

December 2013

Financial Capability in the United States

2012 Report of Military Findings

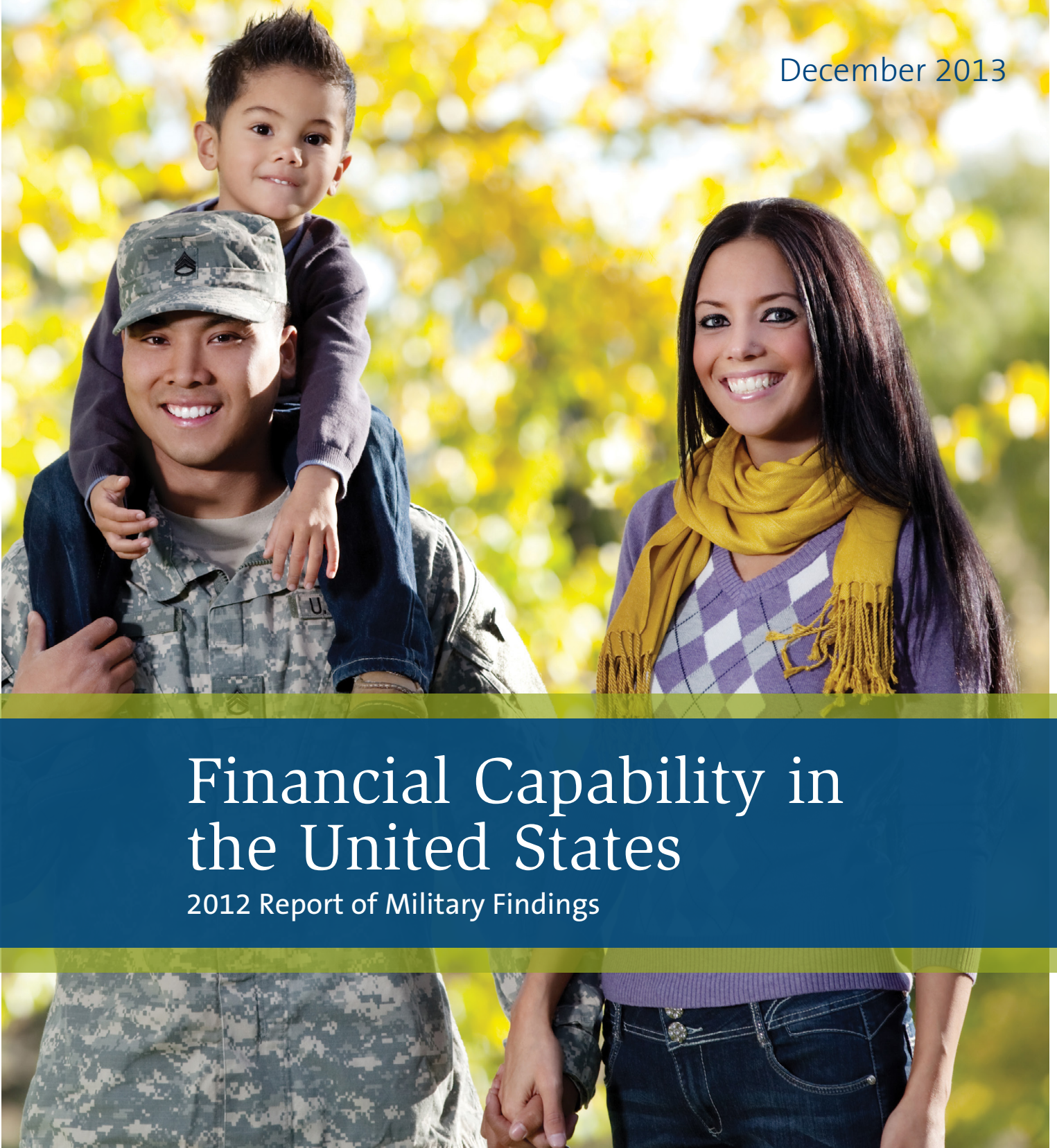


TABLE OF CONTENTS

Letter from the FINRA Investor Education Foundation	1
Letter from the Consumer Financial Protection Bureau	2
Introduction	3
1. Making Ends Meet	5
Satisfaction with personal finances	6
Indicators of financial stress	6
Unpaid medical bills	7
Financial fragility	8
2. Planning Ahead	9
Rainy day funds	9
Planning for college	9
Planning for retirement	10
Investments & financial advisors	11
Risk preferences	12
3. Managing Financial Products	13
Banking	13
Methods of making payments	13
Credit cards	14
Home ownership and mortgages	16
Student loans	17
Non-bank borrowing	18
Debt	20
Credit reports	23
4. Financial Knowledge and Decision Making	24
Financial literacy	24
Self-perceptions of financial knowledge	26
Self-perceptions vs. financial behavior	26
Financial education	27
5. Comparison to National Findings	28
Making ends meet	30
Planning ahead	30
Managing financial products	30
Financial knowledge and decision making	32
Conclusion	33
Background and Methodology	34
Appendix: Sample Demographics	35



Gerri Walsh

President of the FINRA Investor
Education Foundation

Letter from the FINRA Investor Education Foundation

The FINRA Investor Education Foundation is pleased to present the 2012 National Financial Capability Study's Military Report. The study provides insightful information on how military families manage their financial resources and make financial decisions. We hope that the data and information contained in the report can be used to better understand and further improve financial capability among our servicemen and women.

The study portrays a military community that in the aggregate is relatively strong in financial capability, but includes some constituent groups that are struggling. Improving financial capability is important not only for individual military service members and their families, but also for the military itself and our country. Poor financial decisions by individuals in the military can undermine military readiness and morale. The study's findings suggest that improving financial capability can have beneficial results for the financial security, well-being and long-term prosperity of individuals and families in both military and civilian settings.

In addition to the National Financial Capability Study, the FINRA Foundation actively supports military personnel and families through its Military Financial Readiness Project. As part of this effort, the Foundation launched SaveAndInvest.org—a financial education website aimed at improving the saving and investing knowledge of military service members. The website provides tools and information that help servicemen and women make saving and investing decisions with confidence. Our multi-faceted program also includes training for personal financial managers and other volunteers, a spouse fellowship program, educational toolkits and forums, free access to credit scores and a long-term public outreach campaign.

The FINRA Foundation has a longstanding interest in helping build financial capability among service members. Working with our partners, and with insights gleaned from the Military Survey, we plan to continue our efforts in support of servicemen and women.

Gerri Walsh



Holly Petraeus

Assistant Director, Consumer
Financial Protection Bureau,
Office of Servicemember Affairs

Letter from the Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau (CFPB) welcomes the publication of the 2012 Military Financial Capability Survey Report by the FINRA Investor Education Foundation. The Military Financial Capability Study in 2009 offered valuable insights about the financial behavior of American military members and their families. The 2012 survey report expands our knowledge about both the financial readiness of our troops and the financial challenges that face our men and women in uniform.

Our focus at the Office of Servicemember Affairs at CFPB is to empower America's military members, veterans and their families to take control of their economic lives. Our mission is to ensure that servicemembers, who devote their lives to protecting our nation, have a strong advocate to help protect them from financial threats. We make every effort to achieve the goal of every military family being a financially-educated family, armed with the knowledge of how to avoid scams and poor financial decisions, protected by consumer laws as needed, and motivated and able to plan for long-term financial goals. While we have seen promising developments in the financial capability and financial education of military members and their families, we still need to press on to address existing problems as well as new issues as they arise.

Improving the financial capability of America's military members is a priority for the Office of Servicemembers Affairs at CFPB. This goal is a shared effort that the Office of Servicemember Affairs is working to accomplish with the Department of Defense and other federal agencies, as well as Veterans Service Organizations. The FINRA Investor Education Foundation's 2012 Military Financial Capability Study is an important contribution for our joint work to enhance the readiness of American military members in navigating the financial marketplace. We look forward to our continued work with the FINRA Investor Education Foundation—and all of you—to build on this research to empower servicemembers to achieve their personal financial goals.

A handwritten signature in black ink that reads "Holly Petraeus". The signature is written in a cursive, flowing style.



Being in the military involves unique circumstances and stresses that can make financial management even more difficult: deployments, frequent changes of station and prolonged separation from immediate family.

Introduction

Military personnel and their families face many of the same financial management challenges as civilians. Like most adults, they must continually grapple with everyday financial decisions like budgeting and bill paying while also managing long-term considerations like retirement planning and debt management. However, being in the military also involves unique circumstances and stresses that can make financial management even more difficult: deployments, frequent changes of station (PCS) and prolonged separation from immediate family. Military personnel must also be vigilant about their credit ratings in order to preserve their security clearances. On top of these stresses, post-war force reductions may limit future military career opportunities for some service members.

Fortunately, being in the military also provides advantages that can help individuals and families manage their financial challenges and take advantage of financial opportunities. These advantages include steady paychecks, health and education benefits, protections from certain kinds of financial predators, access to financial education and eligibility for the Thrift Savings Plan (TSP) retirement savings program.

The Military Survey is one of two linked surveys that constitute the 2012 National Financial Capability Study. In 2009, the FINRA Investor Education Foundation commissioned the National Financial Capability Study (NFCS)—the first of its kind conducted in the United States—to assess and establish a baseline measure of the financial capability of American adults. This initial effort consisted of three linked surveys: a nationally projectable telephone survey of 1,488 U.S. adults; a state-by-state online survey of more than 28,000 U.S. adults; and an online survey of 700 service members and 100 military spouses. The 2012 Study—which was developed in consultation with the President’s Advisory Council on Financial Capability, the U.S. Department of the Treasury and other federal agencies—aims to update key measures from the state-by-state and military components of the 2009 NFCS and to deepen exploration of topics that are highly relevant today, including, for example, student loans and medical debt.

Prior to fielding the 2012 Military Survey, efforts were made to improve its utility by augmenting the overall sample size, increasing representation of younger and lower-ranking service members, consulting with the Department of Defense to refine respondent classification questions and developing a weighting scheme to better approximate the actual military population.¹ The sample for the 2012 Military Survey consists of 1,000 military service members, including active duty, activated Reserve and Guard, and Reserve and Guard personnel not currently on active duty.

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 multidimensional concept that requires looking at individual behavior from various angles.

1. Note that despite these efforts, the NFCS data still under-represent service members in the youngest age group (18-25) relative to the actual military population. A demographic comparison of NFCS military respondents to the actual military population is provided in the Appendix.



Rough comparisons to national findings suggest that military respondents do better than national norms on making ends meet, planning ahead and financial knowledge, three of the four main components of financial capability. However, military respondents appear to be more at risk than the national population when it comes to managing financial products, particularly home ownership and other types of debt.

Drawing on the rich and complex data from the 1,000 service members in the 2012 Military Survey, supplemented by an additional 301 service members from the 2012 State-by-State Survey², this report focuses on the following four key components of financial capability:

1. **Making Ends Meet.** A majority of military respondents (57%) report no difficulty in covering their monthly expenses and bills.
2. **Planning Ahead.** Over half of respondents have “rainy day” funds set aside for unanticipated financial emergencies, and similar proportions say they plan for predictable life events, such as their children’s college education or their own retirement.
3. **Managing Financial Products.** Nearly half of credit card holders engage in costly behaviors such as paying the minimum, paying late fees, paying over the limit fees or using cash advances from their credit cards. Over a third of military respondents report using non-bank, alternative borrowing methods (such as payday loans, advances on tax refunds or pawn shops). Thirty-eight percent of military homeowners are “underwater” (*i.e.*, owe more on their home than its current value).
4. **Financial Knowledge and Decision-making.** While more than four out of five military respondents have positive perceptions of their own financial knowledge and math skills, only 15% are able to answer all five financial literacy “quiz” questions correctly.

In general, measures of financial capability are lower among entry-level enlisted personnel (E1-E4), followed by senior-level enlisted personnel (E7-E9), indicating that these populations are most vulnerable.³

Because the 2012 Military Survey sample differs substantially from the 2009 Military Survey sample, tracking comparisons are not included in this report. To provide a context in which to view the survey results, this report includes a section (beginning at page 30) that compares key military findings to data from the 2012 State-by-State Survey.

The results of these analyses suggest that military respondents do better than national norms on making ends meet, planning ahead and financial knowledge, three of the four main components of financial capability. However, military respondents appear to be more at risk than the national population when it comes to managing financial products, particularly mortgages and other types of debt.

Please note that all of the data collected in this study are self-reported by the respondents, and are not independently checked or corroborated by other sources (*e.g.*, account statements, follow-up interviews with third parties, etc.).

2. An online survey of 25,509 U.S. adults (roughly 500 per state, plus the District of Columbia).

3. Throughout the report, selected findings are also presented for subsamples (*e.g.*, by pay grade, component, etc.). In all such cases, each subsample consists of at least 100 or more respondents.

1. Making Ends Meet

The ability to make ends meet is a central component of financial capability, encompassing the extent to which people balance monthly income and expenses, and how they deal with everyday financial matters. Findings from the 2012 National Financial Capability Study (NFCS) indicate signs of financial strain among some military respondents.

While the majority of military respondents (57%) report no difficulty in covering their monthly expenses and bills, more than two-fifths (41%) say they have at least some difficulty in keeping up with monthly expenses and 10% say they have a great deal of difficulty. In addition, 29% have experienced a large unexpected income drop in the past year.

Not surprisingly, the ability to make ends meet appears to be correlated with pay grade, such that respondents who are entry-level enlisted personnel (E1-E4) are far more likely to have difficulty with monthly expenses and to have experienced an unexpected income drop. Respondents in the Army are also more likely to show signs of financial difficulty on these two measures.

	Total	Pay grade				Component ⁴			
		E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard ⁵
Find it somewhat or very difficult covering expenses and paying bills	41%	56%	37%	39%	28%	46%	34%	33%	43%
Have experienced unexpected income drop	29%	40%	26%	26%	16%	35%	18%	15%	33%

Just over half of military respondents (51%) report spending less than their income, 28% spend about equal to their income and 19% spend more than their income. Respondents with lower incomes are more likely to be spending more than they earn.

	Total	Pay grade				Status ⁶		Income		
		E1-E4	E5-E6	E7-E9	W1-O10	Active/Activated	Not Activated	\$25K	\$25-75K	\$75K+
Spending more than income	19%	21%	20%	18%	14%	18%	21%	29%	21%	13%

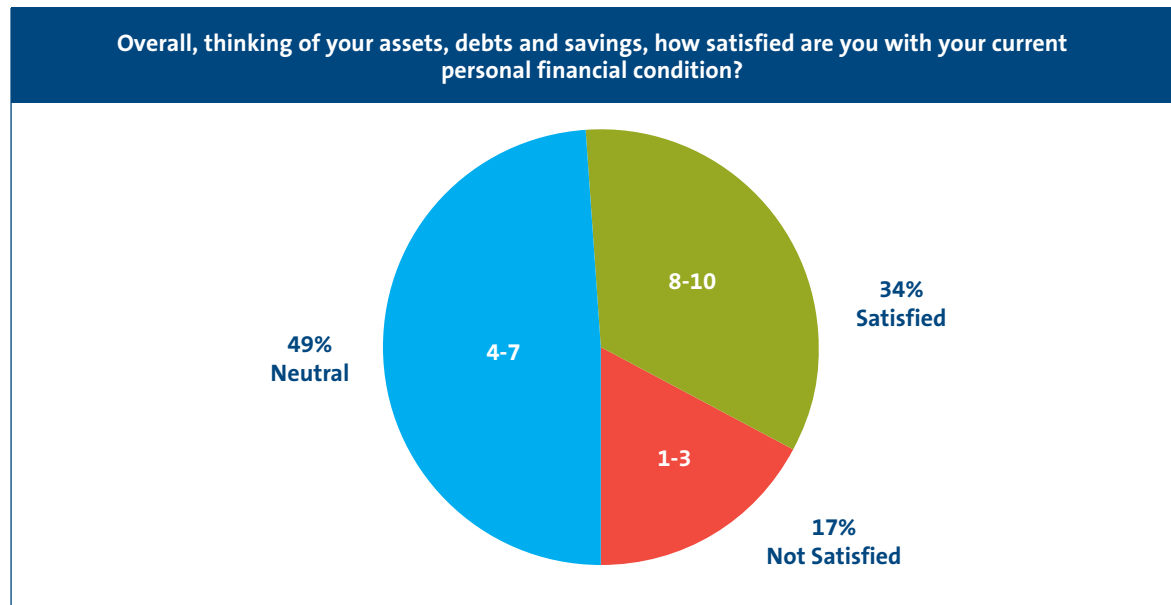
4. Figures for Marine Corps and Coast Guard components are not shown due to insufficient sample. However, these respondents are included in the total.

5. Includes the Army National Guard, Army Reserve, Navy Reserve, Marine Corps Reserve, Air National Guard, Air Force Reserve and Coast Guard Reserve.

6. "Active/Activated" includes members of active duty service components, plus Reserve and Guard personnel who are currently on active duty. "Not Activated" refers to Reserve and Guard personnel who are not currently on active duty.

Satisfaction with personal finances

Over a third of military respondents (34%) report being very satisfied with their current personal financial condition (8 to 10 on a 10-point scale). Respondents who are able to save are more likely to be satisfied than those who spend more than their income (45% vs. 23%, respectively).



Indicators of financial stress

The survey included several indicators of stress related to making ends meet. For example, 19% of non-retired respondents with self-directed retirement accounts report having taken a loan from their retirement account in the past year, and 16% a hardship withdrawal. Among respondents with checking accounts, one quarter occasionally overdraw their checking accounts.

Further examination of the data reveals substantial differences by pay grade, where entry-level enlisted personnel (E1-E4) and senior-level enlisted personnel (E7-E9) are more likely to show signs of financial stress on these measures than mid-level enlisted personnel (E5-E6) and officers (W1-O10). Senior-level enlisted respondents tend to be older than those in other pay grade groups. They may be more likely to have reached a life stage where they have more financial obligations (*e.g.*, larger families, bigger mortgages, multiple car loans, college costs for dependents, etc.).

	Pay grade				
	Total	E1-E4	E5-E6	E7-E9	W1-O10
Have taken a loan from their retirement account	19%	37%	13%	23%	11%
Have taken a hardship withdrawal from their retirement account	16%	33%	8%	25%	11%
Overdraw checking account	25%	35%	20%	26%	17%



▶ Overdrawing checking accounts appears to be a symptom of difficulty making ends meet. Among those who overdraw their checking accounts, nearly a third (31%) report spending more than they earn, compared to 15% of those who do not overdraw.

Overdrawing checking accounts appears to be a symptom of difficulty making ends meet. Among those who overdraw their checking accounts, nearly a third (31%) report spending more than they earn, compared to 15% of those who do not overdraw. Similarly, 29% of military service members who overdraw their checking accounts feel it is very difficult to cover all their monthly bills, while only 3% of those who do not overdraw have the same level of difficulty.

Twenty-two percent of mortgage holders have been late with a mortgage payment at least once in the past two years (12% only once and 10% more than once). Incidence of late mortgage payments is particularly high among entry-level enlisted mortgage holders, with 39% having been late at least once (24% once and 15% more than once).

		Pay grade ⁷		
Have been late with mortgage payments	Total	E1-E4	E5-E6	W1-O10
Once	12%	24%	10%	5%
More than once	10%	15%	8%	10%

Unpaid medical bills

Nearly one in six respondents (16%) say they have unpaid bills from a healthcare or medical service provider that are past due. Since the vast majority of military respondents report having health insurance, the levels of medical debt, particularly among certain groups, may seem counterintuitive (e.g., 25% among entry-level enlisted personnel, 23% among Army personnel). However, it is possible that these figures include copays, uncovered expenses or medical debt incurred prior to joining the military or going on active duty. Since the NFCS did not assess *when* or *how* the medical debt was acquired, this could be an area for future research.

	Total	Pay grade				Component			
		E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard
Have unpaid medical bills	16%	26%	11%	18%	10%	23%	8%	8%	18%
Have health insurance	89%	80%	92%	92%	94%	92%	96%	95%	83%

Respondents with unpaid medical bills are more likely than those without to report spending more than their income (31% vs. 17%, respectively) and to find it “very difficult” to cover their expenses and bills each month (36% vs. 5%, respectively).

7. Figures for E7-E9 pay grades are not shown due to insufficient sample.

Financial fragility

Another indicator of difficulty making ends meet is financial fragility, specifically the lack of liquidity to deal with an unexpected challenge (*e.g.*, a major car or housing repair). Liquidity can result from tapping into savings, selling valuables or borrowing from family members or friends.

When asked if they would be able to come up with \$2,000 if an unexpected need arose in the next month, one in five respondents (20%) said they probably or certainly could not.⁸

How confident are you that you could come up with \$2,000 if an unexpected need arose within the next month?	Total
I am certain I could come up with the full \$2,000	53%
I could probably come up with \$2,000	25%
I could probably not come up with \$2,000	12%
I am certain I could not come up with \$2,000	9%

Entry-level and mid-level enlisted personnel are more likely than senior enlisted personnel and officers to have difficulty handling a short-term unexpected expense.

	Pay grade					Component			
	Total	E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard
Probably/certainly could not come up with \$2,000	20%	28%	21%	13%	8%	23%	19%	17%	19%

8. Percentages in the table below do not add up to the figure in the text due to rounding.



▶ A segment of military service members lack emergency savings or “rainy day” funds. While 54% of respondents say they have set aside funds sufficient to cover expenses for three months in case of sickness, job loss, economic downturn or other emergency, over two-fifths (43%) have not.

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. Additionally, 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 critical in light of the unique challenges posed by frequent duty station changes and deployments around the world. The difference between a difficult move or deployment and a smooth one often depends on the family’s level of readiness — especially financial readiness.

Rainy day funds

Many military service members lack emergency savings or “rainy day” funds. While 54% of respondents say they have set aside funds sufficient to cover expenses for three months in case of sickness, job loss, economic downturn or other emergency, over two-fifths (43%) have not. Those without emergency funds would not be able to draw on personal financial resources if they were faced with an economic shock. Among those with financially dependent children, 52% have rainy day funds. This is lower than, yet comparable to 56% for those without financially dependent children.

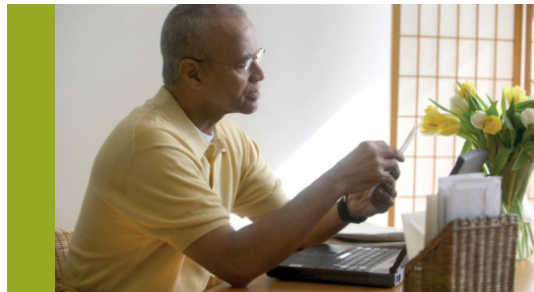
Predictably, respondents with higher pay grades are more likely to have set aside emergency funds. There are no substantial differences among service branches/components.

	Pay grade					Component			
	Total	E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard
Have set aside three months’ worth of emergency funds	54%	49%	51%	56%	69%	54%	55%	56%	54%

Planning for college

It has been widely reported that, over the past 10 years, tuition and fees at four-year public colleges and universities have increased more rapidly than they did during the previous two decades, rising by an average of more than 5% each year (adjusted for inflation).⁹ Even if this trend slows, an average American family with children can expect to allocate a sizable share of their resources to paying college tuition. Among military service members with financially dependent children, slightly more than half (58%) are setting aside money for their children’s college education, while 40% are not.

9. Source: College Board (Average Annual Percentage Increases in Inflation-Adjusted Published Prices by Decade, 1982-83 to 2012-13)



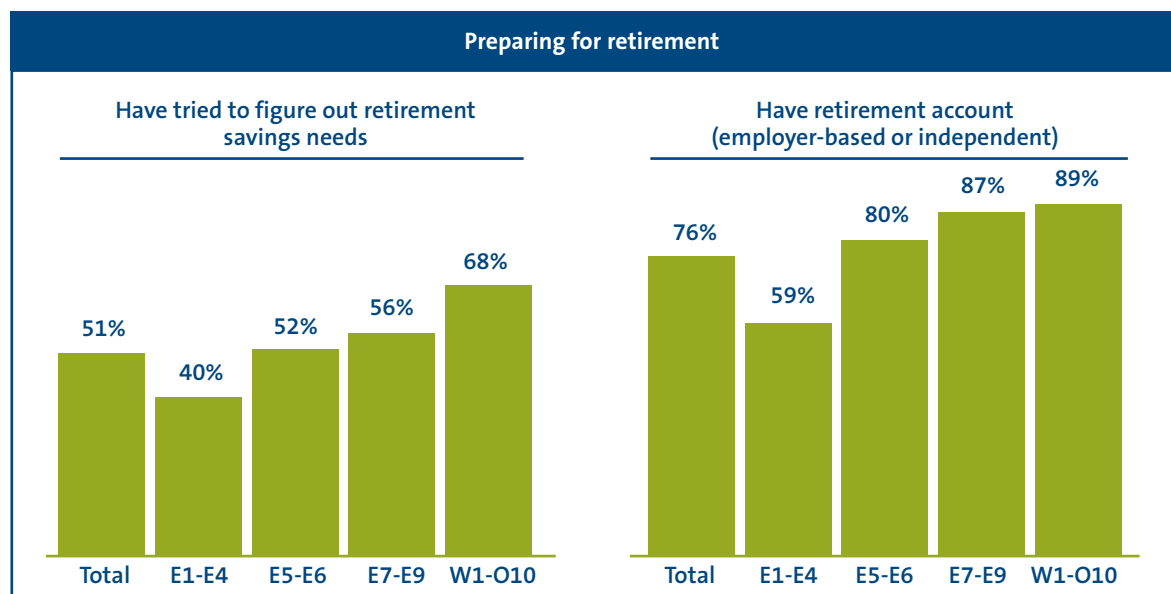
Though about half of respondents (51%) have tried to figure out how much they need to save for retirement, nearly half (46%) have not.

Planning for retirement

While individuals increasingly have to take responsibility for their financial security after retiring, a substantial proportion of military respondents do not appear to have done any retirement planning. Though about half of respondents (51%) have tried to figure out how much they need to save for retirement, nearly half (46%) have not. The act of planning for retirement has been shown to be a strong positive indicator of retirement wealth.¹⁰

Recognizing that many Americans are not familiar with the technical terms and distinctions used to describe various types of retirement plans, the survey employed a few “plain language” questions to assess whether respondents have a retirement plan through an employer, and if so, which type (specifically, a defined benefit plan, or a defined contribution plan such as a TSP or 401(k)). In addition, the survey asked whether individuals have retirement accounts they set up on their own, such as an Individual Retirement Account (IRA), Keogh, SEP or other type of retirement account. Over three-quarters of all non-retired military respondents (76%) have some kind of retirement account, either employer-based (e.g., TSP, pension) or independent (e.g., IRA).

Respondents at lower pay grades are much less likely to be prepared for retirement than those at higher pay grades. Only 40% of entry-level enlisted personnel have tried to plan for retirement, compared to 68% of officers. Similarly, entry-level enlisted personnel are considerably less likely to have a retirement account than those at higher pay grades. Active duty and activated Reserve and Guard personnel are more likely to have tried to plan for retirement than Reserve and Guard personnel who are not activated (54% vs. 45%), though their likelihood to have a retirement account is not appreciably different (77% and 73%).



10. Annamaria Lusardi, “Information, Expectations, and Savings for Retirement,” in Henry Aaron, ed., *Behavioral Dimensions of Retirement Economics* (Washington, DC: Brookings Institution Press and Russell Sage Foundation, 1999), 81-115.



Overall, 66% of respondents have consulted a financial professional (outside of the military) over the past 5 years. The most frequent topics of consultation are insurance and savings/investments.

Investments & financial advisors

One of the most concrete indicators of planning ahead is investing, both in self-directed tax-deferred retirement accounts and in non-retirement accounts. Sixty-five percent of non-retired respondents have a self-directed retirement plan (such as a TSP or 401(k) from an employer, or an IRA they have set up themselves). Among those with self-directed plans, 87% report that they make regular contributions.

Entry-level enlisted personnel are much less likely than respondents at higher pay grades to have a self-directed retirement account.

	Pay grade					Component			
	Total	E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard
Have self-directed retirement plan (e.g., TSP, 401(k), IRA)	65%	47%	68%	77%	84%	60%	78%	66%	64%
Among respondents with self-directed retirement plan									
Make regular contributions to self-directed retirement plan	87%	82%	87%	87%	90%	90%	-- ¹¹	95%	84%

Half of military respondents have investments (e.g., stocks, bonds, mutual funds) outside of retirement accounts. Not surprisingly, those at higher pay grades are much more likely than those at lower pay grades to have non-retirement investments.

	Pay grade					Component			
	Total	E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard
Have non-retirement investments	50%	42%	46%	60%	71%	54%	52%	54%	48%

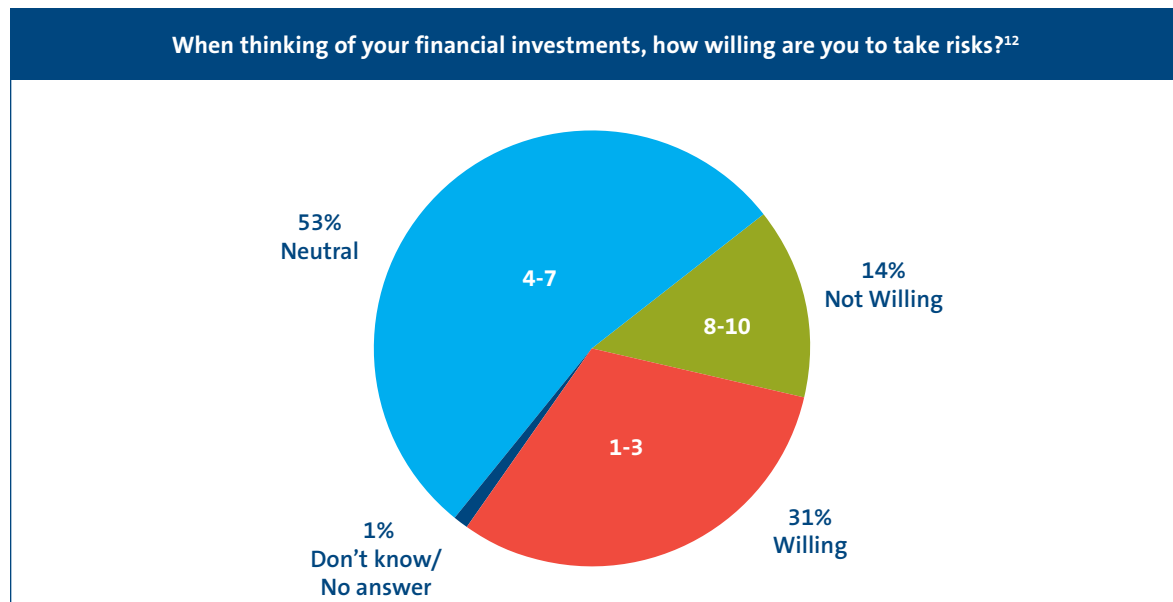
11. Figures for the Navy are not shown due to insufficient sample.

Another indicator of financial planning is the decision to consult a financial professional for advice. Overall, 66% of respondents have consulted a financial professional (outside of the military) over the past five years. The most frequent topics of consultation are insurance and savings/investments.

Have consulted a financial professional outside the military about:	Total
Insurance of any type	45%
Savings or investments	42%
Taking out a mortgage or a loan	40%
Tax planning	26%
Debt counseling	18%
Have consulted a financial professional about any of the above	66%

Risk preferences

An important determinant of how people choose to invest their savings is their attitude towards financial risk. As the chart below shows, military service members tend to report being somewhat willing to take risks in their financial investments, with 31% who say they are willing and 14% not willing to take risks. Men are more likely than women to say they are willing to take risks in financial investments (33% vs. 23%, respectively).



12. Percentages do not add up to 100 due to rounding.

3. Managing Financial Products

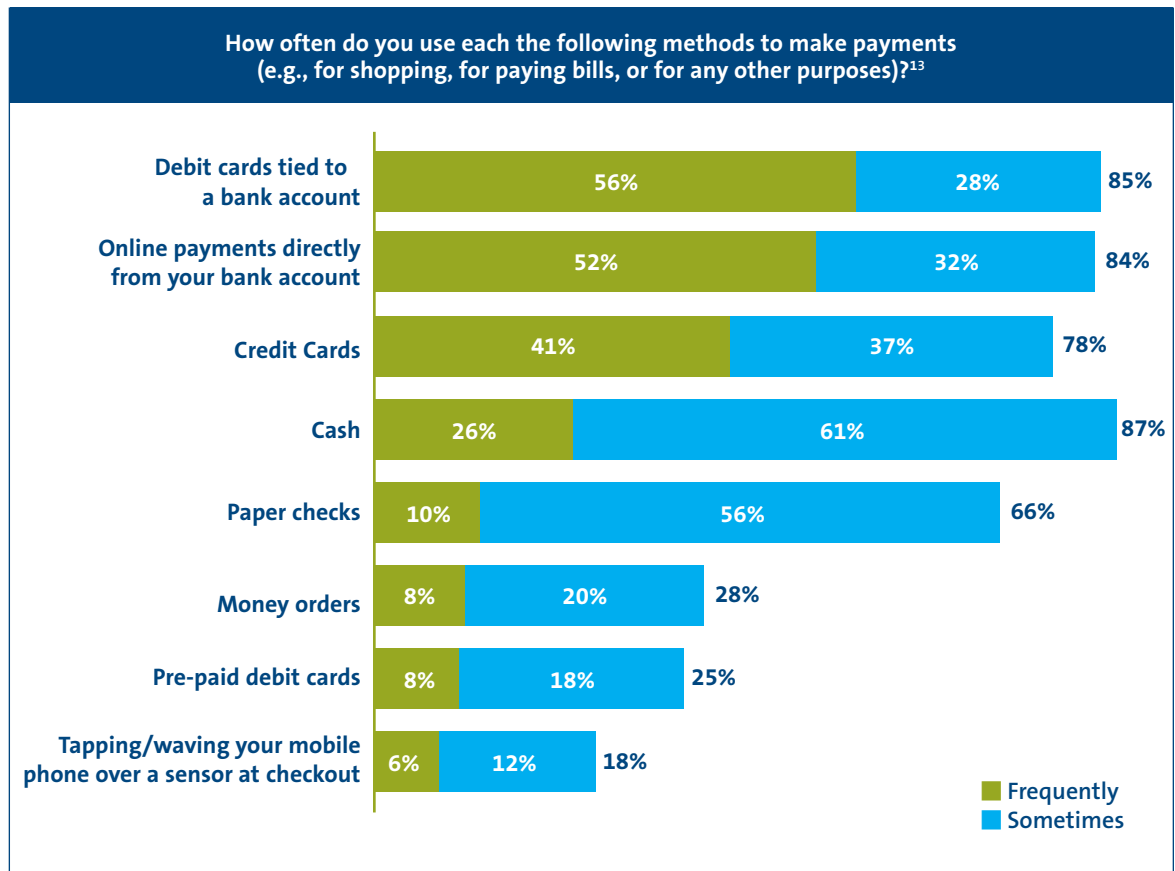
The third component of financial capability encompasses how money is stored (*i.e.*, banking), how money outflows are managed (*i.e.*, payment methods) and how money is borrowed (*i.e.*, debt and other related topics).

Banking

Virtually all military respondents (97%) report having some kind of bank account, either a checking account, savings account, money market account or some combination.

Methods of making payments

Over half of military personnel make payments with debit cards frequently (56%), and a large majority (85%) pay with debit cards at least sometimes. While nearly the same percentage make payments using cash at least sometimes (87%), only about a quarter of respondents use cash frequently. Online payments and credit cards also rank considerably higher than cash in terms of frequent usage. Only a minority of respondents use paper checks, money orders or pre-paid debit cards, and very few have adopted mobile payments.



13. Percentages may not add up due to rounding.

There are some differences in usage of various payment methods. Debit cards are more likely to be used by mid-level enlisted personnel and by Air Force respondents. Entry-level enlisted personnel are slightly less likely to use online payments and much less likely to use credit cards frequently.

% Frequently use	Total	Pay grade				Component			
		E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard
Debit cards tied to a bank account	56%	56%	63%	50%	42%	59%	48%	69%	52%
Online payments directly from your bank account	52%	42%	57%	56%	56%	52%	48%	49%	54%
Credit cards	41%	28%	40%	43%	66%	37%	54%	44%	39%
Cash	26%	33%	22%	31%	23%	36%	24%	19%	24%
Paper checks	10%	11%	9%	16%	8%	13%	8%	9%	11%
Money orders	8%	14%	4%	8%	5%	17%	4%	2%	6%
Pre-paid debit cards	8%	13%	4%	9%	6%	14%	2%	4%	8%
Tapping/waving your mobile phone over a sensor at checkout	6%	12%	2%	6%	4%	13%	3%	2%	5%

Credit cards

A common way in which many Americans borrow is through the use of credit cards. The vast majority of military respondents (91%) have at least one credit card and a third (33%) report having four or more cards.

Nearly half (49%) of all military respondents with credit cards say they always pay their cards in full. However, many engage in credit card usage habits that result in either interest charges or fees.

In the past year...	Total
In some months, I carried over a balance and was charged interest	57%
In some months, I paid the minimum payment only	39%
In some months, I was charged a late fee for late payment	20%
In some months, I was charged an over-the-limit fee for exceeding my credit line	15%
In some months, I used the cards for a cash advance	18%

Considering the subset of behaviors that are likely to generate sizeable interest or fees (paying the minimum payment, paying late fees, paying over-the-limit fees or using the card for cash advances), we find that 49% of credit card holders engage in at least one of these expensive practices. Enlisted personnel, particularly those at the lowest pay grades, and Army respondents are more likely to utilize costly credit card borrowing methods, as are African-American and Hispanic service members and those with no post-secondary education.

Engage in expensive credit card behaviors		
	Total	49%
Pay grade	E1-E4	56%
	E5-E6	50%
	E7-E9	49%
	W1-O10	32%
Component	Army	58%
	Navy	44%
	Air Force	43%
	Reserve & Guard	47%
Age	18-25	53%
	26-35	50%
	36+	42%
Ethnicity	White	42%
	African-American	70%
	Hispanic	69%
Education	HS or less	62%
	Some college	49%
	College or more	45%

Almost half of military respondents (49%) report comparing information about different cards from more than one company when obtaining their credit cards, while 46% say they did not comparison shop for credit cards.



Many Americans borrow money in order to purchase a home. Nearly half of military respondents surveyed are homeowners (48%), and among homeowners, a large majority (87%) have a mortgage or home equity loan.

Home ownership and mortgages

Many Americans borrow money in order to purchase a home. Nearly half of military respondents surveyed are homeowners (48%)—and among homeowners, a large majority (87%) has a mortgage or home equity loan.

Home ownership among military respondents shows an interesting pattern where senior-level enlisted personnel (E7-E9) are much more likely to own a home than those at higher or lower pay grades, perhaps because they tend to be older.

	Total	Pay grade				Status		Financially dependent children	
		E1-E4	E5-E6	E7-E9	W1-O10	Active/Activated	Activated	Have	Do not have
Home ownership	48%	36%	47%	74%	57%	48%	49%	57%	38%

Because self-reported home values are often inaccurate, making it difficult to calculate the exact amount of equity respondents have in their homes, the 2012 NFCS used a simple measure of home equity that asked participants, “Do you currently owe more on your home than you think you could sell it for today?” Responding to this question, 38% of homeowners report being “underwater” (i.e., owe more on their home than they could sell it for).

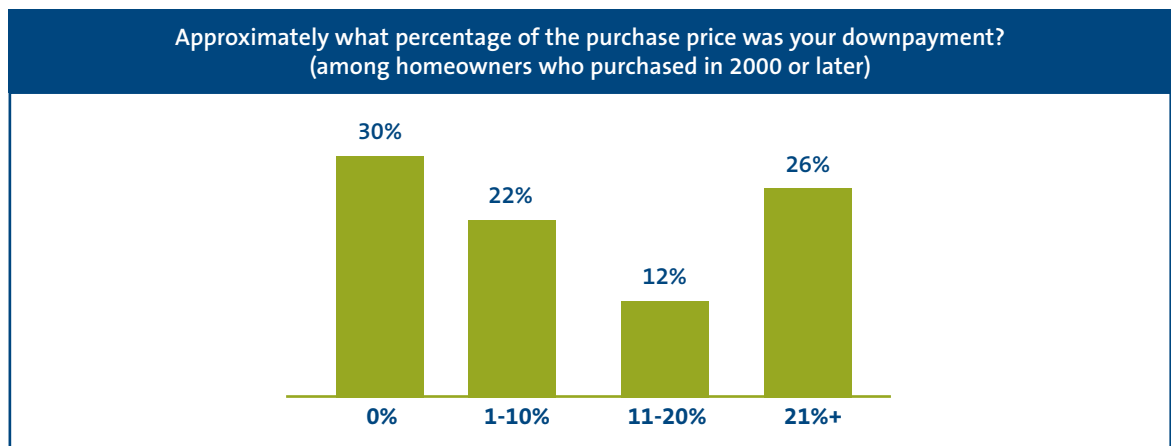
Entry-level enlisted homeowners are most likely to be underwater, followed by senior-level enlisted personnel. Respondents with financially dependent children are also more likely to owe more than their home is worth.

	Total	Pay grade				Status		Financially dependent children	
		E1-E4	E5-E6	E7-E9	W1-O10	Active/Activated	Not Activated	Have	Do not have
Homeowners “underwater”	38%	52%	34%	41%	30%	46%	23%	42%	32%



Almost two-fifths (38%) of military service members in the 2012 NFCS report that they currently have student loans. Among those with student loans, 43% are concerned that they will not be able to pay off their loans.

Factors that may contribute to the high percentage of underwater military homeowners include zero-percent down payments¹⁴ and relatively recent home purchases. Almost a third (30%) of military homeowners reports putting zero percent down on their home, providing them with no initial equity. In addition, a large majority of military homeowners (84%) purchased their homes within the last 10 years, a period of high volatility for home values.



Ten percent of military respondents report having been involved in a foreclosure process on their home in the past two years. Active duty and activated Reserve and Guard personnel are more likely to say they have been involved in a foreclosure than Reserve and Guard personnel who are not activated (12% vs. 4%).

Student loans

The Federal Reserve Bank of New York’s “Quarterly Report on Household Debt and Credit” shows that while the NFCS was being conducted in the third quarter of 2012, student loan debt rose 4.6% from the previous quarter to a total of \$956 billion. This was greater than the total for auto loans (\$768 billion) or credit cards (\$674 billion).

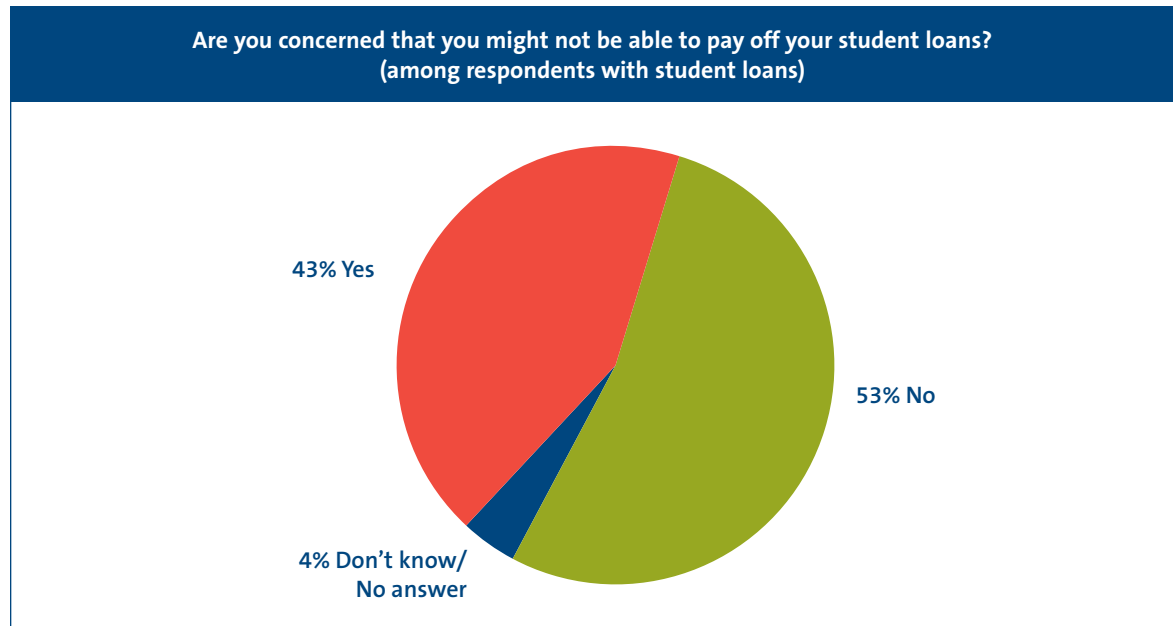
Almost two-fifths (38%) of military service members in the 2012 NFCS report that they currently have student loans. As with medical debt, the survey did not assess when the student loan was taken, so it is possible that the debt was acquired prior to joining the military. It is also possible that the debt was incurred on behalf of a dependent or relative of the service member.

Entry-level enlisted personnel and Reserve and Guard members are the most likely to have student loans.

	Total	Pay grade				Component			
		E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard
Have student loans	38%	49%	33%	28%	36%	38%	31%	24%	45%

14. Home loans offered through the Veterans Administration may not require any money down or private mortgage insurance.

Among those with student loans, 43% are concerned that they will not be able to pay off their loans.



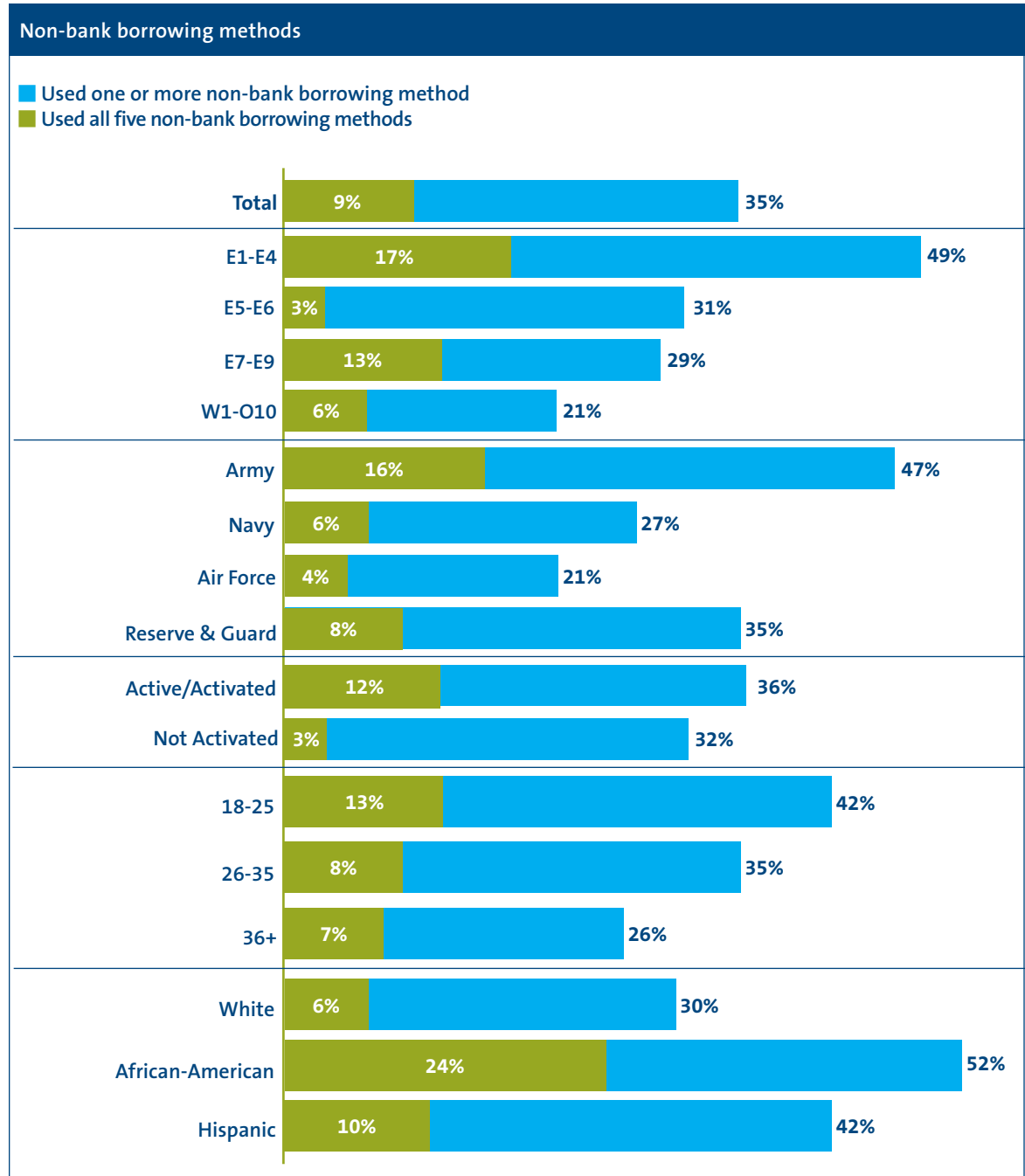
Non-bank borrowing

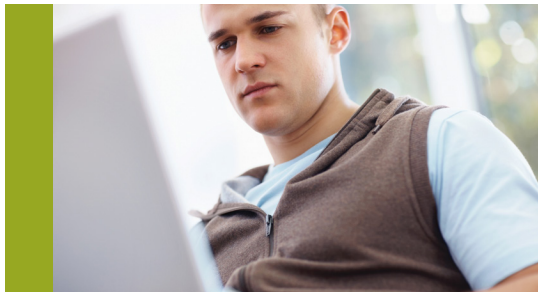
Despite their nearly universal access to traditional banking services, a sizable share of military respondents engage in alternative forms of borrowing, such as taking out an auto title loan or a payday loan, getting an advance on a tax refund, using a pawn shop or using a rent-to-own store. These borrowing methods may be 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 steps have been taken in recent years to protect military personnel from certain predatory lending practices, military bases are still favored locations for some non-bank lenders.

Over a third of military service members (35%) have used at least one alternative borrowing method within the past five years, and 21% have used two or more. Among the five types of alternative borrowing measured in the survey, pawn shops are the most commonly used.

Non-bank borrowing methods used at least once in the past five years	Total
Pawn shop	23%
Auto title loan	20%
Rent-to-own store	18%
Short term “payday” loan	18%
Tax refund advance	14%
Used one or more	35%

Usage of non-bank borrowing methods is higher among entry-level enlisted personnel, Army respondents, those 25 and under and African-American and Hispanic respondents. Among African-Americans, nearly a quarter (24%) report having used all five types of non-bank borrowing methods in the past five years.





Entry-level enlisted personnel, senior enlisted personnel and respondents in the Army are more likely to have four or more types of debt.

Debt

Looking across the total population of military respondents, we see that various types of debt are quite common, particularly auto loans (63%) and credit card debt (52%). Nearly all military respondents (91%) have at least one of the six types of debt measured in this study and over one-fifth (21%) have four or more types of debt.

	Percent of military service members
Have auto loan	63%
Carry credit card balance ¹⁵	52%
Have mortgage or home equity loan	42%
Have student loan	38%
Used non-bank borrowing ¹⁶	35%
Have unpaid medical bills	16%
1 or more types of debt	91%
2 or more types of debt	74%
3 or more types of debt	46%
4 or more types of debt	21%

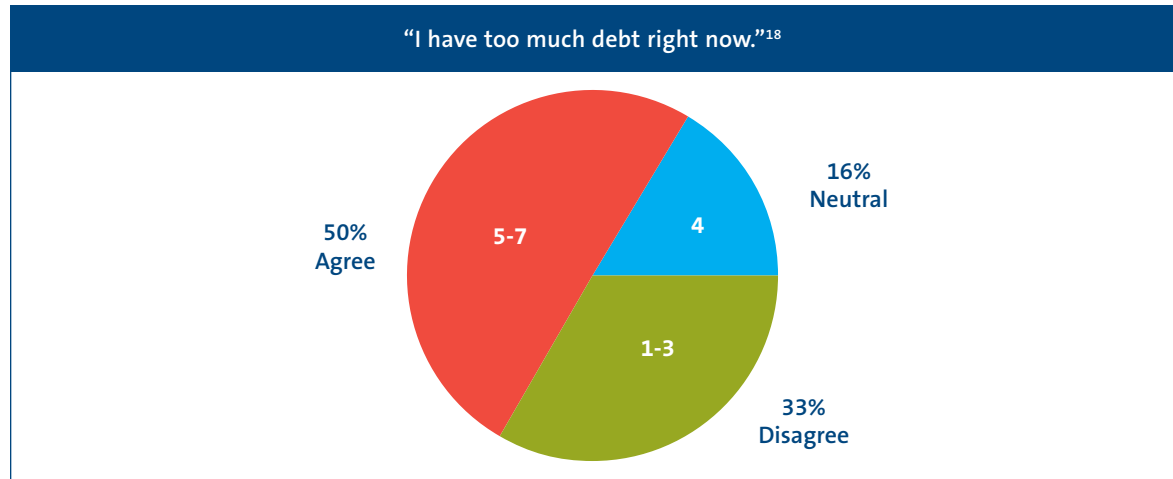
Entry-level enlisted personnel, senior enlisted personnel and respondents in the Army are more likely to have four or more types of debt.

	Pay grade					Component			
	Total	E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard
4 or more types of debt	21%	26%	17%	25%	17%	28%	17%	12%	22%

15. Within the past 12 months

16. Within the past 5 years

As of the third quarter of 2012 when the NFCS was being conducted, total household debt in the U.S. had decreased by more than \$1 trillion from its peak of \$12.675 trillion in the third quarter of 2008.¹⁷ Still, half of military service members in the NFCS say that they have too much debt (5 to 7 on a 7-point scale).



Self-perception of debt increases slightly with age. Respondents with financially dependent children and African-American and Hispanic respondents are also more likely to feel they have too much debt.

“I have too much debt right now.” (5 to 7 on 7-point scale)		
	Total	50%
Pay grade	E1-E4	56%
	E5-E6	47%
	E7-E9	59%
	W1-O10	42%
Component	Army	55%
	Navy	56%
	Air Force	49%
	Reserve & Guard	47%
Age	18-25	46%
	26-35	50%
	36+	54%
Ethnicity	White	48%
	African-American	62%
	Hispanic	60%
Financially dependent children	Financially dependent children	58%
	No financially dependent children	41%

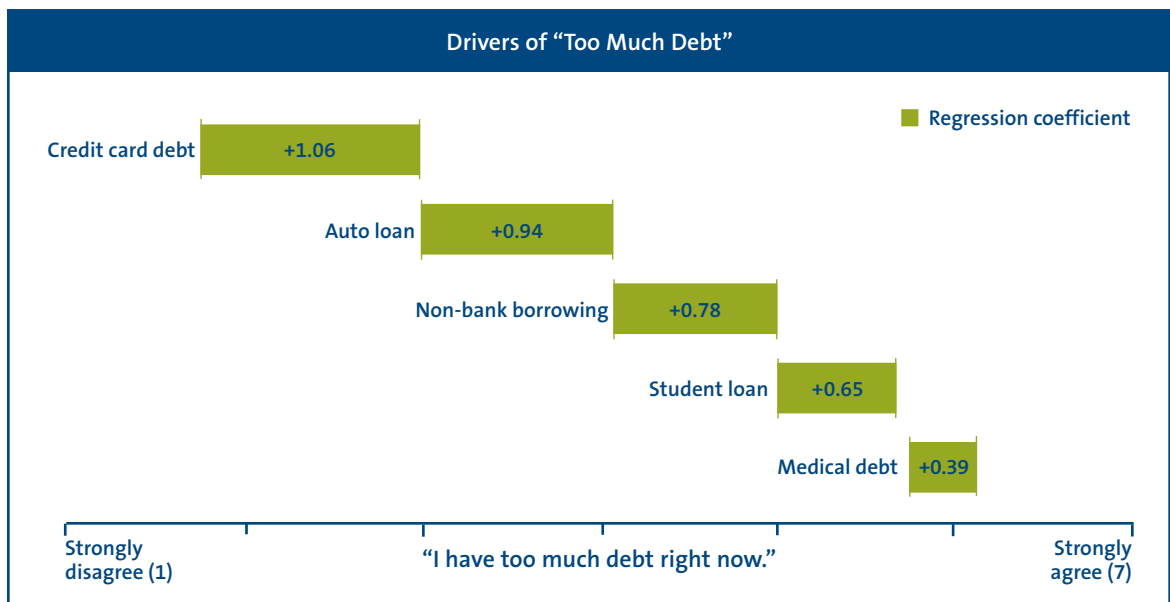
Respondents who feel they have too much debt are less likely to be satisfied with their personal finances than those who do not feel they have too much debt (30% vs. 45%, respectively).

17. Source: Federal Reserve Bank of New York

18. Percentages do not add up to 100 due to rounding.



A regression analysis was conducted to model self-perception of debt based on the types of debt that respondents have. The analysis reveals that among military respondents, carrying a credit card balance is the strongest predictor of feeling one has “too much debt,” followed by having an auto loan. As the figure below shows, credit card debt boosts a respondent’s agreement with the statement “I have too much debt right now” by 1.06 on the 7-point scale. Having medical debt only boosts agreement by 0.39.¹⁹



While having a mortgage or home equity loan may represent the largest share of debt in dollars, it is not a significant predictor of “too much debt.” However, among homeowners, those who have an underwater mortgage are much more likely than those who do not to agree that they have too much debt (75% vs. 38%).

19. The coefficient for mortgage/home equity loans is not statistically significant. All other coefficients in the model are statistically significant.

Overall, 9% of military respondents report having declared bankruptcy in the past two years. Among active duty and activated Reserve and Guard personnel, 12% say they have declared bankruptcy, compared to only 3% of Reserve and Guard personnel who are not activated.

	Pay grade					Status	
	Total	E1-E4	E5-E6	E7-E9	W1-O10	Active/ Activated	Not Activated
Have declared bankruptcy in the last two years	9%	15%	6%	10%	5%	12%	3%

Credit reports

Efforts by the Department of Defense to encourage military personnel to check their credit reports appear to have been successful, as more than three in five military respondents have checked their credit report in the past 12 months.

	Pay grade					Component			
	Total	E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard
Checked credit report	62%	53%	66%	63%	67%	70%	69%	59%	58%



Financial literacy is found to be strongly correlated with behavior that is indicative of financial capability. Specifically, those with higher literacy are more likely to plan for retirement and to have an emergency fund and less likely to engage in expensive credit card behaviors.

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.

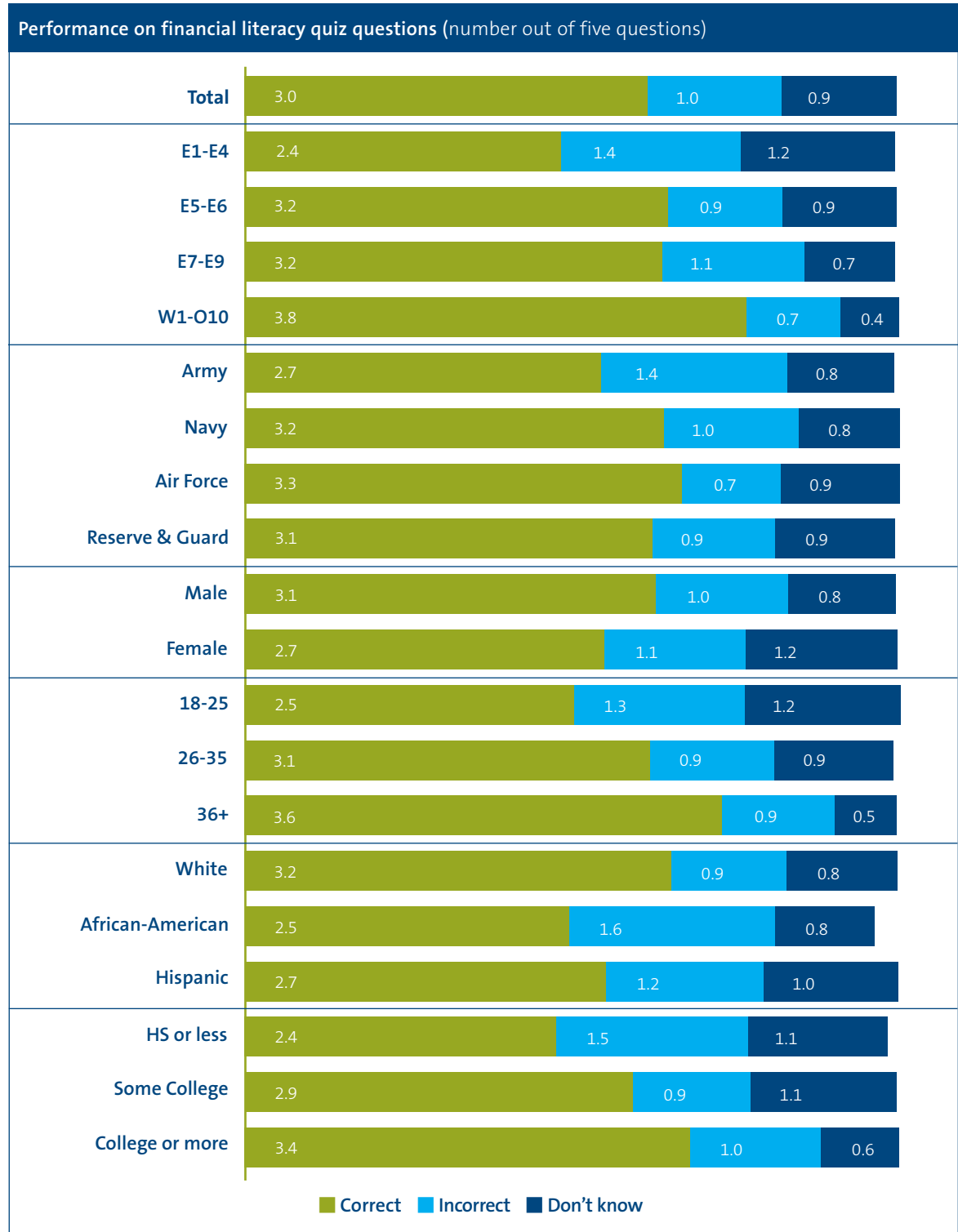
Financial literacy

To evaluate financial knowledge, respondents were exposed to a battery of questions covering fundamental concepts of economics and finance expressed 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 reveal room for improvement in the levels of financial literacy among military service members, particularly when it comes to more challenging concepts such as the relationship between interest rates and bond prices.

	Correct	Incorrect	Don't know
Interest rate question	79%	12%	8%
Inflation question	59%	26%	13%
Bond price question	28%	41%	30%
Mortgage question	82%	8%	9%
Risk question	57%	14%	28%

While the proportion of correct responses to most of the individual questions exceeds 50%, only 15% of military respondents are able to answer all five questions correctly and 45% are able to answer at least four questions correctly.

There are considerable demographic differences in financial literacy levels. Respondents at higher pay grades, older respondents, white respondents and those with college or higher education levels are more likely to answer the quiz questions correctly.



Financial literacy is found to be strongly correlated with key measures of financial capability. Specifically, those with higher literacy are more likely to plan for retirement and to have an emergency fund, and less likely to engage in expensive credit card behaviors.

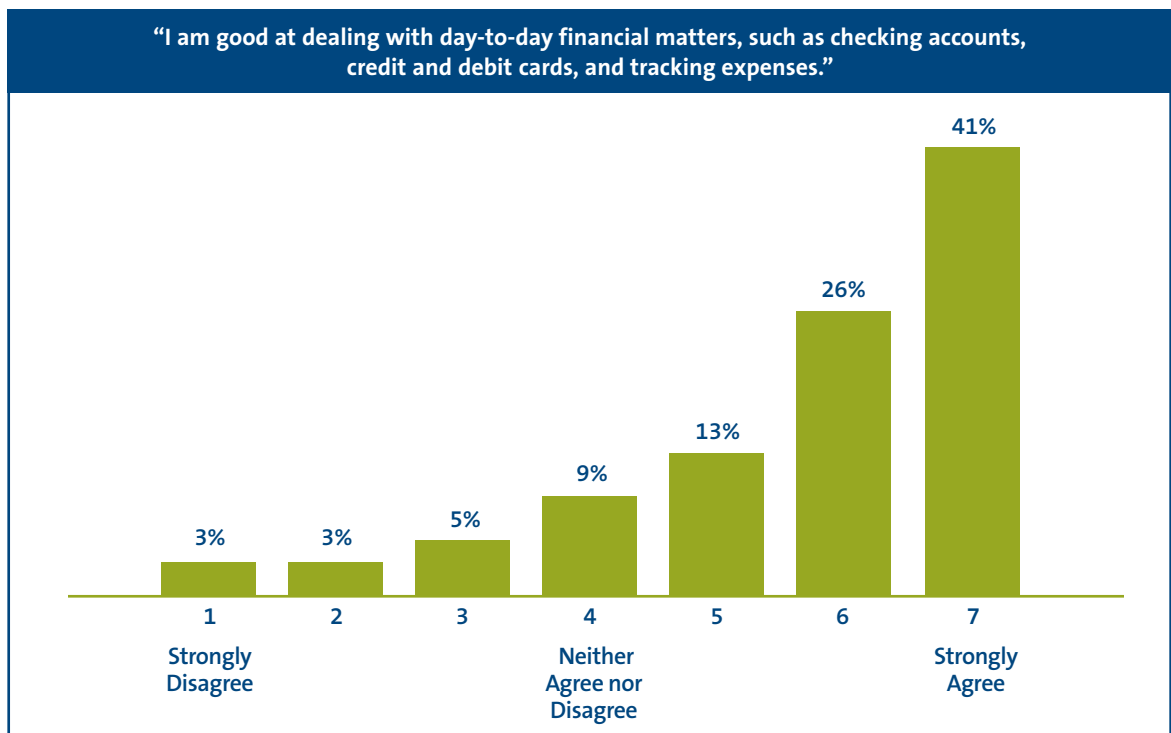
Self-perceptions of financial knowledge

Despite moderate levels of financial literacy as measured by the quiz questions, military service members tend to have quite positive self-perceptions of their financial knowledge. When asked to assess their own financial knowledge, over four out of five respondents (81%) gave themselves high marks (5 to 7 on a 7-point scale where 1=“very low” and 7=“very high”).

Because many financial decisions require some knowledge of math, respondents were also asked to evaluate their math skills. Again, more than four out of five (82%) gave themselves positive scores (5 to 7 on a 7-point scale), and 42% gave themselves the highest rating of “7.” But even among respondents who gave themselves the highest rating, less than two-thirds (64%) are able to do two straight-forward calculations involving interest rates and inflation.

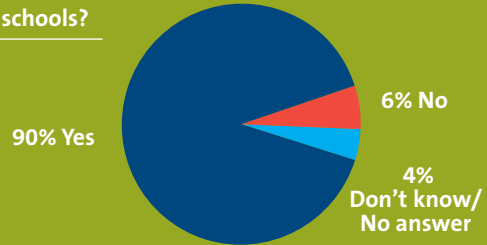
Self-perceptions vs. financial behavior

The survey data also 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), four out of five military service members rated themselves positively (80%). However, even among the 41% of respondents who gave themselves the highest score (7 on a 7-point scale), nearly two fifths (39%) engage in costly credit card behaviors (paying the minimum payment, paying late fees, paying over-the-limit fees or using the card for cash advances), 29% use non-bank borrowing methods and 20% overdraw their checking account.



Do you think financial education should be taught in schools?

When asked whether they thought financial education should be taught in schools, an overwhelming majority (90%) of respondents said yes.



Financial education

The 2012 survey included questions that asked whether respondents had been exposed to financial education. Nearly two thirds (65%)²⁰ report having been offered financial education at a school, college or workplace and 42% say they participated.

Was financial education offered by a school or college you attended, or a workplace where you were employed?	Total
Yes, but I did not participate in the financial education offered	24%
Yes, and I did participate in the financial education	42%
No	25%
Don't know/No answer	10%

Not surprisingly, among military respondents, the military is the most frequently cited source of financial education. One-third of all military respondents recall participating in financial education offered by the military, followed by roughly one-fifth who participated in high school and the same percentage in college.²¹

Participated in financial education from various sources	Total
Military	33%
High school	21%
College	21%
Employer	14%

Participation in financial education provided by the military is somewhat lower among officers, and substantially lower among Reserve and Guard personnel.

	Total	Pay grade				Component			
		E1-E4	E5-E6	E7-E9	W1-O10	Army	Navy	Air Force	Reserve & Guard
Participated in financial education from the military	33%	33%	34%	36%	28%	35%	44%	47%	24%

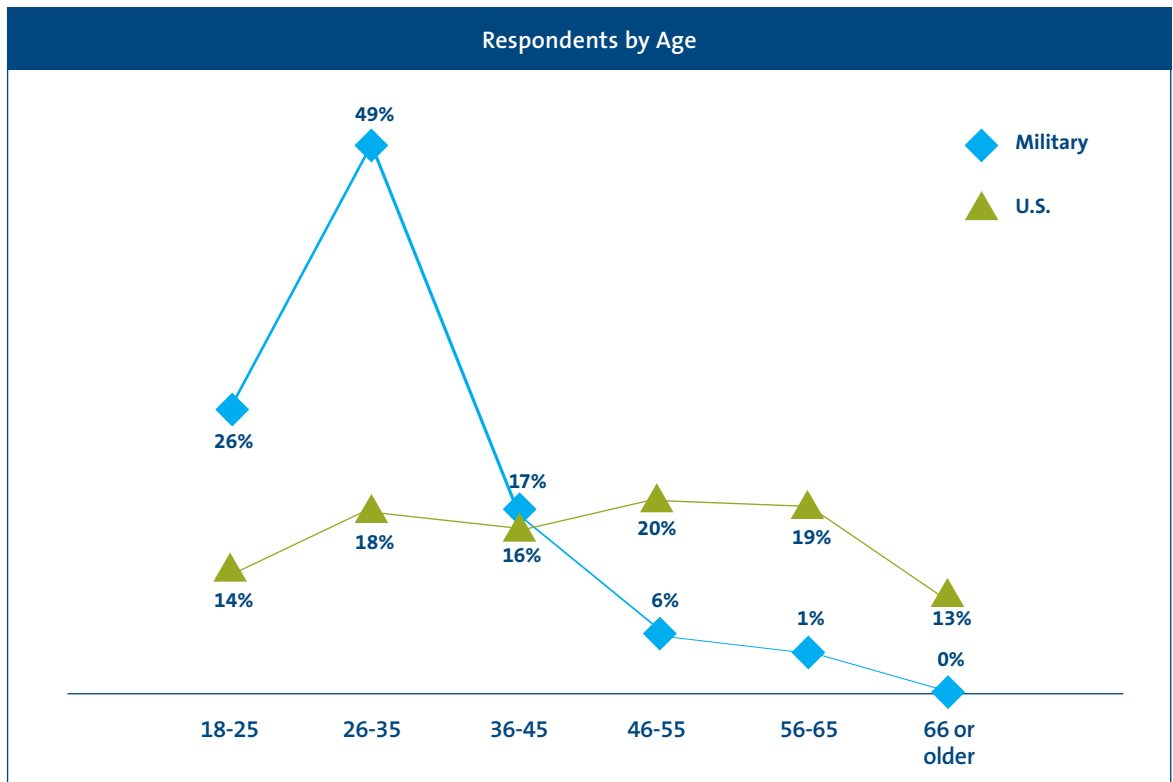
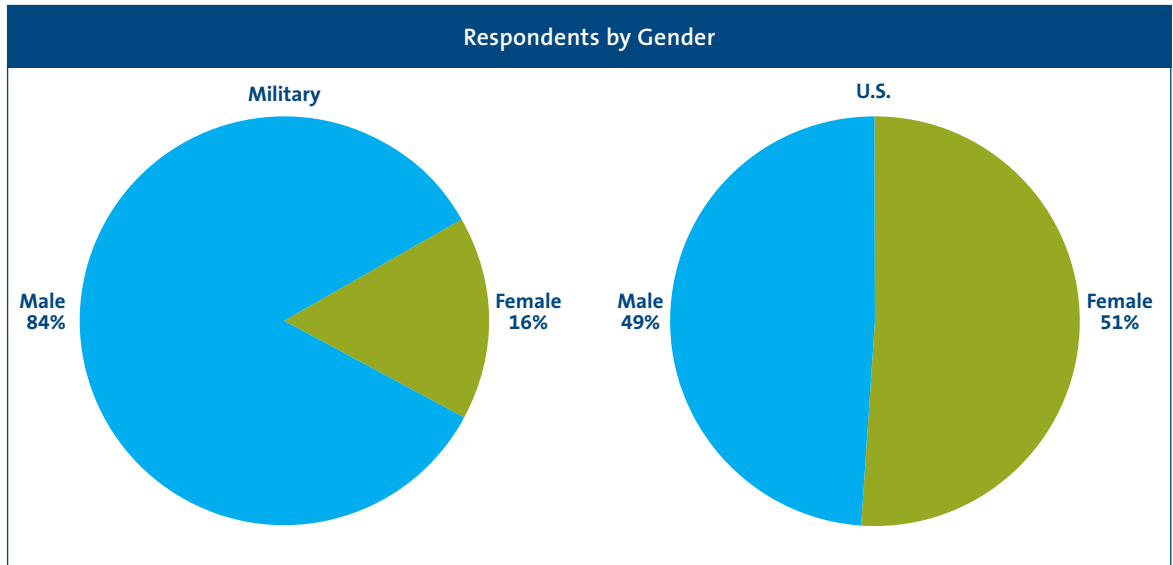
When asked whether they thought financial education should be taught in schools, an overwhelming majority (90%) of respondents said yes.

20. Percentages in the table below do not add up to the figure in the text due to rounding.

21. It is possible that respondents attended seminars offered by the military that were intended to provide education on specific financial topics (e.g., TSP enrollment), but did not consider these seminars to be “financial education.”

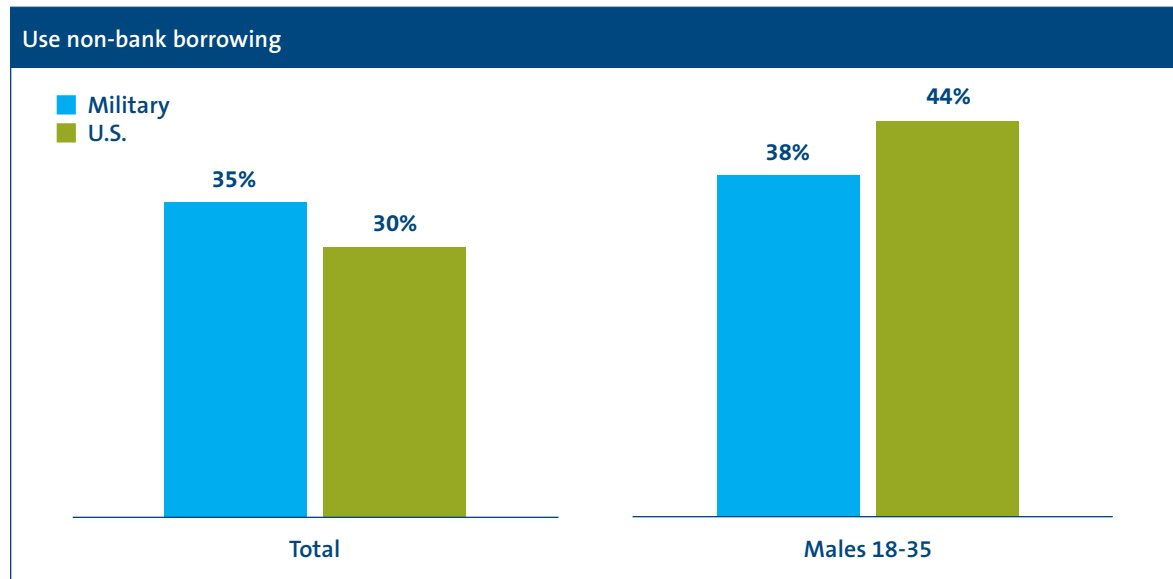
5. Comparison to National Findings

Comparisons of military findings with national figures from the NFCS State-by-State Survey should be undertaken with caution, as these populations are quite different demographically. The vast majority of military respondents are male (84%), compared to only 49% of respondents in the State-by-State Survey. Similarly, three-quarters of military respondents are 35 or younger, compared to only 32% in the State-by-State Survey.²²



22. Data from the State-by-State Survey are weighted to be representative of the national population as a whole in terms of age, gender, ethnicity and education. Approximately 2% of respondents in the State-by-State Survey are military service members.

To make the findings more comparable, we focused on the responses of males 18-35 within each population.²³ This does not account for all demographic differences, but does provide a simple way to compare the military and national findings from the NFCS. For example, when comparing military respondents to the national findings for the population as a whole, non-bank borrowing appears to be slightly more frequent among military respondents. However, when limited to males 18-35, the comparison shows that military respondents are slightly *less* likely to have used non-bank borrowing than the corresponding national demographic.



Using this approach, the data show that military respondents compare favorably to the national population on key measures of making ends meet, planning ahead and financial knowledge, three of the four main components of financial capability. However, military respondents appear to be more at risk than the population at large when it comes to managing financial products, particularly mortgages and other types of debt.

23. Sixty-two percent of military respondents are included in this demographic.



Military respondents compare favorably to a demographically similar subset of the national population on key measures of making ends meet, planning ahead and financial knowledge, three of the four main components of financial capability.

Making ends meet

Among males ages 18-35, military respondents are more likely than the national average to be saving and to have no difficulty keeping up with monthly expenses and bills.

	Males 18-35	
	Military	U.S.
Spend less than income	50%	38%
Find it not at all difficult covering expenses and paying bills	57%	36%

Planning ahead

Over half of military males ages 18-35 have emergency funds, compared to 37% nationally. Military respondents are far more likely to have a retirement account than the comparable national population.

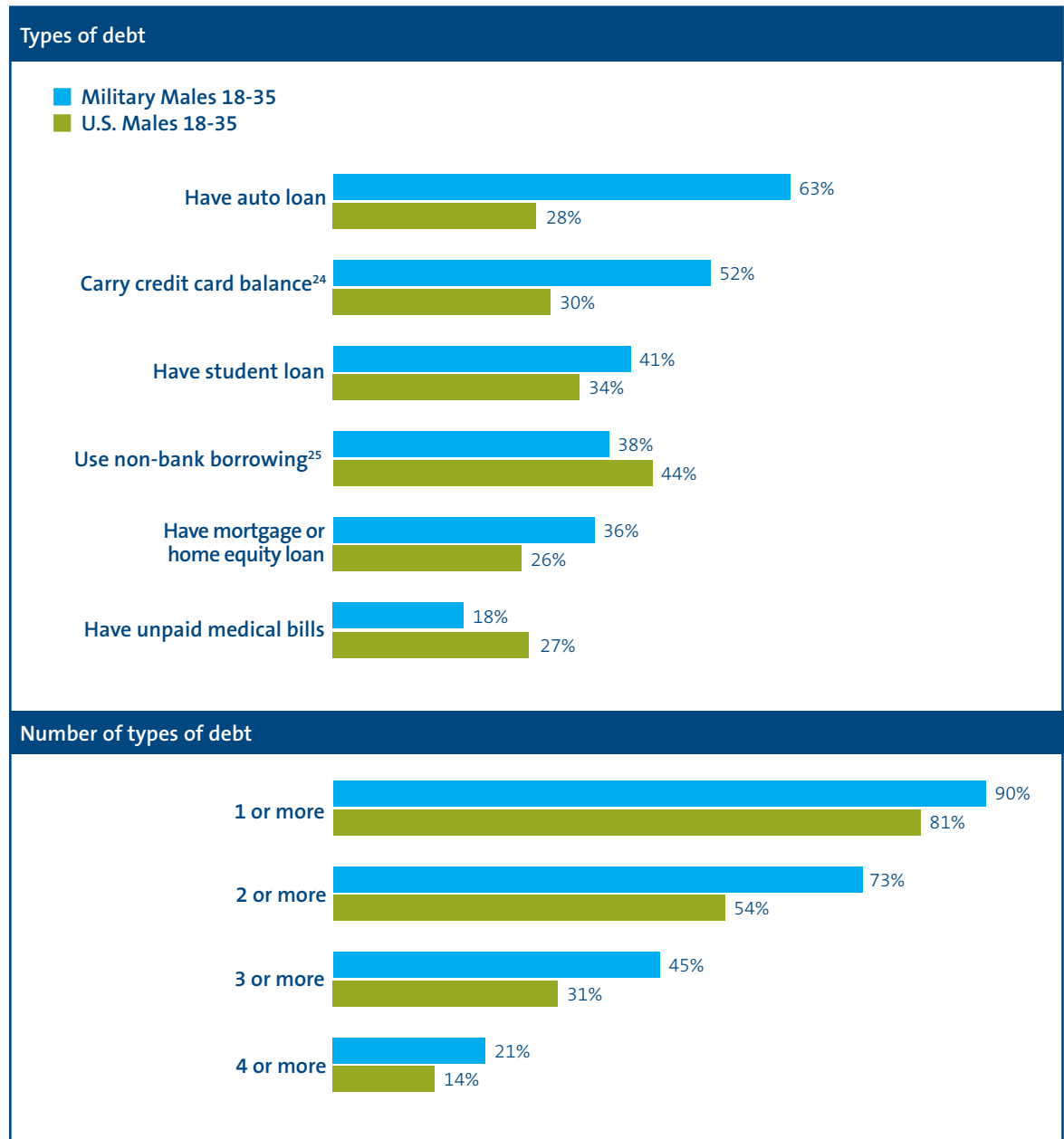
	Males 18-35	
	Military	U.S.
Have set aside three months' worth of emergency funds	53%	37%
Have retirement account (employer-based or independent)	73%	41%

Managing financial products

Relative to national norms, military homeowners are more likely to be underwater. As previously mentioned, this may be due to the incidence of zero percent down payments and relatively recent home purchases. Despite this, rates of home ownership and foreclosure are comparable across both military and national populations.

	Males 18-35	
	Military	U.S.
Home ownership	41%	39%
Homeowners "underwater"	42%	27%
Have been involved in foreclosure in past two years	11%	8%

Among males 18-35, military respondents are less likely than the national average to have unpaid medical bills and to use non-bank borrowing. However, they are more likely than the national average to have home debt, credit card debt and student debt, and are more than twice as likely to have an auto loan.



24. Within the past 12 months

25. Within the past 5 years

Notwithstanding differences in the types of debt military respondents carry compared to national norms, there is little difference in bankruptcy rates across both populations.

	Males 18-35	
	Military	U.S.
Have declared bankruptcy in the last two years	10%	7%

Military males 18-35 are much more likely than the comparable national demographic to have checked their credit report within the past 12 months (63% vs. 40%, respectively).

Financial knowledge and decision making

Military respondents tend to perform better than the national average on the financial literacy quiz questions.

	Males 18-35	
	Military	U.S.
4 or more correct on financial literacy quiz	42%	30%
3 or fewer correct on financial literacy quiz	58%	70%



Improving financial capability is not only important for individual military service members and their families, it is also important for the military and society as a whole.

Conclusion

The financial crisis of 2008 and the deep recession that followed adversely affected the financial conditions of nearly all Americans, including military service members and their families. To some extent, military service may have acted as a financial buffer for some, through steady paychecks, health benefits and programs such as the GI Bill. Some victims of the recession may have been partly motivated to enlist in active duty or reserve components by financial need.

However, military service certainly has not immunized service members against financial harm. While the findings from this study indicate that those in the military are more likely than their civilian peers to be making ends meet without difficulty, portions of the military population are dealing with uncomfortable debt loads. In financial analysis terms, it appears that the *income statements* of most military service members are healthy, while their *balance sheets* are more likely to be stressed. In particular, investments in home ownership have yielded disappointing results for many in the military, leading to high levels of “underwater” mortgages and even foreclosure.

Over the past decade, the Department of Defense has led efforts to improve the financial capability of those in active service through its Financial Readiness Campaign. About two in five active duty service members have participated in financial education offered by the military. Moreover, the majority of all service members surveyed have retirement accounts, have checked their credit reports and have avoided non-bank borrowing methods, all of which are practices encouraged by the DoD.

In sum, the study portrays a military population that in the aggregate is relatively strong in financial capability terms, but includes sub-populations that are struggling. Improving financial capability is not only important for individual military service members and their families, it is also important for the military and society as a whole. Poor financial decisions by individuals in the military can undermine military readiness and morale. Additionally, the majority of those in uniform today are unlikely to make a career of military service and will carry their financial condition with them into civilian life. On the positive side, the findings from the study indicate that improving financial capability can have profound implications for the financial security, well being and long-term prosperity of individuals and families in both military and civilian settings.

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 the first national study of the financial capability of American adults in 2009. The overarching research objectives of the National Financial Capability Study were to benchmark key indicators of financial capability and evaluate how these indicators vary with underlying demographic, behavioral, attitudinal and financial literacy characteristics.

The 2009 National Financial Capability Study consisted of three linked surveys:

- ▶ **National Survey:** A national telephone survey of 1,488 American adults
- ▶ **State-by-State Survey:** A state-by-state online survey of 28,146 American adults (roughly 500 per state, plus the District of Columbia)
- ▶ **Military Survey:** An online survey of 700 military service members and 100 military spouses

In 2012, a second NFCS was conducted in order to assess changes in key measures from the 2009 Study and to include additional topics that are highly relevant today. The 2012 NFCS replicates two of the three components of the original baseline study:

- ▶ **State-by-State Survey:** A state-by-state online survey of 25,509 American adults (roughly 500 per state, plus the District of Columbia)
- ▶ **Military Survey:** An online survey of 1,000 military service members

The survey instruments were designed by a multi-disciplinary team of researchers, policy makers and practitioners in the financial capability field. Both Studies were funded by the FINRA Investor Education Foundation and conducted by Applied Research & Consulting.

This report outlines the findings of the 2012 Military Survey administered to respondents in August and September 2012, supplemented by 301 service members from the 2012 State-by-State Survey fielded between July and October 2012, for a total sample size of 1,301. Military findings are weighted to approximate the population of military service members by gender, pay grade and active versus reserve component, based on the Department of Defense's *2010 Demographics Report*. However, breakdowns of sub-populations may not necessarily be representative.

More information about the National Financial Capability Study, including detailed methodology documents, can be found at www.USFinancialCapability.org.

Appendix: Sample Demographics

The following tables show selected demographic characteristics of the NFCS military service members in this report (weighted), compared to the actual military population based on the DoD's 2010 Demographics Report. Following the classifications used in the DoD's report, active duty service components include the Army, Navy, Marine Corps and Air Force, but not the Coast Guard. Reserve and Guard components include the Army National Guard, Army Reserve, Navy Reserve, Marine Corps Reserve, Air National Guard, Air Force Reserve and Coast Guard Reserve.

Component	NFCS	DoD
Army	22%	20%
Navy	10%	12%
Marine Corps	5%	7%
Air Force	14%	12%

Subtotal Active Duty	51%	51%
Reserve & Guard	47% ²⁶	47%
Coast Guard Active Duty	1%	1%
Total	100%	100%

Pay grade	Active Duty		Reserve & Guard	
	NFCS	DoD	NFCS	DoD ²⁷
E1-E6	74%	74%	73%	73%
E7-E9	10%	10%	12%	12%
W1-O10	17%	17%	15%	15%
Total	100%	100%	100%	100%

Gender	Active Duty		Reserve & Guard	
	NFCS	DoD	NFCS	DoD
Male	86%	86%	82%	82%
Female	14%	14%	18%	18%
Total	100%	100%	100%	100%

Age	Active Duty		Reserve & Guard	
	NFCS	DoD	NFCS	DoD
18-25	28%	44%	25%	33%
26-35	51%	36%	47%	31%
36+	22%	20%	28%	36%
Total	100%	100%	100%	100%

26. Among military respondents in the NFCS, 15% are activated Reserve and Guard members, and 32% are non-activated Reserve and Guard.

27. In some cases, the DoD's report provides breakdowns for the Selected Reserve only. DoD figures for the Selected Reserve are used as proxies for the entire Reserve population in these cases.

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