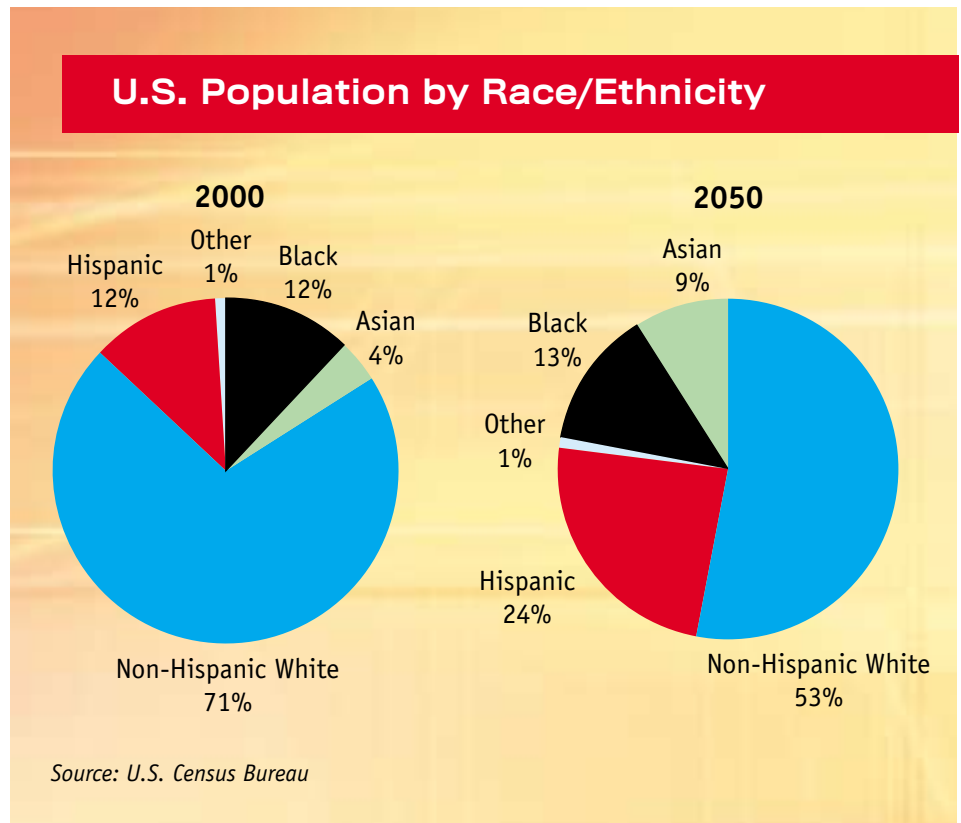
offered by today's corporations. He goes on to say that the bottom 60% consist of underserved and largely untapped markets that offer extraordinary opportunities for profitable enterprises with the vision to meet their needs.

According to Federal Reserve estimates, the unbanked U.S. market consists of as many as 40 million consumers. Hispanics/Latinos, African Americans, young people under age 25, unmarried individuals, women, and those earning less than \$25,000 per year are more likely than their respective counterparts to be unbanked. A continual influx of immigrants will only serve to expand this market. These individuals and households need five basic financial services that credit unions are poised to provide: payroll and other check-cashing, a mechanism with which to pay bills, low-cost money transfer services, micro-loans, and basic savings accounts.

The strategies and tactics for reaching unbanked and underserved markets are different than for traditional markets. Credit unions will need to revise and repackage product/service offerings, think in terms of core competencies, and start with one emerging market at a time. They should plan for a large number of transactions with small margins, and should make a long-term commitment to serving the underserved. Finally, credit unions should seek out creative partnership opportunities with local businesses, government agencies, and not-for-profit organizations.

## Homeownership

The housing sector has been a pillar of strength for the U.S. economy in recent years, limiting



the depth of the 2001 recession and leading the economic recovery ever since. Although the U.S. homeownership rate reached a record high 68% in 2003, an analysis by five of the nation's leading housing and mortgage economists for the Homeownership Alliance points out significant differences in ownership rates across income levels, racial/ethnic groups, and regions of the country. For example, more than 75% of non-Hispanic whites own their homes, compared to less than half of African-American and Hispanic/Latino households.

A large part of the gap in homeownership between non-Hispanic white and minority households is due to differences in economic circumstances and the age composition of these populations. Household incomes and accumulated wealth are typically lower among minorities than whites, and minority populations are on average,

younger than the white population. In addition, Asian and Hispanic/Latino populations tend to live in urban areas of the East and West coasts where homes are less affordable.

The Homeownership Alliance predicts that homeownership rates will exceed 70% by 2013. Over the next decade, racial and ethnic minority populations will drive increasing homeownership rates as will the large number of baby boomers moving into peak home owning years. This increase will equate to at least 10 million additional homeowners, with roughly one-half of the gain attributed to minority homebuyers.

The typical first-time homebuyer is 32 years old with a household income of \$54,800 according to a 2003 report by the National Association of Realtors. He/she uses the Internet to facilitate their search, and makes a down payment of 6% on a home

## Profile of Typical Homebuyers

### First-time buyer

- Age 32
- \$54,800 household income
- 6% down payment
- \$136K home price

### Repeat buyer

- Age 46
- \$74,600 household income
- 23% down payment
- \$189K home price

### Second-home buyer

- Age 47
- \$85,900 household income
- 66% married couples
- 37% purchase as investment

Source: The 2003 National Association of Realtors Profile of Home Buyers & Sellers

that costs an average \$136,000. Expect this profile to change as racial/ethnic and other underserved Americans increasingly enter the homebuyer ranks.

While most homebuyers are married couples, marketers should not exclude singles from first mortgage loan promotional campaigns. As it turns out, single women are the second-largest segment of homebuyers (22%), even exceeding single men (11%).

The same economic conditions that have enabled first-time homebuyers to attain a piece of the American dream were also instrumental in stimulating many households to purchase second and third properties. The prevalence of dual-income households, increasing mobility/connectivity, and the desire to relax in locations free from the threat of terrorist attacks are motivating many second-home purchases. Most often purchased as vacation homes and weekend retreats (as opposed to investment properties), second-home sales account for an estimated seven percent of the entire home market.

Baby boomers—ages 38 to 56—make up the lion's share of second-home owners today, but generation Xers and younger working professionals are now entering this market as well.

## Financial literacy

Without it, members make poor spending decisions, don't save for emergencies, can't balance their share draft/checking accounts, don't check their credit reports for errors, pay higher interest rates, are under- or over-insured, and get defrauded by unscrupulous auto dealers. Without it, they have their identities stolen by carrying their Social Security cards in their wallets, make poor investment choices, and underestimate their financial needs in retirement. "It" is financial literacy.

Whether teenagers or adults, study after study shows that consumers lack an understanding of basic financial concepts and fail to prepare for the future financial impact of economic and legislative changes.

The Jump\$tart Coalition for Personal Financial Literacy suggests that progress is being

made at the high school level. Their 2004 nationwide assessment of high school seniors reveals an up-tick in the average percent of questions answered correctly for the first time since 1997. While encouraging, results from the assessment, which measures students' aptitude and ability to manage financial resources such as credit cards, insurance, retirement funds and savings accounts, are still significantly lower than those derived in 1997 when an average of 57% of questions were answered correctly.

Interest in financial literacy in public schools is apparently surging, as a variety of federal and state-sponsored bills promoting personal finance education among school-aged children are moving through Capital Hill and dozens of state assembly houses across the country. Six state bills were passed in 2003 requiring some form of financial education in the school system. In the first quarter of 2004, 17 pieces of state legislation (bills and resolutions supporting youth financial education) were introduced compared to 27 for the entire year of 2003. Along with the FACT Act, Congress established a new Financial Literacy and Education Commission to improve the financial decision-making of all Americans by strengthening educational opportunities to raise financial literacy levels. The National Credit Union Administration (NCUA) is represented on the commission.

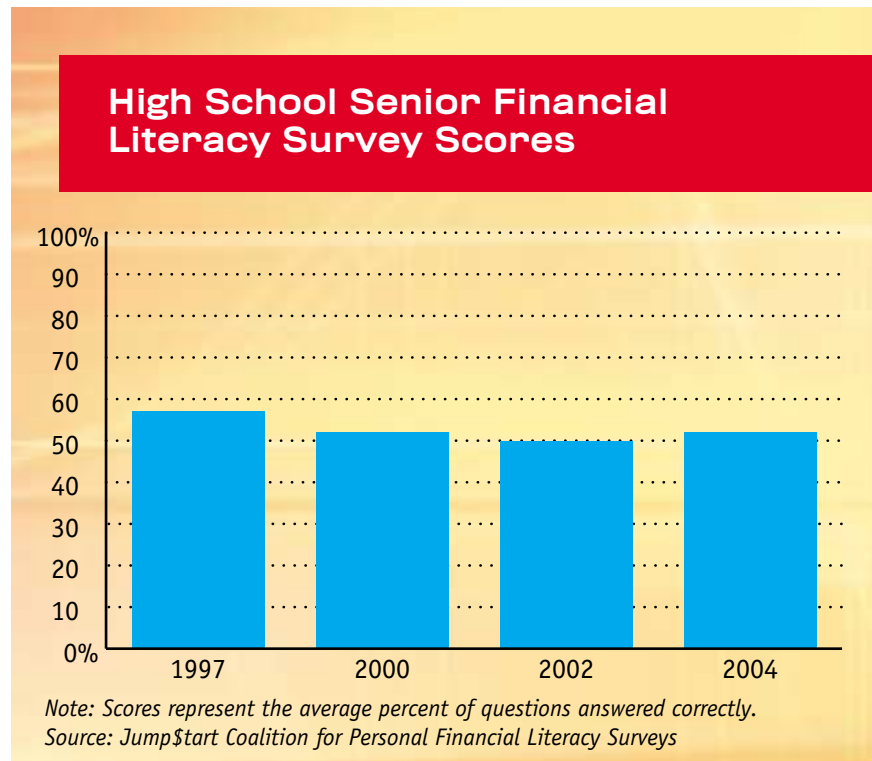
Baby boomers now openly admit confusion as they face a more complex marketplace and more time constraints than any previous generation. AARP's fourth annual *Beyond 50* report, released in May 2004, reports that 27% of baby boomers acknowledge they are worse financial managers than their parents.

A recent study by Merrill Lynch paints a bleak picture of our preparedness for retirement. Although 56% of respondents said their primary source of retirement income will be savings or defined contribution plans, the average 46-year-old with \$55,000 of annual income had savings of just \$51,000. Despite low savings, more than half of respondents said they are confident they will have saved enough by the time they retire.

A 2003 survey commissioned by the Consumer Federation of America (CFA) found that most consumers say they have a fair or poor understanding of credit reports and credit scores. Americans with annual household incomes of less than \$35,000, and those between the ages of 18 and 24, profess to be the least knowledgeable about these topics.

*Bankrate.com* awarded Americans a grade of "D" for the second year in a row based on its 2004 financial literacy survey. Using a survey based on twelve concepts of financial fitness, *Bankrate.com* findings suggest that while the public is now more aware of the steps they need to take to achieve financial fitness, there is still a substantial gap between awareness and following through with actions. Those who are most financially literate are older, have higher household incomes, and are married.

Even before kids learn the difference between a quarter and a dime they've developed attitudes about money that can affect their personal finance behaviors for better or worse throughout their lives. Many, if not all, experts believe that the earlier we begin to teach money management, the more likely the lessons will influence children's adult behavior. The experts also believe that parents should play an important



role in their children's financial education.

## Trust & ethics

The vast majority of Americans believe corporations must do more to improve their ethical reputations, according to a Harris Interactive study. While a third of consumers believe that corporations have moved aggressively toward improving their ethics in the wake of scandals such as those at Enron and WorldCom, 56% believe that corporate America has done nothing toward this end. A similar study commissioned by The Conference Board suggests that Americans' mistrust of U.S. corporate management is declining, but still substantial.

Trust is a major factor in consumer decision-making. Consider that young people tend to vote based on nebulous qualities such as leadership, authenticity and integrity as opposed to experience and qualifications. In a

2004 study commissioned by *American Demographics*, 43% of young voters cited credibility or honesty as the quality they look for most in a candidate, and nearly 20% said they looked most at ethics. Just 15% look for a candidate who is well-versed in domestic policies.

Those viewpoints likely carry over when consumers choose a financial institution. Trust is absolutely essential. Credit union boards and management teams must lead with the utmost integrity and make decisions that are without a doubt in the best interests of their members, and not themselves. Those seeking to convert to mutual savings banks and then to stock-held institutions may lose the trust that they have established with members over the years. In addition, if accompanied by negative press, the actions of a few could potentially tarnish the solid reputation that credit unions as a whole have established in the minds of consumers across the nation.

## Strategic considerations

### An aging membership

- \* Make plans to serve the unique needs of older members. From providing investment information and advice to improving financial literacy, credit unions can help older members cut through the complex financial services marketplace and lighten decision-making burdens.

- \* Increase market penetration of youth and young adults. Consider opportunities presented by the relatively young Hispanic/Latino and African-American populations.

- \* Consider establishing an in-school credit union branch to serve young members, educate students about how credit unions work, train them to manage their personal finances, and build future relationships.

### The untapped potential

- \* Conduct a demographic analysis of your credit union's field of membership to identify and measure potential groups of unbanked or underserved consumers.

- \* Develop a plan for serving underserved and racial/ethnic minority markets, one group at a time.

- \* Offer products/services for underserved markets such as check-cashing, money orders, low-cost remittances or money-transfer services, savings accounts and micro-loans.

### Homeownership

- \* Educate minority and low-income members about how to become homeowners. Help them build credit and save for a down payment.

- \* Offer an affordable mortgage loan alternative. Form partnerships with community development corporations (CDCs) and special housing and mortgage assistance programs to leverage resources and share risks.

- \* Review your target marketing efforts for first mortgage loans. Promote first-time homebuyer loan programs to racial/ethnic minorities and low-income households.

- \* Consider a second-home loan campaign that targets baby boomers and generation X.

### Financial literacy

- \* Market your youth products to parents, and encourage them to start teaching their children about money before kindergarten. Parents play a major role in the financial education and literacy of young people, as the vast majority of students say they learn most of their money-management skills at home.

- \* Lobby for statewide financial literacy curricula in schools. Provide your legislators and state officials with examples of how credit unions are currently educating youth.

- \* Volunteer to teach personal finance at local schools. Consider joining the National Youth Involvement Board (NYIB), a grassroots credit union organization devoted to teaching financial basics to youth.

- \* Identify key learning objectives and target priority member groups based on specific needs within your community or field of membership.

- \* Partner with community organizations.

Spearhead local coalitions that enhance the success and visibility of your educational efforts. Consider sponsor groups such as the local extension office, Consumer Credit Counseling Service, Social Security Administration, consumer protection offices, and local law enforcement.

- \* Offer quality education via multiple delivery methods. Hold financial education seminars at the credit union, at community centers, and at local select employer group worksites. Send newsletters and statement stuffers to members. Disseminate fact sheets in your lobby. Publicize educational messages through community media channels.