

RETIREMENT Plan Trends



A benefits update

Volume 52, Number 7

Retirement Accounts Regain Ground After Sharp Losses

While the retirement accounts of most Americans sustained substantial losses during the recent economic downturn, gains in share prices between early March and early May 2009 have helped to reverse declines in asset values among those savers who have remained invested in equities, according to a study released by the Urban Institute.

The report, "How Is the Financial Crisis Affecting Retirement Savings?" by Urban Institute research associate Mauricio Soto, noted that the stock market gained 35% between March 9, 2009 and May 5, 2009. In a previous report, Soto observed that the stock market lost 56% of its value—or about \$13 trillion—between September 30, 2007 and March 6, 2009. But for savers who held on to their equities over the entire period,

Soto said, these recent gains appear to have reversed some of the losses experienced since September 2007.

According to the report, updated estimates from the Board of Governors of the Federal Reserve indicated that assets in defined contribution plans and individual retirement accounts (IRAs) reached \$8.8 trillion on September 30, 2007,

with around 70% of these assets held in equities. The value of these assets decreased sharply as the stock market declined, falling to \$7.6 trillion in the second quarter of 2008, \$6.1 trillion by the fourth quarter of 2008, and hitting a low point of \$5.1 trillion in March 2009. But, as of May 5, 2009, the analysis showed that retirement accounts had gained about \$1 trillion in value, to reach \$6.1 trillion in assets. Compared with September 2007, this represents a loss of \$2.7 trillion, or 31%.

Soto observed that older households are not isolated from these market swings. "Before the financial crisis, households age 50 and older typically held half their retirement assets in equities," Soto said. "Although stock losses likely reduced equity exposure, part of their retirement security remains at the mercy of the market."

Also In This Issue

- Views On Retirement Prospects Changing With Tougher Economic Times
- Emotions Can Influence Retirement Savings Behavior

**Furr &
Associates**
Insurance and Investment Services

5575 Garden Village Way
Suite C-102
Greensboro, NC 27410

(336) 852-4554
(336) 698-3180 *fax*
(877) 273-7755

www.furrandassociates.com

Securities and investment Advisory Services offered through Woodbury Financial Services, Inc. Member FINRA/SIPC, and Registered Investment Advisor, PO Box 64284, St. Paul, MN 55164 (800) 800-2000



While just 63% of Millennials said in 2008 that to “live within your means” was the most important lesson for parents to teach their children, in 2009 81% of Millennials called this the most important lesson.

Losses in retirement assets could force older adults to remain in the labor force, Soto stated. However, he added, the slowing economy could limit the employment prospects of older people. Citing recent research, Soto noted that the unemployment rate for older adults reached the highest level since 1948 this winter: in February 2009, 6.8% of Americans aged 65 and older were unemployed and looking for work.

Views On Retirement Prospects Changing With Tougher Economic Times

While Americans of all ages express concern about their financial situations and retirement prospects in the face of challenging economic conditions, younger generations appear to have been most affected, according to a study released by market research firm Age Wave.

The results of the report, “A National Study Exploring How Four Generations Are Rethinking Retirement,” were based on a survey conducted by Harris Interactive in March 2009 of 2,082 Americans spanning four generations: the Silent Generation (ages 64 to 84), the Baby Boomers (ages 45 to 63), Generation X (ages 33 to 44), and the Millennials (ages 21 to 32).

The survey showed that 57% of all respondents report they have lost money in mutual funds, 401(k) plans, or the stock market in the last 12 months, with members of the two older generations experiencing the greatest losses. When asked when they believe investments will recover their former value, the average response was seven years, with younger people predicting longer recovery periods than older respondents.

Results also showed low levels of confidence among people of all age

groups in their retirement prospects, including those who have retired already. The survey found that just 11% of Millennials and Gen Xers, 18% of Baby Boomers, and a surprising 36% of the Silent Generation have actively planned for and are confident about their retirement future. While the percentage of those who claim to be confident about their retirement prospects was found to rise with income level, just 27% of those in the highest income group of \$75,000+ per year expressed optimism about the future.

When asked whether, and by how many years, they expect to postpone their retirement as a result of the financial downturn, the average response among all survey participants was 4.2 years. According to age group, Millennials expect to delay retirement by an average of 4.7 years, Gen Xers by 5.0 years, Baby Boomers by 3.6 years, and the Silent Generation by 1.9 years.

According to researchers, Millennials are emerging from this economic downturn a wiser, more cautious, and more responsible generation. In a survey conducted one year ago, all respondents, including Millennials, voted this age group as the most self-indulgent and short-sighted of all generations. However, the 2009 survey showed that these young adults are the most likely of the four generations to have learned valuable lessons regarding financial responsibility. For example, while just 63% of Millennials said in 2008 that to “live within your means” was the most important lesson for parents to teach their children, in 2009 81% of Millennials called this the most important lesson.

In addition, the 2009 survey showed Millennials to be the most likely among all generations to say that the best thing about having money is “feeling secure,” and they were the most likely of the age groups to have shifted their focus and priorities to family and friends in the past year.

Emotions Can Influence Retirement Savings Behavior

Hopes for attaining a secure retirement income, as well as confidence in their ability to achieve their financial goals, can have measurable effects on the retirement savings behavior of individuals, according to a study published by the Center for Retirement Research at Boston College.

“How Do Emotions Influence Saving Behavior?” was written by marketing professors Gergana Y. Nenkov, Deborah J. MacInnis, and Maureen Morrin. In their study, the authors argue that “hope,” or the degree to which a person yearns for a positive and possible outcome, should be differentiated from “hopefulness,” or the extent to which a person believes that a positive outcome is actually possible. Hope and hopefulness, the study’s authors contend, are emotions that are not necessarily related, and that can operate differently.

“People feel hope when they yearn for a good outcome that seems possible, even if it might not be likely,” researchers explained. “In the context of this study, they really yearn for having enough money to retire securely even if it doesn’t seem likely that it will happen.”

By contrast, the authors said, people feel hopeful when they believe that there is a strong likelihood that something good will happen. Thus, in the retirement saving context, a feeling of hopefulness implies that people not only want to have enough money to retire securely, but that they believe they are likely to achieve the desired level of security.

To gain a better understanding of the effects of hope and hopefulness on people’s retirement savings decisions, the authors conducted an experiment involving 439 individuals. In this experiment, the authors measured participants’ current levels of hope and hopefulness

about whether they will have enough money to retire. Researchers measured levels of hope by asking respondents about their desire to retire with enough money, the importance of having a financially secure retirement for their psychological well-being, and the pleasure that this outcome would give them. Meanwhile, the authors measured levels of hopefulness by asking participants to assess on a scale of 0% to 100% the likelihood that they will be able to save enough money to retire.

Researchers then attempted to influence two groups of participants by either threatening or enhancing feelings of hope and hopefulness. Those whose feelings were influenced were asked to read documents suggesting that the likelihood that they would be able to save enough money for retirement was either better or worse than prior expectations. A third group was asked to read documents suggesting that this likelihood is unchanged, compared with prior projections.

After reading these documents, participants were asked to imagine that they had the opportunity to contribute up to \$15,500 to a 401(k) plan offered by their employer. The respondents were given general information about 401(k)s and were presented with detailed descriptions of eight mutual funds with various levels of risk and return. They were then asked to indicate how much of the \$15,500 they would invest and how they would distribute the money across the eight funds. After the allocations were made, the authors measured the patterns of the respondents by asking them to check all the funds they had considered investing in, as well as whether or not they had actually invested in these funds as part of the experiment.

An analysis of the results showed that those respondents who, prior to the experiment, expressed higher levels of hope have more anxiety about investing and search for more information before making a decision. Researchers speculated this could be because these respondents



In the retirement saving context, a feeling of hopefulness implies that people not only want to have enough money to retire securely, but that they believe they are likely to achieve the desired level of security.

are less experienced with investment decisions, which leads them to think about the consequences of their decisions to a greater extent and to be slightly more risk-averse in general. Despite the finding that respondents with a high level of hope tend to expect a higher return from their investments, the experiment showed that these participants tend to invest less frequently in higher-risk and higher-return stock funds, and more often in the generally lower-return but safer money market funds.

By contrast, participants who were shown to have a high level of hopefulness before the experiment appeared to display more experience through their behaviors. The findings indicated that participants with higher levels of hopefulness are more likely to invest in a 401(k) plan, despite being aware of the possibility that their investments might not yield high returns. Generally, the study found, these respondents are more knowledgeable about investments, less risk-averse, and more optimistic. In addition, respondents with high levels of hopefulness find making investment decisions less difficult, and they are more satisfied with their decisions once they have made them.

When they looked at the impact of threats to hope and hopefulness on 401(k) investments, researchers found that, compared to the control condition, presenting a threat increased the likelihood of joining a 401(k) plan among those with high initial levels of hopefulness. However, people with low initial levels of hopefulness who were faced with a threat were found to be less likely than the control group to choose to participate in a retirement plan. "It seems that threatening

individuals' high hopefulness motivates them to constructive action, such as enrolling in the proposed plan, while this threat backfires for people who are less hopeful," researchers said.

Moreover, results showed that participants with high prior levels of hope were more likely to conduct rigorous research into their investment options when presented with threatening conditions, while respondents with low levels of hopefulness did not change their behavior when their retirement prospects were threatened. The study further showed that, while respondents with high levels of hope were more risk-averse in the control condition, they tended to allocate more money to the riskier stock funds and less to the low-risk money market funds when threatened. By contrast, participants with low levels of hope were not found to change their risk-taking behavior in response to a potential threat.

Given these results, the authors said, it seems that threatening people's strong feelings of hopefulness, or the perceived likelihood of attaining a secure retirement, motivates them to take steps toward achieving this goal by enrolling in a 401(k) plan. Threatening their strong feelings of hope, or the desire to attain a secure retirement, seems to prompt them to search for more information and take more risk in an attempt to maintain their hope of reaching their goal.

Therefore, the authors concluded, "findings from this research suggest that these groups are likely to be motivated differently, and that customizing the presentation of 401(k) plans and financial instruments could maximize their rates of participation and affect their asset allocation patterns."



In addition, respondents with high levels of hopefulness find making investment decisions less difficult, and they are more satisfied with their decisions once they have made them.