

The 2009 Scottrade American Retirement Study Key Highlights

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Introduction

There is little doubt that 2009 is expected to be one of the most economically challenging years for Americans in decades. Consumer confidence is down, unemployment is up, and Washington is working overtime to identify a course back to stability. It is therefore not surprising that the current economic climate is impacting the way Americans view their personal financial futures. What may be surprising are the differences in the ways different generations view their financial situations. The 2009 Scottrade American Retirement Study found that Boomers and Generation Xers are more concerned about their ability to retire, while the majority of consumers in their 20s – Generation Y – remains remarkably confident, despite the fact that most of them have yet to begin saving for retirement. This white paper will examine the results of the Retirement Study and provide insight into the differences among America's generations.

Executive Summary

For the third year in a row, Scottrade commissioned a research study in order to better understand Americans' viewpoints about retirement, investing and personal finance. This study, which was conducted in the first quarter of 2009, was designed to continue tracking trends identified during 2007 and 2008, and to gauge the differences in viewpoints among the main generational sets. For the purposes of this study, we divided those surveyed into:

- Seniors (age 65+)
- Boomers (age 43 to 64)
- Generation X, or Gen X, (age 27 to 42)
- Generation Y, or Gen Y, (age 18 to 26)

Our first two studies identified marked differences between generations, and 2009 showed that there are even more gaps in the ways Americans of different age groups view retirement today.

Perhaps the most remarkable finding in this year's study is the sharp increase in the level of concern about ever being able to fully retire. Fewer than one in three Americans feel that they will never be able to stop working. Their retirement accounts reflect this – not only did 43 percent of respondents report that their investment accounts decreased 10 percent or more in the past year, but almost two-thirds also said they do not plan to contribute to an individual retirement account (IRA) this year. Retirement saving is suffering this year due to short-term financial pressures, such as day-to-day expenses, unexpected expenses and debt.

Interestingly, Gen Y does not share the concerns of older generations. Despite the economic climate, members of Gen Y remain optimistic about their retirement and are something of an anomaly among American adults. The study results indicated that in some areas, Gen Y is even more confident about its future than in 2008. Despite these indicators, the actual amount that Gen Y has saved has declined. Many Gen Yers report not thinking about retirement at all and few have a significant amount of money saved for it.

In summary, the findings of this year's study seem to paint a picture of a country at a crossroads. The pressure of economic uncertainty is causing some to take a gloomy outlook on the future and, at least temporarily, to value short-term stability over long-term preparation. Despite these prevailing opinions, however, a strong sense of hope still persists. Half of those surveyed believe the economy will begin to turn around in 2009, and more than 40 percent believe the new Obama administration will have a positive impact on their personal finances. In

other words, though times may be hard, the optimism that has traditionally been a hallmark of American society persists. Whether or not the optimism is warranted remains to be seen, of course, but these seemingly divergent trends establish an interesting backdrop for this year’s retirement study.

Study Highlights:

1. Hitting Home: The Economy Sparks a Sharp Drop in Retirement Confidence
2. Missed Opportunities: Fewer Americans Plan to Max Out IRA Contributions in ‘09
3. Almost There But Not Prepared: Boomers Show Largest Spike in Retirement Worries
4. Gen X is Gen Stress: Gen X Continues to Show Highest Levels of Overall Financial Woe
5. The Anomaly: Recession Has Somehow Raised Gen Y’s Confidence
6. To Each His Own: The Discrepancy in How Generations Plan for Retirement
7. Coping Mechanisms: All are Spending Less, but Other Actions Vary by Generation
8. Hope Springs Eternal: Despite the Gloom, Americans Remain Optimistic

1. Hitting Home: The Economy Sparks a Sharp Drop in Retirement Confidence

Leisurely retirement has always been a part of the American dream. Unfortunately, due to the current economic climate, the number of people in the United States who fear they will never have the option of fully retiring is growing. (Figure 1)

- Fewer than one in three Americans expect to be able to fully retire, according to the study.
- This number represents a decline, from 39 percent in 2008 to 32 percent this year – a decrease of 18 percent.
- The number has declined from 41 percent in 2007 – for an overall decrease of 22 percent.

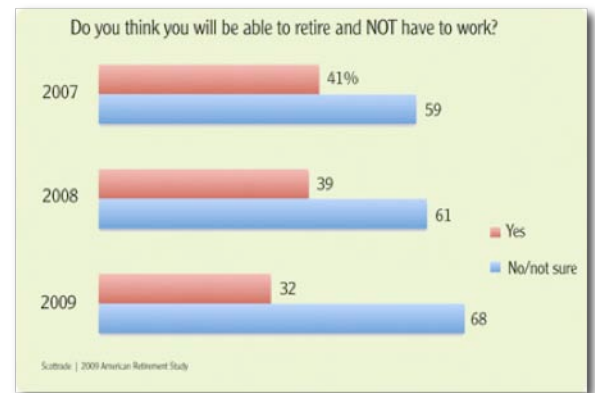


Figure 1

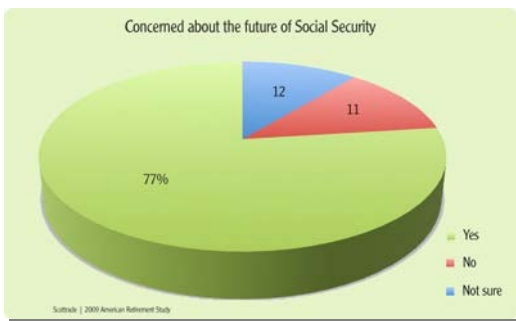


Figure 2

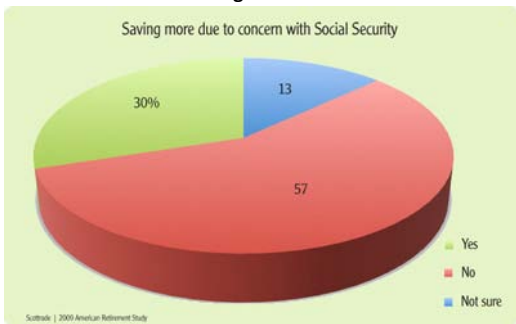


Figure 3

One factor that likely is contributing to these feelings of pessimism is the state of Americans’ retirement funds. The value of retirement accounts is down across the board in 2009, with 43 percent of respondents noting that their accounts decreased 10 percent or more last year. This shift is partially due to the devaluing of many stocks over the past year, but also due to the fact that consumers are investing less and not maximizing their contributions to retirement accounts (see topic two in this report).

Americans’ general pessimism about the future of Social Security is also a contributing factor. More than three quarters of the respondents in our study said that they are concerned about the future of Social Security, (Figure 2) but less than a third are saving more in order to compensate. (Figure 3) Between those numbers lies a significant gap, meaning that a considerable number of Americans are either unable or unwilling to alter their investment plans to prepare for a Social Security shortfall they think is likely.

2. Missed Opportunities: Fewer Americans Plan to Max out IRA Contributions in '09

Another area in which the economic downturn is taking a toll is IRA contributions. Nearly two-thirds of all Americans say they do not plan to contribute to an IRA this year (for the 2008 tax year ending April 15, 2009). (Figure 4) That number is up from just over half of all respondents in 2008. Of those who are contributing, very few – 10 percent – intend to contribute the maximum allowable amount.

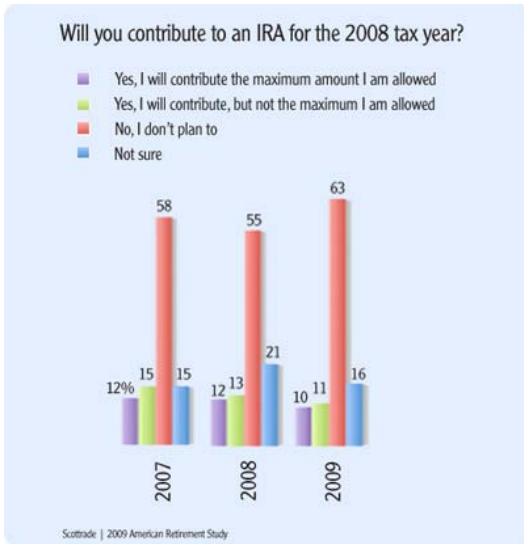


Figure 4

The reason cited most often for the dwindling contributions is not surprising.

- Of those Boomers and Gen X respondents who said they will not contribute to an IRA in 2009, more than half said they simply couldn't afford it. This number had decreased from 2007 to 2008 but jumped markedly this year.
- Fortunately, all is not lost – just six percent of Americans thought it likely that they would make premature withdrawals on their IRA accounts this year. While retirement account contributions may not be growing for many, it would appear that they are not planning to raid existing accounts.

3. Almost There But Not Prepared: Boomers Show Largest Spike in Retirement Worries

Of the generations observed in this study, Boomers showed the most pronounced increase in their level of worry about the future – more than two-thirds (67 percent) describe themselves as being concerned about having enough money for retirement. (Figure 5)

This marks a 16 percent increase from 2008 and reflects the fact that Boomers have been hard hit by the economic downturn and have the least amount of time to recover. This generation's concern is so deep, in fact, that this year saw a remarkable 38 percent increase in the number of Boomers who think they will never be able to fully retire. (Figure 6)

As the generation closest to retirement age, Boomers' instincts to safeguard the nest egg they've worked for decades to build is naturally the most pronounced.

- Half of all Boomers – a 22 percent increase – said they are concerned about protecting wealth.
- A nearly equal number (53 percent) reported worries about their investments achieving a strong ROI.

Surprisingly, despite these high levels of concern among Boomers, a considerable number of them are not taking action to address their fears.

- One in four reported saving nothing toward retirement in 2008.
- About one in five says that while they intend to actively plan for their retirement, they have yet to do so.



Figure 5

- Perhaps most alarmingly, 12 percent say they never even think about planning for retirement.

Whether these attitudes stem from a sense of despair over the economy – not saving because there is nothing to save, perhaps – is unclear. What is clear is that despite having the fewest number of years until retirement, the Boomer generation is by no means immune to the lack of preparation more common in younger generations.

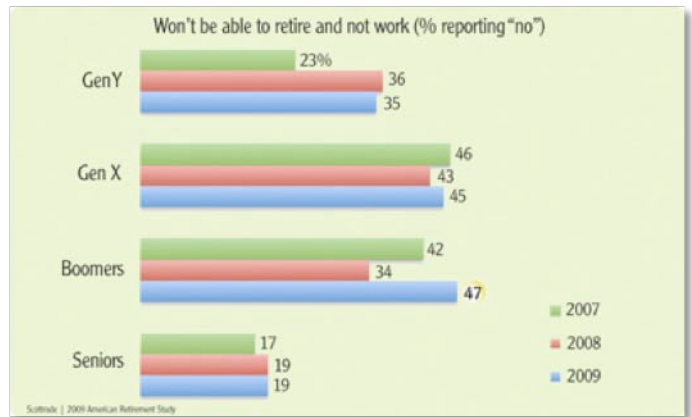


Figure 6

4. Gen X is Gen Stress: Gen X Continues to Show Highest Levels of Overall Financial Woe

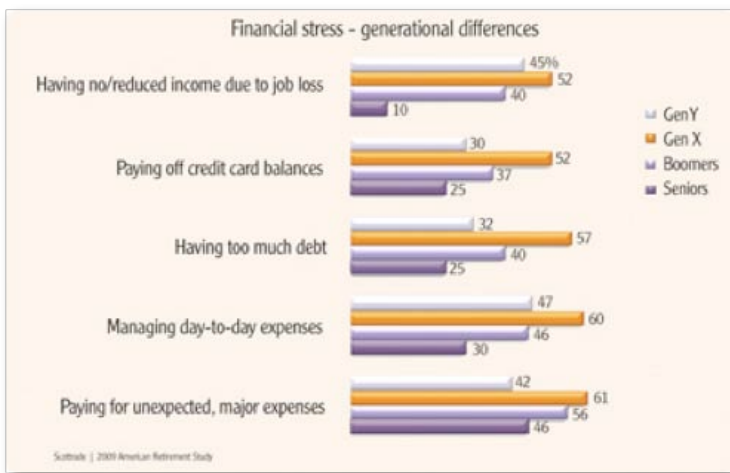


Figure 7

Once again this year, Gen X is the most financially stressed generation overall. Their retirement concerns echo those of Boomers, but the economy has exacerbated their situation. This generation has the most added stress from short-term financial concerns such as managing day-to-day expenses, paying off credit card balances, having too much debt and having reduced/no income due to job loss. (Figure 7)

Adding to immediate stresses is the pressure to prepare for retirement. Gen Xers are increasingly realizing that Social Security is not the safety net they may have once thought it would be. Of all the generations, Gen X is the most worried that Social Security will run out. (Figure 8)

Gen X also is the generation most concerned that they haven't saved enough for retirement. This concern is justified by the fact that the number of Gen Xers who have saved less than \$25,000 jumped significantly – from 40 percent in 2008 to 52 percent in 2009. (Figure 9) The 12 percentage-point jump was the same as that of Gen Y, but Gen Y has more time to recover from recent losses and continue to save.

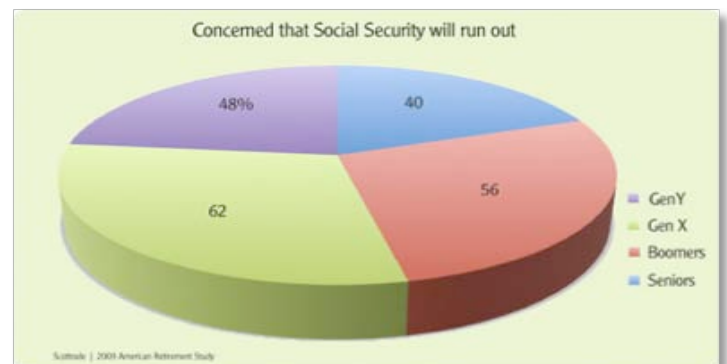


Figure 8

However, Gen X perseveres. This generation’s savings goals are almost as high as those of Boomers, with 35 percent of Gen Xers planning to save 10 percent of their income or more for retirement. Thirty-eight percent of Boomers intend to save 10 percent or more in 2009.

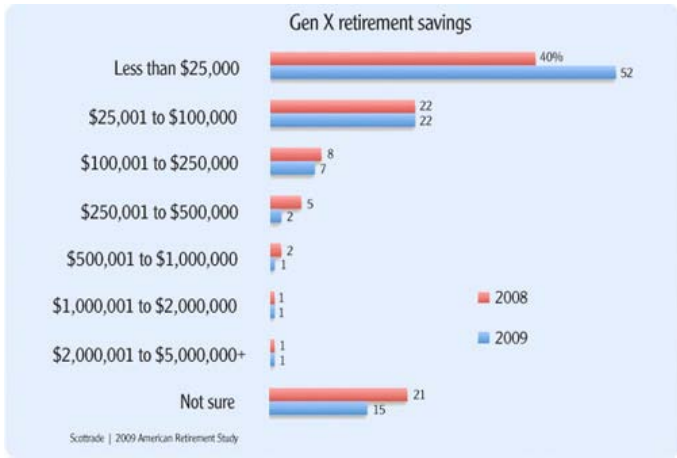


Figure 9

Gen X continues to be the most proactive in its activities to offset their financial concerns by spending less, using coupons, etc. (See topic number seven for more detail.) However, unlike Gen Y, Gen Xers seem to have settled into their careers and most are not actively seeking to work more to earn more or look for a higher paying job. (Figure 10)



Figure 10

5. The Anomaly: Recession Has Somehow Raised Gen Y’s Confidence

Gen Y is fueled by a marked optimism that is unique to their generation. This generation is actually slightly more confident this year that they will be able to retire and not work – even though more of them fell below the \$25,000 mark in savings, (Figure 11) and more of them are concerned that Social Security will fall short (48 percent in 2009 versus 42 percent in 2008).

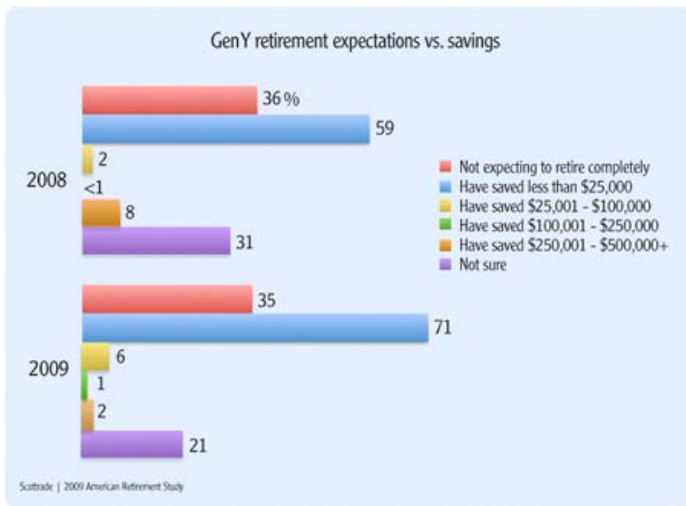


Figure 11

They increasingly feel Social Security will not be there for them, yet Gen Yers are the least proactive in preparing to account for its absence.

- 78 percent are not directly addressing the potential deficient.
- 49 percent are not saving more because of their concern that they can’t count on Social Security.
- Another 29 percent are unsure if they are saving more.

6. To Each His Own: The Discrepancy in How Generations Plan for Retirement

The difference between those who do their own retirement planning versus those who use a professional financial advisor is more pronounced for Gen Y than other generations. (Figure 12)

- 28 percent of Gen Y plans independently, while only five percent use an advisor, a gap of 23 percentage points.
- The percentage point gap is 20 for Gen X, 12 for Boomers and 10 for Seniors.

The reason for this discrepancy is likely due to Gen Y being the Internet generation. While other generations experienced the evolution of online tools, research and educational resources, Gen Y has never been without them. Growing up with these options has made Gen Y accustomed to an independent approach to many things, including investing. It remains to be seen if Gen Y will continue to avoid using professional financial planners as they get older.

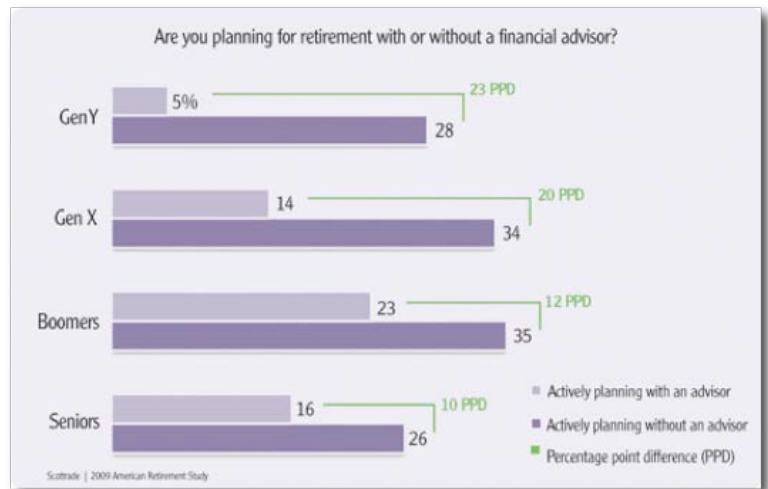


Figure 12

7. Coping Mechanisms: All are Spending Less, but Other Actions Vary by Generation

All Americans are finding ways to reduce financial stress, and across all generations people are spending less. However, there are generational differences in the other ways that Americans are addressing these concerns. (Figure 13)

- Gen X is taking the most action, and it leads the generations in cost cutting measures such as using coupons (66 percent), cutting back on entertainment (65 percent), paying down debts (57 percent) and reducing credit card spending (55 percent).
- Boomers are doing less shopping, leading the generations in cutting back on clothing and electronics purchases (66 percent) as well as postponing major purchases such as a car (42 percent). When they do shop, they're looking for the best deal. They're tied with Seniors for doing the most comparison shopping (70 percent).
- Seniors are cutting back in their wanderings, with 52 percent traveling less.

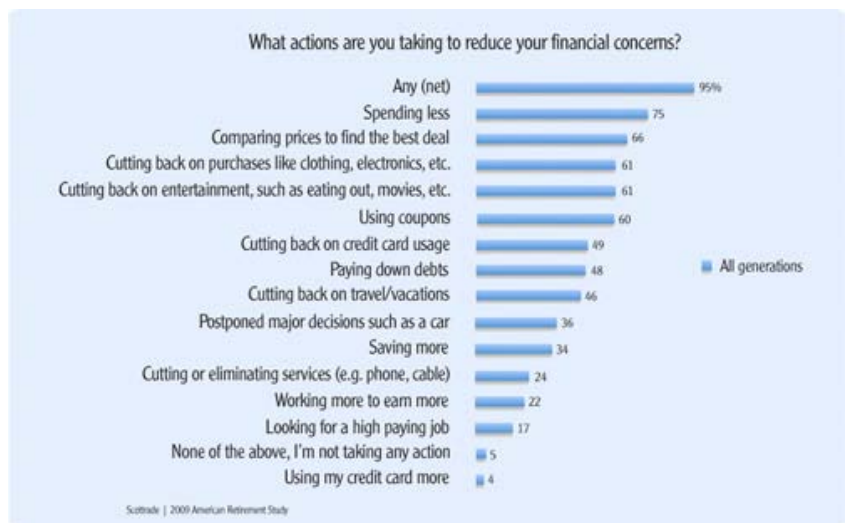


Figure 13

- Gen Y is focused on getting ahead at work, with 30 percent trying to make more money by working more and 29 percent looking for a higher paying job.

8. Hope Springs Eternal: Despite the Gloom, Americans Remain Optimistic

Despite their financial fears and current belt-tightening, Americans are refreshingly hopeful about the economy, themselves and the Obama administration. (Figure 14)

- Half of Americans think the economy will improve by the end of 2009.
 - Optimism is strongest among the younger generations – Gen X and Gen Y tied for the top slot, with 54 percent of each generation thinking that the economy will improve by the end of the year.
 - Boomers aren't too far behind, with almost half (48 percent) expecting improvement.
- Of those who handle their own retirement planning, 61 percent remain confident about their ability to plan for retirement.
- 43 percent of Americans expect a positive impact in their financial status due to President Barack Obama taking office this year.
 - Gen X and Boomers are driving this hopefulness, with 49 percent of Gen Xers and 45 percent of Boomers expecting a change for the better.

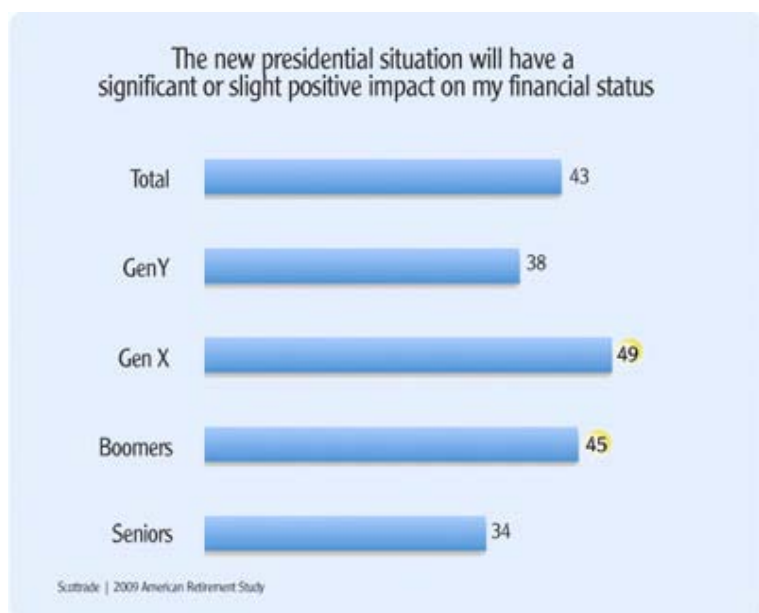


Figure 14

Study Methodology Overview

Study Size: 1,000 U.S. adults, Age 18+ in the contiguous United States, 484 male, 516 female

Generalizability: The study was designed to mirror the U.S. population. The most conservative maximum error range is between +/- 2.6% and +/- 3.1% of the U.S. population.

Method: Opt-in internet survey, Synovate eNation Panel, data collection was January 23-27, 2009

About the Publishers

Scottrade, Inc. is a leading online investment brokerage, featuring the largest branch network in the online brokerage industry. The company offers a full line of investment products, online trading platforms and market research tools to help investors take control of their financial futures.

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