Reclaiming the Future

One year later: How much have consumer attitudes changed?

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

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ENT-1272-N

Methodology

In 2011, Allianz Life Insurance Company of North America (Allianz), seeking to revisit key questions from the 2010 Allianz ***Reclaiming the Future*** Study, commissioned a "one-year-later" Pulse Survey from Larson Research and Strategy Consulting, Inc.

Using the same respondent pool as the 2010 study, 439 of the original 3,257 respondents (ages 44 to 75) were contacted to determine how those Americans who took the study the previous year now think about retirement, retirement planning, and financial products like annuities – and how their attitudes may have shifted over the past 12 months.

The Allianz ***Reclaiming the Future*** Pulse Survey, 2011 nationwide online survey was conducted in the United States between March 24, 2011 and March 28, 2011. The margin of error for the total sample in 2011 was approximately +/- 4.7%. In addition to a representative sample of U.S. households, subsamples of more affluent households and households who own annuities were also targeted. Results were weighted by age, gender, education, race/ethnicity, and income to account for disproportionate sampling of certain populations.

About the 2010 Allianz ***Reclaiming the Future*** Study

The market downturn that began in 2008 – 2009 caused a profound financial shift for Americans, particularly in how they think about retirement. Despite being the largest, wealthiest, and most influential segment of the U.S. population, the baby boomer "power generation" is facing one of the most pronounced retirement income challenges in history.

To better understand the effects of this downturn on behavior, The Allianz ***Reclaiming the Future*** Study was conceived and designed to be one of the most extensive examinations of baby boomers' preparation for, and expectations of, retirement.

This study considered the unique needs, perceptions, and strategies that define this generation's need to rethink retirement. It also explored consumers' and financial professionals' attitudes toward annuities and the annuity's role in providing retirement income.

One of the most striking findings was the almost universal agreement that the U.S. was facing a retirement crisis. And while there are no easy answers to this crisis, The Allianz ***Reclaiming the Future*** Study helps point the way to options for planning for retirement in ways that can address concerns over diminishing sources of income, the risks of longevity, and continued market volatility.

Are retirement attitudes changing again as the economy recovers?

The original Allianz ***Reclaiming the Future*** Study, conducted in May 2010, was a dramatic snapshot of baby boomer attitudes toward retirement-related issues in the aftermath of the market downturn.

With the erosion of confidence in the long-term value of their assets (including home prices and investments), consumers could no longer deny the looming crisis regarding retirement funding.

The study revealed a fundamental change was taking place in American attitudes and behavior. Consumers were coming to grips with the new reality that it is difficult to feel secure about retirement income if most of it is no longer guaranteed.

But as the economy began to improve, a new question arose. Would these attitudinal and behavioral changes remain, or would they prove to be only temporary?

Returning to the original participants

In March 2011 – one year after the ***Reclaiming the Future*** Study and the month when the Dow Jones Industrial Average reached its highest point in nearly two years – Allianz returned to the same pool of participants in the original study, and again probed their attitudes regarding retirement and retirement planning.

Despite signs of economic recovery, the study revealed that boomers still had high anxiety about whether their retirement income will last and how prepared they are for the future.

This "new normal" mindset includes expectations of a sluggish economy, low investment returns, a more conservative investing strategy, expectations of delaying retirement, and an increasing interest in seeking help from financial professionals.

Key findings of the original 2010 Allianz ***Reclaiming the Future*** Study

Americans believe there is a retirement crisis in this country and fear they are unprepared. When asked, "Do you believe there is a retirement crisis in this country?" an overwhelming 92% of the respondents agreed. More than half (51%) of those aged 44-54 said they feel unprepared for retirement; an even great percentage (57%) worry that their nest egg may not be large enough in retirement.

Americans fear outliving their money more than they fear death. Increasing life expectancies mean that Americans are spending more years in retirement. In fact, a surprising 61% of the respondents said they were *more afraid of outliving their assets than they were of dying*. Among people aged 44-49, that number climbed to 77%.

The economic downturn was a big wake-up call. Seeing their net worth drop significantly in a very short period caused a profound financial shift in how respondents viewed retirement planning. Across the board, a majority of the respondents agreed that "the safety of my money matters more to me than it did a few years ago."

Annuity-like solutions gained relevance and appeal. Despite lingering negative perceptions about the term "annuity," more than half of those surveyed preferred a financial product with a 4% return and a guarantee against losing value, instead of a product with a higher 8% return but a vulnerability to market downturns. Among those who own an annuity, 76% reported being happy with their purchase, citing reasons like guaranteed income for life.

Key findings of the follow-up 2011 Allianz ***Reclaiming the Future*** Pulse Survey

Consumers continued to display high levels of uncertainty about being financially prepared for retirement.

In 2011, a majority of people still had fear of outliving their money more than death. In fact, the percentage of those who feel this way barely declined at all – only three points (to 58%).

Though the majority described the economy as "recovering slowly," consumers' view of their financial picture in 2011 vs. 2010 is remarkably unchanged. Concerns about inflation, outliving one's income and being able to cover basic expenses in retirement continued to plague consumers in 2011; again, the results are nearly identical.

Added to this were new fears – measured for the first time – about seeing one's savings drop again and not being protected against market volatility.

In fact, 51% of nonretirees question whether 401(k), 403(b), and 457 plans are adequate ways to save for retirement. And despite their declarations to never be so vulnerable again in the wake of the 2008 market crash, 40% of consumers have made *no changes* in their investment strategy since the market improved. (About the same number – 41% – have opted for a balanced approach.)

Consumers remain closely split between those who are making changes in spending and saving vs. those who are not. The half who say they have changed their spending and saving habits in response to the financial crisis are cutting back, seeking more protection and safety, and putting away more for savings and retirement.

The toll taken by recent economic volatility has yet to be fully calculated, but one thing seems already certain: it has directly impacted how people are approaching saving for retirement.

Expected retirement age rises – but not everyone will be able to work longer.

One thing that *does* seem to be shifting since 2010 is the predicted age of retirement. Their confidence shaken in both the economy and their security of their assets, boomers seem to be realizing they'll need to retire later than they previously thought.

In 2010, the average age of expected retirement was 63. In 2011, that average climbed another year to age 64. More significantly, there was a 6% rise (to 29%) of those who thought their retirement could be delayed to as late as age 75.

Yet, ironically, even as people are coming to terms with working longer, data shows that people are often retiring *sooner* than they expected.

According to the McKinsey & Company report, *Cracking the Consumer Retirement Code*, two in five people are forced to retire earlier than planned due to a unplanned factors such as layoff or illness.

Top boomer priority: stable, predictable standard of living

As a result of their uncertainty and anxiety, boomers now see their main retirement goals very clearly.

Prior to the 2008 – 2009 financial crisis, baby boomers' minds were set on high returns when investing for retirement. However, when asked in 2010 and 2011, boomers by more than a three-to-one margin remain more attracted to guarantees for their retirement savings vs. potential high returns with market risk.

When asked how to describe their retirement goals, 81% said one of their most important goals is having a stable, predictable standard of living throughout retirement.

Accordingly, consumers are playing it safe and erring on the side of being more conservative in their investments. While many say they have taken a balanced approach, almost twice as many say they've become more conservative vs. more aggressive in their investment strategy.

Preference for annuity-like solutions continues to grow.

In 2010, safety was a preferred factor of more than two to one over high returns. And this year, having a source of guaranteed income is just as important for boomers, as pessimism about retirement preparedness also remains unchanged.

In both the 2010 and 2011 studies, fully half of respondents noted that they are extremely concerned about the possibility of outliving their income.

Consumers were again asked which is more attractive, a financial product providing 4% return that is guaranteed not to lose value or one with 8% return that is subject to market risk and loss of principal. Just as we saw last year, consumers still *greatly prefer* annuity-like products (lower return with protection) over mutual fund-like products (higher return but with market vulnerability). 76% of respondents chose the guaranteed product – nearly identical to the 80% of respondents in 2010.

Given this preference, it's not surprising that annuities seem to be one of the financial products that experienced growth over the past year, as consumers shifted slightly to more conservative products. This growth was especially pronounced among the very affluent (those with HHI of $150,000 or more) – a 59% increase in ownership from the previous year.

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The concept and benefits of annuities are clearly attractive and relevant to consumers across all groups, even though most are unaware that these are the attributes of annuities:

- "I would be interested in a product that gave me guaranteed income for life" – 64%
- "I would pay a reasonable fee for protection against marketplace losses" – 39%
- "I have become more curious about annuities in the past year" – 19%

As for those who currently have annuities, these owners continue to feel more confident and comfortable about the future. And once again, we see pronounced and positive differences between annuity owners and nonowners. Those with annuities feel able to retire as much as 10 years sooner (during ages 55 to 59) than those without.

Happiness with annuities remains very high and has even continued to increase: 79% say they are pleased with their annuity – a rise of 3% over the previous year.

Receptivity to financial professionals is increasing as boomers seek direction.

Another interesting finding is that people have definitely become more receptive to financial professionals.

While the percentage of boomers currently working with financial professionals stayed about the same (26% in 2010, 27% in 2011), those who said they are now receptive to working with a financial professional increased to 32% (up 3%).

At the same time, the ranks of the close-minded are diminishing. Those who said they were not receptive to working with a financial professional decreased to 21% (down 4%).

In 2010, based on the downturn, boomers wanted new things from their professionals. This trend, in direct contrast to the old model of financial professionals who focused more on investing for the highest return, has definitely continued this year. In terms of what type of guidance they want from their financial professional, boomers were increasingly looking for their financial professionals to:

- "Create more safety and guarantees in my nest egg" – 31% (up 6%)
- "Work with me to create a serious plan for retirement – 12% (up 4%).
- "Understand the big financial picture for me" – 37% (up 8%).

Significantly, of those without financial professionals, more than 38% indicated a significant interest in working with one to create a serious retirement plan and achieve security for the long term.

Still needed: a focus on the transition period

As the Allianz ***Reclaiming the Future*** Pulse Survey, 2011 reaffirms, people have deep-seated fears about their economic future. Those fears haven't significantly changed over the past 12 months, even with the economy in a partial recovery.

But the problem runs even deeper than market turbulence. Longer life expectancies and new medical breakthroughs mean Americans will likely need their assets to last longer than they expected. The cost of living in general – and health care costs in particular – continue to rise, putting more pressure on retirement savings.

No wonder boomers feel more unprepared for retirement than ever.

Increasingly, annuities are being recognized as a solution for guaranteed retirement income – but what's still missing is a focus on the transition period between accumulating assets and taking income. During this transition period – which can begin five to 10 years before retirement – the emphasis needs to be on more than just withdrawing money from an annuity.

This is the time when it becomes extremely important to carefully investigate and consider strategies for income distributions, reducing tax liability, protecting your investments against market volatility, and keeping inflation from eroding purchasing power.

Annuities can offer optional riders, typically at an additional cost, that can provide these additional benefits. Given the new normal that boomers are facing, and the increasing complexity of retirement planning, people will likely seek the assistance of a trusted financial professional more than ever before.

The era of choosing risk over safety has definitely ended.

The updated Allianz ***Reclaiming the Future*** Study confirms that, while the economy may be showing signs of slow improvement, consumer attitudes and behavior have stayed remarkably consistent since the worst of the economic turmoil. The desire for guaranteed lifetime income and more security in retirement remains high – and is still increasing.

Once burned by market volatility and blind faith in the rising value of their assets, people are determined to not be burned again.

For more information about the *Reclaiming the Future* Studies
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(R-1/2016)