

Observer



Lingering Equity Fears Could Weaken Retirement Savings

Fallout from the 2008 global financial crisis continues to undermine faith in equities, even among long-term investors who make retirement saving their top financial priority. That's one of the findings of a recent T. Rowe Price study, which determined that 37 percent of investors are refraining from stock investing.

Those abstaining from equities cited concerns such as the pace of recovery, market volatility, political uncertainty, rising health care costs, unemployment, the pace of the U.S. housing market's rebound, the European debt crisis, and the potential for higher taxes on income, dividends, and capital gains. Half of investors (51 percent) surveyed said their tolerance for risk remains approximately the same as before the financial crisis.

T. Rowe Price warns that

an under-allocation to stocks could result in shortfalls in investors' retirement account balances.

"The lack of faith in equities, even among long-term investors, is troubling," says Stuart Ritter, CFP®, senior financial planner with T. Rowe Price. "Historically, stocks have provided more long-term growth opportunities than bonds, short-term investments, or other vehicles that are generally considered to be more conservative. Investors age 50 and under typically have enough time to overcome market setbacks and can decrease their exposure to stocks as they get closer to retirement age."

The survey was conducted by Harris Interactive in August 2012 among 850 adults, ages 21–50, who have at least one investment account.

Few Americans Act on Financial Advice

Although half of Americans surveyed say they worry about their long-term financial future, only one-third consistently take action after receiving financial advice, according to a TIAA-CREF study.

Among the 1,006 adults age 18 and older surveyed, one in five said it's difficult to find relevant financial advice. Of those, 51 percent said they don't know where to start looking, and 74 percent said they don't know which financial advice sources to trust.

Findings differed by age, gender, and other factors. Gen Y respondents (those age 18–34) demonstrated greater interest in getting financial advice than any other age group. Approximately 40 percent said they frequently look for

financial advice, and this group was more likely to report making changes after receiving advice. Almost 60 percent said they are likely to use online tools to do so.

Women reported facing challenges finding financial advice. Nearly half said they believe personalized, objective advice costs more than they can afford. More than one-third said they don't have time to look for it. However, women were more likely than men to act on advice—nearly 90 percent said they do.

Only one-third of baby boomers (ages 55–64) claimed they consistently act on the financial advice they receive. This group, 80 million of whom will be 65 or older over the next 30 years, expressed the most difficulty finding financial advice.

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45...Percentage of entrepreneurs who said they experienced stress “yesterday,” compared to 42 percent of other workers. Despite experiencing slightly more stress, entrepreneurs are more likely to have learned something interesting (71 percent) yesterday, compared to the other workers (66 percent). (Gallup-Healthways Well-Being Index)

40.3 million...Number of individuals age 65 or older as of 2010 Census Bureau figures. Someone in America ages into Medicare every eight seconds. (Broker World)

\$1.8 million...Total cost of raising a child to independence in the Northeast U.S. according to journalist Nadia Taha. That estimate includes food, clothing, health care, housing, transportation, entertainment, half of typical college tuition, and the mother’s lost wages. (The New York Times)

34...Percentage of financial decision makers planning to retire before age 65, down from 50 percent in 1997, according to a national survey released by the Consumer Federation of America and CFP Board. (Household Financial Planning Survey)

27...Percentage of Americans with a net worth of at least \$25 million who identify themselves as entrepreneurs. (Spectrem Group)

13 percent to 34 percent...Amount by which sad individuals are more likely to forgo greater future monetary gains in exchange for instant financial gratification, compared to participants in a neutral mood. According to the paper “The Financial Costs of Sadness,” published online in the journal *Psychological Science*, sadness stimulates a desire to obtain rewards as soon as possible, even when such urgency results in additional financial cost. (University of California Riverside website)

\$97,000...Median mortgage debt for families in the 55–64 age range, an increase from \$34,000 in 1989. (Wall Street Journal)

61...Percentage of individuals who reported having an emergency fund during the third quarter of 2012, compared to 51 percent the prior quarter. (Financial Finesse Inc.)

58...Percentage of millionaire pet owners who own dogs. (Spectrem Group)

Affluent Investors Identify Key Retirement Obstacles

If your clients are concerned about not reaching their retirement goals because of obstacles such as declining income, college costs, or caring for an aging parent, they have plenty of affluent company. Many of today’s millionaires share similar concerns about their own retirement prospects.

A study conducted in November by Spectrem’s Millionaire Corner found that approximately one-fourth of investors with \$500,000 to \$1 million worry about saving enough for their retirement. And 11 percent of investors with \$1 million or more express the same concern. Although most affluent investors believe

they are saving enough to live comfortably after retiring, retirement security is a concern for 47 percent of investors who report net worths from \$100,000 up to \$500,000, not including their primary residence.

Affluent investors at all wealth levels—including 56 percent of millionaires—cite “decline in income” as the primary obstacle to achieving their retirement goals. The millionaire investors say college costs are their second-biggest obstacle to retirement saving, with unexpected medical expenses coming in third. Non-millionaires picked job loss as the third-most common obstacle to achieving retirement goals.

“Why is it that if someone under full Social Security retirement age begins to take Social Security that their benefits are cut by their earned income, but not by their total income? If I receive \$1M in dividends or bond interest, I can keep my Social Security, but if I work, I can lose it? Does that make any sense to anyone?”

—Herbert K. Daroff, J.D., CFP®,
writing in *Life & Health Advisor*