

Getting Consumers Back On Track Financially After the 2008 Market Collapse

The Great Recession of 2008 unnerved markets, paralyzed investor confidence, and exacerbated financial fragility among those financially at risk including seemingly middle class families. What would be the best way forward to restore consumer confidence and help them get back on track financially?

To gain insights into these issues, we conducted a strategic research program in conjunction with 3 nationally-renowned academics with statistically projectible samples of adults in 8 different countries (including the US) around the topics of:

- Confidence in their own financial future
- Basic financial concepts such a compound interest
- Ability to deal with an ordinary financial shock – if and how they could come up with \$2000
- Getting back on track with savings and investment for retirement

In addition to standard battery of financial questions, we worked with two outside academic partners to develop exercises and probes that would assess financial literacy and the ability to cope with ordinary financial setbacks in life. A condition of their participation in this research was that the findings would also be used for a major publication relating to financial policy.

The research revealed that ***only about 40% of consumers across all countries understood financial basics such as compound interest and that almost half of Americans said they were incapable of dealing with an ordinary financial shock.*** While ability to cope varied between the various countries surveyed, the rank order of coping mechanisms (savings, selling assets, etc.) remained the same.

For our financial services clients, the key implications were that consumer education and relationship management start with ***basic financial literacy***. More importantly, this research formed the basis for a key Brookings Institution Economic Activity publication: [***Financially Fragile Households: Evidence and Implications***](#), Spring 2011. Ellen Sills-Levy and the other research team members are acknowledged on p.130.

