

An Educational Guide

# State of the American Family:

## Families, Financial Attitudes, and Planning



We'll help you get there.®



**American families have always weathered economic shifts,** but the downturn of 2008 has affected families' finances, and their relationships to their finances, in unforeseen ways. Families of all kinds are struggling to come to terms with efforts to plan for and meet such major long-term expenses as educating their children, retirement, and elder care, while managing day-to-day expenses and paying down debt. They need fresh insights into how they can thrive in the present while preparing for the future.

# Families, financial attitudes and planning

The “State of the American Family” program, an in-depth series of research studies conducted over the months and years ahead, is exploring the changing definitions and dynamics of families in this country. This multiyear initiative will produce a deeper understanding of the different forms families take, how factors like ethnicity and income affect family dynamics, how family members interact on financial and other matters, and trends that will shape families in the coming decade. The “State of the American Family” will provide America’s adults and children with the information and guidance they need to make responsible financial decisions.

The **second** research study from this new series, *Families, Financial Attitudes & Planning*, was conducted by Forbes Consulting group for MassMutual<sup>1</sup> and involved a 20-minute online questionnaire administered to 1,143 respondents January 4 – January 20, 2011. The sample included parents, ages 30-64, with household incomes of \$100,000 or more, with slightly different requirements for ethnic minorities<sup>2</sup>. All respondents contributed to financial decision making in their household and were financially responsible for at least one child. Data was weighted to age, gender, ethnicity, region and same-sex married/

partner couples. Results are presented for three generational groupings, which correspond to the following birth years: Generation X (born 1965-1979), Late Boomers (born 1955-1964), and Early Boomers (born 1946-1954).

## The state of family finances

Finances are the number one stress for American families who are constantly struggling between the financial goals they want to achieve and what they can actually afford. Their concerns are compelling: families work longer hours now than they ever have, with many people constantly worried about losing their jobs; they have watched the balance of their retirement accounts decline, and they have put off making important purchases such as a cars or houses because of the uncertainties and real constraints of the recession. Families are also struggling to reduce the amount of debt they carry which is, on average, \$18,000<sup>3</sup> in credit card debt and \$190,000<sup>4</sup> on their mortgages. Only just over half of those interviewed have confidence in their ability to pay off these debts.

*American families have been hit hard by the economic downturn and need clear plans for financial course correction.*

---

<sup>1</sup> Forbes Consulting Group (2011), February 2011, Lexington, Massachusetts for Massachusetts Mutual Life Insurance Company

<sup>2</sup> \$75,000 if African American and currently own/interested in owning life insurance, disability income or LTC in next six months; or Hispanic age 35-64 and own home or currently own/interested in owning life insurance in next six months; or Asian Indian owning a home and currently owning/interested in owning life insurance, disability income or LTC

<sup>3</sup> Applied 5% trim rule to account for outliers (capped at \$65,000)

<sup>4</sup> Applied 5% trim rule to account for outliers (capped at \$589,000)

## Managing today; Worried about tomorrow

As the parents of two young children, our fictional parents, Martha and Sam Johnson are used to running to keep up with their jobs, school, daycare, and the pleasures and demands of a growing family. In fact, they enjoy the challenge of “having it all” – jobs they love at companies they hope to grow with – she’s a management consultant and he’s an engineer in a young renewable energy company. They enjoy spending time with their kids, friends, and family doing a wide range of activities. But their satisfactions are undercut by a nagging sense of financial insecurity, the knowledge that, as they approach their 40s, they should be putting money away for emergencies, for their kids’ colleges, and for retirement. Sam and Martha are unhappy that they are not saving, but they are having a harder time than ever just getting by each month – managing their mortgage, car payment, childcare, and contributions to Martha’s firm’s health insurance plan. Martha does most of the monthly bill paying, juggling financial priorities, and often talks with Sam about putting something, however small, aside. But, despite the vast amount of information that she and Sam know is available online, neither of them is sure how to begin investing or where to go for advice.

Understanding how financial decisions affect both their immediate and, to a lesser degree, extended families, gives people a sense of control over their lives. But many only *wish* they had more control over their finances; they *wish* they paid more attention to their finances and *want* to feel more confident making the decisions that will affect their financial futures. Too often, however, these wishes do not result in action.

Most day-to-day financial decisions fall into the hands of women, who want to make planning for their financial future a higher priority, but who are unsure of where to go for sound financial advice. Although men express more confidence in long-term financial planning, when it comes to learning what they need to know, less than half of both sexes do their own research or make their own decisions about insurance or other financial products. Generation Xers demonstrate less financial literacy<sup>5</sup> than either Late or Early Boomers; only one quarter of Gen Xers feel confident about selecting financial options and are actively seeking ways to educate themselves about finances. Nonetheless, the vast majority of women and men from all generations want to teach their children about finance<sup>6</sup> – something they wish their parents had done more of.

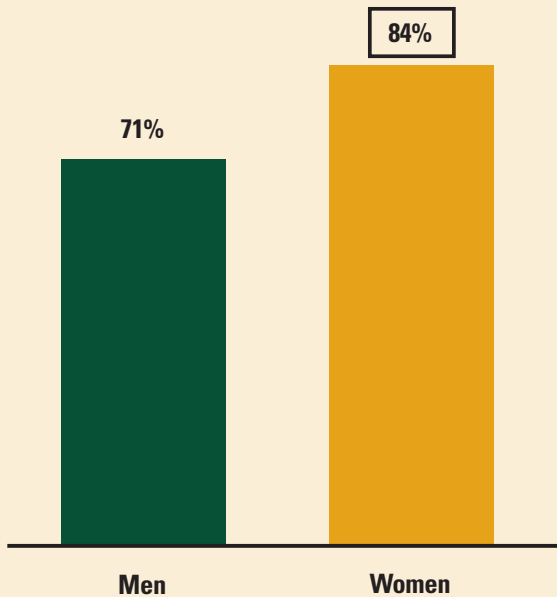
---

<sup>5</sup> Financial literacy was assessed using the measures used in the 2004 Health & Retirement Survey (Lusardi & Mitchell, 2006)

<sup>6</sup> See figure 1

## Educating children – Figure 1

Percent agree it's important that we educate our children on finances to ensure a strong economy.



Source: Q4a. Now we'd like to understand your attitudes towards finances and financial planning in general. Using a scale of 1 to 7 where 1 means you "disagree completely" and 7 means you "agree completely," please indicate how much you agree or disagree with each of the following statements.

Base: Men (n=492), Women (n=651).

□/○ = Significantly higher/lower than comparison group at 90% confidence level.

*Just under half of financial decision makers say they are good at managing money. Clearly, American families need guidance when it comes to managing their finances.*

*There is a substantial disconnect between the importance placed on financial education and the amount of activity dedicated to financial learning.*

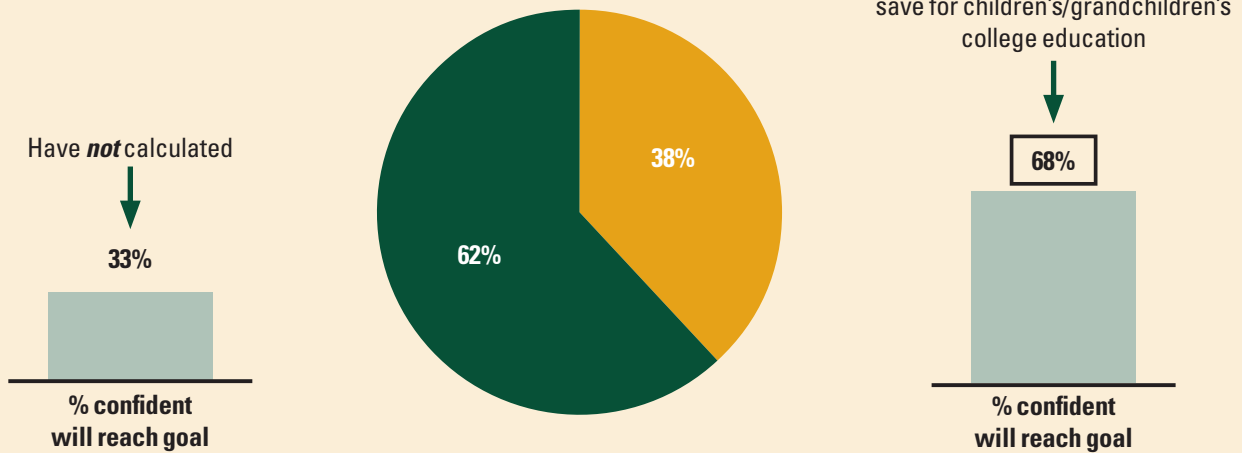
## Education – A fundamental priority

Martha and Sam are also certain that they want to pay for their kids' college education – perhaps even graduate school; it's more of a priority for them than saving for retirement. But they have only a vague sense of how much they need to save, what kind of investments are best, and little confidence that they will be successful.

For the vast majority of all financial decision makers, paying for their children's education – a bachelor's degree at the very least – ranks far above saving for retirement or future medical expenses. This goes against the advice of most financial professionals, who view the priority of planning for one's own retirement as the equivalent of putting on one's oxygen before assisting others. But of those who say they insist on paying for their children's college, fully half don't have the money to invest right now, nor do they really know how much they need to save (although men are nearly twice as likely to have made this calculation than women). Less than half of all decision makers have confidence that they'll be able to save enough for their children's college education.

## Saving for college – Figure 2

Impact of calculating how much money need to save for children's/grandchildren's college education.



Source: Q18. Now please indicate whether you've actually calculated how much money you need to save for each goal listed below.

Q15. Now, please indicate how confident you are that you will be able to reach your current and future financial goals. Please use a scale from 1 to 7 where 1 means "not at all confident" and 7 means "extremely confident."

Base: Figure 2: Among those currently/plan to in next 5 years saving/investing for children's grandchildren's college education (n=318), Have calculated how much need to save for children's/grandchildren's college education (n=135), Have NOT calculated how much need to save for children's/grandchildren's college education (n=183)

□/○ = Significantly higher/lower than comparison group at 90% confidence level.

*Those who have calculated the cost of their children's/grandchildren's college education believe they need to save \$201k<sup>7</sup>, while those who have not calculated believe they need \$130k<sup>8</sup>.*

*All of this suggests that, considering the high cost and importance of higher education to the workforce of the future, many parents will not be adequately prepared.*

<sup>7</sup> Applied 5% trim rule to account for outliers (capped at \$1,250,000)

<sup>8</sup> See Figure 2

# Retirement: Expectations and realities

## Retirement: Expectations and realities

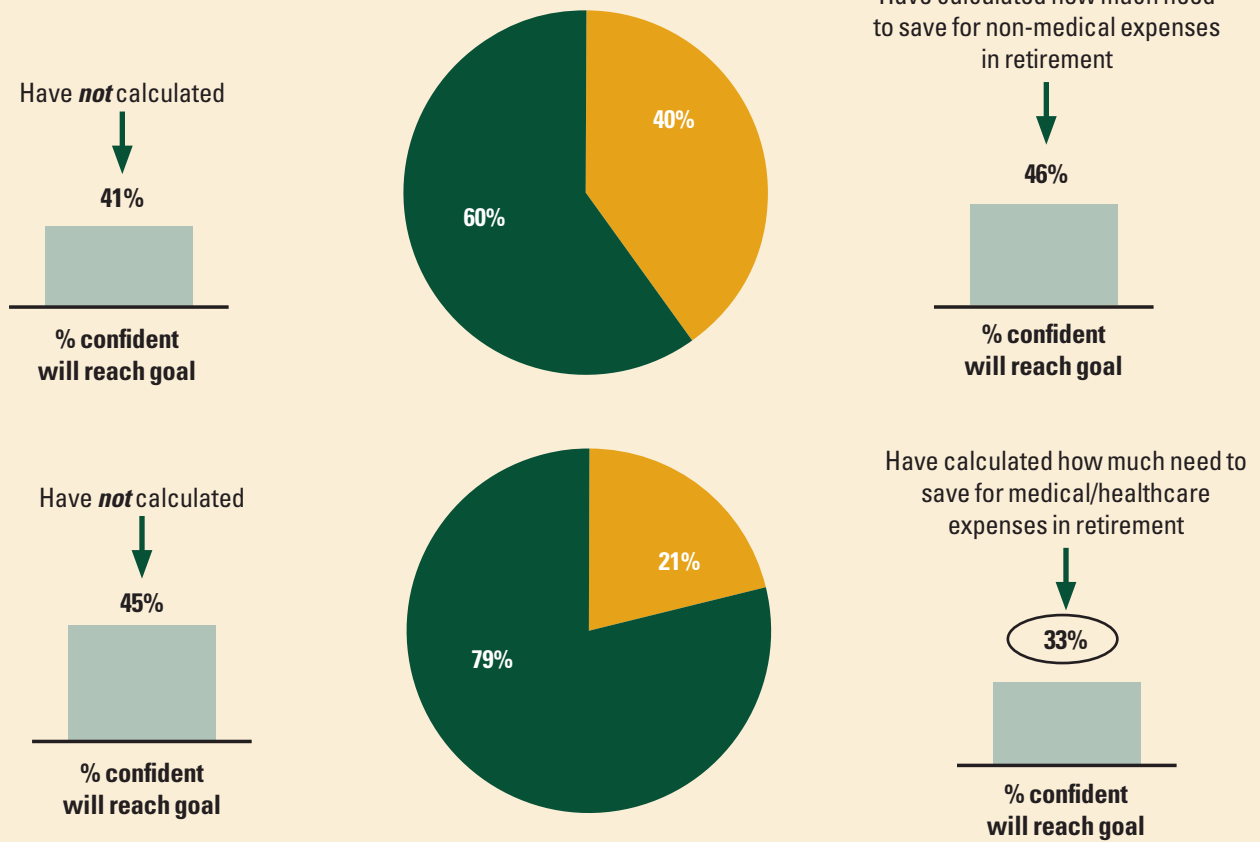
At 62, Paul Brewster has been teaching high school for more than 25 years. When he began his career, he was sure he'd be retired by now with a comfortable pension. But with the downturn in the economy and the hit his retirement accounts have taken, he knows he'll be standing in front of history classes for at least another five years. His wife, Simone, a freelance graphic designer, runs her own business. But in order to finance their three childrens' college educations, she neglected to feed her retirement account on any regular basis. And although the children have all graduated and are mostly on their own, she and Paul are still paying off the loans they took out to support them.

Both Paul and Simone look forward to retirement as another fully active phase of life. He plans to supplement his income with part time teaching at a local college and spend time with the grandchildren they hope to have. At 63, Simone also hopes to begin working less than full time within the next four or five years, but knows she'll need to keep bringing in some income as long as she is healthy and able.

Although Early Boomers have responded to the economic downturn by acknowledging that they're likely to be working four or more years longer than they originally planned, and they increasingly lack confidence that their retirement plans will carry them through, they still look forward to their retirement years with confidence in their ability to enjoy themselves in good health. Gen Xers and Late Boomers believe that they'll still be able to retire more toward 60 than 70 and all three generations, although most think they'll be working part or fulltime, have a rosy vision of years spent with family and friends. Financial decision makers are still unrealistically counting on the combination of social security and pension plans to contribute over half of their retirement income, perhaps contributing to their sense of unease: only three in ten are confident that they are doing a good job of preparing financially for retirement and only one in ten are clear about how much they need to save for retirement. Confidence in their ability to save enough is also low, which likely explains why only half or less have calculated how much they'll need for both non-medical expenses and for medical/healthcare expenses. Interestingly, Gen Xers are the mostly likely to have calculated how much they'll need for medical expenses, perhaps due to their greater familiarity with online calculators.

## Saving for retirement – Figure 3

Impact of calculating how much money need to save for retirement.



Source: Q18. Now please indicate whether you've actually calculated how much money you need to save for each goal listed below.

Q15. Now, please indicate how confident you are that you will be able to reach your current and future financial goals. Please use a scale from 1 to 7 where 1 means "not at all confident" and 7 means "extremely confident."

Base: Among those currently/plan to in next 5 years saving/investing for non-medical expenses in retirement (n=226), Among those currently/plan to in next 5 years saving/investing for medical/healthcare expenses in retirement (n=230), Have calculated how much need to save for non-medical expenses in retirement (n=107), Have NOT calculated how much need to save for non-medical expenses in retirement (n=119), Have calculated how much need to save medical/healthcare expenses in retirement (n=71), Have NOT calculated how much need to save for medical/healthcare expenses in retirement (n=159)

□/○ = Significantly higher/lower than comparison group at 90% confidence level.

*Those who have actually calculated how much they need to save believe they will need an average of \$1.2M<sup>9</sup> for non-medical related expenses and \$450,000 for medical/healthcare related expenses. Those who have not calculated the amount needed estimate that they'll need \$749,000 for non-medical and \$340,000 for medical/healthcare related<sup>10</sup>.*

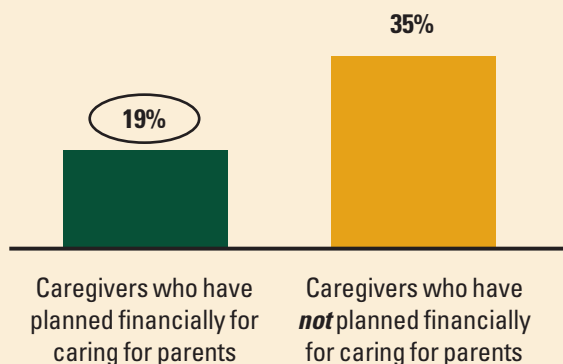
*The realities of retirement are likely to be a rude awakening for many.*

<sup>9</sup> Applied 5% trim rule to account for outliers (capped non-medical expenses at \$5,000,000, capped medical expenses at \$2,000,000)

<sup>10</sup> See Figure 3

## Planning for parents' care – Figure 4

Impact of planning financially to take care of parents  
% say they have more stress in their life than the average person



Source: Q1a. For each of the statements below, please indicate whether or not the statement describes you. Please use a scale from 1 to 7 where 1 means "doesn't describe me at all" and 7 means "describes me perfectly."

Base: Among Caregivers who have already financially planned for caring for parents (n=126), Among Caregivers who have **not** already financially planned for caring for parents (n=290),

□/○ = Significantly higher/lower than comparison group at 90% confidence level.

*Most profess that it is important to protect their families from the burden of eldercare, but these desires are fundamentally at odds with the very low rate of preparedness, including funding for long-term care needs as part of their financial plan.*

The vast majority of family decision makers don't want their children to be burdened by taking care of them when they're older and only one-third expect to care for their parents when they can no longer take care of themselves. Gen Xers, however, who are furthest from this reality, say they **do** plan to help their parents financially as they get older. But life for caregivers is more difficult than for non-caregivers<sup>11</sup>: those who do care for elderly family members now spend an average of \$461<sup>12</sup> per month on their parents' medical expenses, wish they knew more about how to plan for parents' care and finances, and admit they should be doing more to save for their own long-term financial goals. Interestingly, they are less likely to be financially literate than non-caregivers, which likely compounds their financial difficulties.

### Caring for the caregiver

Paul also did not foresee the impact the recession would have on his elderly mother's income, just as she began to need additional help to maintain her daily routine. His contributions to her are slowing his retirement savings and have prompted him to look into alternatives so his children will not be responsible for him or his wife.

<sup>11</sup> See Figure 4

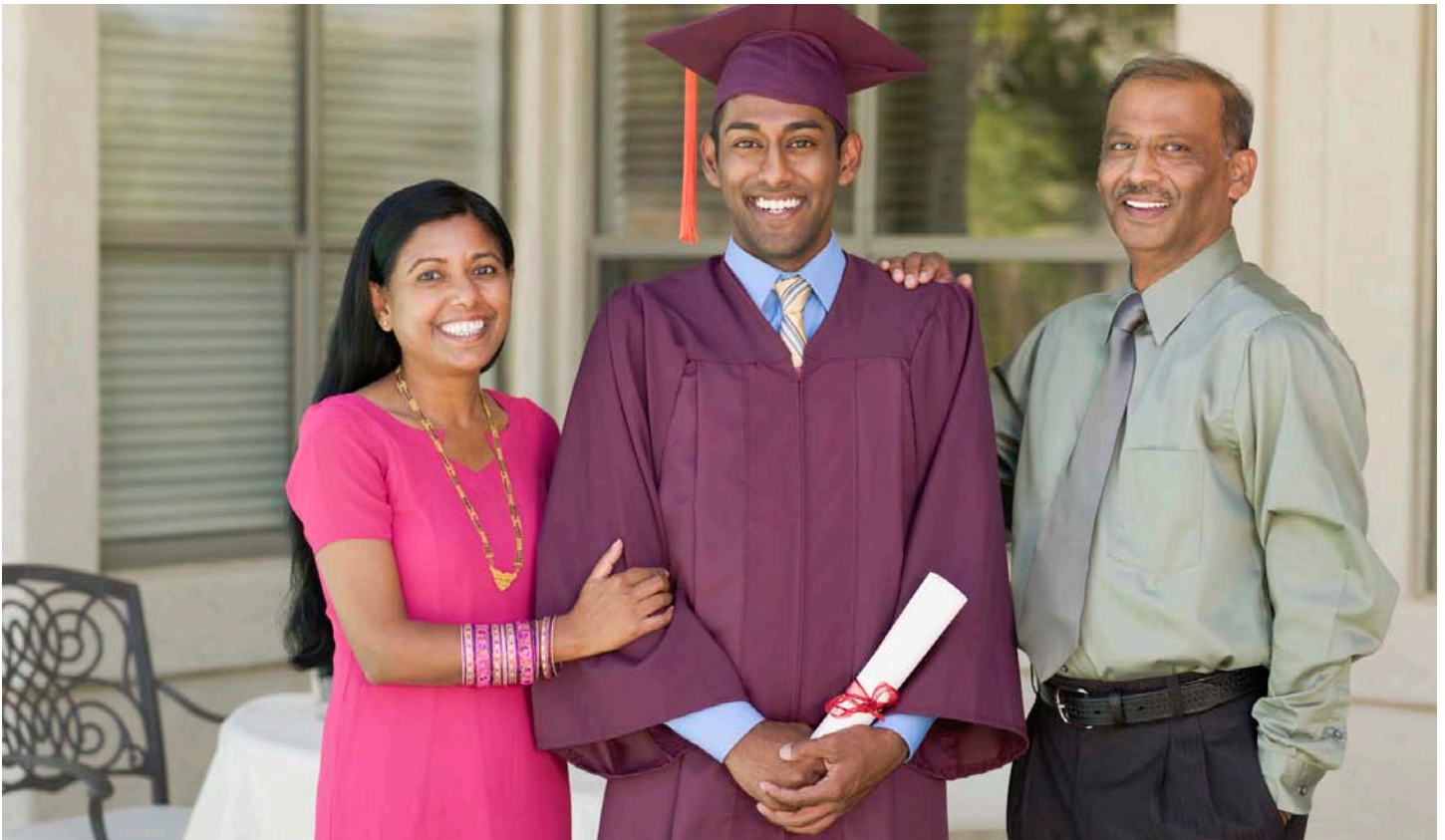
<sup>12</sup> Applied 5% trim rule to account for outliers (capped at \$8,700)

## Planning approaches make a difference

While economic uncertainties exacerbate the challenges of managing day-to-day financial responsibilities with planning for the future, differences in how people plan for the future account for much of the discrepancy between stated goals and actual behavior. Financial decision makers are split evenly between those who are more oriented to the present and those who tend to delay gratification today in order to obtain greater rewards in the distant future. Those who are more oriented toward the future tend to be older and more financially literate and are also significantly more likely to have set a variety of financial goals that they act upon, including more savings and investment assets.

As would be expected, those who are more oriented to the present are less confident when it comes to dealing with finances. They are more likely than future oriented planners to say that they wish they were more confident in making financial decisions.

*Financial education programs tailored to the learning styles of present-oriented individuals (story telling instead of statistics, emotional appeals instead of reasoned analysis) should have a greater positive impact because they are starting from a position of relative weakness.*



**MassMutual. We'll help you get there.®**



© 2011 Massachusetts Mutual Life Insurance Company, Springfield, MA 01111-0001. All rights reserved. [www.massmutual.com](http://www.massmutual.com). MassMutual Financial Group is a marketing name for Massachusetts Mutual Life Insurance Company (MassMutual) and its affiliated companies and sales representatives.