Ameriprise Financial

New Retirement Mindscape®

2013 City Pulse index

Abstract

For the fourth consecutive year, Ameriprise Financial polled Americans in the 30 largest U.S. metropolitan areas to determine their retirement readiness. The 2013 *New Retirement Mindscape*® City Pulse index measures American consumers' preparation for and confidence about retirement by asking them about their savings habits and expectations for their financial futures. Along with taking the nation's pulse on financial preparedness and attitudes, the survey also explores the activities people intend to pursue during retirement. Metro areas are then ranked against one another to determine which American cities are most or least ready for retirement.

The data compiled over four years also helps identify meaningful changes from year to year. This provides an indication of how local and national developments may come into play in determining the degree to which individuals feel ready for retirement. Issues such as national and regional economic conditions can be important factors to consider when determining the reason for varying levels of retirement preparation and confidence.

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Introduction

Current events may influence how individuals respond to questions about their personal finances

The past year included these notable economic and political milestones:

- An election season kept the same key figures in control in Washington. President Obama was reelected, while voters retained a Democratic-led Senate and a Republican-led House.
- Lawmakers managed to forge a compromise as the new year began, allowing for higher tax rates and implementation of "sequester" spending cuts across a broad swath of the federal government. The rollout of broad elements of the Affordable Care Act was also top of mind for politicians and consumers.
- The housing and jobs markets both showed signs of improvement, and the Dow Jones Industrial Average briefly topped the 15,000 mark for the first time, outpacing previous highs prior to the bear market that began in 2007.

The economic environment when the survey was conducted this spring appeared to be modestly improved from previous years, but not dramatically so.

Many Americans are still facing financial challenges as the effects of the Great Recession linger.

Northern cities jump while the Sun Belt struggles

Metro areas in the northern half of the country registered some of the most notable improvements in individuals' level of confidence about their retirement. At the same time, comparative readiness of residents in a number of Sun Belt metros fell significantly.

The San Francisco metro area reclaimed the top, most confident position, which it also held two years ago. One of the most surprising moves on the index was the significant jump among residents in the financially troubled Detroit metro area, which claimed the No. 2 spot. Three more northern metros — Hartford, Minneapolis and Seattle — rounded out the top five.

Detroit's dramatic jump, just before the city itself declared bankruptcy, may reflect a determination among area residents to take personal responsibility for their retirement. While we can't say for certain what caused such high levels of preparation, we do know a few things about Detroit. Two in five (38%) Detroit respondents have a financial advisor (compared with a national average of only 29%), and well over half (58%) have contributed to a workplace-sponsored retirement plan such as a 401(k), which is also higher than the national average (51%). Half of Detroit-area respondents feel they are on track for retirement, and 71% report positive feelings about retirement.

Other metros that improved 10 or more spots in the rankings include Sacramento (7), Baltimore (8), Washington, D.C. (12) and Indianapolis (15).

Five metros dropped more than 10 places in 2013, all falling to the bottom third of the index. These include Pittsburgh (22), Raleigh (23), Philadelphia (24), Houston (27) and Nashville (28).

The Orlando area fell eight spots to rank last among the 30 metros in 2013.

	Composite Index			
Metro Area	2013 rank	2012 rank	2011 rank	2010 rank
San Francisco-Oakland-San Jose	1	4	1	12
Detroit	2	17	20	21
Hartford and New Haven	3	1	6	7
Minneapolis-St. Paul	4	3	18	1
Seattle-Tacoma	5	13	14	5
San Diego	6	2	3	6
Sacramento-Stockton-Modesto	7	18	2	4
Baltimore	8	25	21	9
St. Louis	9	15	4	17
Phoenix	10	11	17	16
Denver	11	8	16	8
Washington, D.C.	12	30	25	23
Dallas-Fort Worth	13	14	7	11
Boston	14	12	23	10
Indianapolis	15	28	30	29
Atlanta	16	10	28	15
Tampa-St. Pete	17	23	13	19
Charlotte	18	29	22	27
Portland	19	19	5	24
Miami-Ft. Lauderdale	20	20	24	20
Chicago	21	27	11	13
Pittsburgh	22	9	12	18
Raleigh-Durham	23	6	19	2
Philadelphia	24	5	10	22
New York	25	26	29	26
Cleveland-Akron	26	24	27	25
Houston	27	16	15	14
Nashville	28	7	26	3
Los Angeles	29	21	8	30
Orlando-Daytona Beach-Melbourne	30	22	9	28

Confidence is on the rise but preparation lags

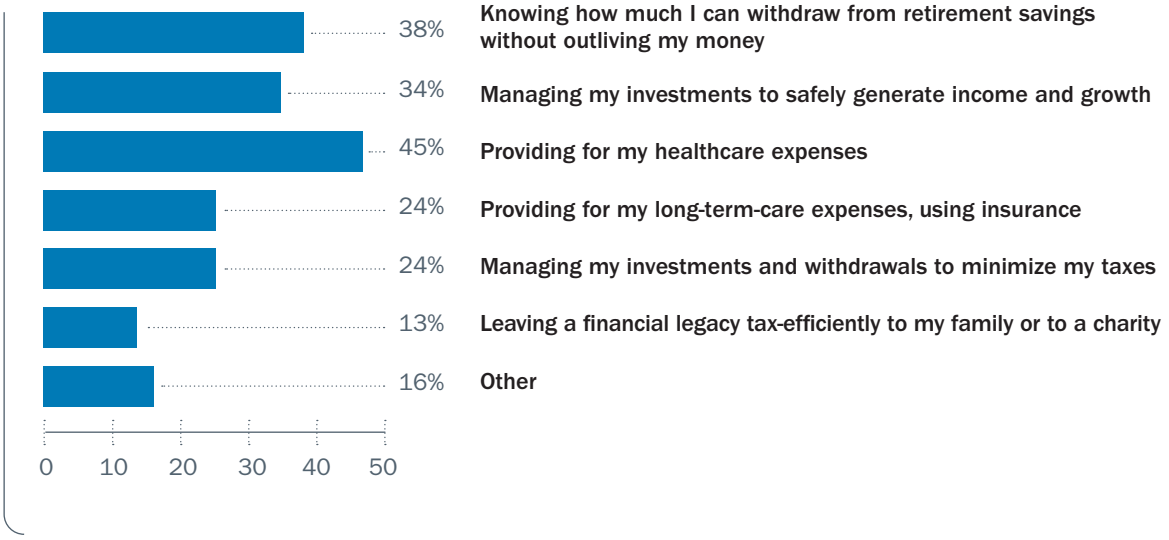
One of the most encouraging findings in this year's City Pulse index is that confidence levels nationwide have risen

While this is a positive sign in itself, it raises the concern that consumers may become complacent and lose a sense of urgency to prepare for retirement, which can lead to procrastination in taking the necessary planning steps.

The percentage of Americans who report taking at least some action to prepare for retirement rose slightly to 72% in 2013, but that number is still lower than in previous years. Individuals may feel better about their financial outlook, but factors outside their control, such as market improvements, may be responsible for this perception rather than actual personal preparation by respondents.

One of the biggest challenges for individuals preparing for retirement is to determine how much they need to save. Only one-fourth (23%) of respondents this year report that they've calculated this number. While this is still a low number, it's the highest it has been in four years. Likewise, the number of Americans (42%) who indicate they feel on track for retirement is also the highest in four years. Adding to the good news is that two in three (67%) respondents report positive emotions about retirement: 47% are happy, 38% are optimistic and 17% feel empowered. These results all represent improvement from the 2012 survey.

Question: What do you anticipate being the biggest financial challenges in retirement?



Those who are already retired have an advantage

General confidence about retirement is significantly higher for those who have already crossed the threshold compared with Americans who are still in the workforce

Most who are retired generally feel much more prepared for the life ahead of them and emotionally positive about the direction they are going.

Two-thirds (68%) of current retirees feel they are on track for the remainder of their retirement. By contrast, only 28% of those not retired feel the same way. Perhaps as a result, a large majority (82%) of retirees report positive feelings about their lives in retirement, but just 60% of those still preparing for this milestone respond with the same emotions.

These attitudes may be a result of financial health. More than half (55%) of retirees report that their account balances have recovered from the market downturn of 2008–09, while only 46% of those still working and saving for retirement report similar results in their own retirement accounts. This may reflect the possibility that most retirees kept their portfolios invested in a more conservative way.

Other factors may also contribute to the confidence advantage enjoyed by current retirees. More of them work with financial advisors (36% of current retirees versus 25% of pre-retirees). Though this is good news, it's discouraging in some aspects; pre-retirees can greatly benefit from financial advice as they prepare to leave the workforce.

Healthcare expenses are top of mind

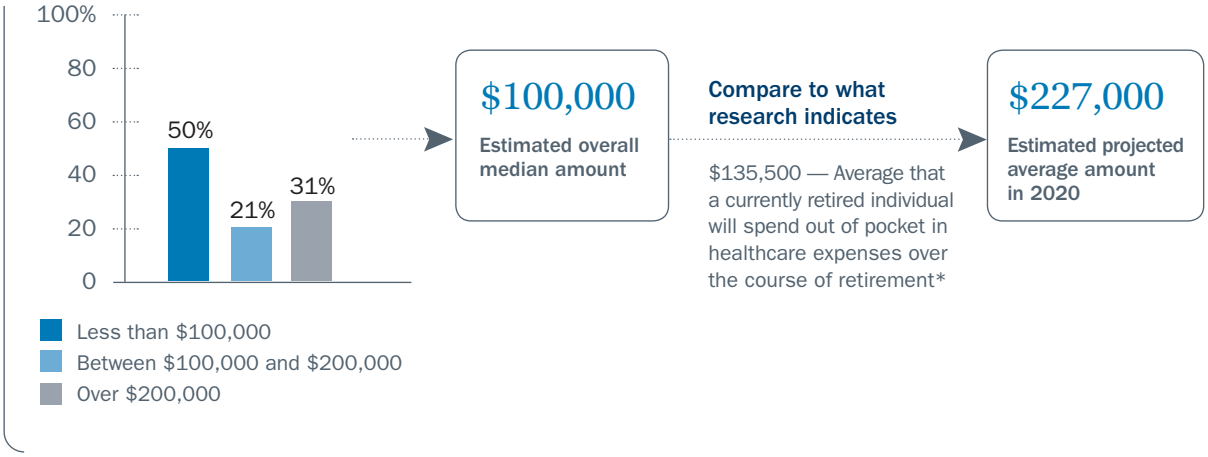
Healthcare expenses are a primary concern for Americans both in and preparing for retirement

Nearly half (45%) of respondents report that one of the financial issues they expect to be most challenging in retirement is paying for healthcare expenses. Uncertainties surrounding the cost of healthcare in retirement and the introduction of the Affordable Care Act (which is planned to be fully implemented in 2014) may be adding to the anxiety.

Two in three (68%) Americans express concern about changes that may come about due to the Affordable Care Act. Half (51%) are concerned about paying more for healthcare, while a smaller number of respondents say they are concerned about a reduction in coverage or paying higher taxes.

Only 13% of those surveyed report purchasing long-term-care insurance to help afford an expense that's likely to increase in retirement. The results of the survey indicate that one-third of those without coverage may be entering retirement with no plan in place to manage long-term care expenses, which could become a serious issue in the future.

Question: About how much money do you think you'll need to fund healthcare costs over the course of your retirement?



* Employee Benefit Research Institute, "Savings Needed for Health Expenses for People Eligible for Medicare: Some Rare Good News," October 2012.

Here's what those in the top-rated metros are doing right

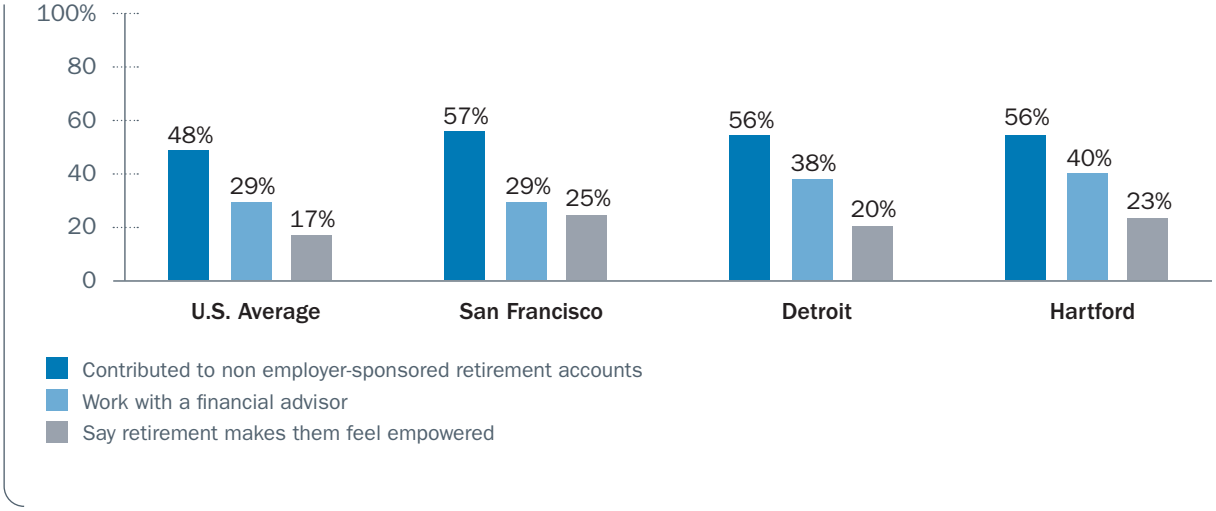
What separates residents of metro areas that rank highest in retirement readiness compared with those who have fallen behind?

A deeper dive into the survey data shows there are some distinct behaviors that may contribute to the differences:

- The top three cities all had much higher than average participation rates in making contributions to IRAs or other personal (not workplace-related) investment accounts.
- Residents in two of the three highest-rated cities were more likely to work with a financial advisor compared to the national average.
- Respondents in two of the top three cities were far more likely than the national average to say they feel empowered by retirement.

These factors appear to play a role in helping individuals approach retirement with a greater sense of readiness.

Significant data from top three cities compared to national average:



Conclusion

The collective levels of confidence about retirement continue to improve modestly across the country. Yet, while Americans may be in a better financial position than in recent years, the failure to set more money aside for retirement or lay the groundwork by putting a plan in place is a notable hurdle to overcome. This is not to say that individuals are downplaying the importance of being prepared for retirement. In general, there seems to be a firm understanding that significant challenges lie ahead. The key difference registered in this survey is that those who take the initiative to save more, create a plan and work with a financial professional are more likely to feel as if they are on track to meet their retirement goals.

Methodology

The *New Retirement Mindscape* 2013 City Pulse index was created by Ameriprise Financial, Inc., and conducted online by Harris Interactive June 6–26, 2013.

- The methodology used to complete the 2013 City Pulse index matched what was used in the first three years of this index (2010, 2011 and 2012).
- The survey sampled 10,045 U.S. adults ages 40–75. Approximately 300 consumers from each of the 30 metropolitan areas were included in the study along with an additional 1,000 consumers nationwide.
- The national average sample and the 30 U.S. metropolitan areas were weighted independently to best represent each area.
- Propensity score weighting was used to adjust for respondents' likelihood to be online.

About Ameriprise Financial

At Ameriprise Financial, we have been helping people feel more confident about their financial future for over 115 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.

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