Ameriprise Financial

The Ameriprise Financial *Money Across Generations*℠ Study

A Wake-up Call for Boomers: Generous Financial Ties to Adult Children and Parents, and the Unacknowledged Strain On Retirement Savings

Introduction

After mapping the stages of retirement with the *New Retirement Mindscape*SM study, new research from Ameriprise Financial uncovers the family financial ties that bind boomers to their parents and their children: the Ameriprise Financial *Money Across Generations*SM study.

This breaks new ground by looking across three generations from the central vantage point of baby boomers — from their parents to their adult children — to gain a deeper understanding of how each generation perceives, talks about and deals with issues surrounding money and finances.

For today's boomers who are fast approaching retirement, money is a family affair. Many boomers must prepare for their retirement as they care for aging parents and continue to financially support adult children. The dreams boomers have for retirement are unavoidably affected by how these generational money dynamics impact their ability to save and invest. For this reason, Ameriprise Financial engaged GfK Roper Public Affairs to conduct The Money Across Generations Study, which set out to:

> Examine boomers' evolving needs, especially as they relate to aging parents and adult children.

> Explore the factors that may impede boomers' ability to plan and save for retirement.

> Understand the gaps that exist in financial communication across generations of a family.

Survey Methodology

Working with GfK Roper Public Affairs, a leading global marketing research and consulting firm, Ameriprise Financial launched a national telephone survey in April and May of 2007.

> The sampling frame for this study was a random digit dialing system that includes all telephone households in the U.S. — both listed and unlisted. The study's sample was drawn from this frame using probability selection procedures.

> Interviews were conducted among 1,001 affluent baby boomers, or those with $100,000 or more of investable assets; 300 parents of baby boomers; and 301 children of baby boomers at least 18 years old.[1]

> Survey data were weighted to Current Population Survey statistics.

> The margin of error is +/- three percentage points for the affluent boomers segment and +/- six percentage points for the parents and children of boomers segments.

> To lay the foundation for this study, qualitative research was conducted with baby boomers in San Francisco, Miami, Denver and Dallas to explore the intergenerational issues affecting their daily lives.

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[1] There were no investable asset requirements for parents or children of baby boomers.

Survey Results and Analysis

A big wake-up call to boomers: There's more stress on their retirement savings than they realize.

The children of boomers may have reached adulthood, but boomers are still footing the bill. The study found that a substantial number of affluent boomers are financially helping their adult children on a wide array of fronts — from paying their college loans and allowing them to move home and live rent free, to paying off their credit card debt and making mortgage payments for them (see Figure A). In fact, more than nine in 10 (92 percent) have helped their adult children in at least one way.

Where is this money coming from? These affluent boomers say they use "day-to-day spending money" (50 percent) and "regular savings" accounts (41 percent) to finance this assistance. Just six percent say this financial help comes from their retirement savings, and only three in 10 (29 percent) view it as hurting their retirement savings. Rather, seven in 10 (70 percent) of these boomers say that helping their adult children has had no effect on their retirement savings.

Boomers seemingly know they shouldn't dip into their retirement savings, yet they don't see how tapping day-to-day spending money or savings can slow the rate at which they save for retirement.

Published research from the Employee Benefits Research Institute shows that retirement savings rates for boomers are too low, and that many are overconfident in their ability to fund retirement.[2]

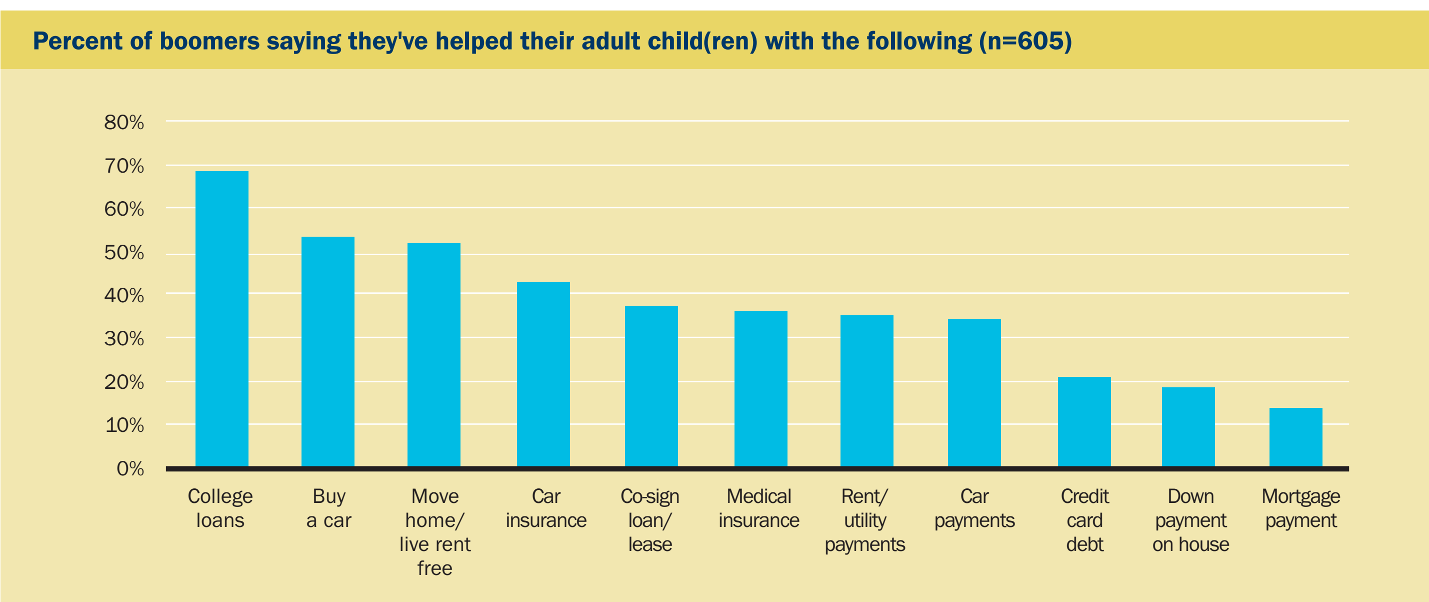
The issue may be how they distinguish between their retirement and other savings. Many boomers could be assuming that if the money isn't coming out of an IRA or 401(k), it's not going to affect their retirement.

The children of boomers may have reached adulthood, but boomers are still footing the bill.

Yet, when given hypothetical situations forcing boomers to choose between the needs of their adult children and their own need to save for retirement, boomers begin to make the connection.

For instance, two thirds (65 percent) of boomers say they would prioritize their own retirement savings they need ahead of helping their adult children buy a car or pay off their credit card debt. It is here, in these trade-off scenarios, where boomers appear to understand the impact of helping their adult children on their own retirement funding.

Figure A — Affluent boomers are paying the way for adult children on everything from college loans to mortgage payments.



[2] The 2007 Retirement Confidence Survey: Total savings and investments for boomer age groups totalled less than $10,000 for one in four and less than $50,000 for 45 percent (ages 45-54, not including DB plan income or the value of their primary residence).

As noted earlier, some boomers are making the connection between helping others and the adequacy of their retirement savings. In fact, the majority of boomers say they would save a windfall for retirement. When asked if they had an extra $10,000 today and had to spend it in one way, 57 percent say they would put it aside for their retirement. The balance would opt to spend it on their children (17 percent), themselves (14 percent), their grandchildren (five percent), or their parents (three percent).

It's harder for some boomers to understand the trade-offs when they feel their actions have an instructive value. Half of boomers (50 percent) believe their financial help has actually made their adult children *more* financially responsible, while better than one in three (36 percent) feel it had no effect. Just one in 10 (11 percent) says this help has made their kids *less* financially responsible. And far from considering the implications for their own financial futures or the financial independence of their adult children, boomers overwhelmingly would "write the check" again: Nine in 10 (89 percent) say they would financially help their adult children again if given the chance to do it over, although they are not certain it enhances their relationship. According to the study, most boomers (58 percent) said their help had no effect on their relationship with their children, while just one in three (35 percent) said it helped their relationship.

While the idea of instilling fiscal responsibility in their adult children through their generosity may be a comforting notion for boomers, the *New Retirement Mindscape*℠ study, published by Ameriprise Financial in 2006, suggested that they are looking for better advice when it comes to help for passing on solid financial values to their children. The research found that 52 percent of boomers said the most important advice they could get from a financial advisor was how to make their children more financially savvy. One element of that advice is helping boomers understand that paying their kids' bills is not the same as addressing the financial issues that underlie their need for assistance in the first place.

It's not just about helping kids: Boomers are helping their aging parents, too.

Providing financial help to adult children is not the only strain on boomers' retirement savings. A considerable number are helping their aging parents monetarily in ways ranging from buying groceries to paying long-term care costs (see Figure B). And, a third (32 percent) report helping their parents in one or more ways.

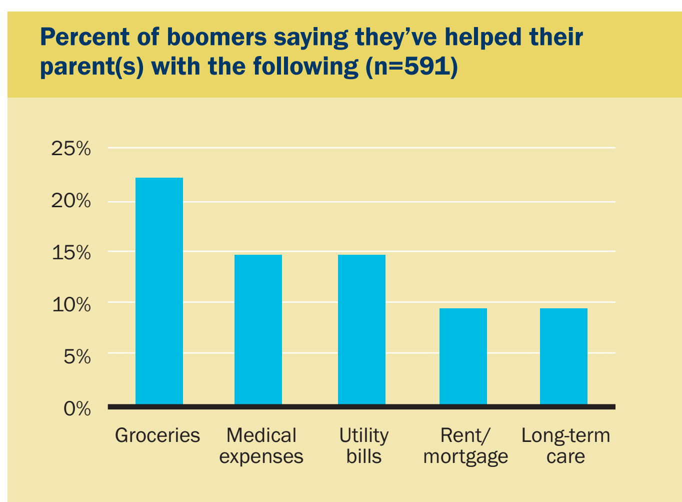
Boomer fathers more likely to report helping adult children; boomer women more likely to help with aging parents' daily needs.

When it comes to providing financial help to adult children, boomer fathers are more apt to report that they step in and pay for college, as well as medical insurance.

- Three fourths (74 percent) of boomer fathers say they've helped adult children with college loans or tuition — compared to less than two thirds of boomer mothers (64 percent).
- Four in ten (40 percent) boomer fathers have helped with their adult children's medical insurance, while three in ten (31 percent) boomer mothers say the same.

When forced to choose between bailing adult children out of credit card debt and saving for their own retirement at the necessary rate, majorities of both boomer fathers and mothers would choose to fund their retirement savings over

Figure B — Many affluent boomers find a way to help their parents attain a secure lifestyle.

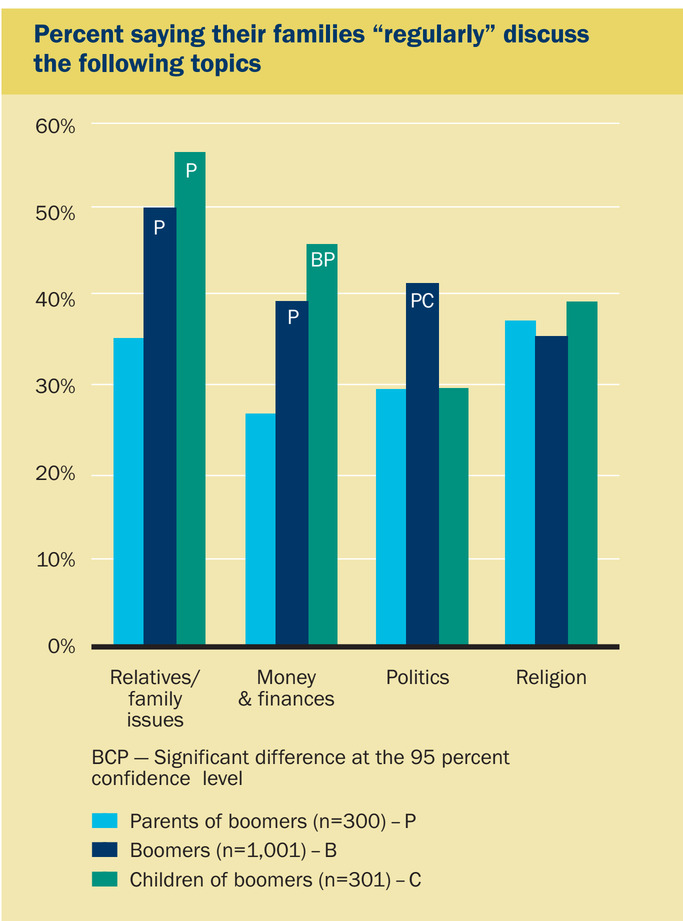


helping their adult children with credit card debt. Boomer fathers are more likely than boomer mothers to say they would choose their children's needs above their own. More than a third (36 percent) of boomer fathers would opt to help a child pay off his or her credit card debt, while just one fourth (26 percent) of boomer mothers would do so.

Yet, when it comes to helping aging parents, boomer women are more likely to buy or pay for groceries — 26 percent compared to 19 percent of boomer men.

Overall the study found that financial generosity towards family members — their adult children and parents — is a hallmark of boomers. But understanding where and how this giving intersects with their retirement savings is a potential blind spot.

Figure C — Money is part of the family conversation — but boomers' parents rank it lowest.



Still a culture of silence around money. Family financial conversations not happening enough.

One potential hindrance for boomers in understanding the full implications of their generosity may be communication-related. Conversations about money across generations are not happening as often as they should. Only four in 10 (39 percent) boomers say they talk with their families about money and finances on a regular basis, and even fewer parents of boomers say the same (26 percent). Boomers' kids are most apt to engage in these discussions (see Figure C).

Most boomers (55 percent) say it's a myth that the more money people have, the more comfortable they are talking about money. They also believe that everyone fights about money — not just those who have it. Nearly seven in 10 (68 percent) say the idea that the more money a family has, the less likely it is to fight over money is a myth.

A majority of boomers report they have adequately discussed six important topics with their parents (see Figure D), and about half (48 percent) of boomers have adequately discussed all six topics with their parents.

Yet when it comes to boomers talking with their adult children about these important issues, just one in four (27 percent) have discussed all six adequately.

While boomers seem to be talking with their aging parents, they are not talking with their adult children to the same extent, even though the magnitude of the financial support boomers provide them is greater. Even as their own retirement approaches, it appears boomers do not perceive an urgent need to address these issues early on with their children. "Haven't gotten around to it" is the top reason among boomers for not discussing with their adult children the following:

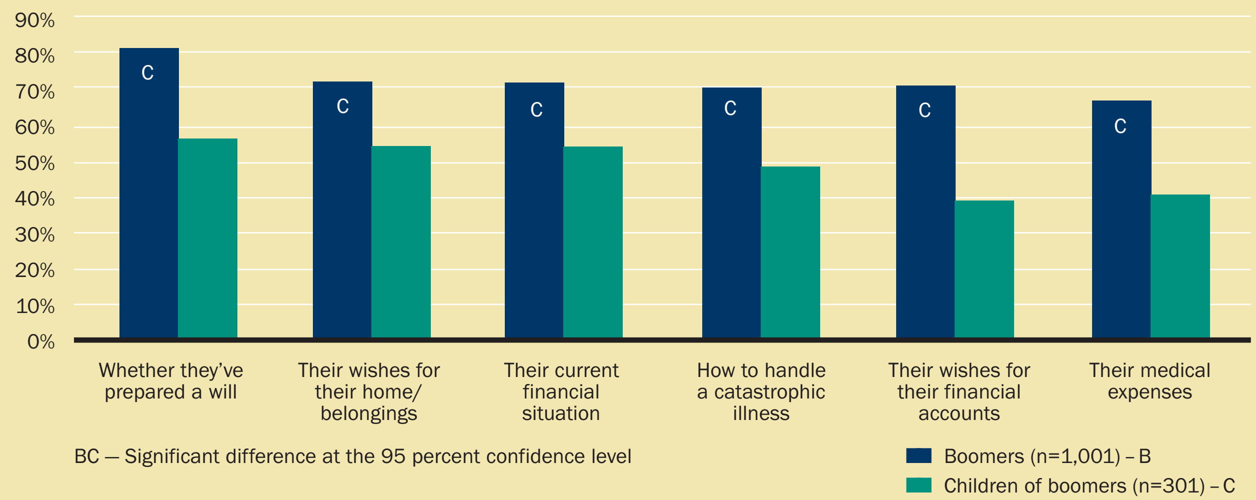
> Their current financial situation (42 percent),

> Their wishes for their financial accounts (47 percent),

> How they'd like things handled if they suffered a catastrophic illness (49 percent).

Figure D — Conversations taking place between boomers and their parents, but not with boomer kids to the same degree.

Percent saying they have adequately discussed the following topics with their parent(s)



For boomer women, culture of silence around money less pronounced.

While less than half of boomer women regularly discuss money and finances with their families, they are more apt to be doing so than their male counterparts — 45 percent compared to 35 percent. This pattern extends beyond money to include conversations about relatives, family issues and religion as well (see Figure E).

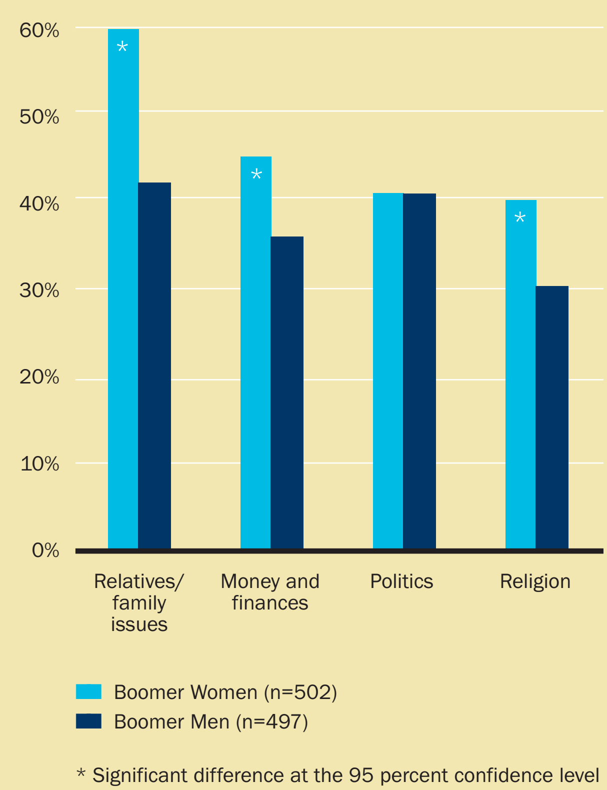
Boomer women are also more likely to be tackling difficult money conversations with their parents.

> Nearly nine in 10 (86 percent) boomer women say they've adequately discussed whether their parents have prepared a will — compared to about three fourths of boomer men (77 percent).

> More than seven in 10 (73 percent) boomer women have adequately discussed their parents' medical expenses, while just six in 10 (61 percent) boomer men say the same.

Figure E — Boomer women more vocal about money and finances.

Percent saying their families "regularly" discuss the following topics



Money messages matter. When generations talk, good things happen.

Although boomers' parents are often lauded for their ability to *save* money, they rarely *talked about* specifics of smart money management while boomers were growing up. Many boomers report that their parents *rarely or never* discussed key financial issues such as:

> How much money the family had (70 percent),

> How to budget the family's money (59 percent),

> Giving money to a cause or charity (51 percent),

> Saving for retirement (44 percent).

Instead, generalities like "save money" and "spend wisely" were more readily talked about — only about one in five boomers say these were *rarely* or *never* discussed while growing up. Thus, boomers may not feel comfortable discussing financial matters with their parents, creating circumstances ripe for confusion and misunderstanding of monetary needs and wishes.

In addition, affluent boomers are almost evenly split when asked whether the message they heard from their parents growing up was that money is something that "should be openly discussed" (48 percent) or something that "you just don't talk about" (46 percent).

Importantly, boomers who received the message that money should be openly discussed when growing up are much more likely to report hearing money management details (see figure F).

Many boomers report that their parents rarely or never discussed key financial issues.

Boomers today who grew up hearing money should be discussed openly, are more apt to say their families discuss money and finances on a regular basis — 45 percent compared to 35 percent of those who grew up in households where money was not discussed openly. And they are more likely to be discussing a number of important financial issues with their parents; seven in 10 say they've adequately discussed their parents':

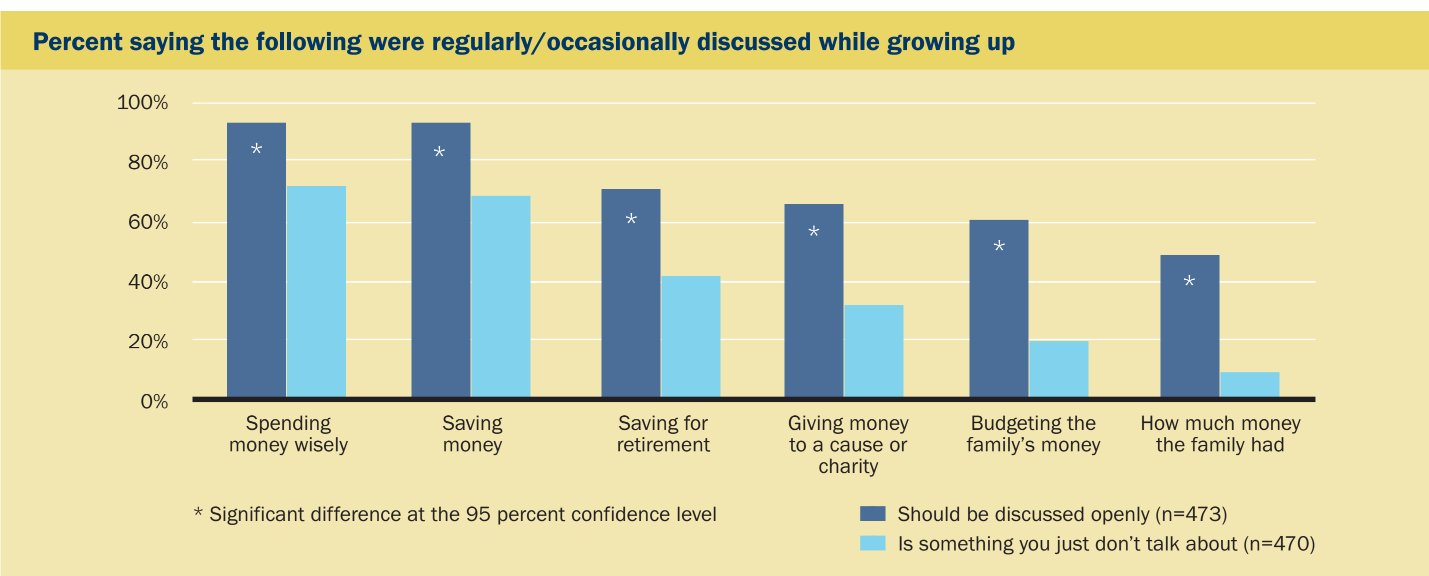
> Current financial situation (80 percent),

> Wishes for their financial accounts (78 percent),

> What to do if their parents suffer a catastrophic illness (77 percent),

> Medical expenses (72 percent).

Figure F– Boomers who received open money message also more apt to hear specifics of smart money management.



By comparison, fewer than seven in 10 boomers who grew up in a home where money was not talked about say they've adequately discussed these four situations with their parents. In other words, those who experienced openness towards money while growing up are more apt today to be having the important conversations about money and finances with their parents.

This pattern holds true for the younger generation as well. Children of boomers who grew up with open communication surrounding money are more likely than those who did not to have discussed their parents':

> Current money or financial situation (71 percent vs. 34 percent),

> Wishes for their home and belongings (61 percent vs. 47 percent),

> Medical expenses (48 percent vs. 32 percent),

> Wishes for their financial accounts (47 percent vs. 33 percent).

Ironically, the majority (56 percent) of boomers and boomer children (59 percent) say they do not wish money matters had been discussed more openly while growing up — numbers that reflect both those who were in households with open discussions of money matters and those who were not. However, among only those who were specifically taught that money is something you just don't talk about, nearly half (49 percent and 48 percent, respectively) wish money matters had been discussed more openly — illustrating an ongoing need to foster an openness to money discussions.

Creating a legacy of openness around money and finances lays the groundwork for financial responsibility across generations.

Take heart, boomer parents: Your kids are ready to talk, ready to help and ready to be responsible.

Many children of boomers are ready and willing to take financial responsibility. It may surprise boomer parents to hear that this younger generation is voicing responsibility about money, saying that a wide range of financial goals are "very important" to them.

> More than seven in 10 (72 percent) children of boomers say substantially helping their children or grandchildren pay for their education is very important to them.

> Six in 10 (60 percent) say preserving wealth to leave to their children is very important.

> And half (51 percent) say that assuring a secure life for their parents is very important.

The adult children of boomers are the most likely to say they talk about money in the family. Nearly half (46 percent) say they discuss it regularly, while just four in ten (39 percent) boomers and a fourth (26 percent) of boomers' parents say the same. In other words, the culture of silence around money is decreasing with each generation — an improving trend, but still not an ideal situation when communication across generations is needed.

While being most open about money issues, the children of boomers also are more inclined to see discussions of money as a major source of family stress — half (51 percent) say such discussions are likely to lead to an argument, reflecting some understanding that their openness is not at parity with older generations. Even so, if all three generations can work through the tension of their initial conversations about money, they can open the doors to regular and healthy communication about money across generations.

The culture of silence around money is decreasing with each generation.

Conclusion

As more boomers begin to cross the retirement threshold, it's more important than ever to understand how their familly financial decisions impact their retirement security. While arguably the most prosperous generation in American history, boomers face mounting demands on their financial resources from both their adult children and their parents, along with other economic and sociological trends eroding their retirement prospects (rising health care costs, disappearing pensions and social security uncertainty).

Generosity toward family is only natural, and generosity is in boomers' natures. However, planning for this generosity is key. Opening the dialogue about money across generations will help boomers balance their generosity with their own retirement savings goals. This empowering communication can become an effective way to eliminate blind spots and increase confidence in both their own retirement security and the financial independence of the older and younger generations.

Encouragingly, the *Money Across Generations* study found an increasing desire to have these financial conversations in younger generations. The former taboos about discussing money in families are disappearing, allowing boomers an opportunity to actively engage their families in the planning process and keep their retirement dreams on track.

Opening the dialogue about money across generations will help boomers balance their generosity with their own retirement savings goals.

About GfK Roper Public Affairs & Media

GfK Roper Public Affairs & Media is a division of GfK Custom Research North America, specializing in customized public opinion polling, media and communications research, and corporate reputation measurement — in the US and globally. In addition to delivering a broad range of customized research studies, GfK Roper Public Affairs & Media draws from GfK's syndicated consumer tracking services, GfK Roper Reports® US and GfK Roper Reports® Worldwide, which monitor consumer values, beliefs, attitudes and behaviors in the US and 30 other countries.

Headquartered in New York, GfK Custom Research North America is part of the GfK Group. With home offices in Nuremberg, Germany, the GfK Group is among the top-five market research organizations in the world. Its activities cover five business divisions: Custom Research, Retail and Technology, Consumer Tracking, Media, and Healthcare. In addition to 13 subsidiaries in Germany, the GfK Group has more than 130 subsidiaries and affiliates in over 70 countries.

About Ameriprise Financial

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