Cents and Sensibility: Schwab Survey Finds That Americans Define Wealth in Very Different Ways

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New “Modern Wealth Index” evaluates Americans’ money habits and reveals Millennials as most financially engaged generation

SAN FRANCISCO--(BUSINESS WIRE)--Americans are split on their definitions of wealth, according to new research from Charles Schwab, with some describing wealth as a specific sum of money and others describing it more as a state of mind.

When asked to define wealth, the top five sentiments among 1,000 Americans are:

1. Having a lot of money (27 percent)
2. Enjoying life’s experiences (24 percent)
3. Being able to afford anything they want (22 percent)
4. Living stress-free and having peace of mind (19 percent)
5. Having loving relationships with family and friends (12 percent)

When asked to express how much is required to be considered “wealthy” in America, survey respondents say it’s an average of $2.4 million, or nearly 30 times the actual median net worth of U.S. households according to the U.S. Census Bureau.¹

However, when asked to compare two opposing ideas of wealth at a more personal level, Americans lean into things that money can’t buy:

- Sixty-five percent equate wealth with having good physical health vs. having lots of money (35 percent)
- Fifty-eight percent say wealth is about having gratitude vs. having money (42 percent)
- Fifty-six percent believe wealth is about building community vs. working on one’s career (44 percent)

“Wealth is often thought of as a lofty, unattainable number that doesn’t apply to most of us, but that’s an old-fashioned notion that needs to be retired,” said Terri Kallsen, executive vice president and head of Schwab Investor Services. “It doesn’t matter whether you have a lot or a little—what matters is that you think about the money you have as your wealth, and that you pay attention to it. Being engaged is the only way to reach your personal goals.”

“Not every investment firm is built to encourage this level of engagement across investors of all types and sizes. We’ve watched as many firms set their account minimums high and their fees higher, making it difficult for people to access professional planning and advice,” said Kallsen. “As Americans’ definition of wealth evolves, the industry needs to modernize its approach to find new ways to deliver good value and a great experience to a broader population.”

Introducing the Modern Wealth Index

To help track how well Americans across the wealth spectrum are planning, managing and engaging with their wealth, Schwab developed the Modern Wealth Index. The Index, which is grounded in Schwab’s Investing Principles, assesses Americans across four factors: 1) goal setting and financial planning, 2) saving and investing, 3) staying on track, and 4) confidence in reaching financial goals.

On a scale of 1-100, Americans received an average Modern Wealth Index score of 49. Among the four factors of the Index, Americans score highest when it comes to confidence in reaching their goals, while the actions it takes to stay on track—such as checking account balances and rebalancing investments—was the largest drag on the overall index score.

“With an average score of 49, we’re seeing people fall near the midpoint of the index, which means they’re doing some things well but there’s also some room for improvement,” said Kallsen.
**Average Modern Wealth Index score: 49**

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<th>Goal setting and financial planning</th>
<th>Saving and investing</th>
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<tr>
<td>43</td>
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*Overall and sub-factors scores are each on a scale of 1-100.*

**Written financial plans unlock positive behavior**

According to the Index, those who put pen to paper with written financial plans are more confident, more engaged with their wealth and demonstrate more positive saving and investing behaviors than average Americans, scoring above the national overall index average of 49 with a score of 79. They also score above the national average across all four sub factors of the index:

1. Goal setting and financial planning: 100
2. Saving and investing: 67
3. Staying on track: 46
4. Confidence in reaching financial goals: 100

There is also a significant difference in specific behaviors when comparing those with a written plan to those without:

| Increased 401(k) contribution in the past year | 54% | 33% |
| Rebalanced 401(k) portfolio                  | 50% | 24% |
| Stick to a monthly savings goal              | 40% | 19% |
| Have an emergency fund                        | 45% | 26% |
| Aware of fees in brokerage account           | 83% | 67% |

According to Schwab's survey, just 24 percent of Americans say they have a financial plan in writing. “We know planning is one of the most fundamental factors of successful investing,” notes Kallsen. “But there is a clear need to make planning and professional advice more accessible and engaging for people, because not enough Americans have written financial plans. It's one of the most important issues for our industry to address today.”

**Millennials are more planning-oriented than older generations**

Millennials score higher than the national average in three out of the four index categories. In comparing generations, millennials model some of the best financial habits, with an overall Index score of 51, higher than Generation X (49) and baby boomers (45). In particular, millennials are:

- More likely to be focused on planning
- More likely to regularly monitor their financial accounts
- More knowledgeable about the fees they pay
- More confident they will reach their financial goals

According to the Modern Wealth Index, more than a third of millennials (34 percent) say they have a written financial plan compared to far fewer Gen X (21 percent) and boomers (18 percent). Impressively, nearly three-quarters (72%) of millennials developed their written financial plans with professional help, and 91 percent of them review or update their financial plans at least annually.

**Short-term behavior undermines long-term planning for millennials**

While millennials are more likely than older generations to have a plan and be engaged with their finances, the Modern Wealth Index reveals a gap in their more immediate money habits:

For example:

- Sixty percent of millennials say they spend more than $4 on coffee
- Seventy-six percent say they buy the latest electronic gadget
- Seventy percent admit to buying clothes they don’t necessarily need
- Six in ten lack a monthly savings goal (62%) or a household budget (58%)
- Less than a third (30%) have built an emergency fund to cover at least three months of living expenses
Millennials also have room for improvement when it comes to debt management. Two-thirds (67%) say they don’t always make their student loans and mortgage payments on time, and nearly seven in 10 (69%) say they have credit card debt.

As millennials age, their habits appear to improve, however. Among older millennials in their thirties, nearly 60 percent (57%) say their financial health is better than it was five years ago and nearly half (47 percent) say they have a household budget compared to those in their 20s (35 percent) who admit they do not.

“The positive behavior changes we’re seeing among older millennials are encouraging. With their focus on planning, they’re already poised for success,” said Kallsen. “Much like the generations before them, millennials will advance in their careers, start families, and accumulate wealth – all factors that will lead to even more financial engagement.”

About the survey and Modern Wealth Index methodology

The Modern Wealth Index, developed in partnership with Koski Research and the Schwab Center for Financial Research, is based on Schwab’s Investing Principles and composed of 60 financial behaviors and attitudes – each assigned a varying amount of points depending on their importance. The Index broadly assesses Americans across four factors: 1) goal setting and financial planning, 2) saving and investing, 3) staying on track, and 4) confidence in reaching financial goals. Based on the total number of points received, respondents were indexed on a 1-100 scale for each of the four factors and an overall score.

The online survey was conducted by Koski Research from April 12 to April 20, 2017, among 1,000 Americans aged 21 to 75. Quotas were set so that the sample is as demographically representative as possible. The margin of error for the total survey sample is three percentage points.

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