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EDUCATION FOUNDATION

4th Quarter 2005 ICEF Special Report:

***2005 In America:
High On Credit, Low On Cash***

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Introduction

What's in America's wallet? With so many different occupations, income levels, expenditures and life circumstances, it is difficult to find much that Americans all have in common. One thing that eighty percent of U.S. households do have in common, however, is their credit cards. Each cardholder actually has an average of seven credit cards, and an average debt of \$9,300.00¹. Americans have managed to charge their credit card balances to nearly 800 billion dollars, according to the Federal Reserve². U.S. Credit card debt has almost tripled since 1989, and has risen 31 percent in the last five years.³

So, what are Americans buying with all of these credit cards? Are people trying to make ends meet, or self-indulging on impulse and discretionary purchases? Does anyone plan on ever being debt-free?

InCharge Education Foundation decided to include special questions in its' 4th Quarter 2005 Omnibus Study, in order to better understand how and to what extent the American peoples' personal finances have been affected as a result of escalating consumer borrowing. InCharge Education Foundation (ICEF) commissions a quarterly, nationally –representative telephone survey to track the current economic and financial issues Americans face, and to measure how well consumers feel they are managing both financially and emotionally.

Purpose

In the ICEF 4th Quarter 2005 Survey, two of the questions were dedicated to the topics of 1. Willingness to use credit for discretionary purchases, and 2. A self-estimation of how long it will take to reach a zero-debt state. After giving a summary of the findings, more detailed information on each question is shown including demographic breakdowns of responses. Towards the end of this report we include a section on methodology and a copy of the questionnaire.

1. Source: www.cardweb.com

2. Source: U.S. Federal Reserve and www.cardweb.com

3. Source: U.S. Federal Reserve

Highlights of Findings:

- Nearly a quarter of the population (24%), based on this nationally representative study admitted that they will go ahead and borrow money from creditors to possess something they desire in a store, despite knowing that their inadequate personal finances will require making payments over time.
- Conversely, 76% of Americans are at risk of becoming the next to experience the gradually increasing pressure of mounting consumer debt through sporadic discretionary purchases left to be paid over time.
- Overall, three-quarters of the survey said they would not buy something on credit that they could not afford to buy with cash.

- The highest income group in this study (Over \$50K annually) are the most likely to give in to the temptation of using credit to enjoy the things they otherwise could not afford to finance without borrowing.
- Those in the 35 to 54 yr. age group are the most deeply in debt of all the groups in this survey.
- Those over 55 yrs. are least likely to indulge in using credit for purchases which they knew they could not afford to buy outright (without borrowing).
- Significantly more of the lowest income group, (under \$25K), are currently debt-free (29% as compared to only 16% of those earning over \$50K).
- Only two in ten people surveyed have no debt (22%)
- One in ten thinks she/he will never be debt-free.
- Men and women responded to the question about time until being debt-free in virtually the same way. (12.5 years for men to be debt-free, 12.6 years for women)

Topic 1: Each day, millions of Americans have a choice of resisting the urge to make discretionary purchases, or pay over time using credit. Are any demographic groups more likely to use credit in this manner than others? We asked the following question:

1a. Suppose you saw something you really liked in a store, and you knew you could afford monthly payments on it, but you didn't have enough money to buy it outright. How likely would you be to buy the item with credit?

Table 1: Break out by Gender (Q1a)

	Total	Gender	
		Male	Female
		A	B
Count	992	480	512
I definitely would buy (4)	51 5%	26 5%	25 5%
I probably would buy (3)	184 19%	84 17%	100 20%
I probably would not buy (2)	344 35%	161 33%	183 36%
I definitely would not buy (1)	414 42%	210 44%	204 40%
Definitely + Probably Would Buy (Top2Box)	235 24%	109 23%	125 24%
Definitely + Probably Would Not Buy (Bottom2Box)	758 76%	370 77%	387 76%
Mean	1.9	1.8	1.9

Overall, three-quarters of the survey said they would not buy something on credit that they could not afford to buy with cash.

Surprisingly, men and women responded very similarly to this question.

Seventy-six percent of women and seventy-seven percent of men said they would not buy a much desired item on credit if they did not have the money to buy the item outright.

1a. Suppose you saw something you really liked in a store, and you knew you could afford monthly payments on it, but you didn't have enough money to buy it outright. How likely would you be to buy the item with credit?

Table 2: Breakout by Age (Q1a)

	Total	Age		
		18-34 C	35-54 D	55+ E
Count	992	299	377	279
I definitely would buy (4)	51 5%	17 6%	18 5%	13 5%
I probably would buy (3)	184 19%	66 22%	64 17%	49 18%
I probably would not buy (2)	344 35%	108 36%	138 37%	86 31%
I definitely would not buy (1)	414 42%	108 36%	157 42%	130 47% C
Definitely + Probably Would Buy (Top 2 Box)	235 24%	83 28%	82 22%	63 22%
Definitely + Probably Would Not Buy (Bottom 2 Box)	758 76%	216 72%	295 78%	216 78%
Mean (1= definitely not buy, 4= definitely would buy)	1.9	2 E	1.9	1.8

Overall, nearly a quarter (24%) of the respondents in this study said they would be likely to go ahead and charge the item for which they did not have the funds to purchase.

Those over 55 years old, however, were significantly less likely to indulge in such items on credit compared to their 18-34 year old counterparts. In fact, forty seven percent said they definitely would not buy. Only a third (36%) of the 18 to 34 year olds said they definitely would not buy).

1a. Suppose you saw something you really liked in a store, and you knew you could afford monthly payments on it, but you didn't have enough money to buy it outright. How likely would you be to buy the item with credit?

Table 3: Breakout by Household Income (Q1a)

	Household Income			
	Total	Under \$25K	\$25K- <\$50K	\$50K+
		F	G	H
Count	992	236	214	361
I definitely would buy (4)	51 5%	10 4%	10 4%	27 8%
I probably would buy (3)	184 19%	43 18%	34 16%	85 24% G
I probably would not buy (2)	344 35%	88 37%	79 37%	114 31%
I definitely would not buy (1)	414 42%	95 40%	91 43%	135 37%
Definitely + Probably Would Buy (Top2Box)	235 24%	53 22%	44 20%	112 31% FG
Definitely + Probably Would Not Buy (Bottom2Box)	758 76%	183 78%	170 80%	249 69%
Mean	1.9	1.9	1.8	2 G

Those with the highest incomes in this study were most willing to buy an item on credit if they did not have the money to pay for it. Nearly a third (31%) of those with incomes over \$50K said they would definitely or probably buy compared with the national average.

1a. Suppose you saw something you really liked in a store, and you knew you could afford monthly payments on it, but you didn't have enough money to buy it outright. How likely would you be to buy the item with credit?

Table 4: Breakout by Region (Q1a)

	Total	Region			
		Northeast	Midwest	South	West
		I	J	K	L
Count	992	193	225	358	216
I definitely would buy (4)	51 5%	13 6% J	5 2%	18 5%	15 7% J
I probably would buy (3)	184 19%	36 19%	42 19%	59 17%	46 21%
I probably would not buy (2)	344 35%	59 31%	77 34%	127 35%	80 37%
I definitely would not buy (1)	414 42%	85 44%	100 44%	154 43%	75 35%
Definitely + Probably Would Buy (Top2Box)	235 24%	49 25%	47 21%	77 22%	61 28%
Definitely + Probably Would Not Buy (Bottom2Box)	758 76%	144 75%	177 79%	281 78%	155 72%
Mean	1.9	1.9	1.8	1.8	2 JK

Apparently, no major geographic region in the U.S. is more likely to use credit than the others. Across the U.S. the four regions reported no significant differences in response to this question.

Topic 2: Debt seems to have become a fact of life for the majority of Americans. Faced with the highest level of debt in history, ICEF wondered if Americans today still aspire to ever become “debt-free”, as previous generations did. Tables 5 through 8 show, in detail, how the study participants answered this question as a group, and also by gender (Table 5), age (Table 6), income level (Table 7), and geographic distribution (Table 8).

1b. About how long, would you say, it will be before you are completely without debts of any kind, including your mortgage?

Table 5: Breakout by Gender (Q1b)

	Total	Gender	
		Male	Female
		A	B
Count	945	455	490
Don't have any debt	203 22%	103 23%	100 20%
-- Less than one year	61 6%	23 5%	38 8%
-- 1-5 years	175 19%	85 19%	90 18%
-- 6-10 years	109 12%	52 11%	57 12%
-- 11-20 years	147 16%	73 16%	73 15%
-- 21-30 years	112 12%	52 11%	60 12%
-- More than 30 years	50 5%	20 4%	29 6%
Never	88 9%	46 10%	42 9%
Summary			
Mean # of years for those that have debt and provided year	12.6	12.5	12.6

Only two in ten people surveyed have no debt (22%) One in ten thinks she/he will never be debt-free. Overall average estimated years to being debt-free: 12.6. Men and women responded to the question about time until being debt-free in virtually the same way. (12.5 years on average for men to become debt-free, and 12.6 years for women).

1b. About how long, would you say, it will be before you are completely without debts of any kind, including your mortgage?

Table6: Breakout by Age Group (Q1b)

	Total	18-34	35-54	55+
		C	D	E
Count	945	278	372	266
Don't have any debt	203	48	39	111
	22%	17%	10%	42%
		D		CD
-- Less than one year	61	25	15	20
	6%	9% D	4%	8% D
-- 1-5 years	175	55	70	44
	19%	20%	19%	17%
-- 6-10 years	109	29	52	21
	12%	11%	14% E	8%
-- 11-20 years	147	41	78	23
	16%	15%	21%	9%
		E	E	
-- 21-30 years	112	33	62	15
	12%	12%	17%	6%
		E	E	
-- More than 30 years	50	23	21	4
	5%	8% E	6% E	1%
Never	88	23	35	27
	9%	8%	9%	10%
Summary				
Mean # of years for those that have debt and provided year	12.6	12.9	13.8	9.1
		E	E	

Those in the 35-54 year age group are most deeply in debt. Only 10% of them are without debts of any kind, compared to the national average of 22%. Even the 18 to 24 year olds have significantly less debt as a group (17% are debt-free, compared with the national average of 12%).

1b. About how long, would you say, it will be before you are completely without debts of any kind, including your mortgage?

Table 7: Breakout by Household Income (Q1b)

	Total	Household Income		
		Under \$25K	\$25K- <\$50K	\$50K+
		F	G	H
Count	945	228	205	352
Don't have any debt	203 22%	66 29% GH	33 16%	56 16%
-- Less than one year	61 6%	22 9%	10 5%	21 6%
-- 1-5 years	175 19%	50 22% H	53 26% H	45 13%
-- 6-10 years	109 12%	17 7%	25 12%	46 13%
-- 11-20 years	147 16%	22 10%	27 13%	74 21% FG
-- 21-30 years	112 12%	23 10%	28 14%	53 15%
-- More than 30 years	50 5%	8 4%	13 6%	19 5%
Never	88 9%	20 9%	15 7%	38 11%
Summary				
Mean # of years for those that have debt and provided year	12.6	10.5	12.3	14.2 F

Significantly more of the lowest income group (household income of under \$25K) are currently debt-free (29% as compared to only 16% of those earning more than \$50K). For those who do have debt, those with incomes over \$50K per year indicated that it will take significantly longer to pay it off (14.2 years, versus only 10.5 yrs. for those earning under \$25K per year).

1b. About how long, would you say, it will be before you are completely without debts of any kind, including your mortgage?

Table 8: Breakout by Region (Q1b)

	Region				
	Total	Northeast	Midwest	South	West
		I	J	K	L
Count	945	182	215	341	206
Don't have any debt	203 22%	47 26%	42 20%	69 20%	45 22%
-- Less than one year	61 6%	15 8%	15 7%	24 7%	7 4%
-- 1-5 years	175 19%	25 14%	43 20%	68 20%	39 19%
-- 6-10 years	109 12%	18 10%	27 13%	44 13%	20 10%
-- 11-20 years	147 16%	29 16%	30 14%	49 15%	38 18%
-- 21-30 years	112 12%	18 10%	23 11%	42 12%	30 15%
-- More than 30 years	50 5%	5 3%	21 10% IK	15 4%	9 4%
Never	88 9%	25 14%	14 7%	30 9%	18 9%
Summary					
Mean # of years for those that have debt and provided year	12.6	11.9	13.2	11.9	13.5

In the U.S., more than three-quarters of the population is in debt. The average length of time estimated to pay off their debts is 12.6 years. One in ten (9%) believe that they will never be debt-free. Those living in the Northeast feel the least optimism about ever becoming free of debt. Fourteen percent of the Northeasterners said they would never see their debt paid-off, compared to the national average (9%).

ATTACHMENT I.

PERSONAL FINANACIAL ATTITUDES STUDY

Interview Outline

1a. Suppose you saw something you really liked in a store, and you knew you could afford monthly payments on it, but you didn't have enough money to buy it outright. How likely would you be to buy the item with credit?

- a. I definitely would buy
- b. I probably would buy

- c. I probably would not buy
- d. I definitely would not buy

[ENTER RATING a,b,c,d, or no answer]

1b. About how long, would you say, it will be before you are completely without debts of any kind? ... **[RECORD ANSWER- DO NOT READ LIST]** _____

- DON'T HAVE DEBT
- 1-5
- 6-10
- 11-20
- 21-30
- MORE THAN 30

2. On a scale of one to ten, how often does each of the following financial situations occur in your life? One means 'All the time'; ten means 'never'. From one to ten how often do ... [INSERT ITEM]?

- You worry about being able to meet normal monthly living expenses.
- You want to go out to eat, go to a movie, or other social activity and don't because you can't afford to.
- You find yourself just getting by financially and living paycheck to paycheck

3. On a scale of one to ten, how do you feel about each of the following? One means you feel 'very insecure or stressed'; ten means you feel 'very secure or not stressed'. From one to ten, how would you rate ... [INSERT ITEM]?

- Your satisfaction with your present financial situation
- Your confidence in finding the money to pay for a financial emergency that costs about \$1,000
- Your level of financial stress today
- The level of stress you feel about your personal finances in general
- Your current finances

ATTACHMENT II.

Methodology and Data

Data Collection and Analysis

The data for this study were collected from randomly dialed sample of 1000 adults from the general U.S. population (500 men and 500 women), aged 18 and over by the market research firm Ipsos-Insight, during December 12th through December 14th, 2005. Data was weighted to match U.S. Census on key demographics.

The average age of the respondents in this study was 46 years.

Males comprised 49% of the clients and 51% were female, which is a typical distribution of the general population. Approximately six in 10 (58%) were either married or living with a partner, and 42% were unmarried. Their median annual family income was between \$45K and \$50K. Three out of five (63%) were employed, and of those 50% were working full-time.

Statistics are generated at the 95% confidence level.