Billions Lost in Savings Interest

DATA: AMERICAN CONSUMERS LOSE $30-50 BILLION ANNUALLY DUE TO LOW-INTEREST SAVINGS ACCOUNTS

More than $1 Trillion Now Held in Traditional Savings Vehicles; Survey Reveals Lack of Awareness About Higher-Rate Savings Options.

Washington, D.C., October 17, 2000 -- American consumers could earn $30-$50 billion in additional interest each year by shifting the more than $1 trillion they now keep in low-yielding savings accounts into higher-rate savings vehicles that are just as safe, according to a new analysis of Federal Reserve data commissioned by the Consumer Federation of America (CFA) and Providian Financial Corp.

A related CFA/Providian public opinion survey by Opinion Research Corporation International (ORCI) suggests that millions of Americans understand little about the more lucrative savings options available to them. The Fed data and opinion survey findings both indicate that older Americans lose the most by not using higher-interest savings alternatives.

"Savers who keep over $1 trillion in low-yielding accounts lose not only tens of billions of dollars in interest income annually but also an important reason to save," said CFA Executive Director Stephen Brobeck. "Even saving as little as $100 a month over a lifetime will result in $100,000 in additional interest income for a family."

"Financial institutions should help their customers save wisely - through education and by offering attractive savings options," Providian Chairman and CEO Shailesh Mehta said.

While $30-$50 billion in additional annual interest payments is a large sum, those figures do not capture the full sense of how the long-term American savings picture could change for the better if consumers moved their money into higher-interest alternatives. The roughly $1 trillion in low-interest savings accounts at the current 2.1 percent interest average will yield a total of $2.3 trillion in savings in 40 years -- reflecting a doubling of the original sum. By contrast, the same amount of money invested for 40 years at 7.1 percent would yield $15.5 trillion -- more than twelve times the original principal. (See table below.)

Americans Keep More Than $1 Trillion in Low-Rate Savings Accounts

According to data reported in recent Federal Reserve Bulletins, Americans keep well over $1 trillion in low-rate passbook saving, statement saving, and money market deposit accounts. These accounts pay on average, according to Bank Rate Monitor, 2.1 percent in interest.

According to the Fed's Survey of Consumer Finances, well over half of all households (62 percent) maintain savings accounts. These accounts are widely distributed throughout the population, with at least one-half of households in all age groups, major ethnic groups, and income groups (except those under $10,000) having a saving account.

However, a small minority of households -- the 7 percent with at least $25,000 in these accounts -- hold the majority of these savings deposits (70 percent). And these households, 43 percent of which are headed by someone at least 65 years of age, are much older than the rest of the population.

AARP Director of Life Resources Katie Smith Sloan commented: "AARP is deeply concerned about improving the financial security of people as they age. These findings underscore a tremendous opportunity for education of AARP members and the population at large on low-risk, higher-yield, savings vehicles."

Savers Lose Tens of Billions of Dollars in Interest Income

Savers forego huge sums annually when they keep substantial deposits in low-yield savings. If they shifted all deposits to high-rate savings accounts, CDs, or Series EE Savings Bonds paying at least 3 percentage points higher interest, they would earn at least $30 billion more in interest annually. If they shifted all deposits to Series I Savings Bonds paying at least 5 percentage points higher interest, they would earn at least $50 billion more in interest annually. (After the first six months, Savings Bonds can be redeemed with only a three-month interest penalty.)

Because of the "magic" of interest compounding, these interest losses become enormous over time, as the following table shows:

	10 YEARS	20 YEARS	40 YEARS
$1 TRILLION 2.1% interest	**$1.2 TRILLION**	**$1.5 TRILLION**	**$2.3 TRILLION**
$1 TRILLION 5.1 % interest	**$1.6 TRILLION**	**$2.7 TRILLION**	**$7.3 TRILLION**
$1 TRILLION 7.1 % interest	**$1.9 TRILLION**	**$3.9 TRILLION**	**$15.5 TRILLION**

Source: Providian

"If savers understood how much interest income they lost over time, they would likely not only shift savings into higher-yielding accounts but also put more of each paycheck into savings," said Brobeck.

Lack of Saver Awareness Helps Explain Huge Low-Rate Deposits

The CFA/Providian survey results suggest that an important reason for the size of household deposits in low-rate savings accounts is lack of awareness about interest rates of various savings options:

* Most of those with a saving account (57 percent) do not know the interest rate on this account.

* A significant minority (30 percent) erroneously thinks there is little difference in the interest paid by savings and by a certificate of deposit (CD). (Most CDs currently pay rates that are at least 3 percentage points higher than rates on savings accounts.)

* Nearly half of Americans (45 percent) do not consider U.S. Savings Bonds an attractive savings vehicle. (Yet, Series I bonds currently pay rates that are more than 5 percentage points higher than rates on savings accounts.)

The survey also suggests that many Americans believe that it is far more convenient to keep savings in a traditional account than in higher-yielding alternatives that are also insured or guaranteed by the federal government. Well over half (63 percent) keep their largest savings deposits in a local bank or credit union where they maintain a checking account. An even higher proportion (80 percent) says that convenience of making deposits is an important reason for choosing an institution. And 59 percent say that the availability of branches with tellers is an important reason for this choice.

One important reason that savers do not shift funds from savings accounts to CDs is the desire to preserve liquidity. Not wanting to tie their money up is the most frequently cited reason (by 46 percent) not to make the shift.

Many High-Rate Savings Options Are Easy to Purchase

There are three main high-rate savings options that are insured or guaranteed by the federal government:

* Certificates of deposit. CDs that can be purchased for as little as $250 at many institutions. Savers worried about liquidity can keep some of their money in traditional savings accounts. Plus, the penalty for cashing in a CD early is typically only several months lost interest.

* Savings Bonds. Series EE or I U.S. Savings Bonds that can be purchased for

as little as $50 from most banking institutions or directly from the U.S. Treasury. The Easy Saver plan allows automatic deductions from a savings or checking account to purchase these bonds.

* Higher-rate savings accounts. Some of these require automatic deposits from a checking account to earn a high rate. But these accounts are easy to purchase by phone or on the Internet. A bank representative can fill out the application form and then mail it to you for your signature.

Providian's Mehta said: "We're going to do our part by supporting CFA's education efforts and by offering a new account that pays a better rate than traditional savings accounts, but doesn't require a big deposit or lock up people's money for several years."

About the Data Sources

The Fed's Survey of Consumer Finances (SCF) is the most frequently used source of data on family finances. The 1998 data used for the CFA/Providian calculations was released in February 2000. Family Economics Professor Catherine Montalto of Ohio State University analyzed SCF data for CFA and Providian.

The national opinion survey was conducted by CARAVAN Opinion Research Corporation International (ORCI). Telephone interviews were conducted among a national probability sample of 1008 adults comprising 507 men and 501 women 18 years of age and older, living in private households in the continental United States. Interviewing for the survey was conducted during the period of July 13-16, 2000. All participants were contacted via random digit dialing to ensure a representative sample of consumers nationwide. The margin of error is plus or minus 3 percent.

About CFA and Providian

Consumer Federation America (www.consumerfed.org) is a nonprofit association of more than 250 pro-consumer groups, which, since 1968, has sought to advance the consumer interest through advocacy and education.

San Francisco-based Providian Financial (www.providian.com) is a leading provider of lending and deposit products to customers throughout the United States and offers credit cards in the United Kingdom and Argentina. Providian helps customers build, protect and responsibly use credit. Providian has more than $27 billion in assets under management and over 14 million customers.