

# “What is Emma Worth?”—

## A Calculation

by Pamela E. Swope, CUDE



In 2003, *Savingteen* challenged readers to estimate the monetary future value of a child's membership. Here's one calculation.

Until a few years ago, most credit union people didn't put much emphasis on developing the youth market. After all, they reasoned, youth accounts cost money and provide little or no immediate return. But the reality is that our membership is aging. Be-

tween 1985 and 2002 the average age of adult credit union members has increased from 40.4 to 44.7. Who will reverse the trend?

In January 2003, Bob Hoel of the Filene Research Institute wrote an article entitled “What's Emma Worth?” for *Savingteen* about his granddaughter Emma's future value to her credit union. I had heard Hoel discuss this subject at the National Youth Involvement Board's annual conference the previous August. His analysis focused on financial products and the ages at which members are likely to need them.

I was intrigued and challenged by the fact the no one could assign a dollar value to Emma's potential. Yet it's a number that credit unions sorely need. As we devote more resources to developing services for our own “Emmas,” we continually struggle with the bottom line, not only from our credit union's point of view, but from Emma's as well.

Early this year I began trying to calculate the monetary benefits of

The future value at age 30 of today's newborn credit union member is:

- A. Negative \$4,711
- B. \$0
- C. \$8,084
- D. \$20,648

Emma's credit union membership. I wanted to answer the skeptics, number crunchers, and colleagues who were too embarrassed to ask flat out about serving Emma: “So what's in it for the credit union?”

### My assumptions

I made several conservative assumptions about the value of credit union membership to Emma and her credit union. I excluded products such as insurance and home mortgages because of the complicated variances in premium payments and loan lengths. Figures 1 and 2 show the basic products and services I assume Emma is likely to use by the time she is 30, along with assumptions regarding deposit amounts and loan values.

I assume Emma earns an average of 5 percent on certificates, and 3 percent on savings. Furthermore, I assume the average credit union invests 30 percent of its deposits in securities with an average aggregate yield of 4 percent and lends the re-

Fig 1.

“Emma's” Savings*	Type of Account	\$ Saved/Year
a. Parent (for Emma), birth-age 18	Certificate of deposit	\$600
b. Relative (for Emma), birth-age 18	Savings	\$300
c. Emma's own, age 8-18	Savings (\$5/wk.)	\$260
d. Emma's from job, age 16-18**	Savings (\$60/mo.)	\$720
e. Emma's from job, age 16-30***	Certificate of deposit	\$1,000
	<b>Total saved by age 30*</b>	<b>\$52,978</b>

\* Average APY of 3 percent on savings and 5 percent on certificates. Assumes funds a through d withdrawn at age 18 and spent for education. Fund e continues intact.

\*\* Part-time job, eight hours per week at \$6/hour, assuming 20 percent tax rate.

\*\*\* Full-time job, 30 hours per week at \$6/hour, assuming 20 percent tax rate.

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Fig 2.

"Emma's" Loans*	Age at Origination	\$ Borrowed
1st used-car	16	\$5,000
Computer	18	\$2,500
Credit card**	18	\$3,000
Student**	18	\$12,000
2nd used-car	19	\$8,000
New-car	25	\$12,000
Home improvement	26	\$5,000
Home equity**	28	\$10,000
<b>Total borrowed, age 16-30</b>		<b>\$57,500</b>

\* Assistance with payments may come from a co-signer

\*\* Assumed repayment period for these loans extends beyond age 30, although net value calculation considers loan revenue only up to Emma's 31st birthday.

maintaining 70 percent of its deposits to members with an aggregate net loan yield of 7 percent. Therefore, although the credit union will pay Emma for her deposits it can expect some revenue from lending some and investing the rest.

Now, what is Emma worth to the credit union?

### My calculations

On one side of the ledger, Emma's \$52,978 in total savings by age 30 will yield earnings — income minus cost of funds — with a future value of \$8,310. On the other side, the \$55,700 Emma will borrow between age 18 and 30 will yield earnings with a future value of \$12,337. The combined future value — \$20,648 — represents the potential net value of her membership

from birth to age 30. It's what Emma is "worth."

CUNA's 2001 Marketing Survey reports that only 10 percent of credit union members are under age 18. With the average credit union's membership at about 7,500 members, and assuming a constant birthrate, the aggregate future value over the next 30 years of this year's average number of newborn members (42) is more than \$860,000.

Credit unions must increase their member base to better reflect the U.S. population, of which 25 percent are under age 18. According to CUNA's Youth and Seniors Marketing Survey Report 2001, credit unions on average invest only \$4,000 per year on their entire under-18 membership. Expressed another way, this year the average credit union will spend just \$222 (4,000 ÷ 18) on a group whose aggregate future value is more than 3,873 times that amount.

Of course, some readers will disagree with my estimates. I hope that they will try to refine my assumptions and calculations. I also hope that in coming years, we will devise ways to track the actual net value of serving youth precisely. For those whom the intangible value of members isn't enough to justify the investment in youth, nothing less than hard data will do. I hope we see proof soon, before our competitors figure it out.

### The intangibles

Of course, the value of credit union members doesn't come only from funds their service use generates. We can see effects in other areas as well.

Delinquencies for members who participate in a credit union youth program tied to financial education are almost negligible. CP Federal Credit Union in Jackson, Mich., has had credit union youth programs combined with personal finance education for more than 10 years. Its average delinquency for members age 18 to 25 is just 0.08 percent, compared to the average delinquency of nearly one percent for members in the same age range who did not participate in youth programs.

We can also expect better member loyalty as youth members grow up. Of young people who are credit union members, 46 percent say that they consider the credit union as their primary financial institution.

I believe that developing programs for youth is a long-term investment for my credit union's future growth. I'm patient, and willing to take some risk. If credit unions as a group put greater effort in establishing relationships with our "Emmas," she'll benefit for life, and so will we. If not, our neglect will cost us millions in our lifetimes. \*

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### Resources

- Spreadsheet to calculate Emma's future value with different assumptions; [www.cuna.org/initiatives/youth/savingteen.html](http://www.cuna.org/initiatives/youth/savingteen.html) (Excel)
- "What Is Emma Worth?" by Bob Hoel, executive director of the Filene Research Institute, *Savingteen* (2003); [www.cuna.org/initiatives/youth/savingteen.html](http://www.cuna.org/initiatives/youth/savingteen.html) (PDF format)

**Each year the average credit union spends just \$222 on a group whose aggregate future value is 3,875 times greater.**