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Consumer Thirst for Liquidity Drives Account Growth and Creative Approaches to Real Estate and Non-Mortgage Debt

Consumer Financial Diversity Requires Broader Solutions and Enhanced Advice and Guidance

(May 16, 2018, Rye, NY) – Retail investor thirst for liquidity is driving increases of certain account types as consumers weigh tradeoffs between tax-deferred investments versus readily accessible funds in a new report by **Hearts & Wallets,** the source for retail investor data and insights.

The *Income & Net Worth: Thirst for Liquidity and Other Actionable Surprises in Human Capital and Household Finance* insight module from the annual Hearts & Wallets Investor Quantitative™ Database (IQ™ Database) is a complete picture of household finance. The report provides in-depth data and surprising insights on consumer employment, the growing consumer desire for more liquidity in accounts types, the wide diversity of household saving, spending and real estate ownership broken down by retail investor groups.

Written by Hearts & Wallets subject matter experts with decades of operating experience in retail finance, consumer packaged goods and technology development, and acumen honed at the nation's finest business schools, the report is drawn from the latest fielding of the Hearts & Wallets Investor Quantitative™ Database (IQ™ Database). The IQ™ Database is recognized as the largest single dataset on U.S. retail consumer attitudes, behaviors and buying patterns with over 40,000 U.S. households.

Tough Choices: Defer Taxes or More Liquidity

Growing thirst for liquidity is one of the report's actionable surprises to shape go-to-market strategies. The increasing desire for ready access to their personal capital can be seen in the trend of large ownership jumps in two types of liquid accounts over the past five years. Consumers with taxable brokerage accounts increased ownership rates by 10 percentage points over the past five years, and bank checking, saving and CD accounts are up 9 percentage points over the same time. At the same time, consumers are devoting less money to employer-sponsored retirement plans as a percent of total investable assets even as ownership has held steady. Consumers who put any funds in these retirement plans five years ago allocated 51% of their investable assets to current plans, as compared to only 46% today, a decrease of 5 percentage points.

Good News for Emergency Funds

The growth of these taxable brokerage accounts means good news for consumers seeking a net safety for unplanned expenses. Building an emergency fund continues to be the No. 1 national goal (48%) for consumers. Nearly 40% (48.7 million) have three or more months of their income saved in checking, saving or CD accounts, accounts traditionally thought of as emergency fund resources. When taxable brokerage account assets are included in the definition, the number rises to almost half (49%) or 61.6 million of U.S. households.

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"Many Americans have significant assets tied up in their home or retirement accounts**,"** Laura Varas, CEO and founder of Hearts & Wallets said. "Those types of piggybanks aren't easy to crack open if money is needed quickly or without strings. On top of that, advice and guidance experiences often recommend that consumers put most of their savings into retirement accounts at the expense of other life goals, as our advice benchmarking research has shown. More and more consumers are recognizing the tension between tax deferral and accessibility, and they are balancing liquidity choices on a spectrum of checking/savings, taxable brokerage and goal-specific savings accounts, of which retirement is only one**.**"

Specialty Account for Diverse Spending

Consumers are increasing their ownership of specialty liquid accounts to earmark funds for dedicated expenses. College savings plans grew more popular, increasing in ownership as a percentage from 8 percent to 11 percent over the past five years, although the amount of funds allotted decreased from 28% to 19% of investable assets during that time. Such expenses can take a big whack out of the budgets of consumers who have these expenses. Of the 20% of U.S. households who spent on tuition, childcare and camps for children or grandkids in 2017, this expense was 10% of the household budget, excluding food and other necessities that increase with kids. For the 18% of households paying down their own education loans nationally, the expense consumed 13% of their budget, and even more for younger households.

"Five years ago, Hearts & Wallets saw a spike in consumers increasingly wanting to build up their emergency funds," Varas said. "Now we are seeing growth in accounts that offer liquidity, and specialty accounts that offer the ability to compartmentalize saving and defer taxes. The spotlight is now on financial services firms to offer more personalized advice by understanding consumer thirst for liquidity and diversity in spending needs."

American Ingenuity

Analysis of real estate provides surprises in how consumers are using this important component of household wealth for liquidity. U.S. households have $13.9 trillion in net equity in their primary homes and additional real estate with real estate outpacing investable assets, growing at 9.8% 8-year CAGR vs 6.5% for investable assets. Over the past five years, consumers have shifted toward owning investment and/or vacation properties and away from owning a primary home. The percent of households owning *only* an investment/vacation real estate and not a primary home has increased from almost nothing to 7% over five years. The trend is more pronounced among millennials.

The desire for liquidity is also seen in data on non-mortgage debt where even consumers with substantial assets opt to carry debt.

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"From higher usage of brokerage accounts to increased ownership of investment properties, consumers are making strategic choices where they place their savings," Amber Katris Hearts & Wallets Subject Matter Expert and report author, said. "Consumers are considering important questions on how to manage timing to access capital and maximize flexibility."

Work and Household Finance

The *Income & Net Worth* report provides detailed data and insights on the diversity of work status, income and assets, savings, spending categories, real estate and non-mortgage debt at the household level. The report also examines financial wellness measures and the key behaviors that build wealth.

Methodology
Hearts & Wallets *Income & Net Worth: Thirst for Liquidity and Other Actionable Surprises in Human Capital and Household Finance,* Insight Module report is drawn from the section of the Hearts & Wallets Investor Quantitative™ Database (IQ™ Database) that analyzes U.S. consumer household finance from the dual perspectives of income and net worth. This comprehensive report spans work status for different demographics, income, saving, spending, investable assets, account types, real estate, debt and financial wellness measures.

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