

Financial Concerns and Expectations in America

Key Findings from a Survey of Economists

February 2010



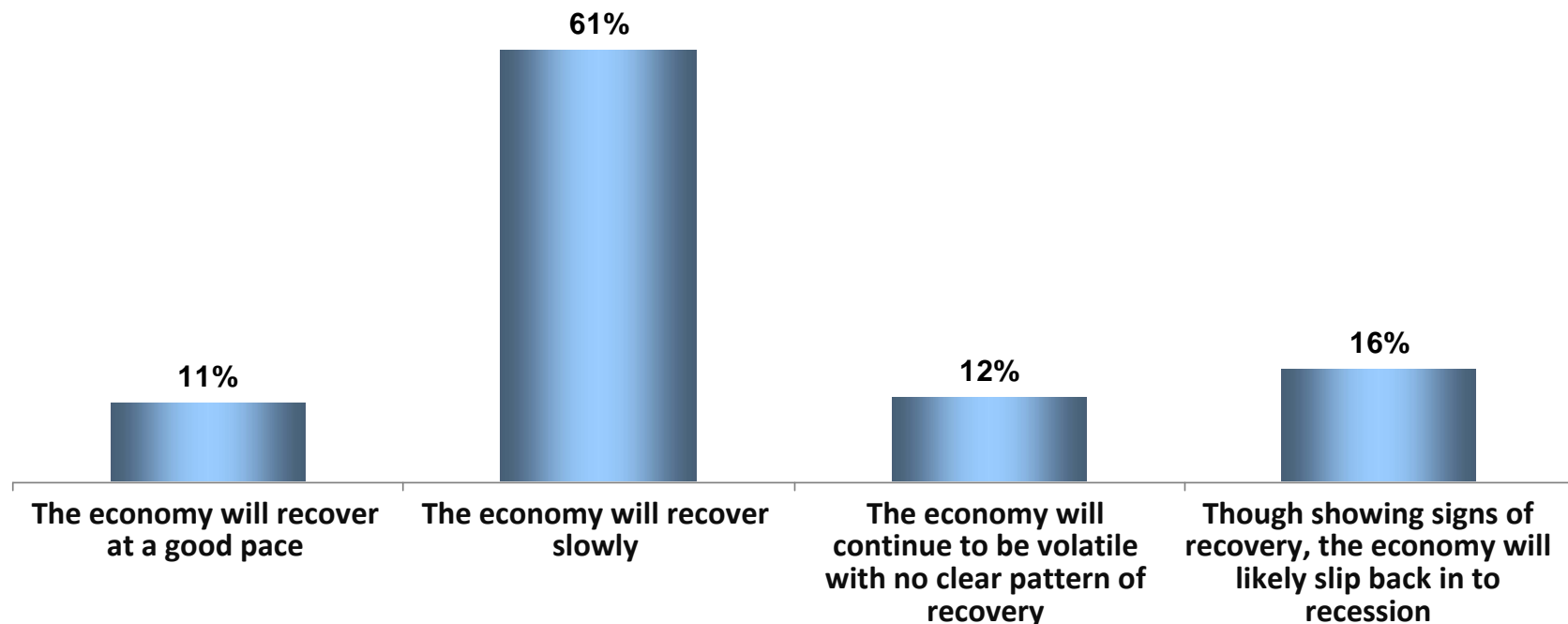
Mathew Greenwald & Associates, Inc.

Background and Methodology

- ▶ This report presents key findings of a survey of professional macro economists conducted by Mathew Greenwald & Associates.
- ▶ Survey respondents were asked to look forward and make predictions about the future of the American economy and the American public's response to recent economic events, as well as to provide input on key features desired in an ideal retirement product.
- ▶ Economists were surveyed by telephone by trained interviewers from National Research, LLC, a subsidiary of Greenwald & Associates; an option to conduct the survey online was also offered.
 - ▶ Respondents were screened to ensure they were working as an economist with a focus on macro economics and feel comfortable making economic forecasts.
 - ▶ A total of 101 interviews were completed between December 17, 2009 and January 6, 2010.

Prospects for Economic Recovery

- ▶ Overall, economists are somewhat optimistic about the prospects for economic recovery.
 - At least two out of three economists believe that the economy will recover, whether *at a good pace* (11%) or *slowly* (61%).
 - At the same time, however, notable shares believe that the economy will *remain volatile with no clear pattern of recovery* (12%) or *slip back in to recession* (16%).

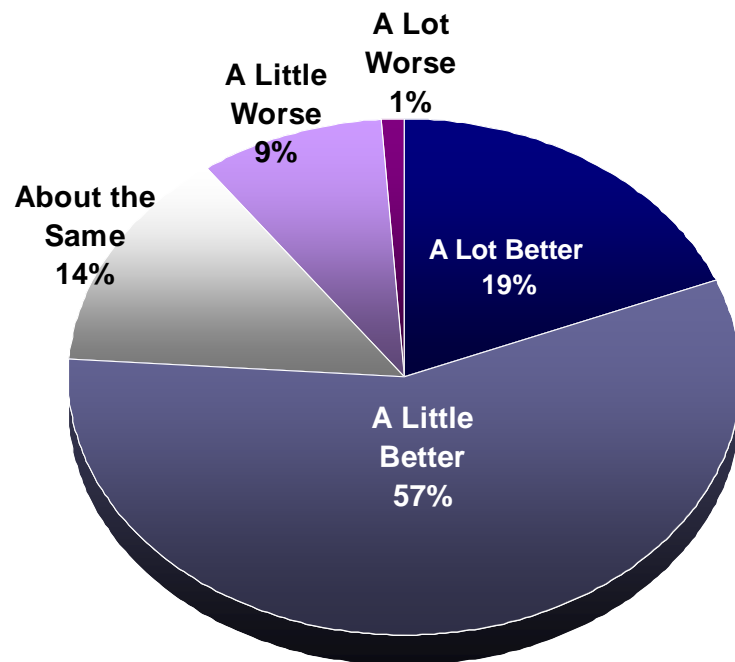


Q: Which of the following statements best describes your opinion of the U.S. economy at this time?

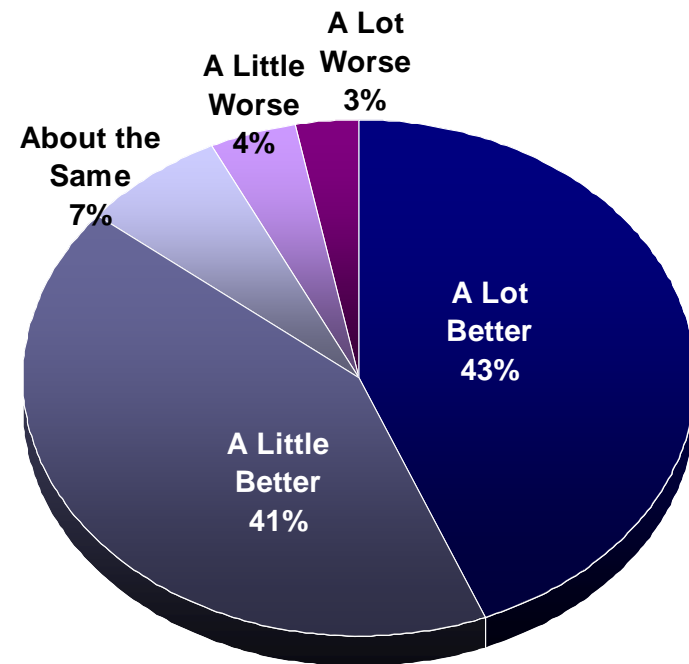
Expectations for the State of the Economy

- ▶ **Many economists think an economic recovery will occur in the very near future.**
 - Three out of four economists believe that the economy will be *a little* or *a lot* better a year from now (76%), and more than eight in ten believe it will be better three years from now (83%, with 43% overall feeling it will be *a lot* better in three years).
 - Most of the rest believe the economy will remain about the same, whether in a year (14%) or in three years (7%).

State of the Economy in One Year



State of the Economy in Three Years



Volunteered Concerns About the State of the Economy

- ▶ **Despite their optimism that a recovery is coming soon, economists have a number of concerns about the current state of the American economy.**
 - When asked to list their top concerns for the national economy, economists' top mentions include government spending (volunteered by 35%), unemployment (24%), and the political climate (20%).
 - Additional top concerns include interest rates (a concern for 14%), slow business growth (14%), inflation (13% economists), and taxes (9%).

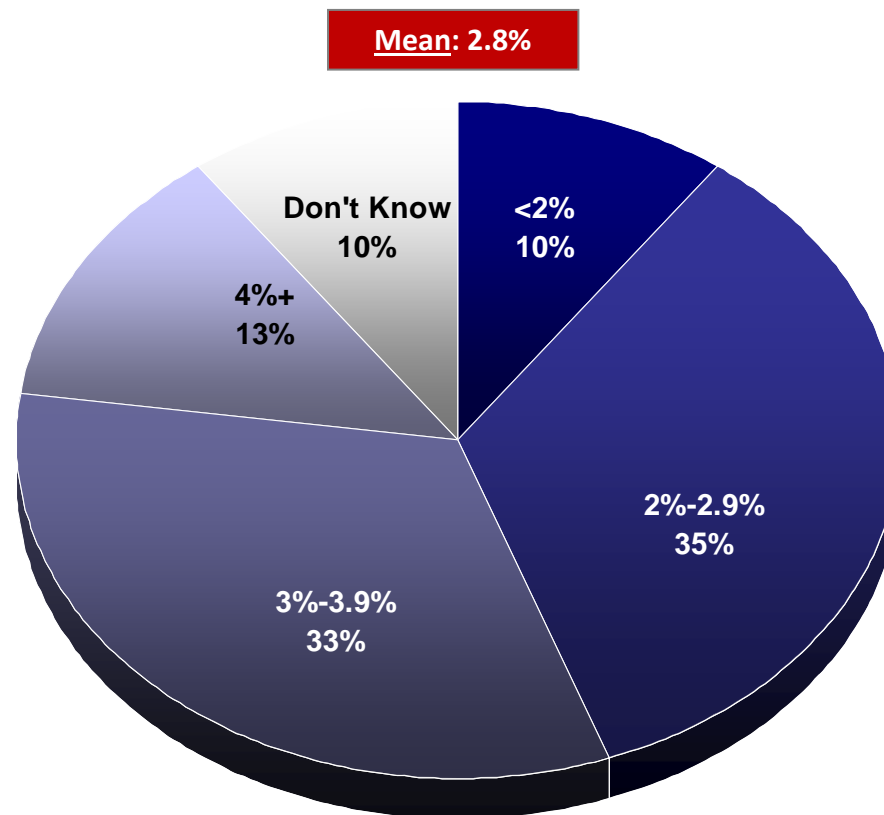
Percent Mentioning Concern (Top mentions)

Economists	
Government spending: spending more than they take in, growing deficit/debt	35%
Unemployment rate, creating new jobs	24%
Government/politics: ineffective, too much/little regulating lobbyist groups, political gridlock, lack of direction	20%
Interest rates, monetary policy	14%
Slow business growth, no commercial lending	14%
Inflation/value of dollar	13%
Higher taxes	9%

Expectations of GDP Growth

- ▶ **The vast majority of economists believe that the rate of GDP growth will be 2% or more next year.**
 - While 10% believe the rate of GDP growth will be less than 2% next year, one-third each believe it will be between 2% and 2.9% (35%) or between 3% and 3.9% (33%).
 - Thirteen percent expect a substantial rebound in the rate of GDP growth of 4 percent or more.

Estimated Rate of GDP Growth in Next Year (Economists)

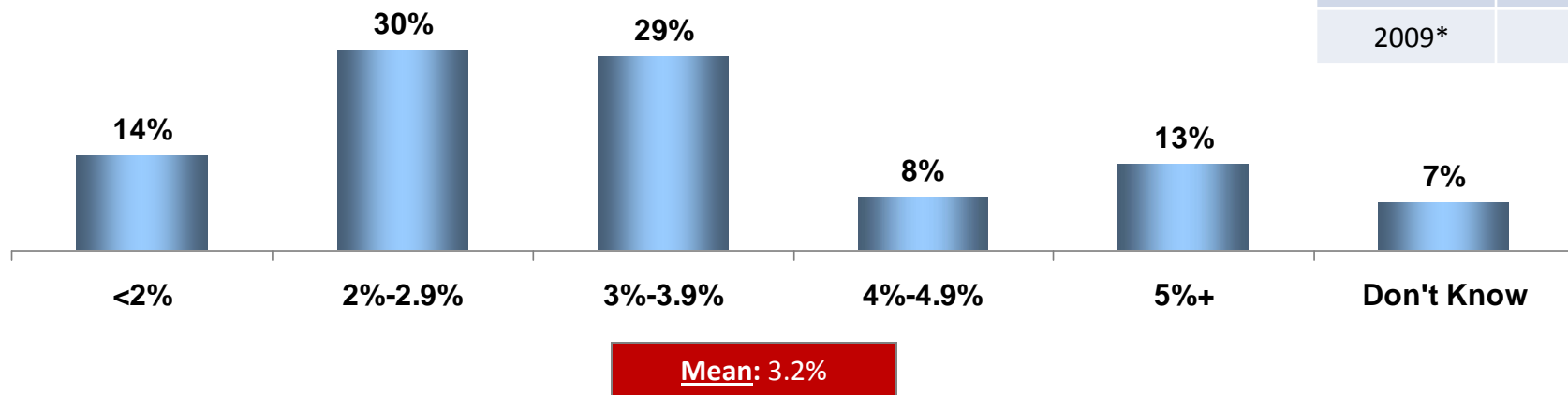


Q: Specifically, what do you expect the rate of GDP growth to be next year?

Expectations for Inflation Next Year

- ▶ **A majority of economists estimate that the rate of inflation will be close to historical averages in the coming year.**
 - The average economist believes inflation will be 3.2% next year, very close to the historical average leading up to the recent economic downturn.
 - A majority of economists believe that the rate of inflation will be between 2% and 3.9% next year (58%).

Expected Rate of Inflation in One Year



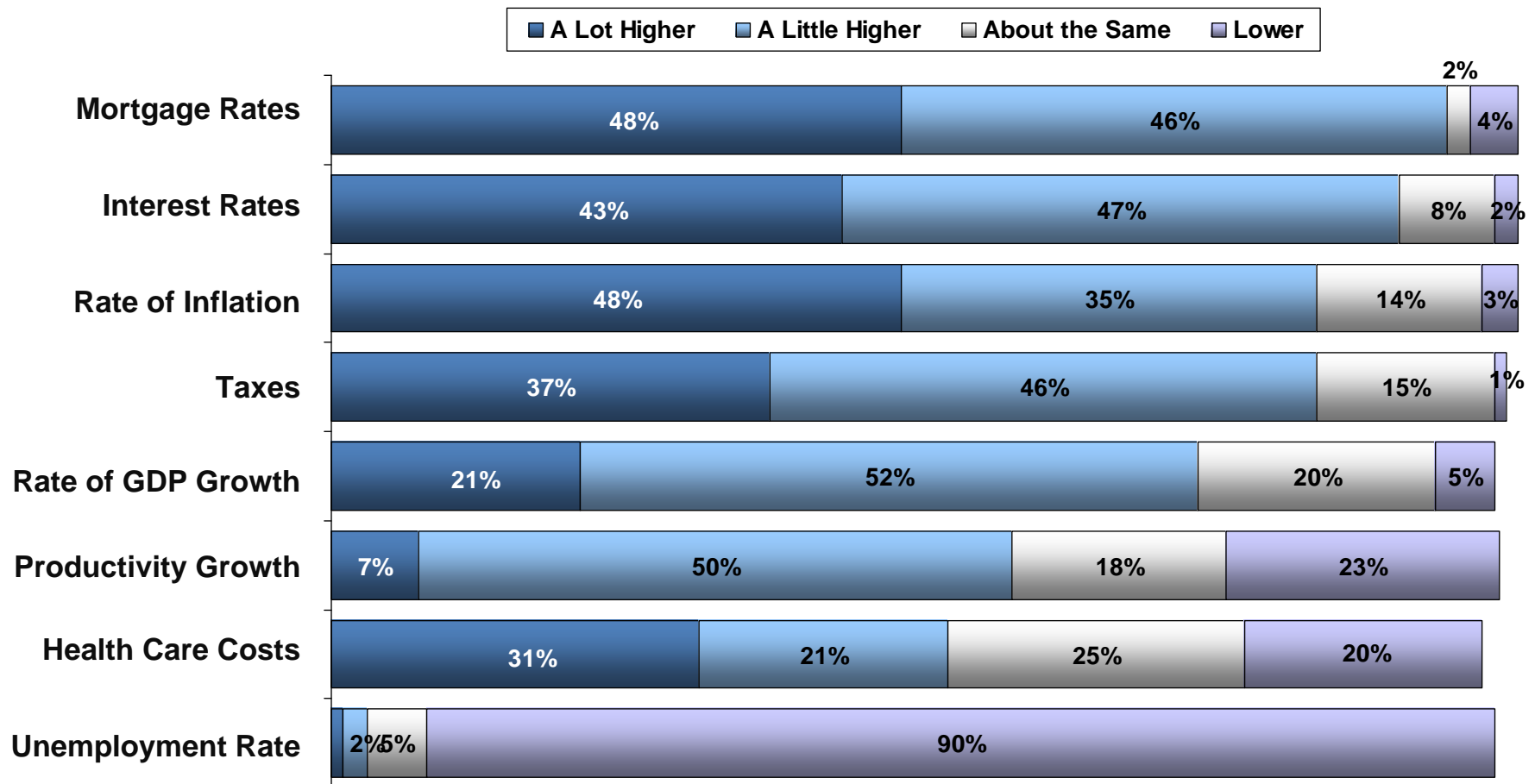
Year	Actual Inflation Rate
2006	3.2%
2007	2.8%
2008	3.8%
2009*	-.62%

Q: What do you think the inflation rate will be in the next year?
 * Through November 2009.

Expectations for Next Three Years

▶ With the exception of unemployment, a majority of economists believe that a number of economic indicators – from mortgage rates to taxes and health care costs – will be higher three years from now.

- Nine out of ten economists believe that unemployment will be lower in three years (90%).



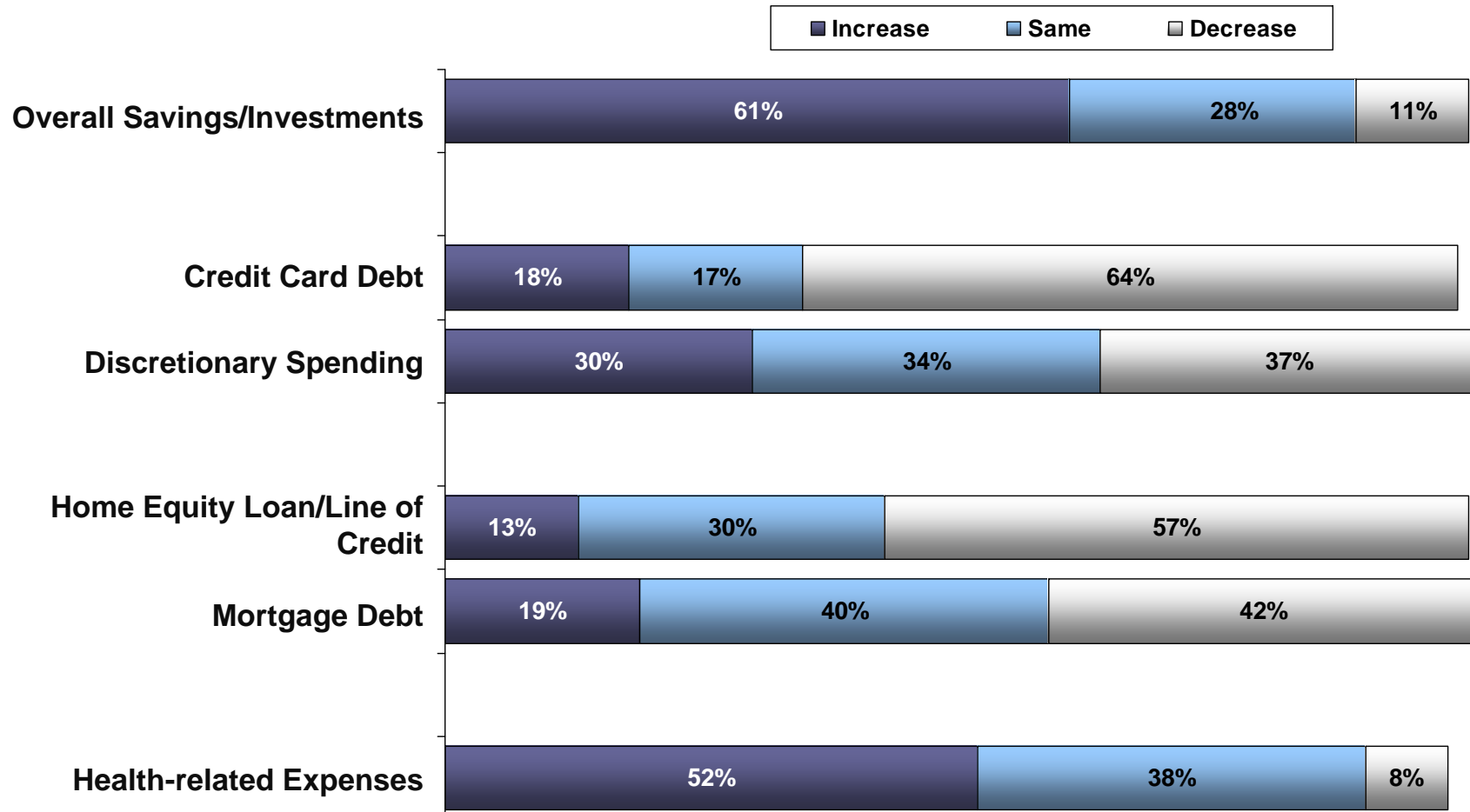
Q: Compared to their current levels, how do you think each of the following will change in the U.S. in the next three years?

Expected Changes in Saving and Spending

- ▶ A comfortable majority of economists believe that consumers will increase the level of their overall savings and investments next year (61%), with most of the rest (28% overall) believing that consumers will maintain their current level of savings and investments.
- ▶ Economists also seem to feel that American consumers will try to reduce their credit card debt, with two out of three predicting that consumers will decrease this debt (64%), with the rest evenly split between predictions of increases (18%) or keeping their credit card debt about the same (17%).
- ▶ One in three economists believe discretionary spending will decrease (37%) and about the same proportion believe will stay the same (34%); 30% believe consumers' current level of discretionary spending will increase.
- ▶ Economists by and large believe that Americans' amount of housing debt will remain the same or decrease – 57% believe the amount of home equity loans and lines of credit will decrease in the next year and another 30% believe it will decrease, while only 13% believe that consumers' level of home equity loans will increase. Only one in five believe that mortgage debt will increase (19%), compared to 42% who believe it will decrease.
- ▶ Health-related expenses are likely to increase in the minds of these economists, with over half anticipating an increase in this spending for the average American next year (52%). Almost all of the rest (38% overall) believe these expenses will stay the same.

Expected Changes in Saving and Spending

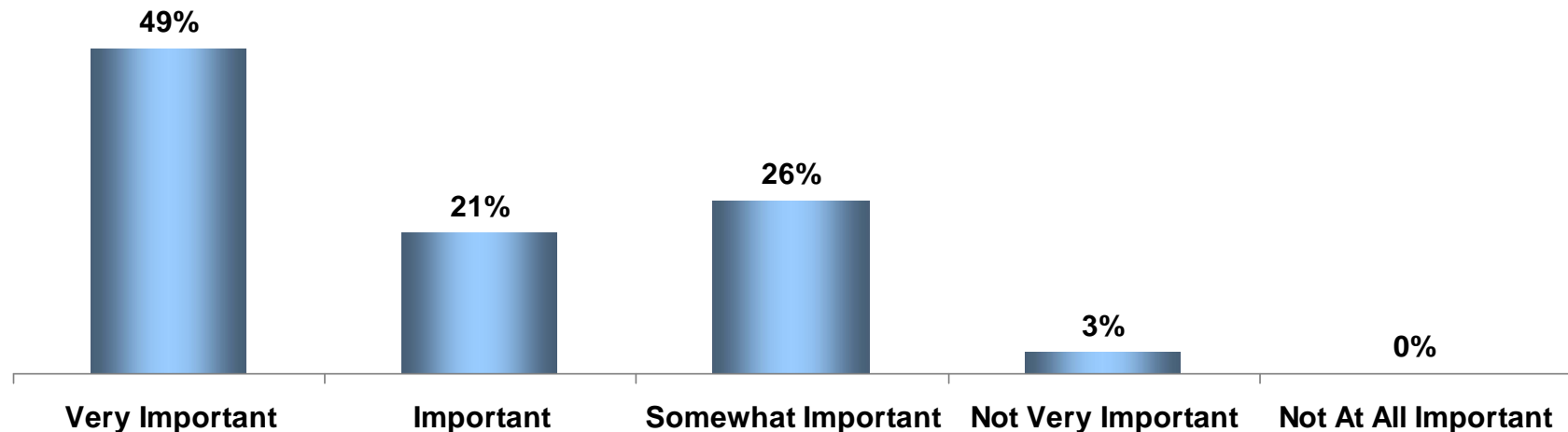
Expected Changes in Next Year



Q: In the coming year, do you think Americans will increase, decrease or keep the levels the same for the following?

Importance of Investing in Equities

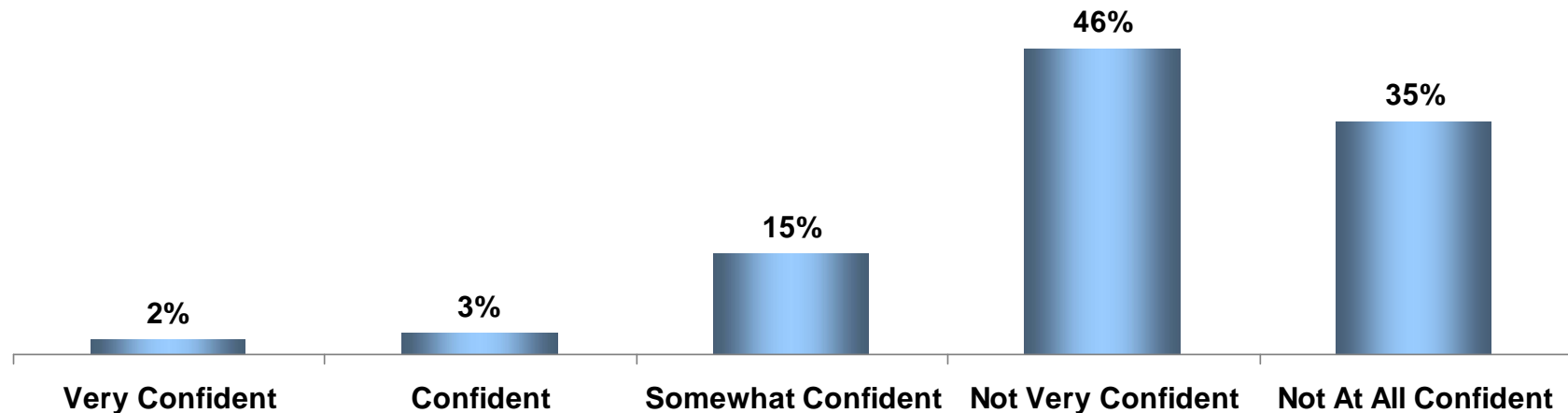
- ▶ **Strong majorities of economists believe that it is important for people to have at least some of their investments in equities in order to reach their retirement goals.**
 - Seven out of ten economists (69%) believe that investing in equities is *very important* or *important*. Almost all of the rest believe that investing in equities is *somewhat important* (26%).
 - Only 3% of economists believe that investing in equities is *not very* or *not at all important*.



Confidence in Ability to Invest in Equities

▶ **Majorities of economists have little confidence in the ability of Americans to invest in equities.**

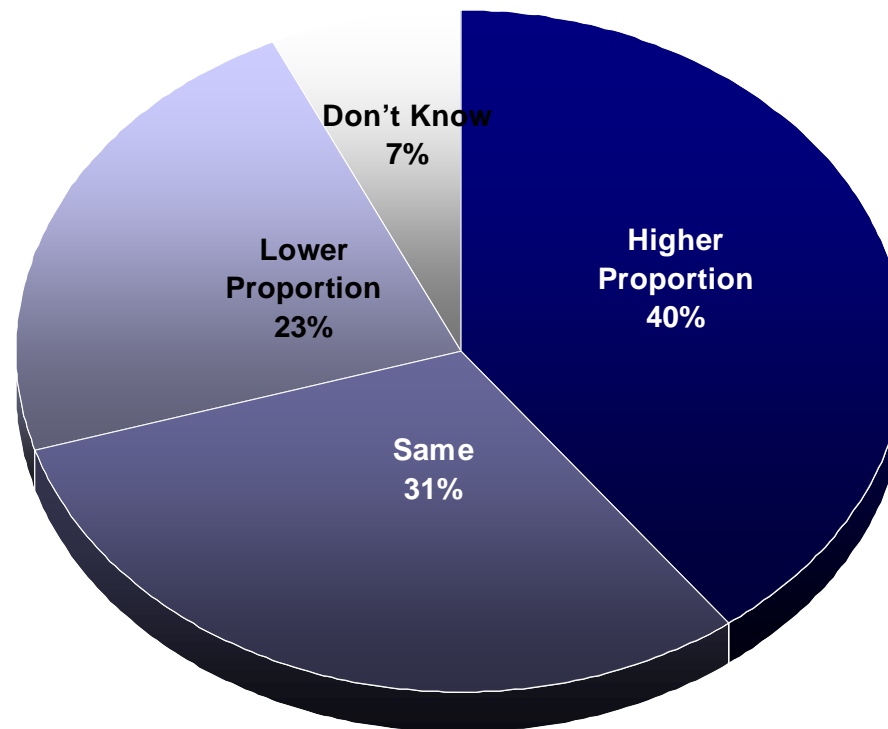
- Only 5% of economists are *very confident* or *confident* in the ability of most Americans know when to invest in equities and when to remove their assets from equities, and only a handful more feel *somewhat confident* (15%).
- Eight out of ten economists (80%) are *not very* or *not at all confident* in the ability of Americans to invest in equities.



Expectations for Ownership of Equities

- ▶ **Despite their lack of confidence in Americans' investment ability, economists believe the average American will maintain or increase their ownership of equities in the coming year.**
 - Four out of ten economists believe that the average American will have a *higher* proportion of their investments in equities in the coming year (40%), and three in ten believe that this proportion will *remain the same* (31%).
 - Still, one in four believe the average American will have a *lower* proportion of their investments in equities in the coming year (23%).

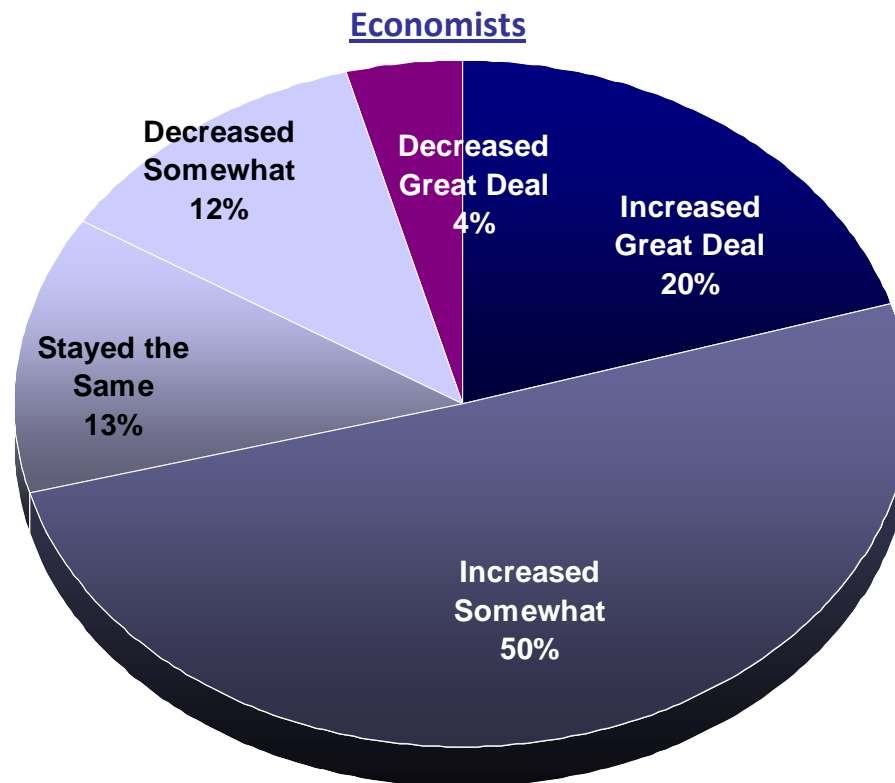
Expected Change in Ownership of Equities in Coming Year (Economists)



Q: In the coming year, do you think the average American will have a higher proportion, a lower proportion, or the same proportion of their investments in equities?

Importance of Saving for Retirement

- ▶ In light of the recent economic turmoil, economists believe that there has been at least a small shift in the public's mindset about saving for retirement.
 - Nearly three out of four economists believe that the priority American workers place on saving for retirement has increased (20% believe it has increased *a great deal*, 50% believe it has increased *somewhat*).



Six out of ten economists believe Americans approaching retirement have experienced the largest increase in retirement priority (59%).

Concerns About Retirement Preparations

- ▶ **Economists also have a number of concerns about the way Americans are preparing for retirement.**
 - The primary retirement preparation concern for economists is a lack of savings and investments to last through retirement without a decline in the standard of living (volunteered by 42%).
 - Additional concerns of economists include a reliance on government programs (38%), a general lack of preparation (21%), a lack of incentives for saving (16%), and poor financial literacy (11%).

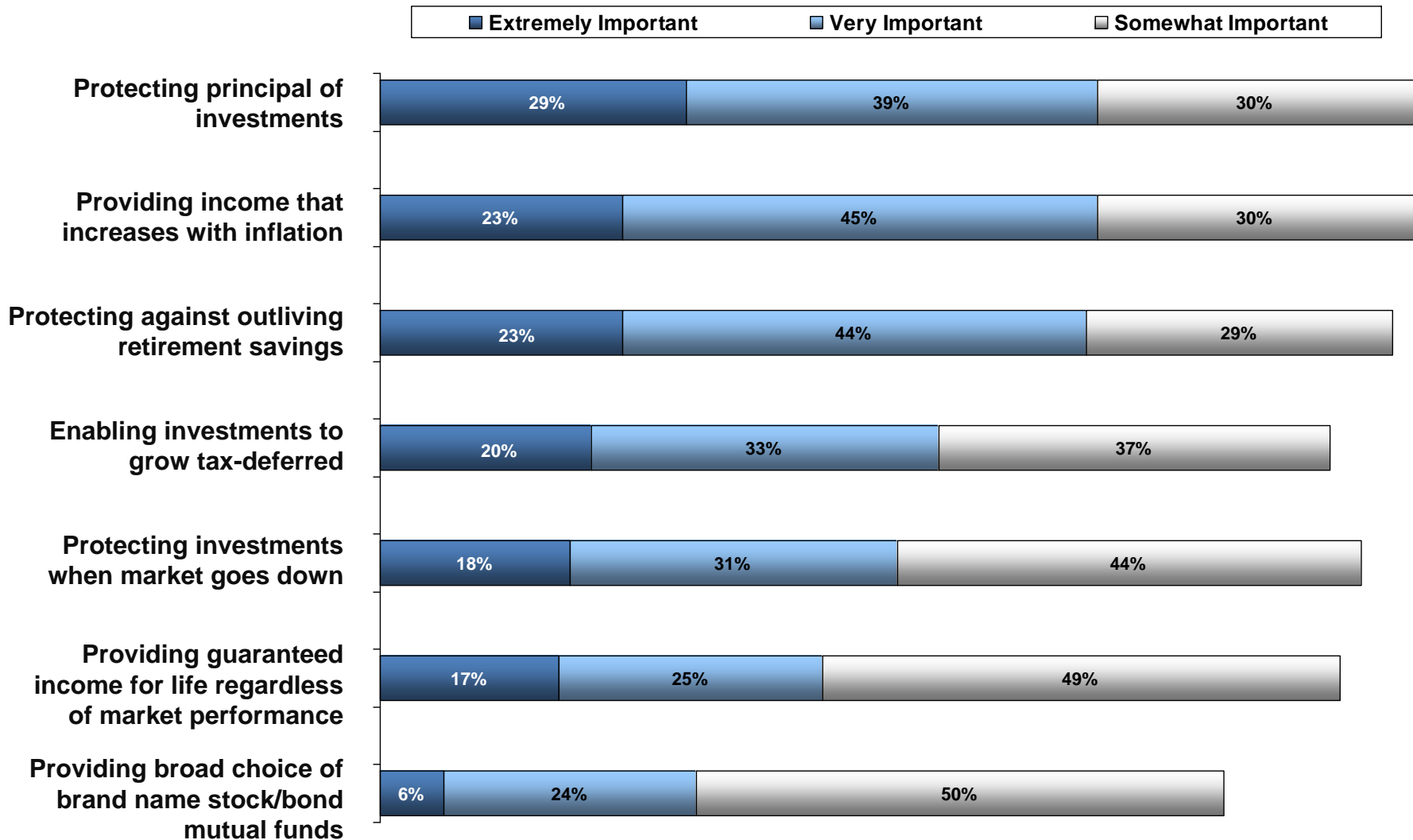
Percent Mentioning Concern (Top mentions)

Economists	
Lack of savings and investments; insufficient funds	42%
Reliance on government programs that may not be there	38%
Lack of preparation/not planning; low income/younger women not preparing	21%
Bad time to save; not enough government incentives to save; volatile market and low interest rates	16%
Lack of knowledge and understanding; poor financial literacy	11%

Qualities of an Ideal Retirement Product

- ▶ When asked how important it is for an ideal retirement product to address various issues, economists send a strong message that growth and protection of principal are both highly desired.
- ▶ Two-thirds of economists feel that protecting the principal of investments (67%), providing income that keeps pace with inflation (67%), and protecting against outliving retirement savings (66%) are *extremely* or *very* important in a retirement product.
- ▶ About half indicate that enabling investments to grow tax deferred (52%) and protecting investments from market downturns (49%) are *extremely* or *very* important. A slightly lower share accord this level of importance to providing guaranteed income for life regardless of market performance (42%).
- ▶ Providing a broad choice of brand name mutual funds is least important (30% *extremely* or *very* important), although another 50% say it is *somewhat* important.

Qualities of an Ideal Retirement Product



Q: In your opinion, how important is it for the ideal retirement product to address each of the following?

Demographic Profile of Respondents

	Economists (n=101)
Gender	
Male	83%
Female	17
Age	
Under 40	17%
40-49	12
50-54	16
55-59	13
60-64	22
65+	17
<i>Mean</i>	<i>54 years</i>
Education	
College graduate	5%
Master's degree	28
Doctoral/prof. degree	67
Region	
Northeast	23%
South	27
Midwest	37
West	14

	Economists (n=101)
Tenure as an Economist	
5 years or less	11%
6-10 years	12
11-20 years	12
More than 20 years	65
Type of Organization	
Academic	57%
Non-financial services co.	17%
Non-profit	11%
Governmental agency	3%
Another type of financial services institution	5%
Other	17%
Political Affiliation	
Democrat	37%
Republican	15
Independent	29
Something else	15
Don't know	5