

**Presenting  
debate on  
contemporary  
and emerging  
portfolio  
construction  
issues**



portfolio  
construction

CONFERENCE

15 & 16 August 2007 | AJC Convention Centre, Randwick, Sydney

[ Portfolios ]

**I've been thinking about...  
emerging trends in portfolio construction**

Presentation

**I've been thinking about...  
new research into the attitudes  
and behaviours of tomorrow's  
retirees**

**Elizabeth Segers, MD, Putnam  
Investments**



**CONFERENCE**

I've been thinking about...  
new research into the  
attitudes and behaviours of  
tomorrow's "retirees"

**Elizabeth R. Segers**

Managing Director

Market Planning and Development

Putnam Investments

Presentation to the PortfolioConstruction Conference 2007

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- The Retirement of Retirement: An assessment of retirement trends from Australian advisors



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- Retirement Confidence and Expectations
- Inheritance Won't Get You There
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- Advisers, When Involved, Prove Worth
- Lessons Learned

## ➤ About the Australian Study

- Savings Behaviours and Patterns
- Who will retire vs. go back to work
- More optimism exists in Australia



# About the U.S. study

- 5,419 adults in the US including oversamples of:
  - Those who have received an inheritance (n = 1,286)
  - Working adults (45+) with at least one living parent (n = 1,740)
  - Working adults (45+) with at least one child 25 or over (n = 1,330)
- Conducted online, August 2006
- The goal: Understand impact on retirement of shifting family roles and how advisers make a difference
- Continuation of annual retirement studies: The Working Retired (2005), The Recently Retired (2004), Participant Studies (2000–2004)

Source: The "We" Generation Study, Brightwork Partners, 2006.



# Key findings:

## Money and time issues

- Retirement confidence has declined
- More Americans are returning to work (or seeking work) in retirement (35% vs. 29% in 2005)
- Retirement is pushed aside by daily issues (mortgage, gas, kids, health care)
- Advised workers are more aware and prepared
- Income expectations are unrealistically high
- Delayed gratification is rare and modest
- Inheritance won't make a dent for at least two thirds
- The home, while not a nest egg, is key (1 in 5 have ARM)

Source: The "We" Generation Study, Brightwork Partners, 2006.



# Key findings: People issues

- Everyone expects to live to 85
- Nearly 1 in 5 have taken parents into their home
- Nearly 1 in 3 have taken grown children into their home or pay their rent
- Helping the family is more about time than money; however, the money spent would cover an IRA every year
- No end in sight for parental care; kids stay on payroll for at least 8 years or until parent retires
- Retirement will be crowded and elusive

Source: The "We" Generation Study, Brightwork Partners, 2006.





# Retirement Confidence and Expectations

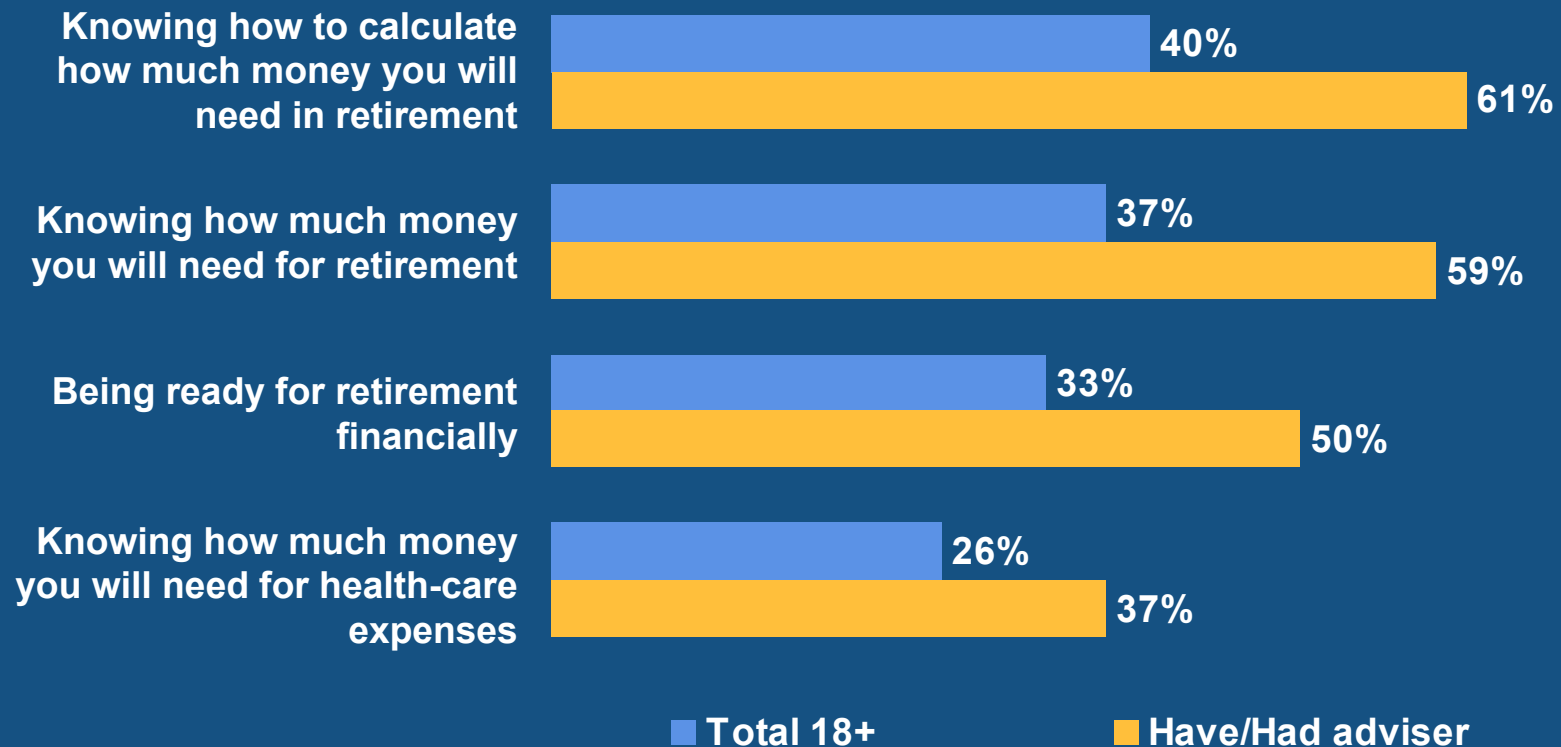
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WHOLESALE INVESTOR USE ONLY



# Confidence in retirement planning

How confident are you about each of the following aspects of your retirement?



Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 4 (520) "Very or Somewhat Confident".



# Target retirement income

Thinking realistically, in today's dollars, what would you like your household income to be in retirement?

- Those with incomes below US\$75K say they need 100% or more of their current income
- Those with incomes between US\$100K–US\$150K say they need 73%
- Those with incomes over US\$150K say they need 66%

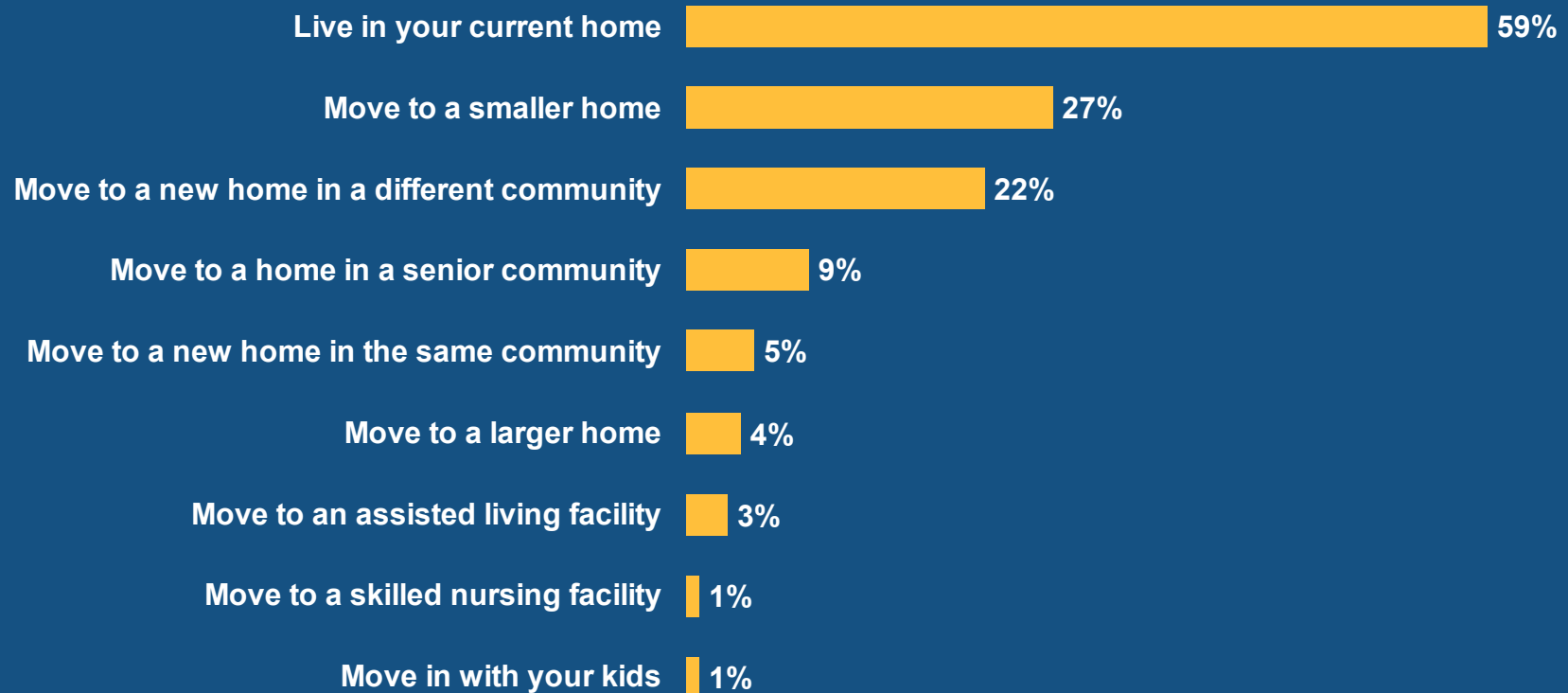
50% of  
workers  
think they  
will meet  
these targets.

Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 9 (550) Base = Never Retired By Subgroup.



# Most expect to stay in their own home...

## In retirement, do you expect to...?

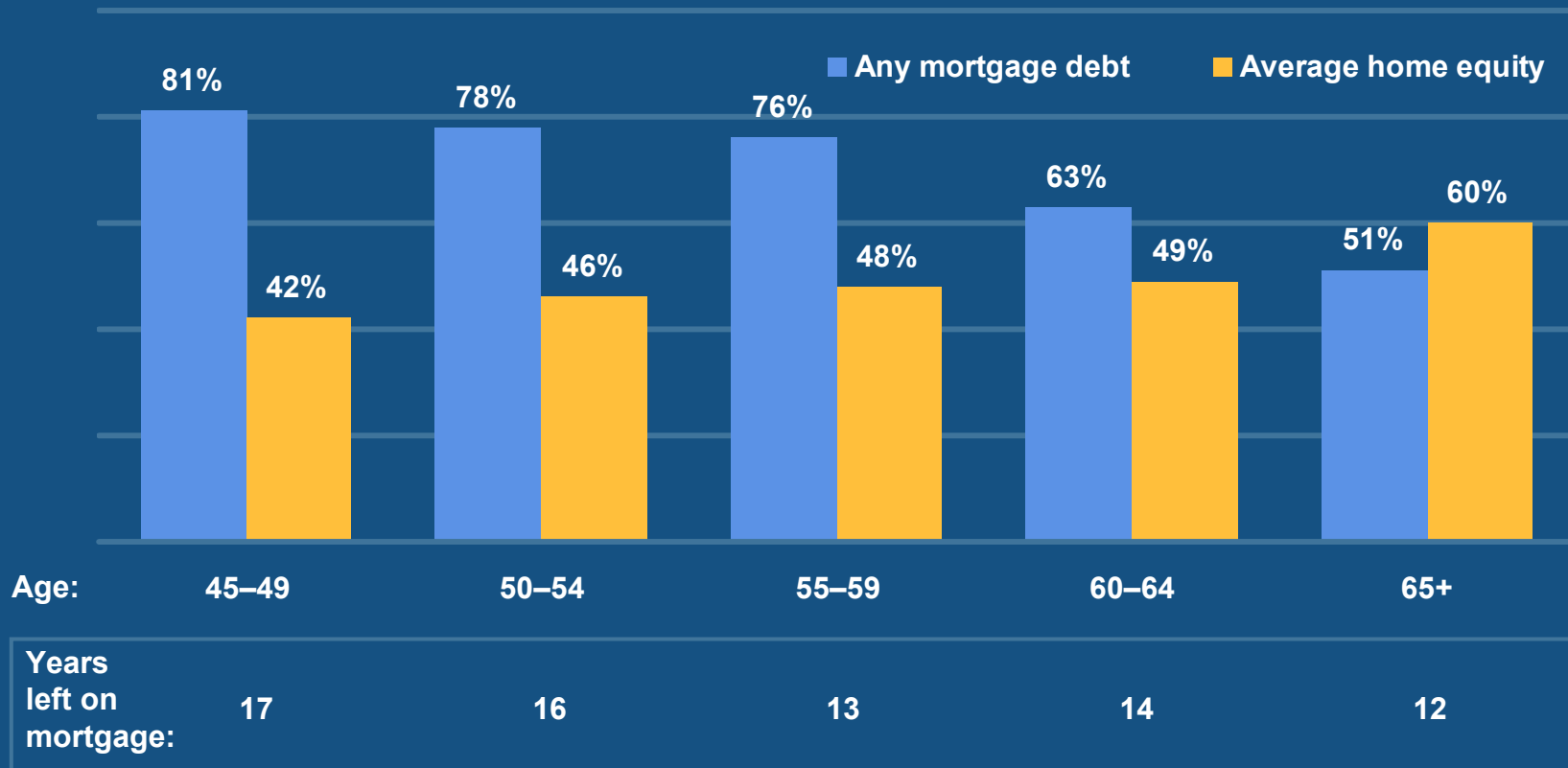


Source: The "We" Generation Study, Brightwork Partners, 2006.  
Q. 95 (990) Base: own home, have parents alive or grown children (45+, never retired, working 15+ hours per week )



# ...which still has a mortgage

Do you have any of the following types of loans outstanding against your primary residence?

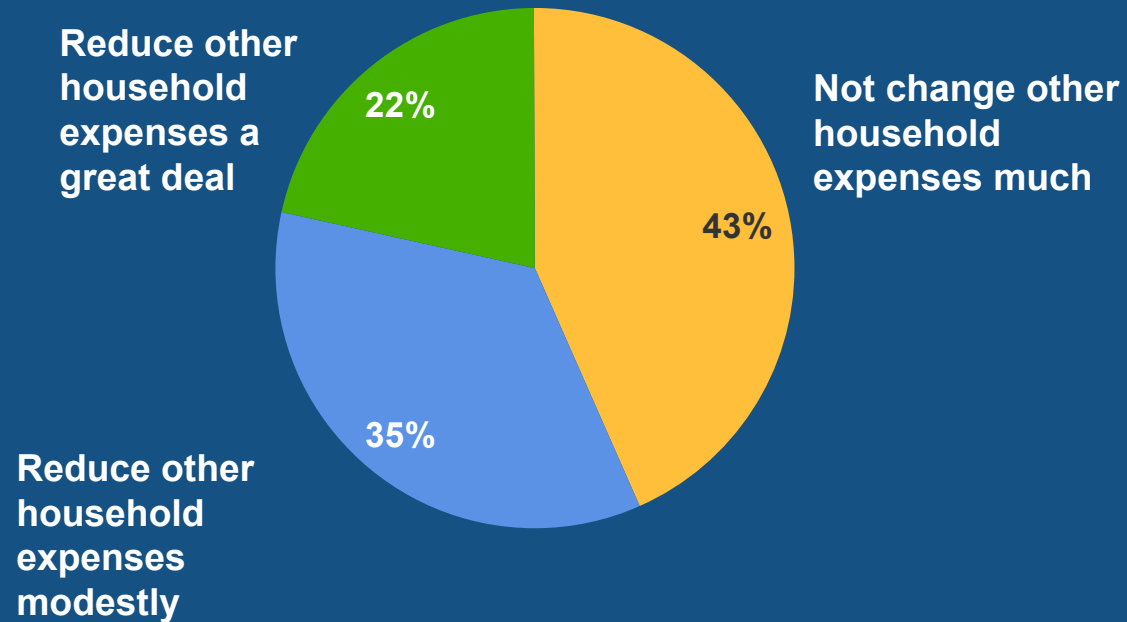


Source: The "We" Generation Study, Brightwork Partners, 2006.



# 21% have ARMs and would need to adjust household spending

If your payments in the next adjustment period went up by the maximum amount permitted under the terms of the loan/s, would you...?



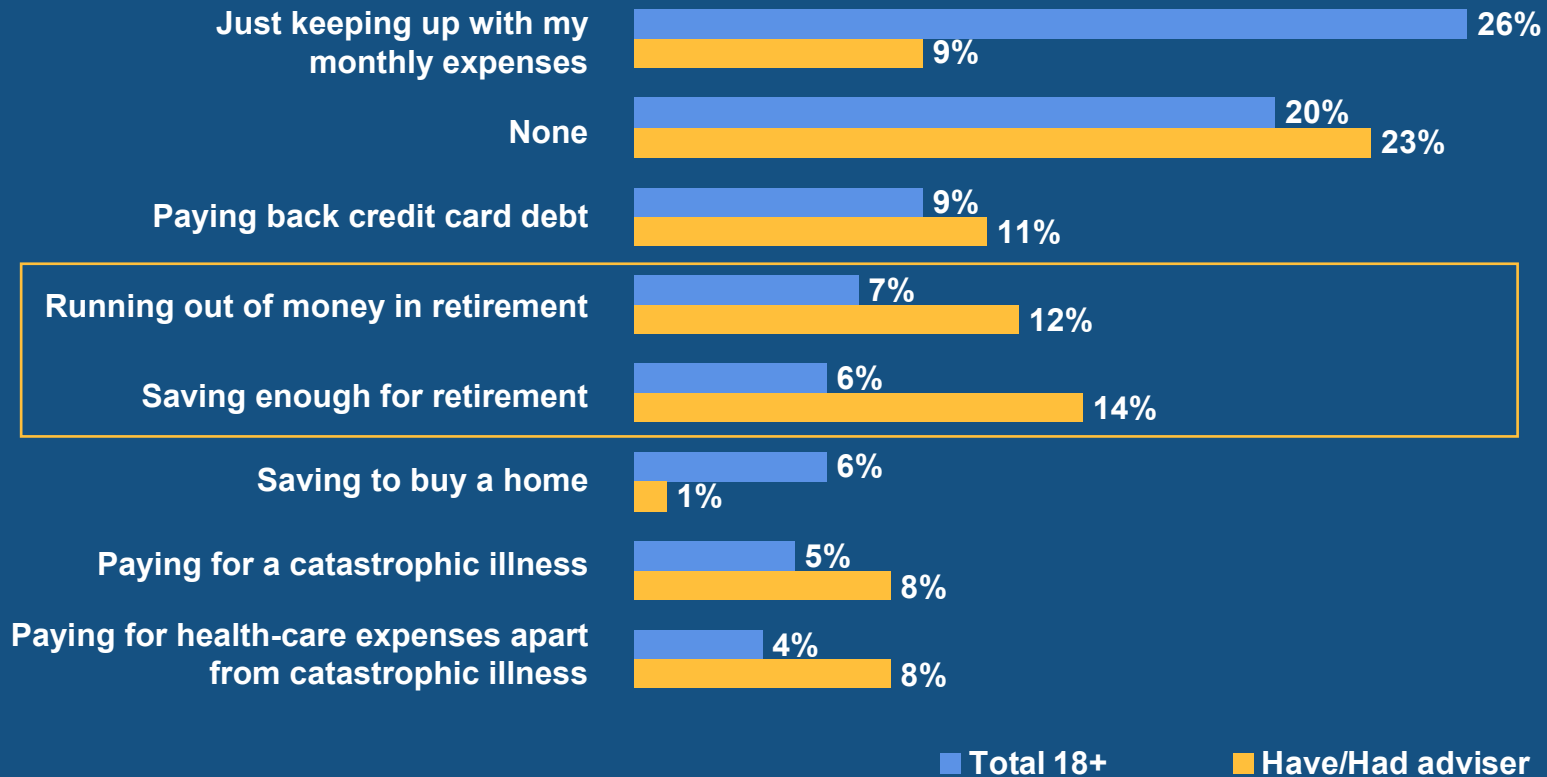
Source: The "We" Generation Study, Brightwork Partners, 2006.

Q. 99 (1010) Base: have adjustable rate mortgage, have parents alive or grown children (45+, never retired, working 15+ hours per week).



# Biggest financial worry

What's your biggest financial worry right now — the problem that keeps you awake at night?

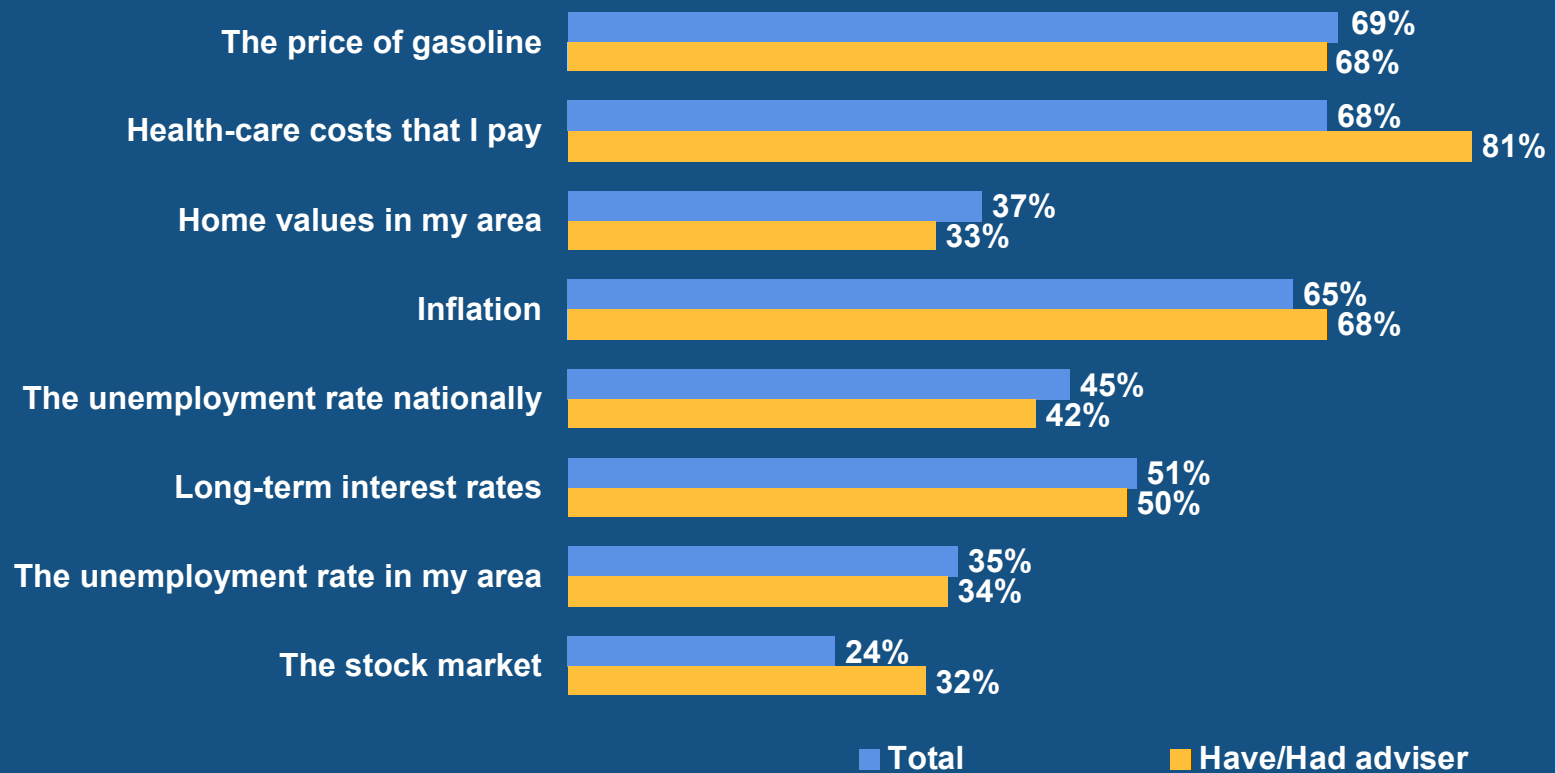


Source: The "We" Generation Study, Brightwork Partners, 2006.  
Q. 21 (625) By Have/Had Adviser



# Economic expectations

Respondents that expect the following items to be somewhat or much higher twelve months from now.



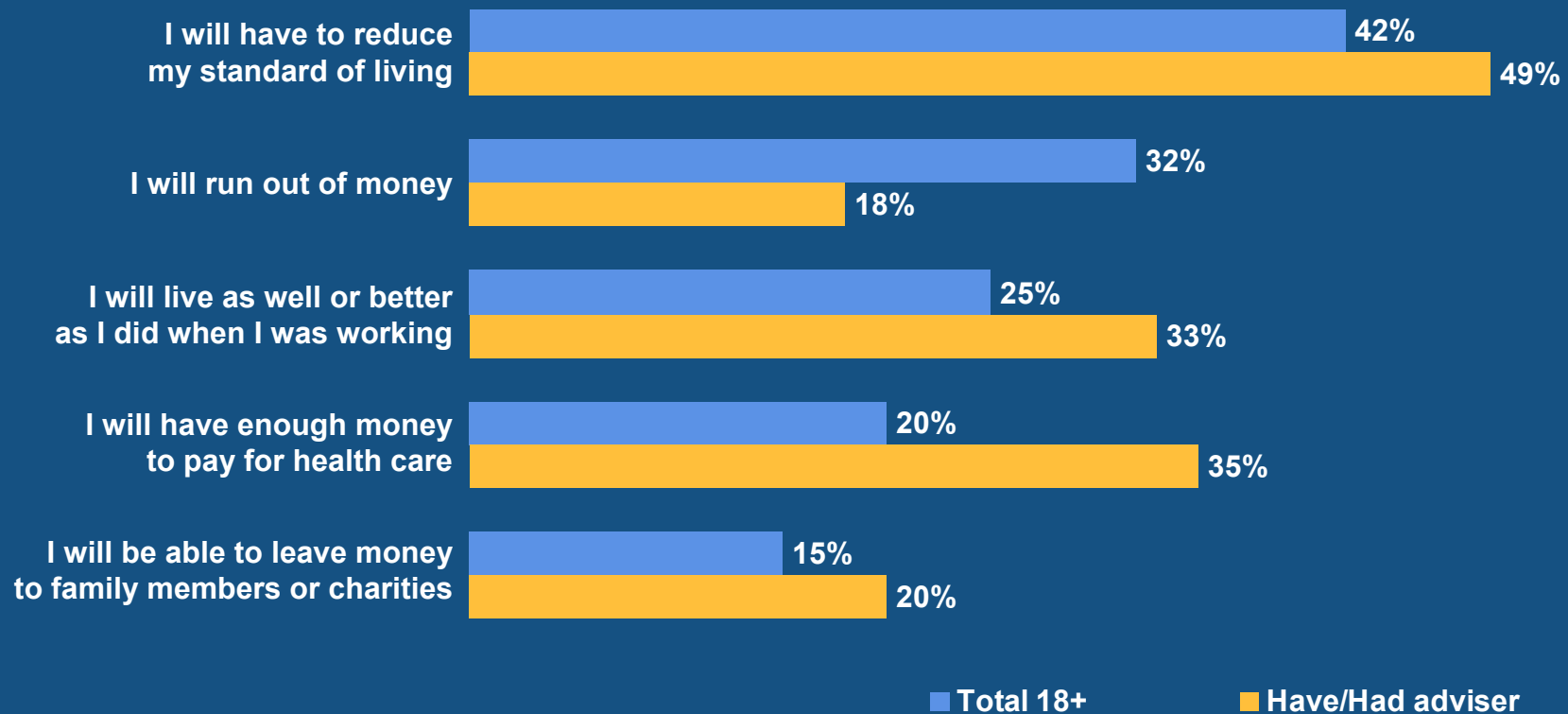
Source: The "We" Generation Study, Brightwork Partners, 2006.  
Q1. (505)





# Retirement income expectations

Given the retirement savings you have in place right now and the rate at which you are adding to those savings, which of the statements below do you expect will be true for you in retirement?

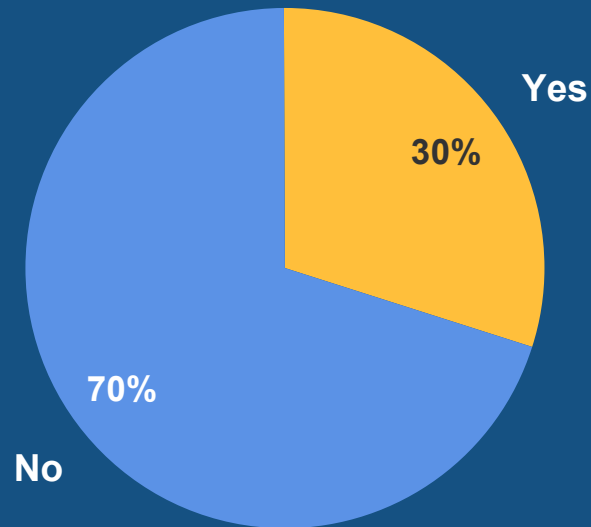


Source: The "We" Generation Study, Brightwork Partners, 2006.  
Q. 13 (570) Base = Never retired



# Expenditures not avoided

Have you ever decided to avoid an expenditure specifically to save more for your retirement?



Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 14 (575) Base = Never retired.



# Which expenditures have you avoided?

Which of the following expenditures have you avoided?

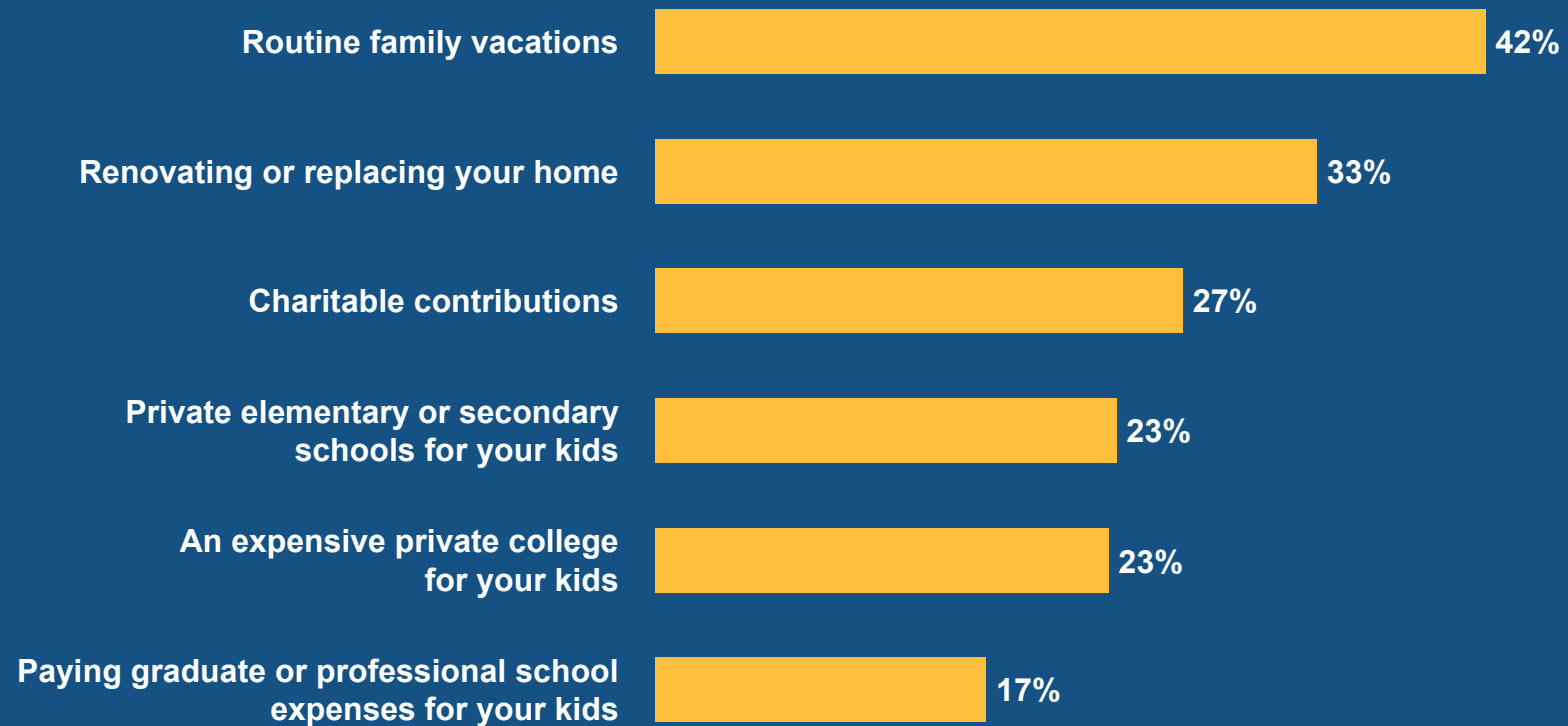


Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 15 (39) Base = Avoid expenditures to save for retirement.



# Which expenditures have you avoided? (cont.)

Which of the following expenditures have you avoided?



Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 15 (39) Base = Avoid expenditures to save for retirement.

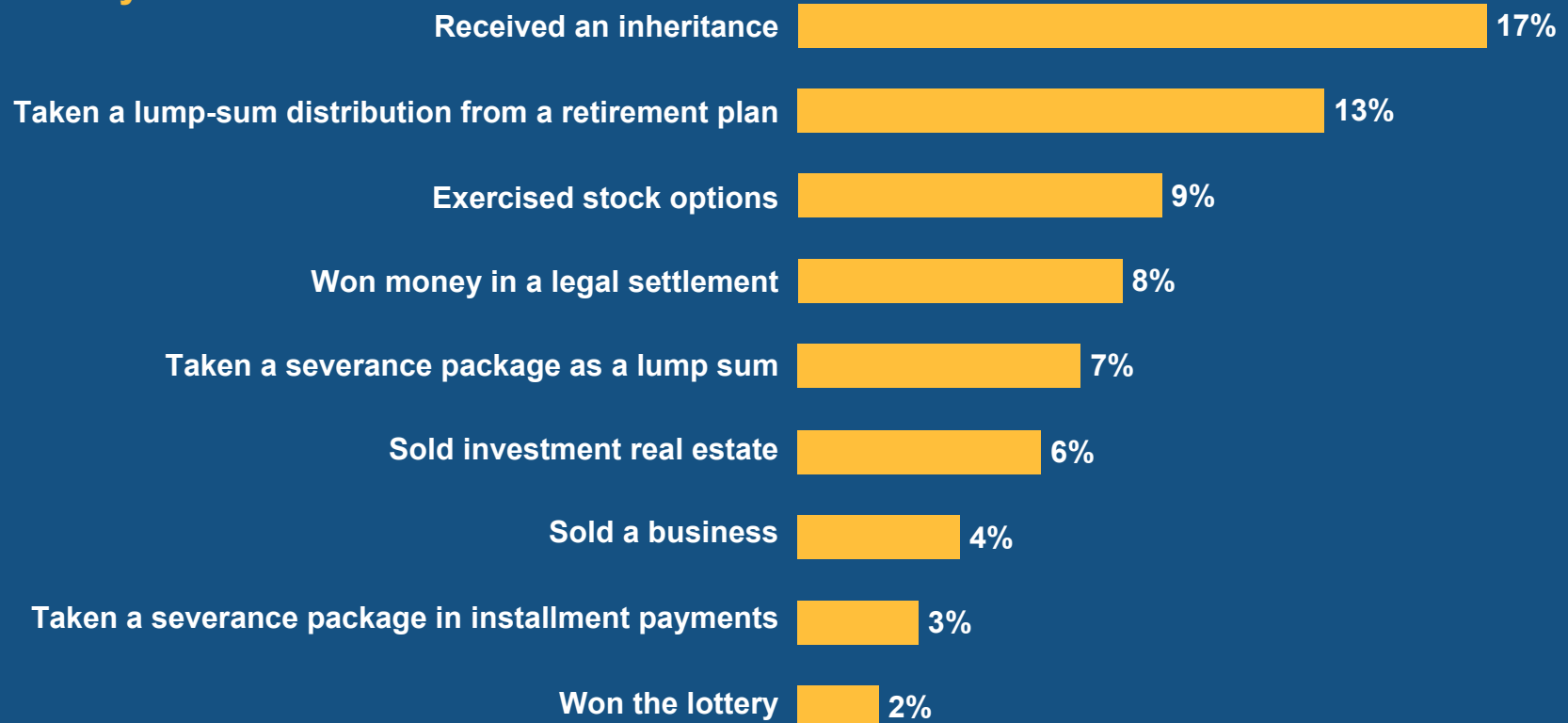


# Inheritance Won't Get You There



# Ever received a lump sum?

## Have you ever...?

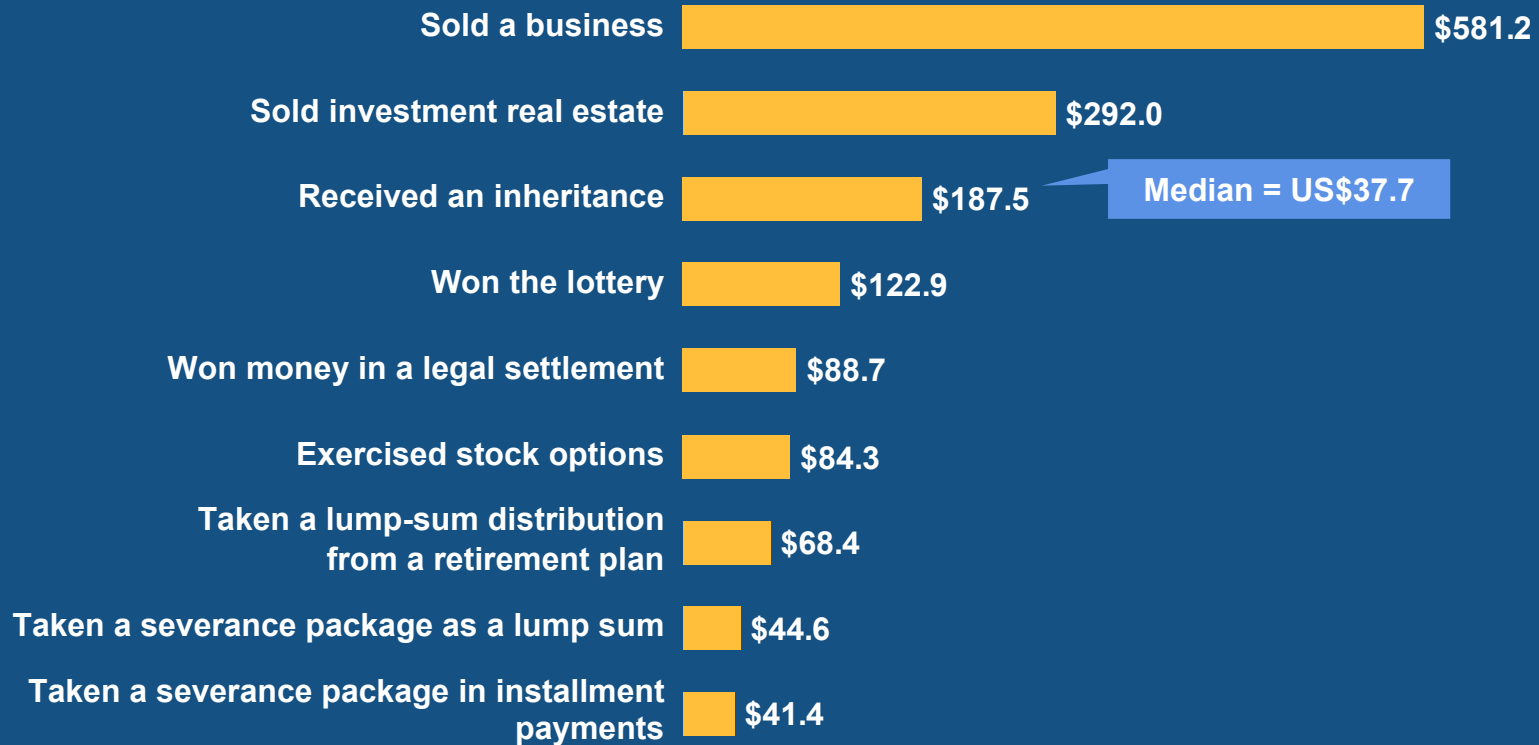


Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 22 (635).



# Amount of lump sum received

About how much money did you receive? If this occurred more than once, please think about the most recent occurrence



Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 24 (645) Base = Experienced this event, average US\$ in thousands.



# Expect to receive a lump sum

Whether or not you've done this in the past, in the future do you expect to...?



Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 25 (650).

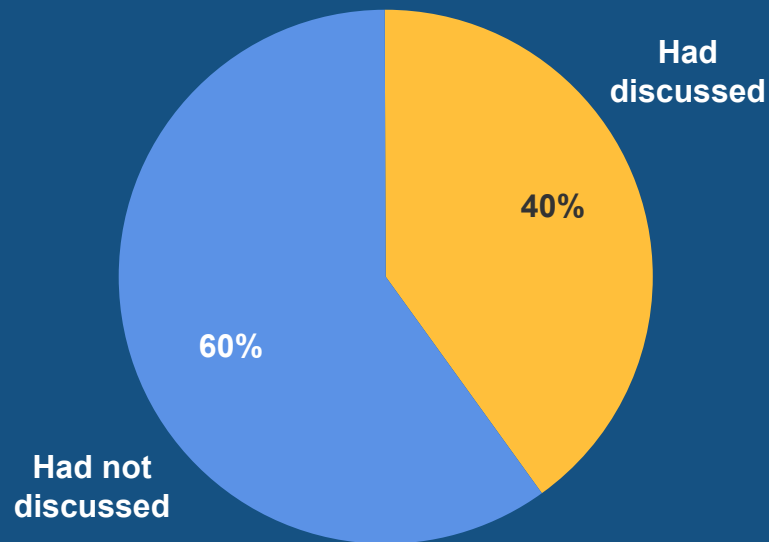




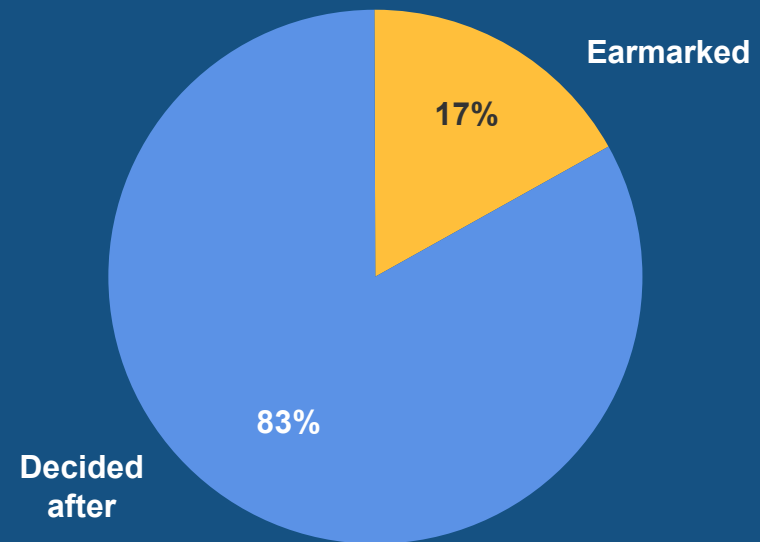
# Aspects of inheritance

Respondents that received an inheritance and have/had adviser

**DID YOU KNOW IT WAS COMING?**



**DID YOU HAVE PLANS FOR IT?**



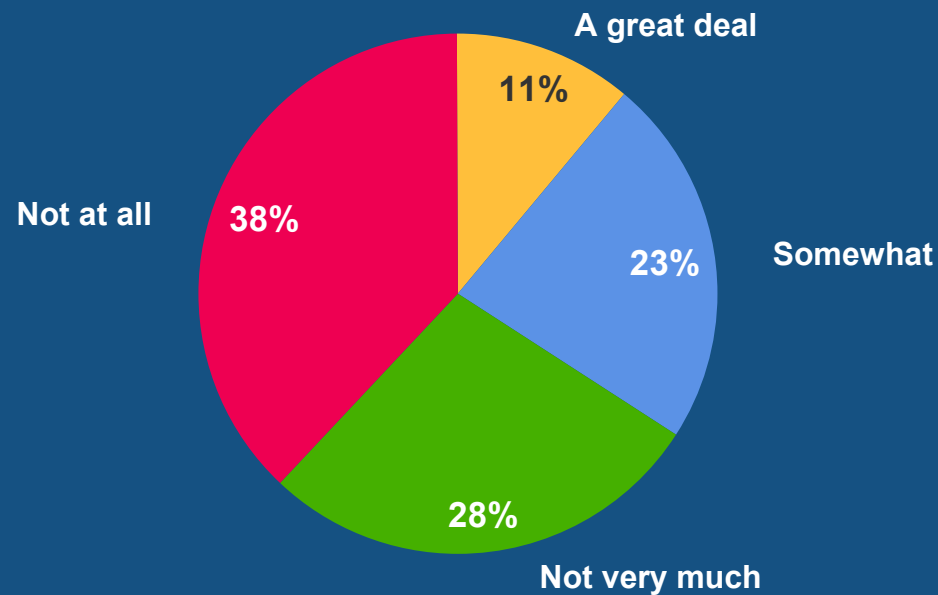
Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 29 (670) and Q. 32 (685) Base = Received inheritance.

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# Influence of inheritance on retirement

Thinking about inheritances you have received or expect to receive, to what extent does this money factor into your own retirement income or your planning for your retirement income?



Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 33 (690) Base = Received/expected to receive an inheritance.



# Mum and Dad Need More Help



# Helping parents: A profile

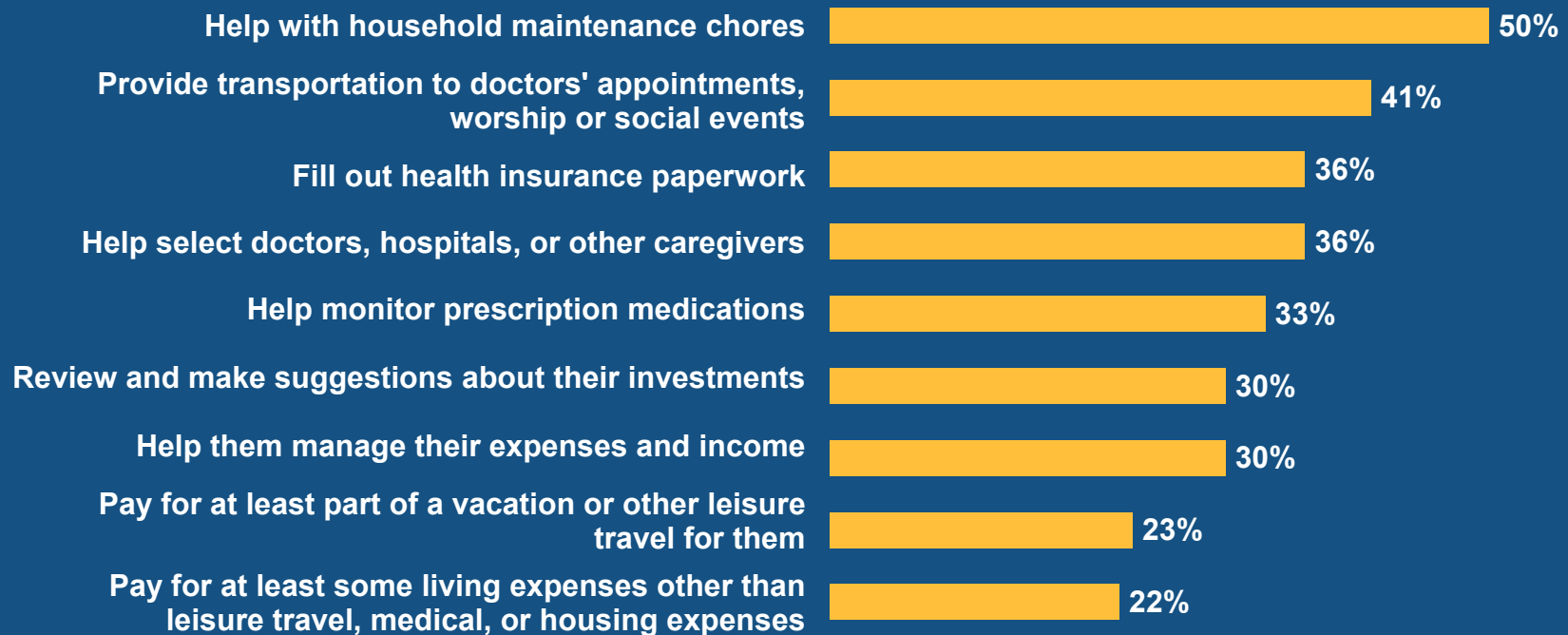
- Who: Alpha child, most often daughter
- What: Chores, rides, meds, bills, place to live
- How much: Average of 10 hours/week, US\$3K year
- Impact: Lower spending, will work in retirement
- Expected to do this, pleased to help, will continue for rest of parents' lives
- Lessons learned: Don't burden own kids, save more now, spend less, get an adviser and LTC

Source: Retiring with Family Study, Brightwork Partners, 2006.



# Forms of support provided to parent

Indicate if you or a member of your household does the following for your parent, or if one of your siblings does this for your parent.



Source: The "We" Generation Study, Brightwork Partners, 2006.

Q. 59 (820) Base = Parents alive (45+, never retired, working 15+ hours per week); respondent/household or respondent's sibling does this



# Forms of support provided to parent (cont.)

Indicate if you or a member of your household does the following for your parent, or if one of your siblings does this for your parent.



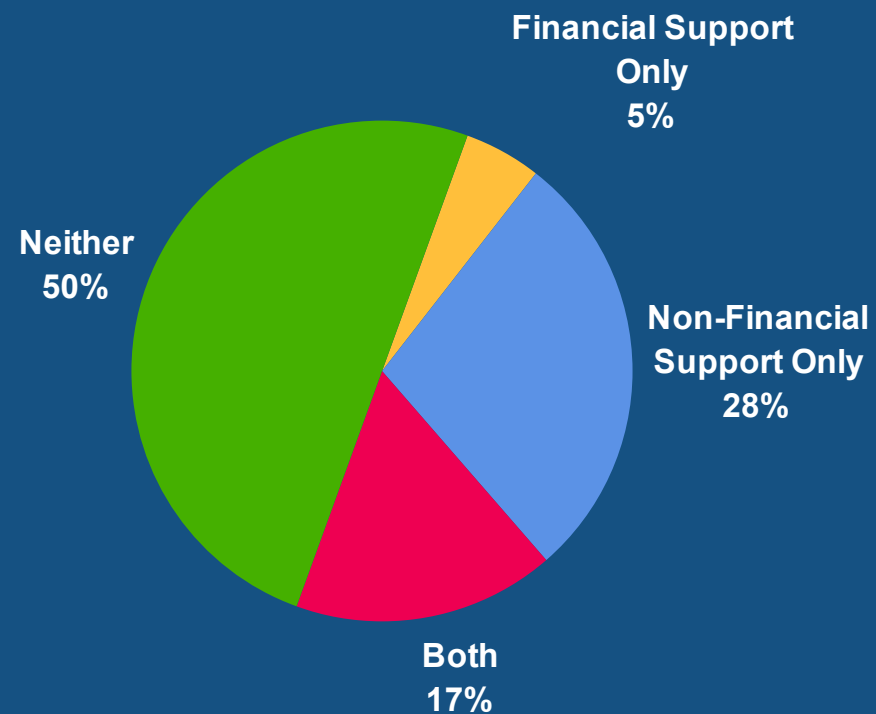
Source: The "We" Generation Study, Brightwork Partners, 2006.

Q. 59 (820) Base = Parents alive (45+, never retired, working 15+ hours per week); respondent/household or respondent's sibling does this



# Support of parents

Indicate if you or a member of your household does the following for your parent, or if one of your siblings does this for your parent.



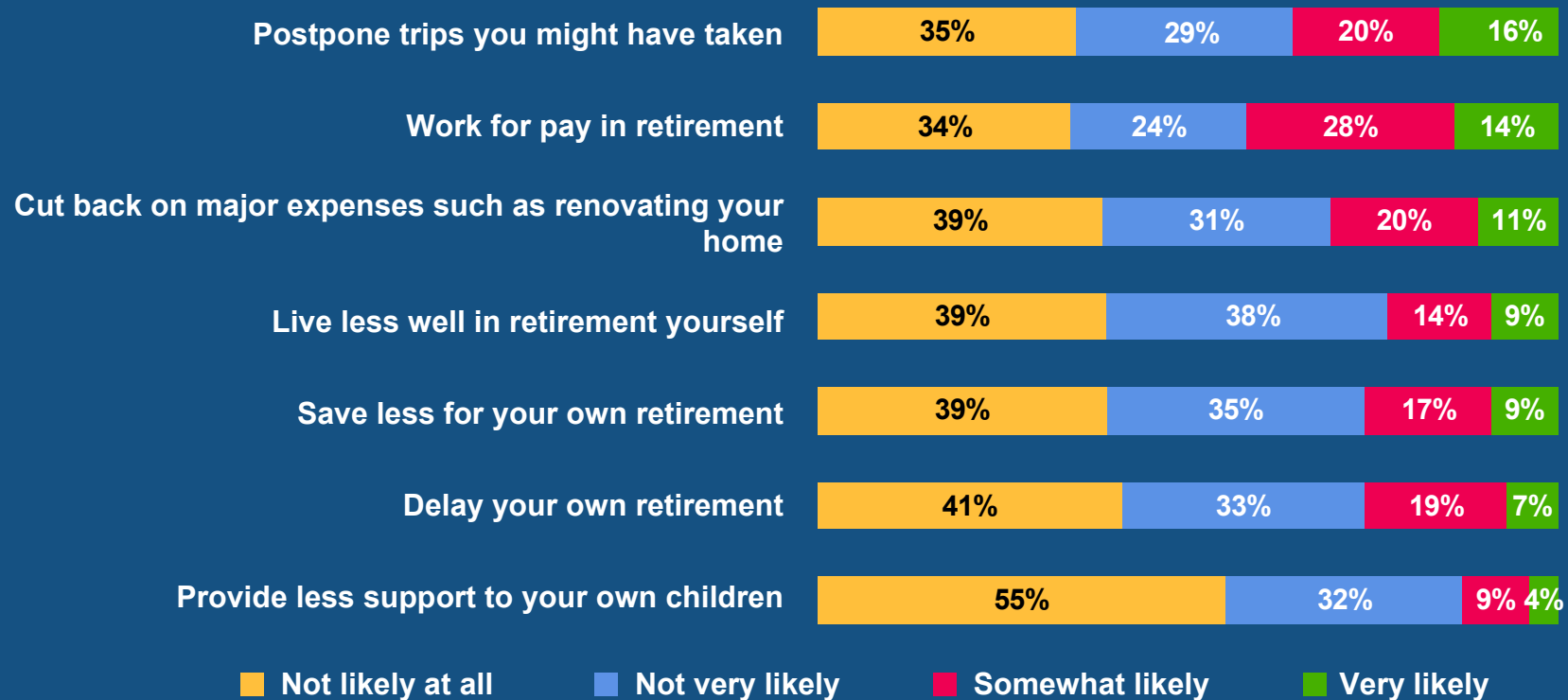
Source: The "We" Generation Study, Brightwork Partners, 2006.

Q. 59 (820) Base = Parents alive (45+, never retired, working 15+ hours per week); respondent/household or respondent's sibling does this



# Impact of parental financial support on own finances

As a result of the financial support you are providing to your parent, how likely are you to...?



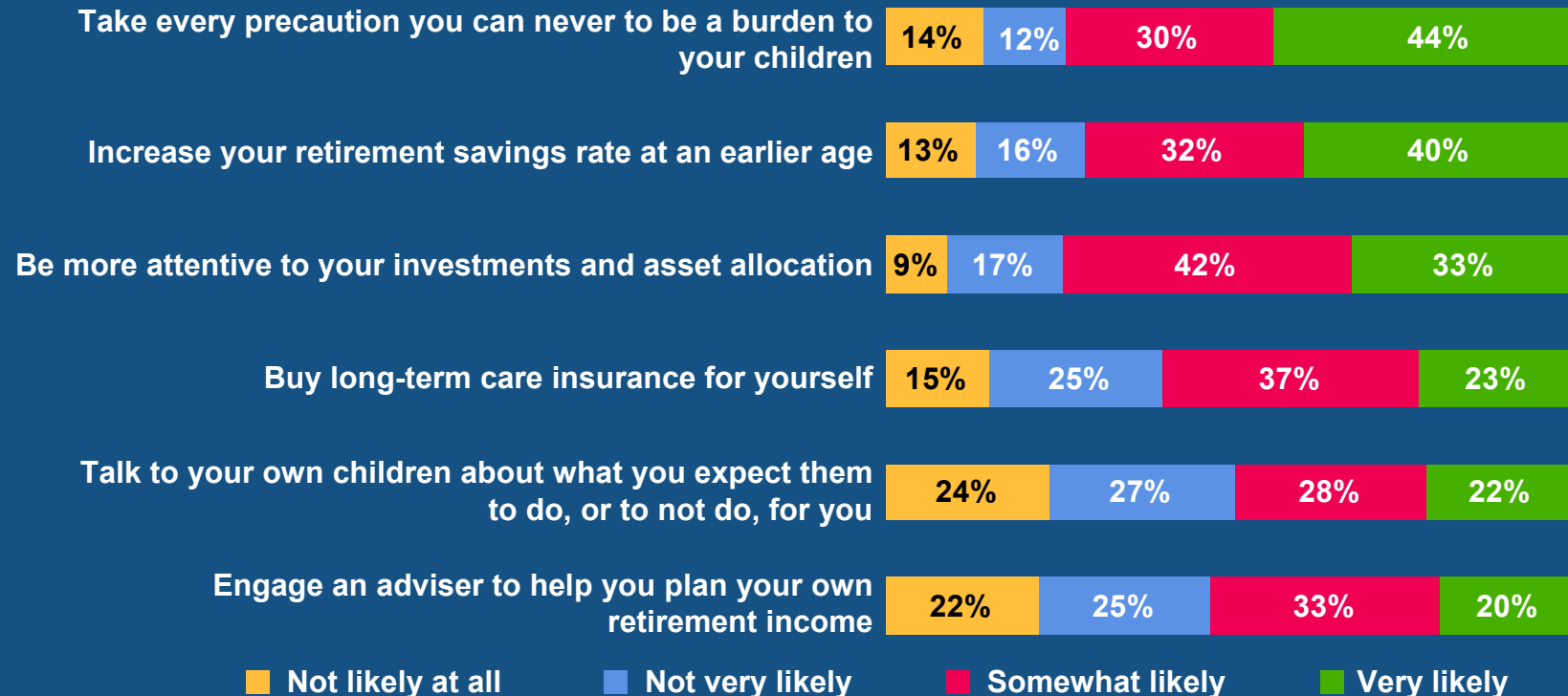
Source: The "We" Generation Study, Brightwork Partners, 2006.  
 Q. 71 (870) Base = Provide financial support (45+, never retired, work 15+ hours per week)





# Financial lessons learned from supporting parents

If you were starting over, knowing what you know now about the need to support the older generation, how likely would you be to...?



Source: The "We" Generation Study, Brightwork Partners, 2006.  
Q. 73 (880) Base = Provide financial support (45+, never retired, work 15+ hours per week)



...And Guess Who's Moved Back  
Home  
(Children Over Age 25)



# Helping older children: A profile

- Who:** Most help somehow; 1 in 3 parents provide rent (8%) or place to live (23%)
- What:** Advice, living expenses, room, laundry, car, down payment, medical expenses
- How much:** Average of 5 hours/week, US\$ varies greatly (down payments are US\$20K, misc. only US\$3K)
- Impact:** Will work in retirement

**Never expected to do this; estimates it will take another 8 years to launch child**

Source: Retiring with Family Study, Brightwork Partners, 2006.  
Q. 73 (880) Base = Provide financial support (45+, never retired, work 15+ hours per week).



# Forms of support provided to grown children

Indicate if you or a member of your household does the following for your child/your children who is/are 25 or older, or if someone not living in your household provides this type of support.

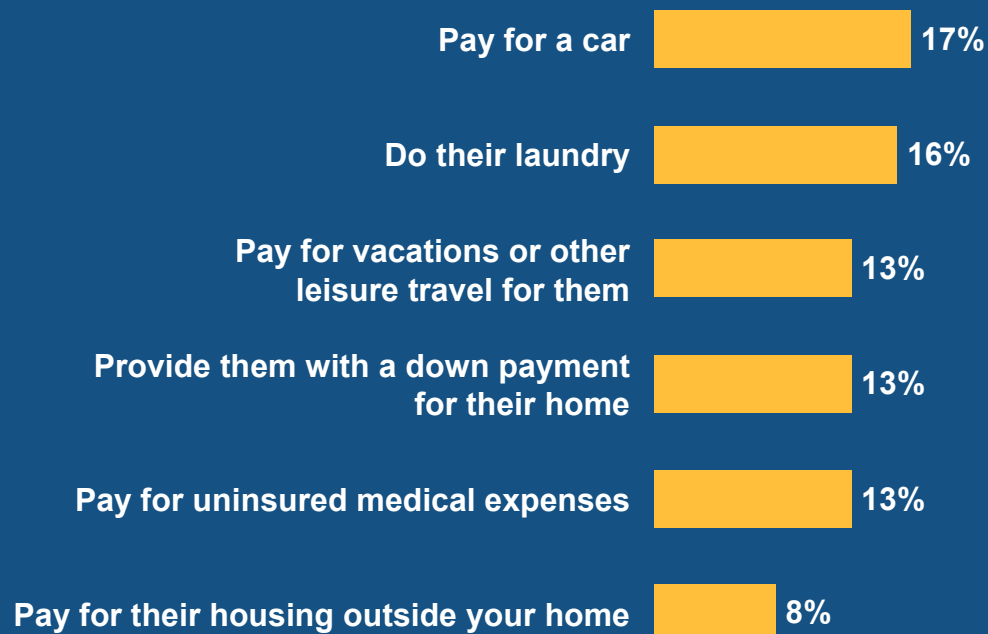


Source: The "We" Generation Study, Brightwork Partners, 2006.  
Q. 79 (910) Base = Have grown children (45+, never retired, work 15+ hours per week)



# Forms of support provided to grown children (cont.)

Indicate if you or a member of your household does the following for your child/your children who is/are 25 or older, or if someone not living in your household provides this type of support.

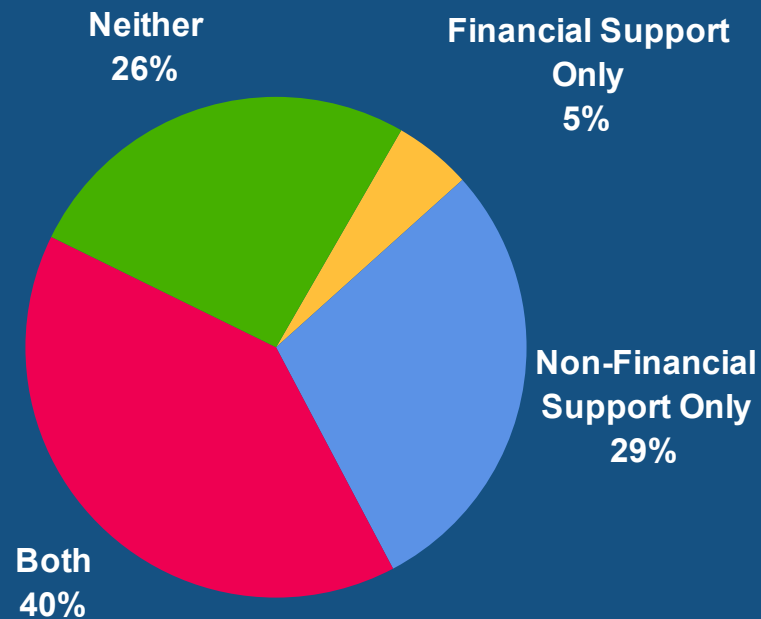


Source: The "We" Generation Study, Brightwork Partners, 2006.  
Q. 79 (910) Base = Have grown children (45+, never retired, work 15+ hours per week)



# Support of grown children

Indicate if you or a member of your household does the following for your child/your children who is/are 25 or older, or if someone not living in your household provides this type of support.

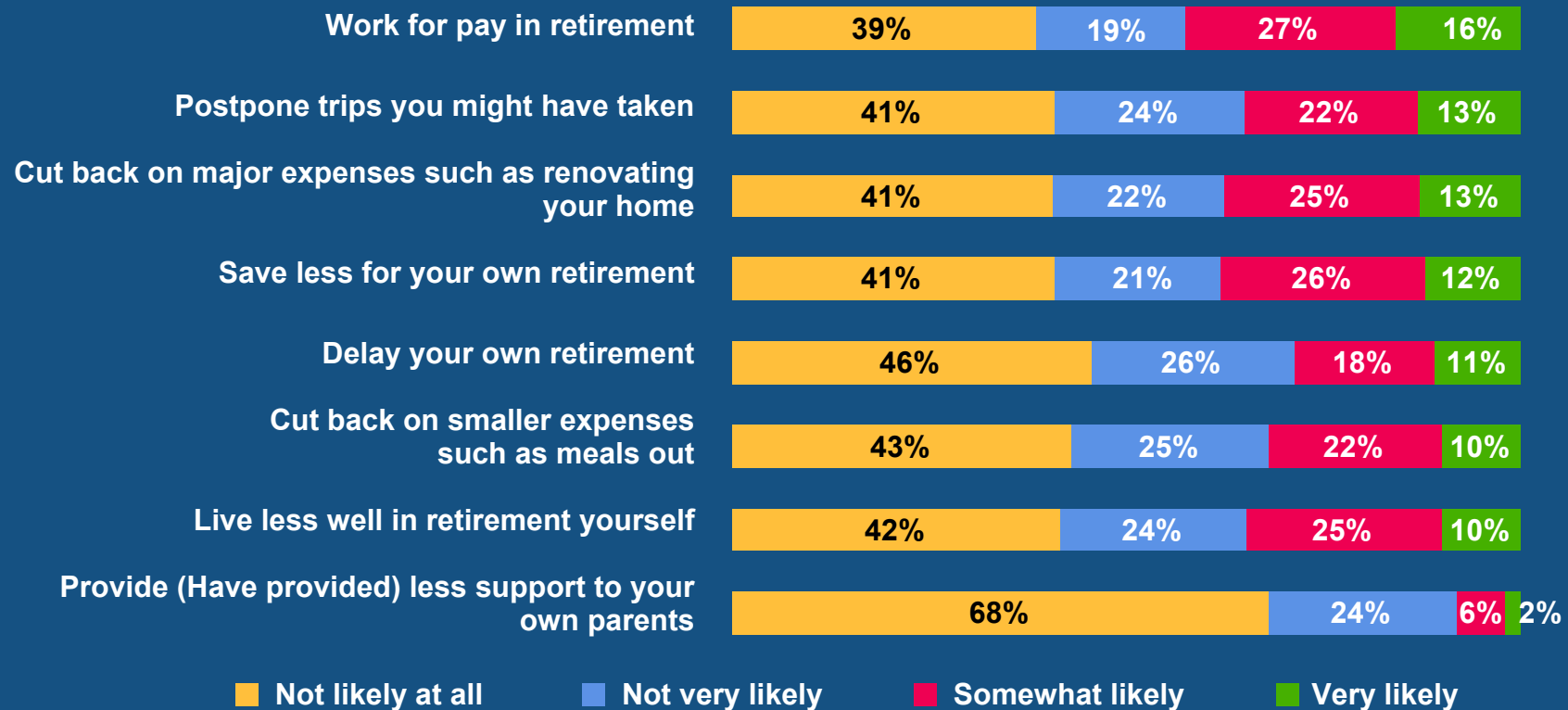


Source: The "We" Generation Study, Brightwork Partners, 2006.  
Q. 79 (910) Base = Have grown children (45+, never retired, work 15+ hours per week)



# Impact of financial support for grown children on own finances

As a result of the financial support you are providing to your adult child/children, how likely are you to...?



Source: The "We" Generation Study, Brightwork Partners, 2006.  
 Q. 87 (950) Base = Provide financial support (45+, never retired, work 15+ hours per week)



# Lessons from the United States

- Older workers are losing retirement confidence
- Family role is primary; many will work in retirement to provide for parents (forever) and older children (until I retire)
- Advisers are not often consulted on key issues
- Inheritance will impact retirement for one third of its recipients
- Advisers have helped keep focus on long-term issues
- Advisers must address whole family and its impact on time, money, health-care, and income needs

Source: Retiring with Family Study, Brightwork Partners, 2006.





# About the Australian Retirement of Retirement Survey

- To assess the impact of retirement among Australians, brilliant! polled advisers in July, 2007
- 177 Australian advisers completed the email survey, which covered issues of:
  - Practice management of the advisors
  - Savings behaviours of investors
  - Key areas of retirement focus
  - Will Australians retire for good? On time? With enough?



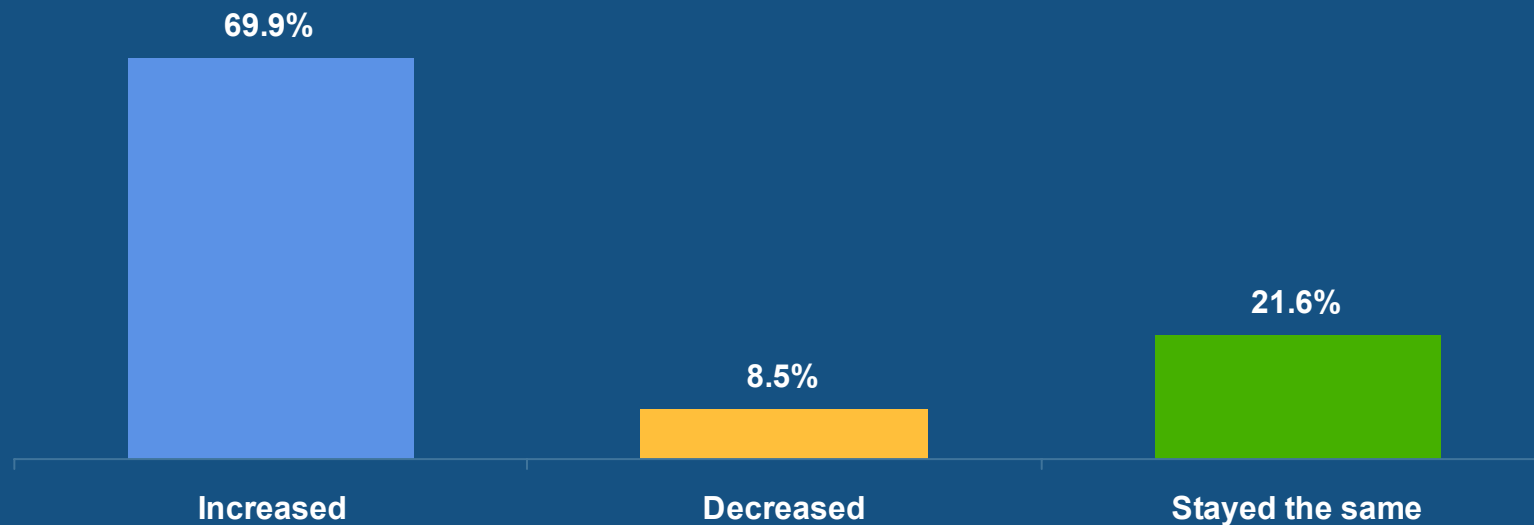
# Key Findings from Australian Advisers

- Australian advisers are more confident in their clients':
  - Ability to retire on time
  - Savings patterns and behaviours
  - Likelihood to stay retired if they desire to
  - Likelihood to work out of choice, not necessity
  - Willingness to forego large purchases to save more now
  - Likelihood to not be overburdened by parents or children needing more help



# Almost 70% of advisors say their focus on retirement has increased in past 3 to 5 years

What percentage of your business practice is specifically focused on retirement? Has this increased, decreased, or stayed the same over the past 3 to 5 years?



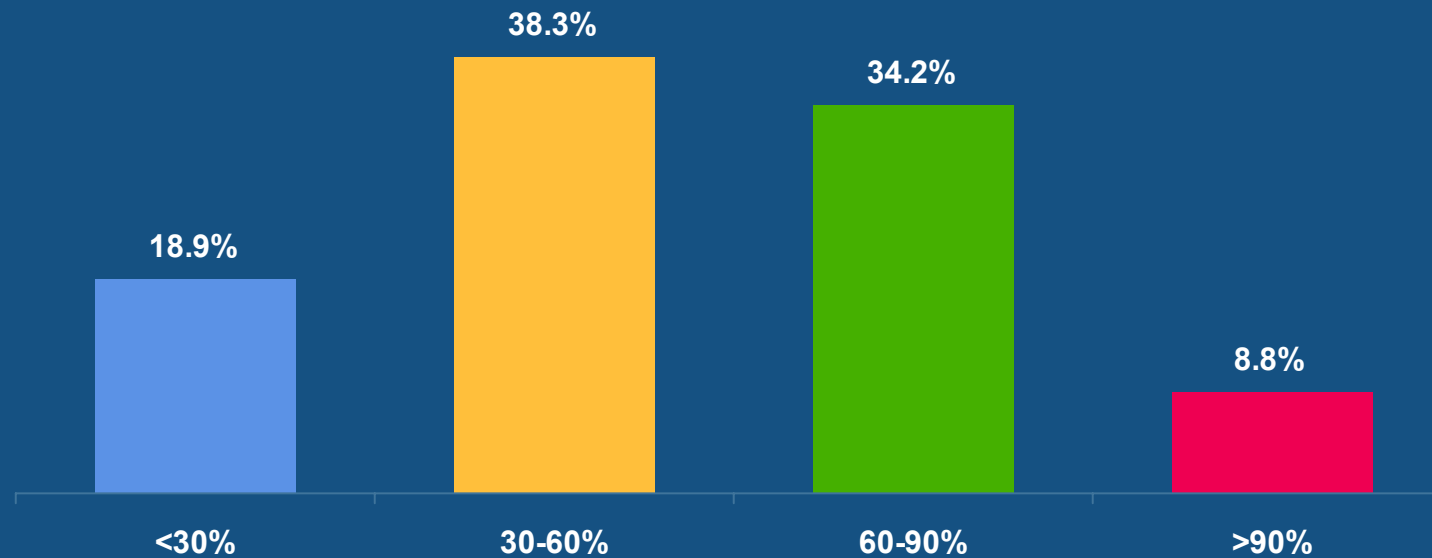
Respondent base = 176

WHOLESALE INVESTOR USE ONLY



# Most advisors say less than 50% of their clients consider themselves “retired”

What percentage of your clients consider themselves “retired” (whether working part-time or not)?



Respondent base = 170

WHOLESALE INVESTOR USE ONLY



# Advisors feel the majority who return to work are doing so out of choice

Of your retired clients, what percentage have returned to work?



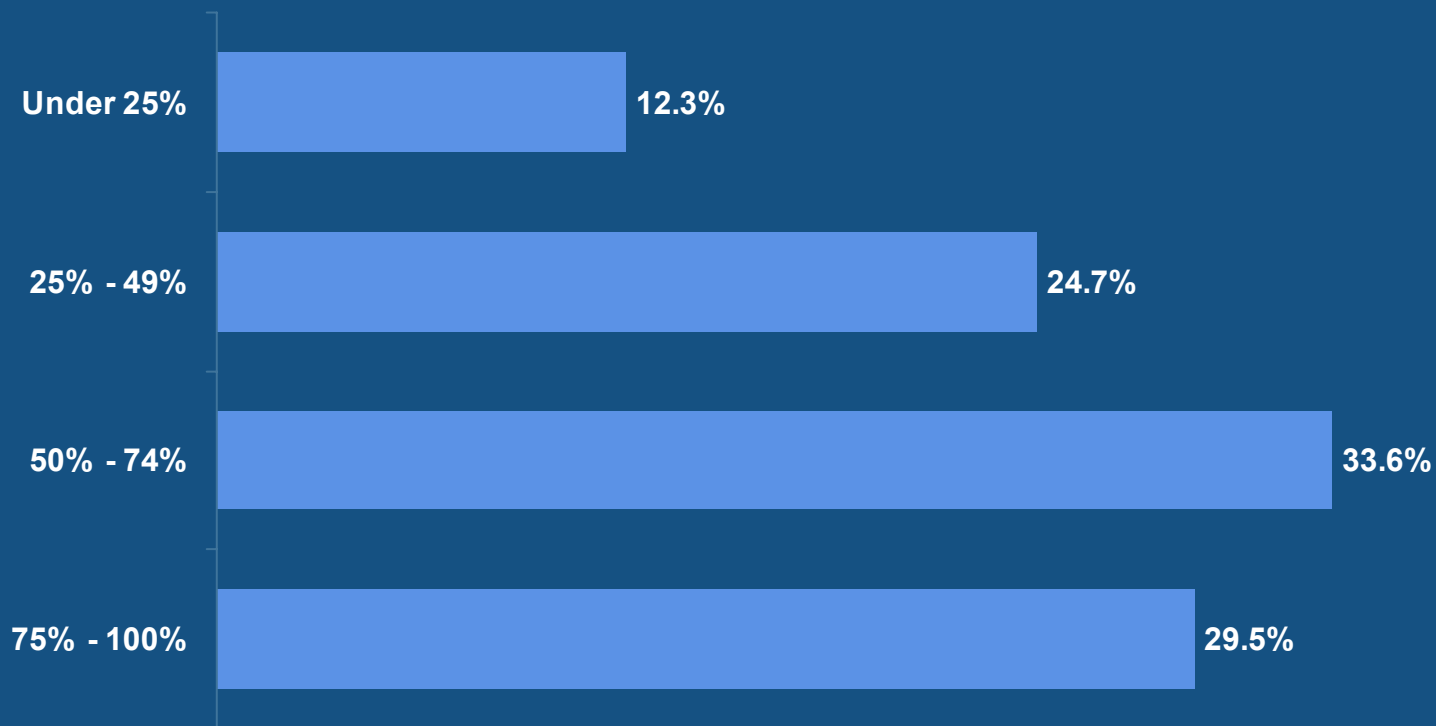
Respondent base = 164

WHOLESALE INVESTOR USE ONLY



# Most advisors say their non-retired clients are adding to savings beyond their super

What percentage of your non-retired clients are adding to their retirement savings beyond their mandatory 9% superannuation program?



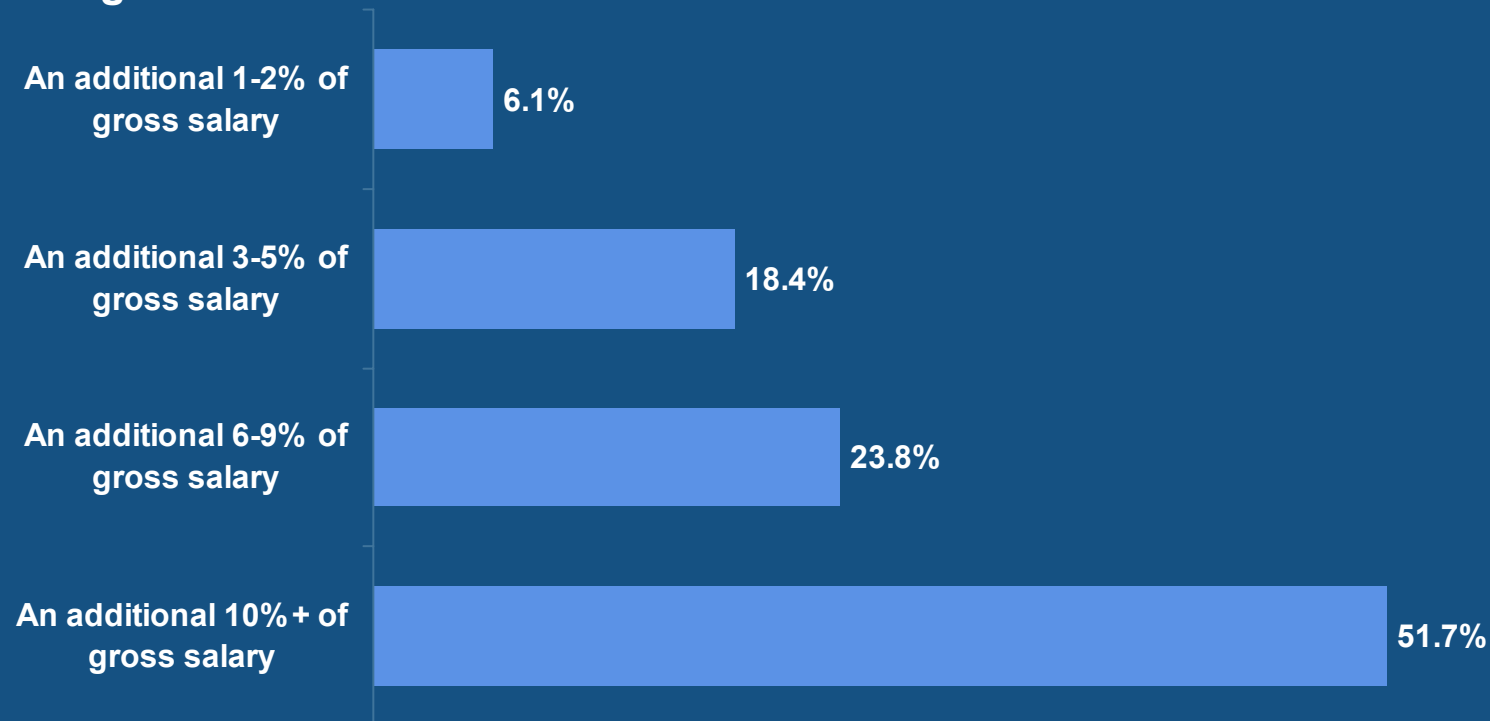
Respondent base = 146

WHOLESALE INVESTOR USE ONLY



# The additional savings are often more than 10% of salary

For those that are adding to their retirement savings beyond the mandatory 9% superannuation contribution, what is the typical level of additional savings?



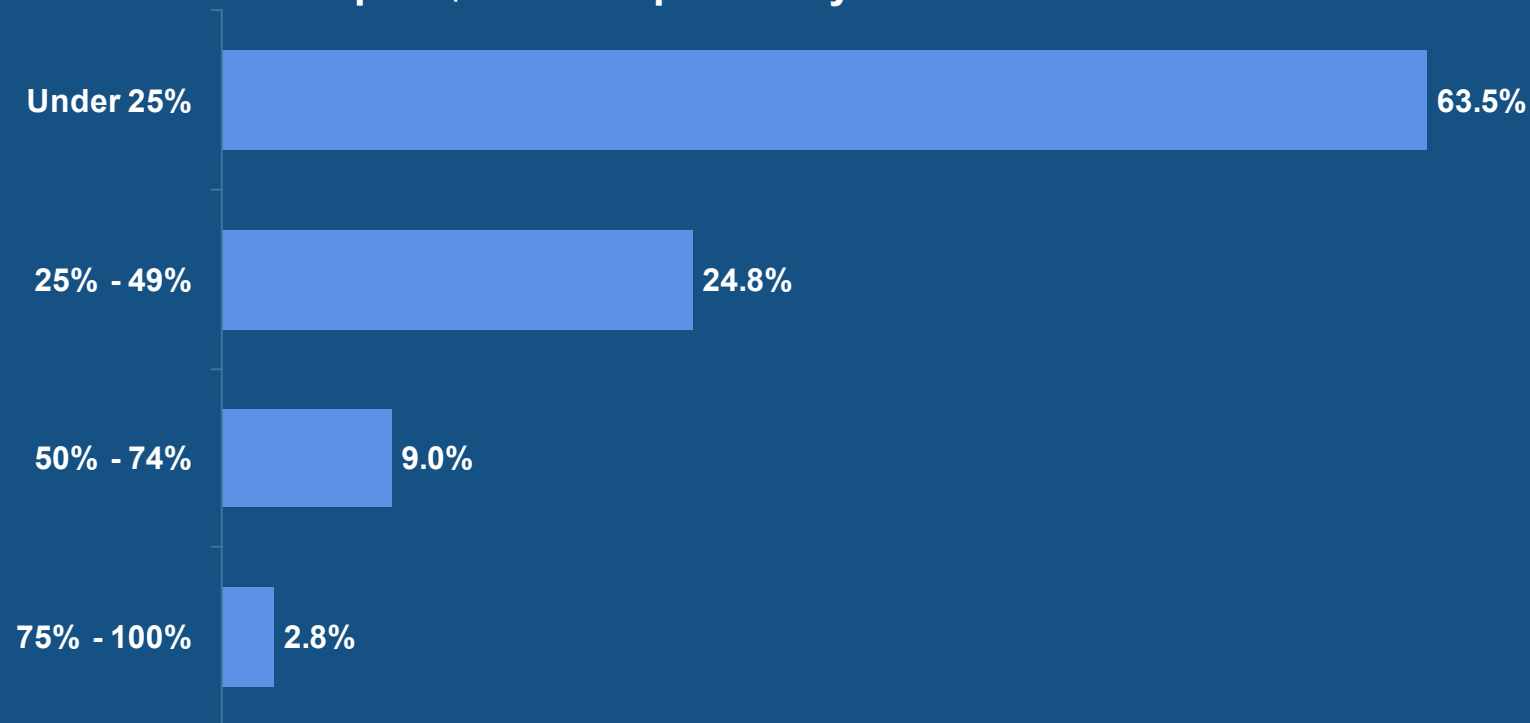
Respondent base = 147

WHOLESALE INVESTOR USE ONLY



# However, less than half of clients participated in the recent window to add to their super prior to July 1, 2007

What percentage of your non-retired clients made additional super contributions under the one-off opportunity to make undeducted contributions of up to \$1 million pre 1 July?



Respondent base = 145

WHOLESALE INVESTOR USE ONLY





# The most frequently mentioned amount of additional super contribution was A\$50,000

What was the approximate average additional super contribution (A\$)?



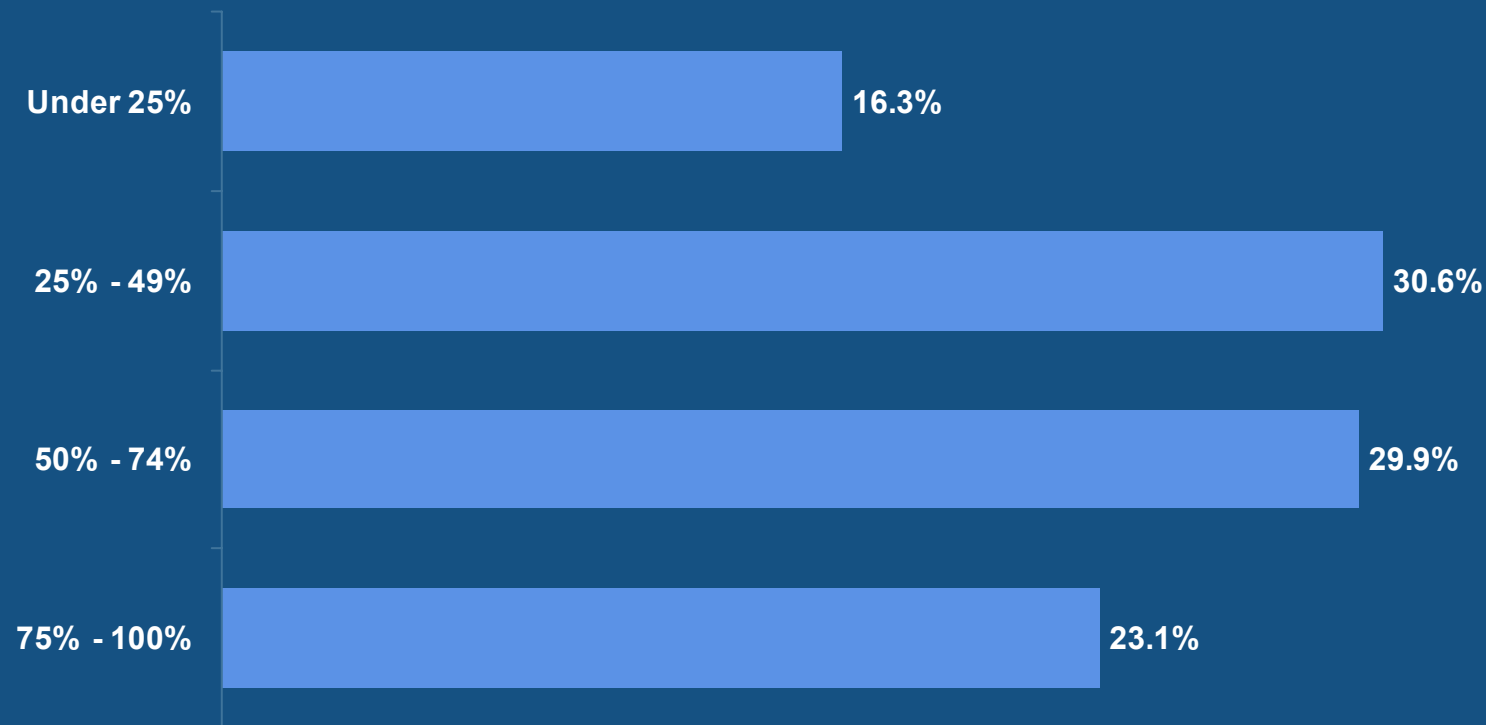
Respondent base = 138

WHOLESALE INVESTOR USE ONLY



# Advisors are nearly evenly split about whether their clients are saving enough now

What percentage of your non-retired clients do you believe are saving sufficiently to reach their retirement goals?



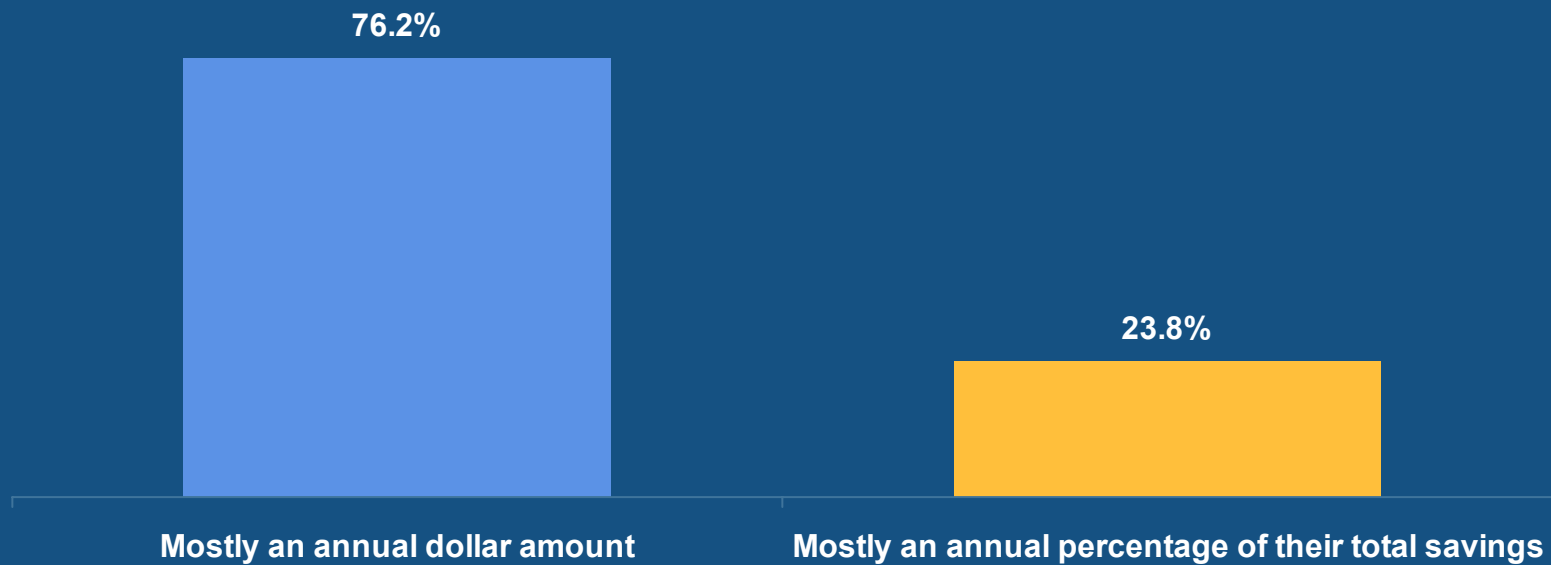
Respondent base = 147

WHOLESALE INVESTOR USE ONLY



# The majority of advisors are setting savings goals in dollar amounts

For your non-retired clients, is the savings goal that you have established with them:



Respondent base = 143

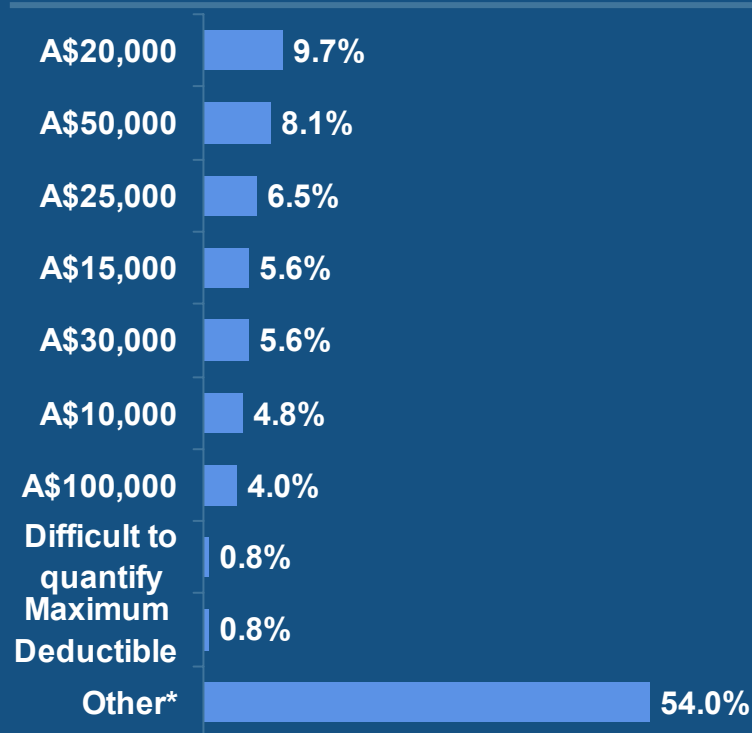
WHOLESALE INVESTOR USE ONLY



# The most frequently mentioned savings goals are A\$20,000 per annum, or 20% of total savings

If the savings goal is:

**AN ANNUAL DOLLAR AMOUNT, WHAT IS THE AVERAGE DOLLAR AMOUNT PER ANNUM?**



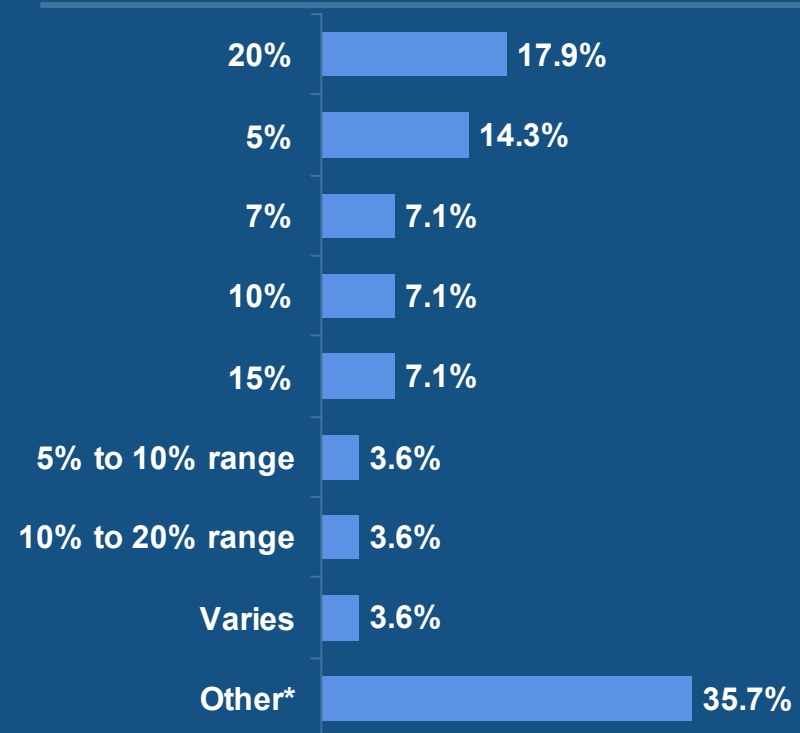
Respondent base = 124

\*Other responses ranged from \$5 to \$1,500,000.

WHOLESALE INVESTOR USE ONLY



**AN ANNUAL PERCENTAGE, WHAT IS THE AVERAGE PERCENTAGE PER ANNUM?**

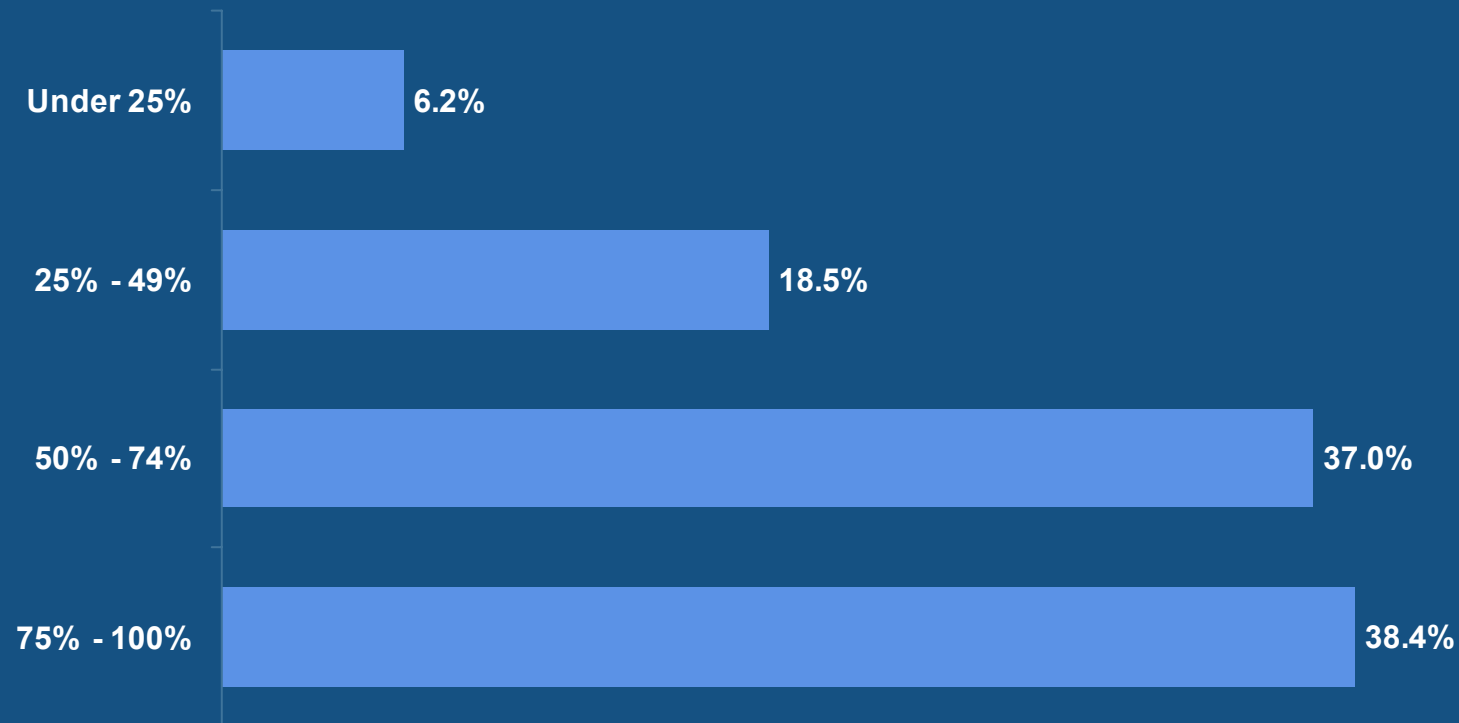


Respondent base = 28

\*Other responses ranged from 6% to 100%, none with more than one response.

# 75% of advisors believe their clients will achieve their retirement savings goal

What percentage of your non-retired clients do you believe will achieve the retirement lump sum savings goal that you/they have set?



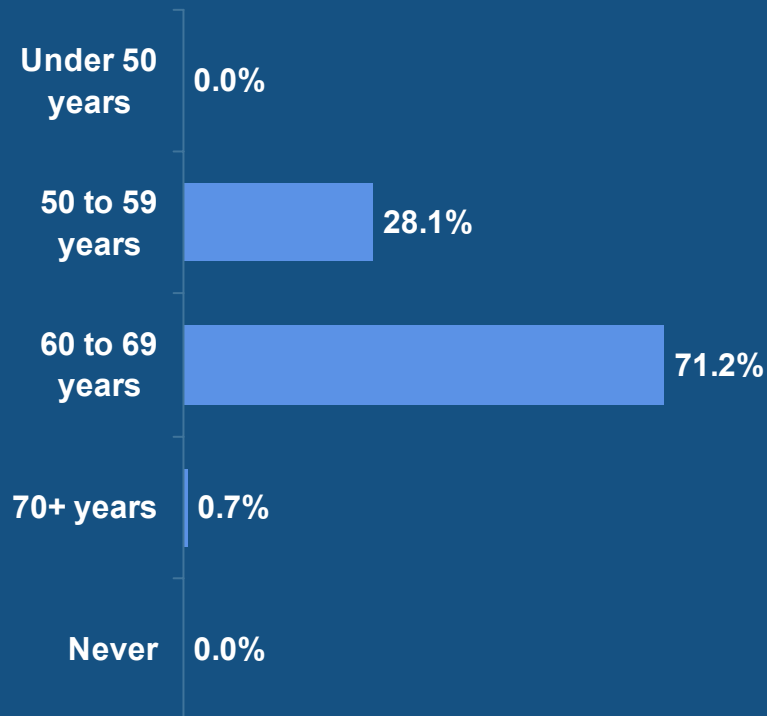
Respondent base = 146

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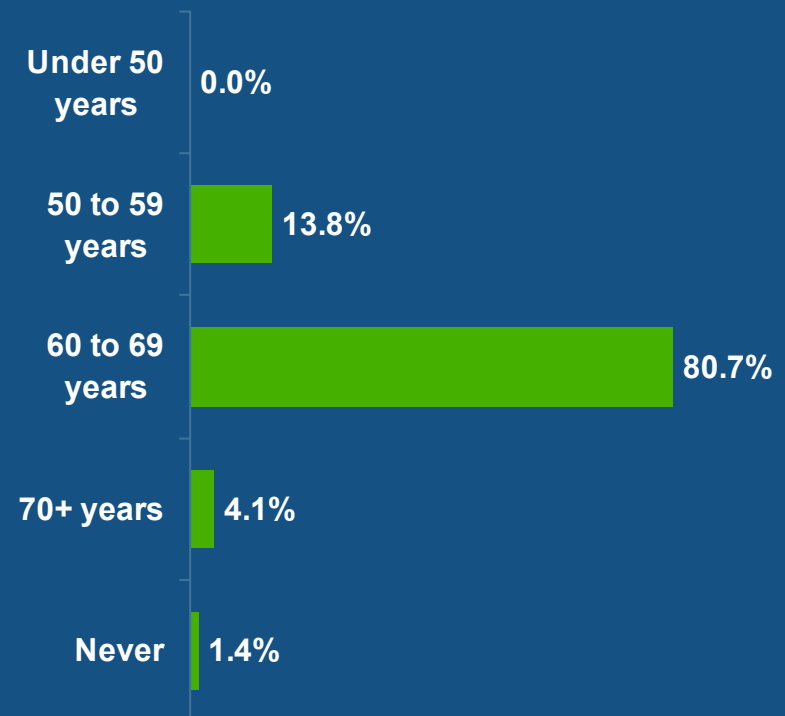


# Most advisors expect their clients both wish to and will retire during their 60's

On average, at what age do your non-retired clients wish to retire?



On average, at what age do you expect your non-retired clients are likely to retire?



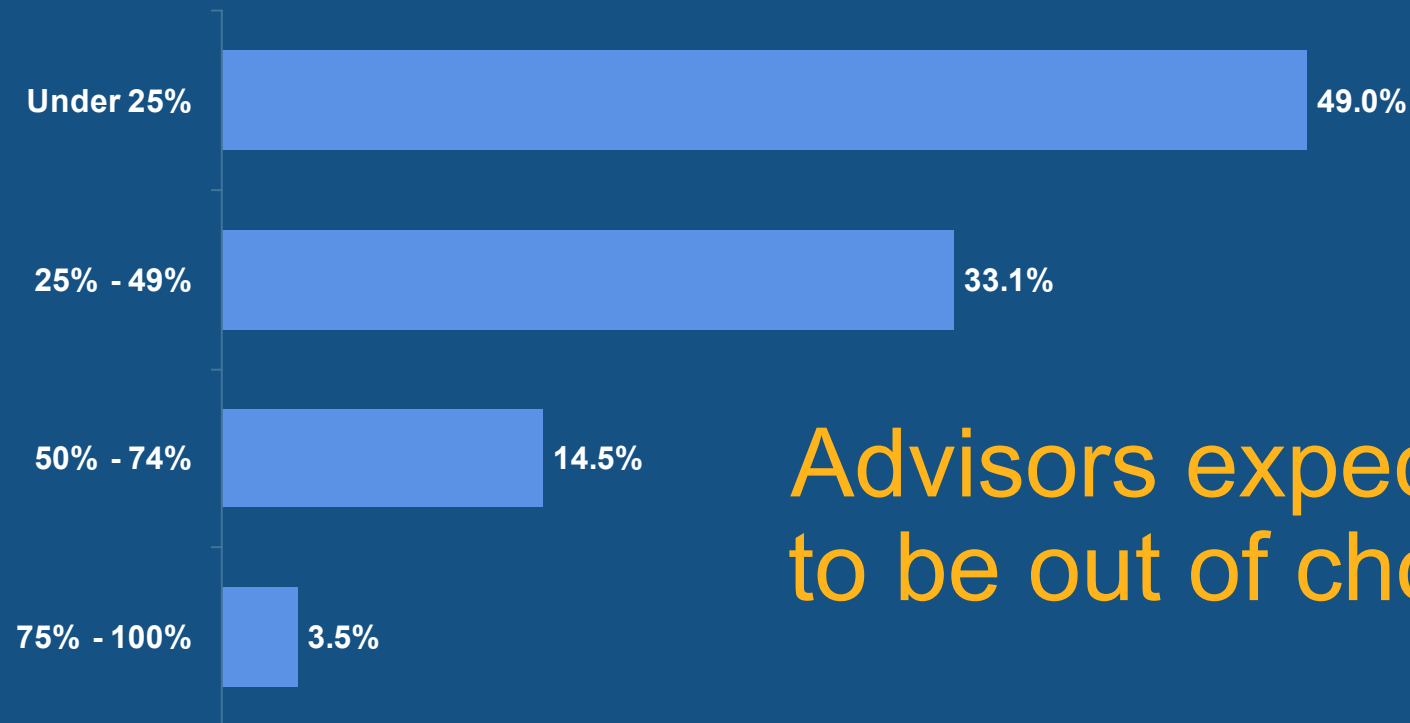
Respondent base = 146

WHOLESALE INVESTOR USE ONLY



# Half of advisors expect that only 1 in 4 of their clients will work part-time in retirement

What percentage of your non-retired clients do you expect will continue to work part-time in retirement?



Advisors expect it to be out of choice

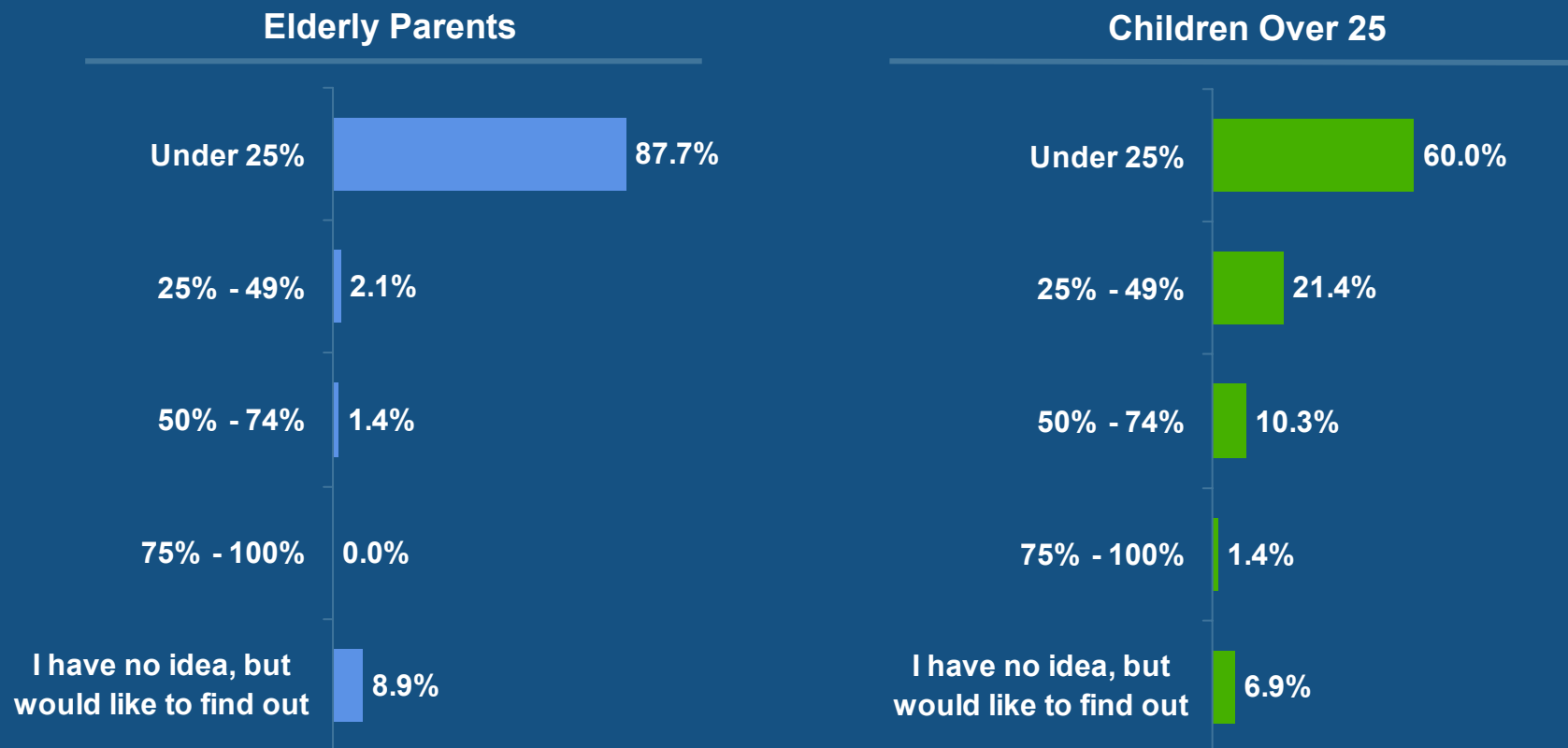
Respondent base = 145

WHOLESALE INVESTOR USE ONLY



# As for parents and kids, most advisors feel that less than 25% of their non-retired clients are financially contributing to other generations

What percentage of your non-retired clients are contributing financially to the needs of others at the same time as trying to fund their own retirement?



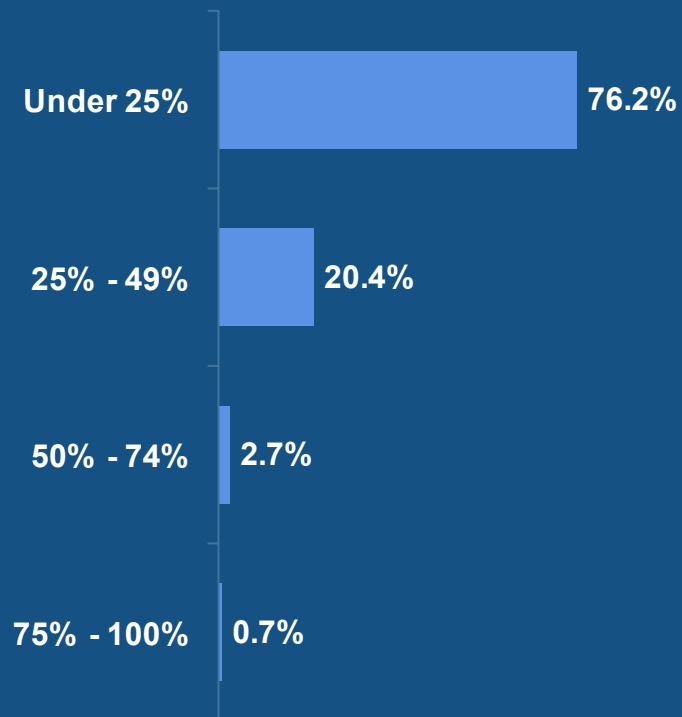
Respondent base = 147





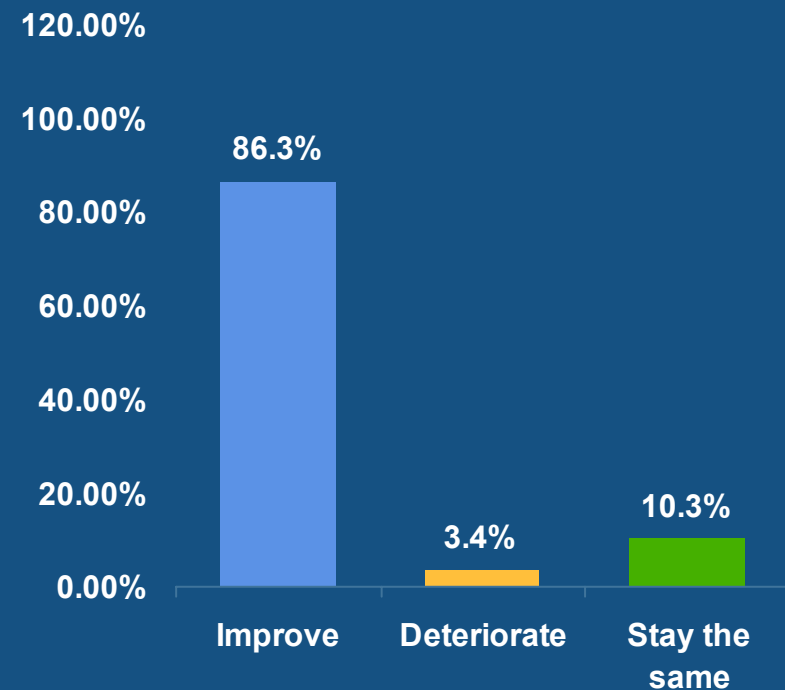
# Nearly all advisors said their clients have postponed large purchases to save for retirement. They see better behaviour overall.

What percentage of your non-retired clients have postponed large purchases in order to put that money towards their retirement?



Respondent base = 147

Have you seen the savings and investment behaviors of your non-retired clients improve, deteriorate, or remain the same during the past five years?



# Several key themes emerged as a response to this open-ended question

What is the most significant issue you would like to discuss with your clients about their retirement if you had an extra hour with them in your next appointment?

Estate Planning

Budgeting and Savings Goals

Portfolio Construction/Superannuation Strategy

Lifestyle Changes

Aged Care

*Respondent base = 141*

WHOLESALE INVESTOR USE ONLY



# Summary

- Australian advisors expect a more traditional retirement than is being experienced by Americans
- 1 in 4 Australians, vs. 1 in 3 Americans return to work after retirement. American rates are rising quickly
- Savings rates are stronger in Australia, and most who rely upon advisors seem likely to hit goals
- The lack of a mandatory “super” in America has meant many without advisors (60%) do not save and are not encouraged to do so
- Reasonable costs of university and national health care both preserve wealth among Australians, while erode American savings, and often cause intergenerational financial pressure
- While the “retirement of retirement” sounds drastic, many citizens will redefine their lifestyle and work for both money and meaning



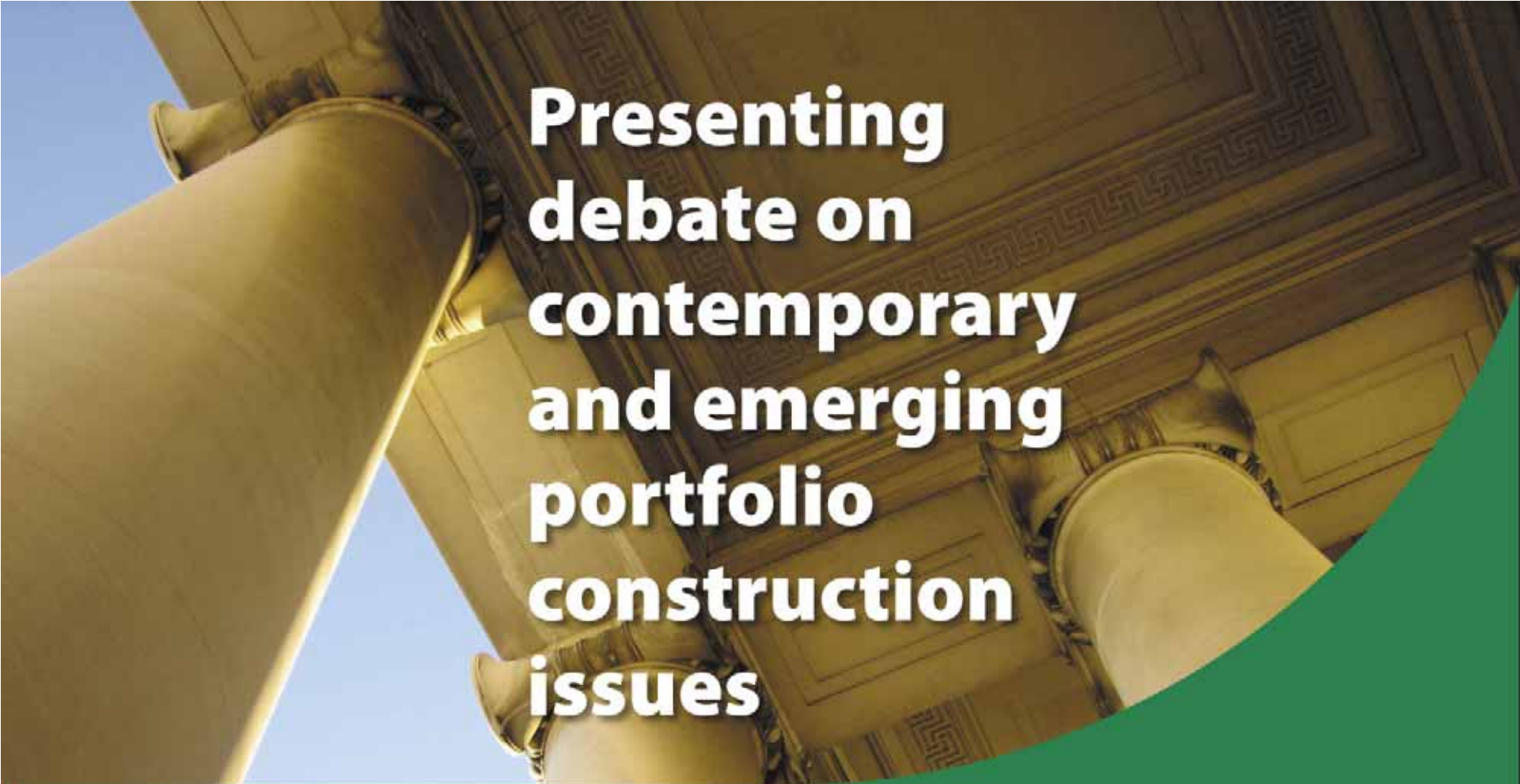
# PUTNAM INVESTMENTS



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