Research Review

Women Feel Less Confident in Their Ability to Save and Invest

Women are taking control of household finances, yet are no more prepared to make financial decisions than they were a decade ago, according to recent research released by Prudential Financial, Inc.

The study, which is Prudential's eighth biennial study of women and money, revealed women are less concerned about their financial security than they were after the 2008 financial crisis. However, at the same time, they do not feel prepared to make wise financial planning decisions. Despite this concern, the research found fewer women say they are seeking guidance from a financial professional.

"The economic volatility of 2008 shook the confidence of many women, as well as many seasoned investors and financial professionals," said Lori Fouché, CEO of Prudential Group Insurance. "Considering the strength of the financial markets over the past few years, it is understandable many women now feel a little more confident about their financial future."

However, warned Fouché, "just because women are less worried, doesn't mean they feel ready to make important, long-term financial decisions. What is more worrisome is they still aren't seeking help from financial professionals to do so," said Fouché.

According to the study:

- Women feel more confident about their ability to manage day-to-day household finances, with nearly a third giving themselves an "A" for their knowledge of managing money (33 percent) and managing debt (29 percent).
- Some 75 percent of women believe having enough money to maintain their lifestyle in retirement is very important, but only 14 percent are very confident they will be able to do this. This gap is virtually unchanged from 10 years ago.
- Only 33 percent of women feel they are on track or ahead of schedule in planning for retirement, down from 46 percent in 2008.
- Many women, 66 percent, say it's very important to keep pace with health care costs, but only 9 percent are confident they will be able to.

"In light of these findings, it's not surprising women are not self-assured when it comes to achieving their financial and retirement goals," Fouché said. "Women are unsure of where to start with financial planning and say they are unsure of what they need to consider when evaluating options, but they are not seeking help."

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The research showed most women say they understand checking and savings accounts and life insurance "very" or "somewhat well," but only 38 percent say they understand mutual funds and 31 percent say they understand annuities "very" or "somewhat well." And, across almost all products and planning options—life insurance, retirement plans, IRAs, stock and bonds, estate plans, wills, and trusts—understanding is now lower than it was in previous years.

The study results also show that although many women don't feel they have a grasp of investing, they are not seeking the help of financial professionals in great numbers. Only 31 percent of women use a financial professional, down from 48 percent in 2008. In addition, one in five women say the financial services industry doesn't understand their needs, and many say the industry needs to use less jargon and maintain a strong code of ethics.

Results indicate that age may play a role in whether women seek guidance from a financial professional. Forty-five percent of Baby Boomers use a financial professional, while 31 percent of Gen Xers and just 15 percent of Millennials do. "The declining use of financial professionals may be due in part to the vast amount of investment research and tools available on the Internet, which Millennials and Gen Xers are often more likely to use than Baby Boomers," Fouché said.

Women who do not use a financial professional, however, "may be shortchanging themselves," Fouché said. "Those who work with a financial professional report feeling much more confident about their finances than those who do not."

Women are still calling the shots financially, with 44 percent now in the primary breadwinner role. That is down from 53 percent in 2012, but the drop among married men is even greater, suggesting a leveling off of income among spouses and partners, and the fact that major financial decisions are made jointly.

This year, 27 percent of married women say they take control of financial and retirement planning, up from 14 percent in 2006. Among married women who are their family's primary breadwinner, 65 percent say they take the lead role in financial and retirement planning. Even among women who simply contribute to household income or were not wage earners, nearly 50 percent share equally in the financial planning process.

"These results all suggest women are gaining confidence in their ability to manage money," Fouché said. "At the same time, it's clear the financial services industry needs to start doing a better job reaching out to women and meeting their specific needs."

CFPB Finds Small Debit Purchases Lead to Big Overdraft Charges

The Consumer Financial Protection Bureau (CFPB) recently released a report that raises concerns about the impact of opting in to overdraft services for debit card and ATM transactions.

The study found that the majority of debit card overdraft fees are incurred on transactions of $24 or less, and that the majority of overdrafts are repaid within three days.

The report "shows that consumers who opt in to overdraft coverage put themselves at serious risk when they use their debit card," said CFPB Director Richard Cordray. "Despite recent regulatory and industry changes, overdrafts continue to impose heavy costs on consumers who have low account balances and no cushion for error. Overdraft fees should not be 'gotchas' when people use their debit cards."

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An overdraft occurs when a consumer doesn't have enough money in his or her checking account to cover a transaction, but the bank or credit union pays the transaction anyway. This practice can provide consumers with needed access to funds. Financial institutions typically charge a high fee for this service in addition to requiring repayment of the deficit in the account. A consumer can overdraw his or her account through checks, ATM transactions, debit card purchases, automatic bill payments, or direct debits from lenders or other billers.

In 2010, federal regulators put in place a new "opt in" requirement that depository institutions obtain a consumer's consent before charging fees for allowing overdrafts on most ATM and debit card transactions. Opting in for overdraft coverage does not apply to checks or automated payments, known as Automated Clearing House (ACH) payments. For these, the bank can choose to not cover the transaction and reject the check or automated payment; this usually results in a nonsufficient funds (NSF) fee. Or, if the bank chooses to cover the difference, it can charge the consumer an overdraft fee, regardless of whether that consumer opted in for the debit card coverage.

In addition to the regulatory changes, financial institutions have also updated their overdraft policies in recent years. For example, some banks and credit unions do not charge an overdraft fee if the consumer is only overdrawing on his or her account by a small amount, such as $5. Some institutions also cap the number of overdraft and NSF fees they will charge on an account on a single day.

The CFPB's study raises concerns that, despite these recent changes, a small number of consumers are paying large amounts for overdraft, often for advances of small amounts of money for short periods of time. The report finds that among the banks in the study, overdraft and NSF fees represent more than half of the fee income on consumer checking accounts. In addition, the CFPB found that about 8 percent of accounts incur the vast majority of overdraft fees.

Specifically, the CFPB reports:

- *Consumers use debit cards nearly three times more than writing checks or paying bills online:* The most common way consumers access money in their accounts is through debit card transactions. The study found that consumers use their debit cards for purchases about 17 times a month. In comparison, consumers, on average, write checks fewer than three times per month, and they make automatic bill payments a little more than three times per month. Consumers who are opted in for overdraft services use their debit cards even more frequently, at 24 times per month. The wide use of debit cards can mean more fees for those who opt in for overdraft.
- *Majority of debit card overdraft fees incurred on transactions of $24 or less:* When consumers use their cards, it is typically for smaller purchases than when they write checks or use a bank teller. Consumers who opt in for overdraft services incur the majority of their debit card overdraft fees on transactions of $24 or less. Most overdraft transactions for which a fee is charged—including debit overdraft transactions—are $50 or less.

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- *More than half of consumers pay back negative balances within three days:* Most consumers who overdraw on their accounts bring their accounts to a positive balance quickly. More than half become positive within three days; and more than 75 percent become positive within a week.
- *Consumers pay high costs for overdraft "advances":* Overdraft fees can be an expensive way to manage a checking account. The median overdraft fee at the banks studied was $34. If a consumer were to borrow $24 for three days and pay a $34 finance charge, such a loan would carry a 17,000 percent APR.