Americans' financial plan? Not planning

Majority of citizens fearful of losing money, confused by investments; trust lacking

By Mary Beth Franklin

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The Great Recession left many American families struggling to make ends meet, but those who have prepared a financial plan feel more confident and report more success in managing money, savings and investments than those who have not.

Half of Americans who have taken the time to develop a financial plan — either on their own or with the help of an adviser — are more likely to feel they are on pace to meet all of their financial goals, such as saving for retirement or emergencies, according to a new report released Monday by the Consumer Federal of America (CFA) and the Certified Financial Planner Board of Standards, Inc. (CFP Board). In contrast, less than one-third of those without a financial plan say they feel confident about meeting their financial goals

Those who take the time to create a financial plan to manage their income, savings, debt and insurance needs report that they live as comfortably as non-planners who have more money. For example, 48% of people with incomes of $50,000 to $99,000 who have a financial plan described themselves as living comfortably — the same percentage of people with incomes of $100,000 or more who don't have a financial plan.

“Having a financial plan increases one's confidence and effectiveness in managing, borrowing and saving money,” said Stephen Brobeck, CFA's executive director.

Despite the clear value of financial planning, only 31% of the more than 1,500 respondents to the May 2012 telephone survey said they had a comprehensive plan, while about two-thirds (65%) indicated they follow a plan for at least one of their savings goals.

A matter of trust

Despite technological advances that have made accessing and analyzing financial information much easier, a majority of Americans say they find investing complicated and are worried about losing their money. In addition, more than half of the respondents said it's hard to know who they can trust to give them financial advice.

“Consumers understandably are more nervous about investing their money given recent revelations about financial fraud, manipulation and abuse of clients,” said Kevin Keller, chief executive officer of the CFP Board. “We encourage consumers to do their homework and find a financial professional who always puts the client's best interest first.”

Keller recommended that consumers visit the CFP board's website (www.LetsMakeaPlan.org) for tips on how to prepare a financial plan and shop for a financial adviser. He noted that the CFP board works with more than 66,000 Certified Financial Planners around the country and encouraged them to spread the word about the value of financial planning to all income levels and to encourage consumers to take advantage of the free website tools.

Tougher Economy

Saving enough money for future goals like retirement and kids' college—while also maintaining an adequate emergency fund and staying out of serious debt—has always been a challenge. That was true even in the more favorable economic climate of 1997, when Princeton Survey Research Associates International, which conducted the telephone survey, first asked household decision-makers about these topics. In 2012, with high unemployment, stagnant income and reduced net worth, those challenges are even greater.

Recent reports from the Federal Reserve show the devastating effect of the financial crisis on the middle class. The median family, richer than half of all American families and poorer than the other half, had a net worth of $77,300 in 2010, down from $126,400 three years earlier. This means the average family has no more wealth today that it did in the early 1990s, wiping out nearly two decades of economic gains.

The CFA/CFP Board survey documents that economic pain. In 2012, households where people live from paycheck to paycheck outnumber those where people feel financially comfortable by a margin of 38% to 30%. Fifteen years earlier when economic condition were much more positive, these number were reversed.

For most Americans, their home has been their biggest financial asset, but the crash of housing prices has been the single biggest factor that has reduced people's wealth. Today, one-quarter of those with a mortgage said it is underwater and 20% of non-retired home owners think they will still be making mortgage payment when they retire, up from 14% in 1997.

Americans have also scaled back their retirement expectations. During the first survey 15 years ago, half of non-retirees said they expected to retire before they turned 65. Now, only a third believes they will be able to retire this early and 27% think they will not be able to retire until age 70, up from 15% in 1997.