

# *Financial Trade-Offs* study

March 2014

## Abstract

Americans juggle multiple financial goals through various life stages, but it can be a challenge for many to strike a balance between pursuing short-term needs and wants while saving for the future. People of all ages and incomes make lifestyle choices that affect their immediate financial situation — and often these decisions have long-term effects.

We conducted the *Financial Trade-Offs* study among three generations of Americans to discover which financial needs and goals they prioritize, and which trade-offs they consciously make to meet these goals. What we found is that most people say they are generally willing to make trade-offs today in order to save for tomorrow. However, their financial actions — and the bills they have yet to pay — suggest they may not always be thinking about what will have the biggest long-term impact.

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# Introduction

Ameriprise Financial commissioned Koski Research to conduct the *Financial Trade-Offs* study. The study's goal is to uncover whether the financial choices — both big and small — that Americans make every day align with the goals and dreams they have for the future.

After hearing from 3,000 men and women with at least \$25,000 in investable assets, representing three generations of Americans (Boomers, Gen Xers and Millennials), we uncovered a gap between survey respondents' thoughts and actions:\*

- As a whole, these Americans say they are striving to find a balance between spending and saving, and that they are willing to make (and have made) some conscious trade-offs in order to save more.
- However, people may not be making the trade-offs that could make the biggest impact on their savings accounts, and are likely overestimating how much they can realistically save while maintaining their current lifestyle.
- We also discovered some surprising differences between Millennials and their older counterparts when it comes to money attitudes and behaviors.

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\* The Financial Trade-Offs study was created by Ameriprise Financial utilizing survey responses from 3,002 employed Americans with access to an employer sponsored retirement plan (or Americans with an employed spouse with access to an employer-sponsored retirement plan) ages 25–67 who are primary financial decision makers or share in financial decisions in their household. All respondents ages 25–49 have investable assets of at least \$25,000 while those over 50 have at least \$250,000 (including employer retirement plans, but not real estate). The survey was commissioned by Ameriprise Financial, Inc. and conducted via online interviews by Koski Research from November 25–December 16, 2013.

# Americans are making trade-offs but could be saving even more

Perhaps the brightest finding in the study is that Americans of all generations say they are spending less on specific expenses now in order to save more for the future.

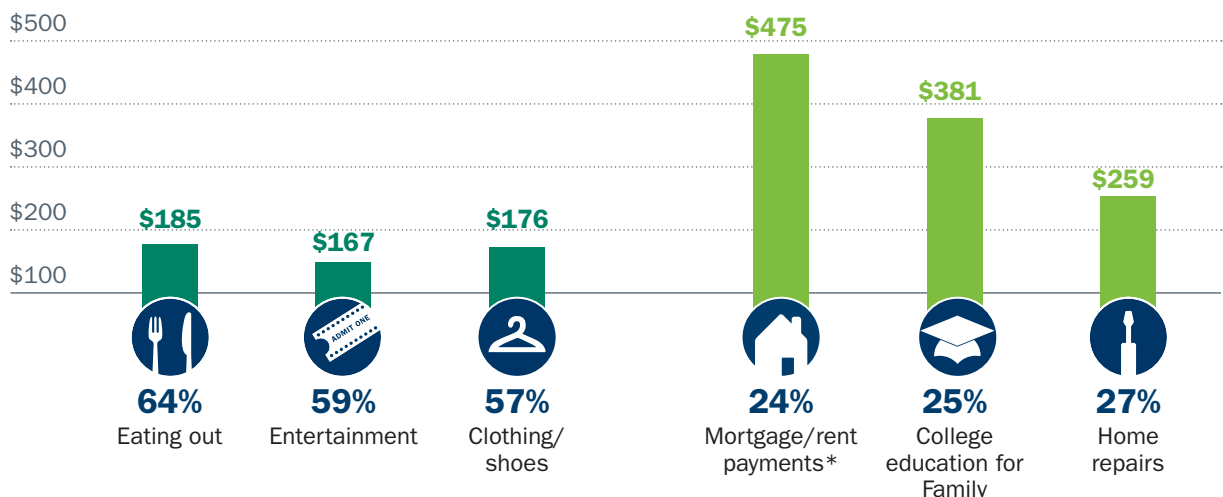
The top three expenses that respondents have consciously cut down on are eating out (64% say they have consciously spent less on this), entertainment (59%) and clothing/shoes (57%). Respondents say they're saving, on average, up to \$185 per month by scaling back in these three areas.

Spending less on true discretionary expenses like these is helpful in saving cash, but Americans may not be making the trade-offs that could have the most beneficial effect on their finances. A portion of respondents have experienced even bigger savings while reducing spending on big-ticket items like housing or rent (24%), college education for their family (25%) and vacations (49%). These people say they've saved up to \$475 on average per month.

Overall, the average American surveyed claims to save a total of about \$1,500 per month by making conscious decisions to spend less. However, this self-reporting may represent an overestimation of the facts considering that the average respondent has only cut back on 6 of the 18 kinds of expenses we asked about, which included things like personal care, car payments and electronics in addition to those listed above.

For most people, downsizing their home or choosing a more affordable plan for college education are important decisions influenced by many factors. Big choices can be difficult to make, but larger trade-offs now can help fuel savings and produce a more comfortable financial future.

**Make a conscious decision to start spending less and saving more. Here's a look at where Americans are already cutting back on their expenses:**



\* Among those who are making rent or mortgage payments

# Importance of saving and planning is understood, but behaviors may misalign

Most Americans value saving for long-term goals, and 75% of respondents say they consider themselves to be more of a saver than a spender.

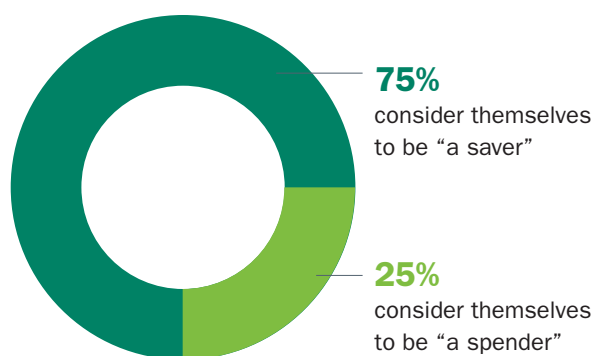
Just as many (78%) say they believe they have the discipline to say no to unnecessary purchases, and 69% have a monthly savings plan.

Perhaps one of the less obvious perks of maintaining the mindset of a saver is that it feels good. Three in five (60%) survey respondents say making trade-offs and saving more makes them feel responsible. Other feelings cited by more than one-third of respondents are “realistic,” “adult-like” and “comfortable.”

Having a positive attitude is crucial to growing savings and achieving long-term financial goals, but financial choices and habits must also support these goals. We learned that an overwhelming 80% of Americans with student or business loans say that these debt obligations have made them feel stretched financially. Meanwhile, more than one-third (36%) of parents who’ve taken out loans to help their children attend college say this commitment was “a big stretch.”

Despite the strain of monthly bills, Americans are setting their sights on some very significant financial goals. Nine in 10 (91%) respondents say it’s very important to them that they are able to live comfortably when they retire, and three-quarters (72%) say the same about managing their healthcare costs along the way. Another 60% say traveling for leisure is a very important financial goal, and 44% would like to ensure they leave an inheritance for the people or causes they care about.

**Most Americans surveyed considered themselves to be savers rather than spenders.**

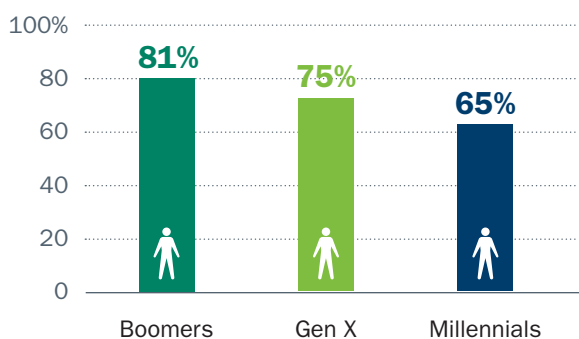


# Boomers averse to making trade-offs but prudent with their savings

We've found in previous research that Baby Boomers haven't always been consistent savers. However, while many Americans consider saving important, Boomers fare better than younger Americans when it comes to taking action to build savings.

Not surprisingly, it begins with their outlook. Four in five (81%) Boomers consider themselves to be more of a saver than a spender compared to 75% of Gen Xers and 65% of Millennials.

**The percentage of Americans who consider themselves “savers” increases as their generation nears retirement age.**



In light of their highly publicized retirement woes, it comes as a surprise in this study that Boomers are the least likely of the three generations to say they cut back in order to save more. In the most cited expense that Americans say they've cut back on — eating out — half (51%) of Boomers say they consciously spend less here compared to 70% of Gen Xers and 79% of Millennials. This trend continues for all 18 types of expenses we asked about.

However, Boomers are more likely to have a written financial plan (41% vs. 38% of Gen Xers and 33% of Millennials), and 45% are maxing out their 401(k) contributions. It appears that Boomers are also careful not to dip into their savings unless absolutely necessary: Only 10% have taken a loan from their employer-sponsored retirement plan (compared to 13% of Gen Xers and 17% of Millennials), and a mere 4% say they've ever delayed contributions or stopped contributing to the plan completely.

Boomers nearing retirement are also beginning to think about the legacy they'll leave behind someday, but their responses may be surprising. Only one-fourth (27%) of Boomers say they often think about how much money they'll leave to others (significantly fewer than other generations), and 62% say they “don't worry much about how much money they will leave to others.” This may come as a shock to their Millennial children — 31% of whom expect to receive an inheritance averaging \$356,000.

# Expectations may not become reality for Millennials

Younger Americans (born after 1980) are significantly more likely than both Gen Xers and Boomers to say they are making financial trade-offs.

There appears to be a disconnect between Millennials' savings habits and their seemingly sensible attitude – and their future goals may be lofty based on their current circumstances.

It appears that Millennials' aspirations are in the right place. They're cutting back on big-ticket lifestyle items at a higher rate than older Americans: 34% have consciously spent less on house payments or rent compared to 24% of Gen Xers and 16% of Boomers, and 48% say they made a decision to spend less on their own college education costs in order to save more.

But the cash they're saving by making these trade-offs may be helping to pay down debt rather than grow their savings. Of those who have credit card or other miscellaneous debt, 78% say it has made them feel stretched financially. Just as many (76%) feel stretched on their car payments. What's more, far fewer Millennials (59%) than Boomers (75%) have a monthly savings plan, and less than two-thirds (64%) say they have the discipline to say "no" to unnecessary purchases.

Whether due to their debt obligations or other factors, 43% of Millennials with access to an employer-sponsored retirement plan are not contributing enough to get the maximum employer match, and 69% have either reduced their contributions or would consider doing so in the future. Failing to save systematically or reducing contributions to an employer-sponsored plan can be particularly harmful for this generation as they currently have the time benefit of compounding on their side.

Regardless of the disconnect between Millennials' thrifty attitudes and less frugal actions, it's clear that they are optimistic about their financial future. One in four (27%) Millennials hope to buy a vacation home someday, and two in five (40%) would like to fund private K-12 education for their children.

**59% of Millennials have a monthly savings plan and 36% don't currently have the discipline to say "no" to unnecessary purchases**

# Younger Americans may still be overextending on their homes

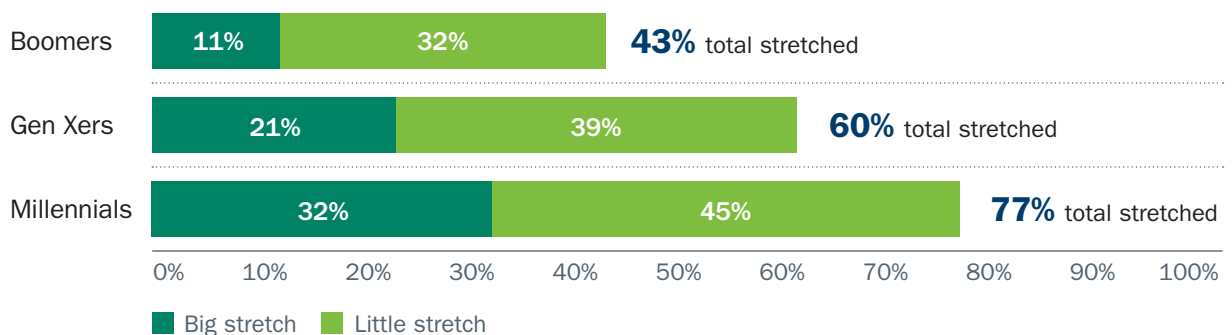
Many assume that the recession and the housing crisis that accompanied it caused Americans to rethink how much of their incomes they commit to their mortgage. Unfortunately, we uncovered some contradictions to this notion.

Despite tighter lending limits and lower interest rates, many younger homeowners have stretched themselves on home purchases. Three in five (60%) Gen Xers and 77% of Millennial homeowners admit that their mortgage payments have been a stretch. What's more concerning is that for those respondents who say their mortgage has been a stretch, the average amount of time they say it has been or will be a stretch is 11 years.

There are some respondents who have taken action to reduce their housing expenses: 24% have made conscious trade-offs on housing or rent and have saved an average of \$475 per month. Though another 16% admit they would be willing to scale back the amount they're spending on their home, 60% of respondents who are currently making housing payments say they have not and will not change the amount they're spending on housing in order to save more.

Mortgages and leases are a big commitment, and though it's not easy to adjust this expense, it is important that families do their research before purchasing a new home to ensure that their savings goals and financial plan will remain in place.

## The number of Americans who consider themselves stretched by their mortgage has increased by generation.





# Conclusion

It's encouraging to see that Americans recognize the value of making financial choices that support savings goals. Whether they choose to do so by making many small trade-offs or a few large ones, cutting back now to save for tomorrow will almost always bring rewards — emotionally and financially. Working with a financial advisor to build financial goals into an overall financial plan can help Americans connect the dots between the trade-offs they are making today and the things they'd like to accomplish tomorrow.

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# Methodology

The Financial Trade-Offs study was created by Ameriprise Financial, Inc. and conducted online by Koski Research from November 25–December 16, 2013.

- The survey sampled 3,002 U.S. adults ages 25–67. Approximately 1,000 respondents were surveyed from each generation:
  - Boomers ages 50–67 with at least \$250,000 in investable assets
  - Gen Xers ages 35–49 with at least \$25,000 in investable assets
  - Millennials ages 25–34 with at least \$25,000 in investable assets
- All survey participants are employed with access to an employer-sponsored retirement plan or have an employed spouse with access to an employer-sponsored retirement plan.
- Respondents are the primary financial decision maker in the household or share equally in household financial decisions.
- Sample balancing was performed to bring generations into proportions based on U.S. census data.
- For further information and detail about the Financial Trade-Offs study including verification of data that may not be published as part of this report, please contact Ameriprise Financial.

### **About Ameriprise Financial**

At Ameriprise Financial, we have been helping people feel confident about their financial future for 120 years. With outstanding asset management, advisory and insurance capabilities and a nationwide network of 10,000 financial advisors, we have the strength and expertise to serve the full range of individual and institutional investors' financial needs. For more information, or to find an Ameriprise financial advisor, visit [ameriprise.com](http://ameriprise.com).

### **About Koski Research**

Koski Research is focused on having better conversations with key stakeholders — customers and clients, influencers, business peers and the general public. The firm combines high-level proprietary custom research with research conducted for public release. All of this research relies on asking engaging questions, applying research acumen to create solid study designs and using marketing smarts to produce executive-ready reports that lead to action.



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For further information and detail about the Financial Trade-Offs study including verification of data that may not be published as part of this report, please contact Ameriprise Financial.

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