

New Retirement Mindscape IISM study

**How the economic environment has
changed the stages of retirement**

A groundbreaking, comprehensive
study of the retirement journey —
five years later

Abstract

In 2005, Ameriprise Financial polled American pre-retirees and retirees to gain some groundbreaking insights into the retirement journey. Published in January 2006, the *New Retirement Mindscape[®]* study documented how retirement is not a single event but a series of stages, each with its own emotions and needs.

Five years later — and in the midst of a radically changed economy — Ameriprise Financial revisited the stages of retirement to understand how consumers' experience has been altered. Responses to the same questions posed five years earlier, published now as the *New Retirement Mindscape IISM* study, demonstrate significant shifts in peoples' attitudes and behaviors. While retirement continues to follow a series of stages, the new economic

environment has increased anxieties and shaken confidence, causing some significant changes along the retirement journey. A new period of anxiety and hesitation is now observable during the preretirement years. And in the first year of retirement, a stage once synonymous with feelings of liberation, consumers are now facing new doubts, concerns and the reality that retirement may not be what they expected. Despite this, an encouraging trend has emerged — in some stages, consumers are taking a more proactive approach to planning for retirement.

Understanding the retirement journey may help people better prepare for this important milestone and navigate with more confidence through all its stages.

Introduction

In 2005, Ameriprise Financial conducted a comprehensive study of Americans’ journey into and beyond retirement. That survey, the *New Retirement Mindscape* study, broke new ground by illustrating how retirement typically follows a sequence of stages characterized by consumers’ attitudes and behaviors. A better understanding of the stages in the retirement journey may help consumers and professionals in the financial services industry foster increasing confidence and preparation for retirement.

Since 2005, U.S. consumers have witnessed a dramatic shift in the economy and considerable reforms in the financial industry. While the personal journey through retirement remains substantially the same, significant shifts in attitudes and behaviors have clearly arisen in the past five years. Ameriprise Financial updated the *New Retirement Mindscape* study in 2010, conducting a second wave of interviews with pre-retirees and retirees. As a result, the stages of retirement have been amended to reflect the enormous impact of the economic downturn on consumers’ views and preparation for retirement.

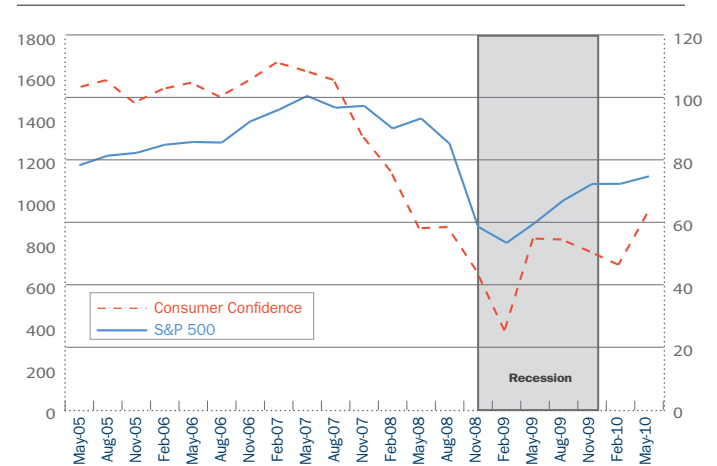
Economic Environment Radically Changed

When Ameriprise Financial conducted interviews in 2005 that were the basis of the *New Retirement Mindscape* study, the U.S. economy was riding a prosperous high that in retrospect was a peak between the recession of 2001 and the downturn of December 2007. Unemployment levels were consistently in the 4% – 6% range.¹ Consumer spending and residential construction were both strong and growing. Real GDP was expanding by 3%.² A majority of the survey respondents to a Pew Research Center survey had gotten a pay raise in the previous 12 months and were watching their 401(k) accounts grow.³

Five years later, when interviews were conducted for the *New Retirement Mindscape II* study, the U.S. economy was just beginning to pull out of the most severe recession since the Great Depression of 1929-1936. Unemployment

had spiked to double digits for two consecutive years.¹ Consumer confidence and residential construction had plummeted. The Case-Shiller Home Price Index peaked in July 2006 and troughed in April 2009, a dizzying 32.6% decline in just three years.⁴ Fewer than four in 10 Americans surveyed had received a raise in the past two and a half years. Four in 10 also said that their employers had cut their pay, reduced their hours, forced unpaid leave and/or downsized their jobs. Increased numbers of employers had also cut 401(k) matching contributions.³

Consumer Confidence vs. S&P



Source: Thomson Baseline

The Pew Research Center on Social & Demographic Trends conducted a study at roughly the same time as the *New Retirement Mindscape II* study. Pew notes that “30 months after it began, the Great Recession has led to a downsizing of Americans’ expectations about their retirements and their children’s future; a new frugality in their spending and borrowing habits; and a concern that it could take several years at a minimum for their house values and family finances to recover.”³

The *New Retirement Mindscape II* study documents the substantial impact the recession has had on consumers’ attitudes, ambitions and preparation for retirement. Today, the American mindscape about retirement is very different from that of 2005, and Americans — as individuals and as a society — will be dealing with the consequences of these shifts for years to come.

1 Bureau of Labor Statistics

2 The Economic Outlook - 2005, Ben S. Bernanke, speech Chicago, IL, March 8, 2005

3 © 2010 Pew Research Center, Social & Demographic Trends Project. How the Great Recession Has Changed Life in America, A Balance Sheet at 30 Months. <http://pewsocialtrends.org/pubs/759/how-the-great-recession-has-changed-life-in-america>

4 Standard & Poor’s S&P/Case-Shiller Home Price Indices, March 30, 2010, <http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices>

The Stages of Retirement

In 2005, the *New Retirement Mindscape* study identified five distinct attitudinal and behavioral stages that occur before and during retirement. Several significant changes to these stages were identified when data were analyzed from the 2010 study. The *New Retirement Mindscape II* study details six distinct stages:

- Stage 1** Imagination
- Stage 2** Hesitation
- Stage 3** Anticipation
- Stage 4** Realization
- Stage 5** Reorientation
- Stage 6** Reconciliation

As a result of the financial and emotional upheaval of the recession, consumers are generally not as happy, hopeful or optimistic as they were in 2005. The new Hesitation stage conveys this increase in anxiety, while the Realization stage replaces the Liberation stage to better reflect attitudinal changes demonstrated during the first year of retirement.

Despite the market conditions, consumers still expect to enjoy – or are enjoying – retirement a great deal, although they may be less positive about it. For example, when comparing 2010 to 2005:

- > Fewer pre-retirees report feeling hopeful about their retirement (73% vs. 78%).
- > There is a decrease in happiness during retirement (78% vs. 87%).
- > Retirees are less likely to feel they are living their dreams in retirement (43% vs. 50%).

Considering the remarkable lifestyle changes that retirement brings, one would expect feelings to vary both within and across stages, sometimes to a high degree. The *New Retirement Mindscape II* study examines these changes in feelings and behaviors and suggests their origins.

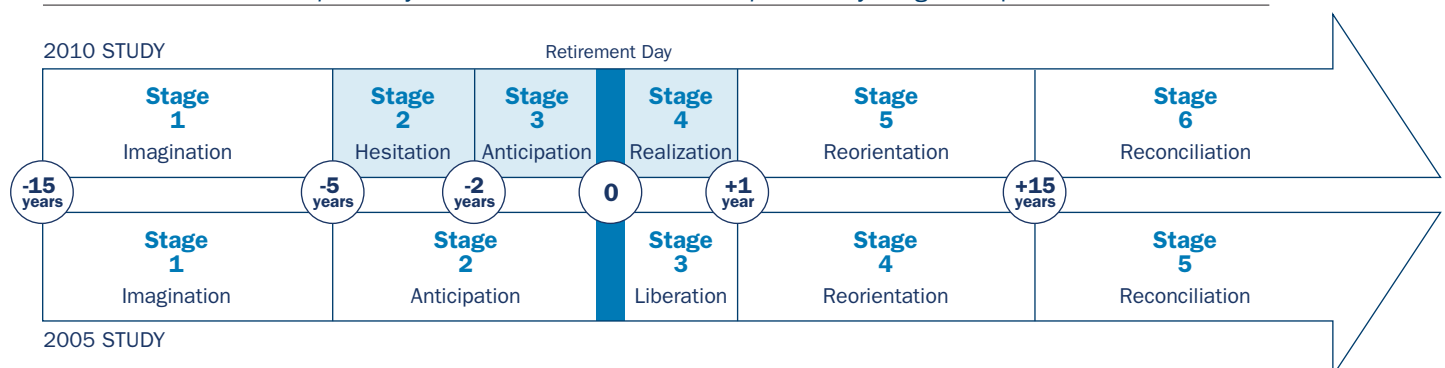
The First Retirement Stage: Imagination (six to 15 years before retirement)

Imagination, the first stage of retirement, typically begins six to 15 years prior to retirement day. People in this stage may start forming ideas about retirement, setting goals and imagining how they would like to spend their time. However, retirement may not be at the forefront of financial planning, as other more immediate obligations, such as paying bills, supporting children through college (and beyond) or furthering their careers, take precedence.

People in this stage are setting aside money in both personal savings and in employer-sponsored plans, but many have not determined the amount of money they need to save for retirement. Despite doing some initial retirement planning and developing a clearer sense of priorities, most feel unprepared.

People in this stage feel relatively happy and adventurous when they think about retirement. They anticipate that they will enjoy retirement a great deal. However, they ultimately remain less hopeful and optimistic in this stage than in most of the others and are also less hopeful and optimistic than in 2005, most likely due to the recession. General feelings of anxiety about the economy, job security and supporting daily expenditures have swept across the country, which may have altered how people imagine their life in retirement. Regardless, this stage shows the fewest changes since 2005.

New Retirement Mindscape Study and *New Retirement Mindscape II* Study Stage Comparison



Respondents in the Imagination Stage:

- > Continue to have generally positive feelings about their retirement — 84% feel “happy” and 70% feel “enthusiastic” about retirement. However, these feelings have dropped from 88% feeling “happy” and 77% feeling “enthusiastic” about retirement in 2005.
- > Feel less “hopeful” (71% vs. 81%) or “optimistic” about their retirement (72% vs. 77%) than in 2005.
- > Are more likely to be setting aside money in their own savings or investments than in 2005 (80% vs. 72%).
- > Feel the least “on track” for retirement of all the stages (42%); however, most expect to enjoy retirement a great deal (75%).
- > Are the least likely to be working with a financial advisor (39%) when compared to other preretirement stages.

The Second Retirement Stage: Hesitation (three to five years before retirement)

The next stage, Hesitation, emerged after the economic and emotional upheaval of the recession. While people at this point in the retirement journey were previously grouped with those in the Anticipation stage, the 2010 survey showed significant differences three to five years prior to retirement.

During this stage, people begin to visualize retirement and question their preparedness. The stress of the recession tends to intensify any feelings of uncertainty and insecurity. However, people in this stage also accept that retirement day is approaching and respond to these feelings by proactively planning and seeking outside advice.

People in this stage generally don’t feel confident in their personal financial future and are more worried than they were in 2005. They question whether they will enjoy retirement; they expect to feel less happy and more sad than those surveyed in 2005. They are also increasingly concerned about health insurance.

Compared to those in the new Anticipation stage (two years prior to retirement), fewer consumers in the new Hesitation stage expect to enjoy retirement a great deal, feel on track for retirement and feel confident in their financial future. This may be because they are not as well-prepared. Significantly fewer in the Hesitation stage have

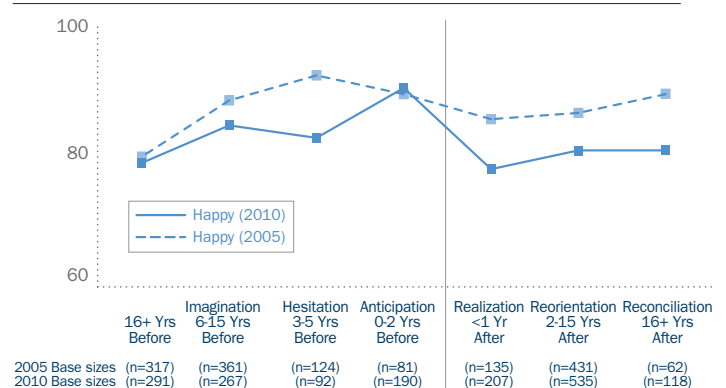
put aside money in their own savings and investments compared to those in the Anticipation stage.

Subsequently, this stage shows escalating use of a financial advisor, compared to both the Imagination stage and those surveyed in 2005. As people realize they may not be as prepared as they should be, they are seeking advisors to ensure that their concerns, questions and goals are met. This may explain why people in this stage are feeling more empowered than they did in 2005. They are also looking forward to having more control of their time in retirement.

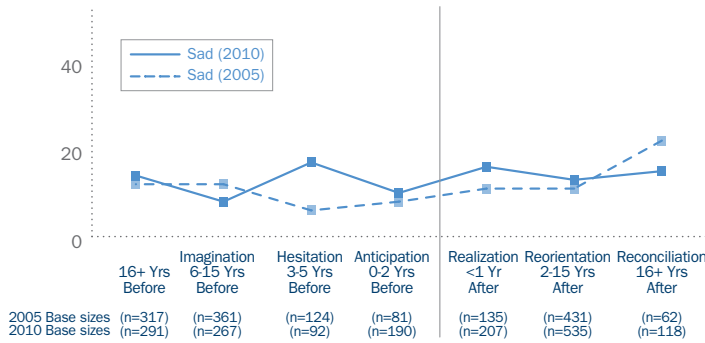
Respondents in the Hesitation Stage:

- > Are less positive than in 2005 — more expect to feel “sad” (17% vs. 6%) and fewer expect to feel “happy” in retirement (82% vs. 92%).
- > Are also less positive than those in the Anticipation stage — fewer expect to feel “happy” in retirement (82% vs. 90%) and fewer expect to greatly enjoy retirement (64% vs. 75%).
- > May be focused on other financial priorities — fewer have set aside money in an employer-sponsored plan or in their own savings or investments than in 2005 (74% vs. 91%). Likewise they are less likely than those in the Anticipation stage to be saving in their own savings or investments (67% vs. 83%).
- > Expect to feel more empowered in retirement than in 2005 (60% vs. 49%). This may be because more are using a financial advisor (54% vs. 33%), have developed a written financial plan (50% vs. 35%) and determined the amount of money needed for retirement (68% vs. 56%) compared to 2005.

Retirement — Less Positive Emotions



Question: Do you think that in retirement you will feel ...?



Question: Reflecting on your current retirement lifestyle, do you feel ...?

The Third Retirement Stage: Anticipation (two years prior to retirement)

In the third stage, Anticipation, excitement about retirement continues to build. People have been preparing for years now, and the anticipation to begin retirement has been growing. Of all the stages, this group feels most “on track” for retirement, and more than half have a financial advisor, a significant increase since 2005.

People in this stage have the highest level of assets and feel very prepared for retirement. Compared to other stages, many more people are setting aside money in their own savings or investments as well as putting money into their employer-sponsored plans. People in this stage feel empowered, and they are the happiest, most hopeful and most optimistic of all the stages. Yet, as they approach retirement day, they are more anxious than people in other stages and also more anxious than those surveyed in 2005.

Respondents in the Anticipation Stage:

- > Generally have very positive feelings toward retirement — 90% feel “happy,” 82% feel “optimistic,” 65% feel “empowered” and 75% expect to enjoy retirement a great deal.
- > Feel the most “on track” for retirement (77%), even more so than in 2005 (62%). However, they are also more “anxious” about retirement than in 2005 (35% vs. 23%).

- > Are more likely than other stages to feel very prepared financially for retirement (48%), a directional increase since 2005 (42%).
- > Are proactive about saving for retirement — 90% are setting aside money in an employer-sponsored plan or in their own savings and investments. They are also significantly more likely to be working with a financial advisor than in 2005 (54% vs. 35%).

The Fourth Retirement Stage: Realization (Retirement Day and the year following)

Following the excitement of the Anticipation stage, the reality of retirement has set in. In 2005, this stage was known as “Liberation,” reflecting the mostly positive, “honeymoon” sentiment that encompasses the initial days of retirement. People felt excited and relieved to be liberated from many responsibilities and to concentrate on their retirement goals. However, these positive feelings of liberation have been somewhat muted following the recession, as worries about savings and overall retirement goals extend past retirement day. Therefore, to reflect the more complex feelings respondents displayed in 2010, this stage is now more aptly named the Realization stage. People in the Realization stage are feeling less empowered and adventurous than in previous stages and may be feeling a bit let down, as this is the least happy of all the stages.

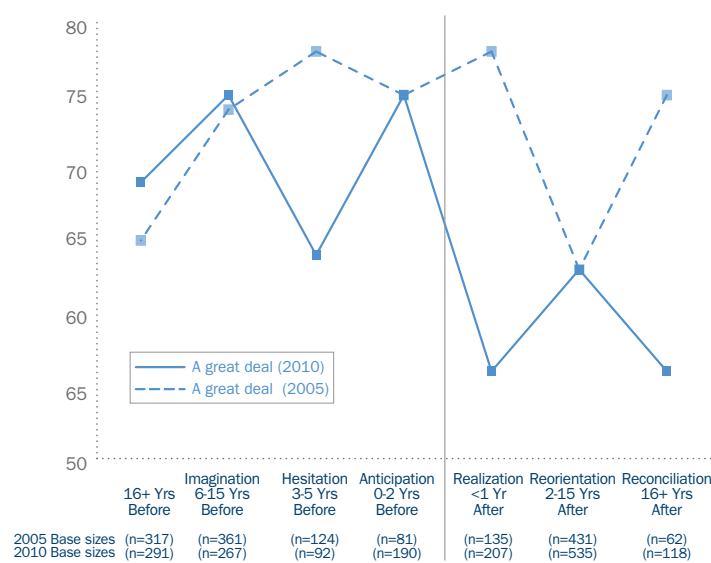
A sense of emptiness has hit people in the Realization stage. They are not enjoying retirement a great deal. They also do not feel like they are living their dream when compared to the preretirement stages, as well as to those surveyed in 2005. Interest in hobbies and traveling declines compared to earlier stages, despite the fact that they now have more control over their time. This may be because concerns about physical ability begin to arise at this stage.

While people in this stage regain some confidence in their financial future, they do report that the loss of income is the hardest thing about retirement and they are more concerned than they were in 2005. Still, they are less anxious than consumers in the Anticipation stage, likely because their plans are now solidified.

Respondents in the Realization Stage:

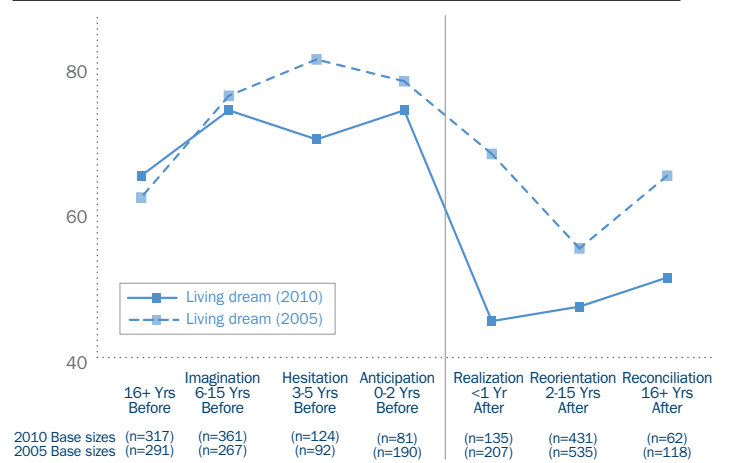
- > Are the least likely of all stages to say they are enjoying retirement “a great deal” — only 56% in 2010 (tied with Reconciliation), a sharp drop from 2005 (78%).
- > Are less likely to say they are living their dream in retirement (45% vs. 68%) and that retirement has worked out the way they planned (57% vs. 77%) than in 2005.
- > Express some positive feelings about retirement — 77% feel mostly “happy,” 76% feel “hopeful” and 76% feel “optimistic” about retirement. However, they also feel more “worried” (24% vs. 13%) and “anxious” (25% vs. 18%) than in 2005.
- > Have set money aside in an employer-sponsored plan (71%) or in their own savings and investments (66%). However, they generally feel less “on track” for retirement than they did in 2005 (61% vs. 72%), perhaps because fewer have determined the amount they need to save for retirement (48% vs. 63%).
- > Report feeling the loss of income to a greater degree — 27% in 2010 say loss of income is the hardest thing about retirement compared with 10% in 2005.
- > Are likely to be working with a financial advisor (50%) and somewhat likely to have a financial plan (38%).

Some Stages Enjoying Retirement Less



Question: How do you expect you will enjoy/are enjoying your retirement?

Perceptions of Retirement



Question: I will be able to achieve my dreams/I am living my dream in retirement?

The Fifth Retirement Stage: Reorientation (two to 15 years after retirement)

As they progress through the first year of retirement, people tend to adjust their expectations and plans and cope with any early feelings of disappointment. Once people reach the Reorientation stage, routines and goals have been modified and happiness tends to increase. They have adapted to their retired lifestyle and are feeling more on track than they did in previous stages.

While their emotions and feelings around retirement have not changed much since 2005, respondents do feel better prepared financially, and with good reason. More people in this stage have worked with a financial advisor and have set aside money in an employer-sponsored plan or in their own savings or investments.

Levels of happiness increase during this stage. People begin to enjoy retirement more and feel they have more control over their time. While rising concerns over physical ability continue, they are also taking steps to ensure they remain healthy.

Respondents in the Reorientation Stage:

- > Continue to feel “happy” in retirement in 2010 (80%), although this has declined since 2005 (86%). Meanwhile, enjoyment of retirement in this stage remains unchanged.
- > Are less likely to be concerned about physical limitations than they were in 2005 (39% vs. 50%), perhaps because more have plans to ensure they remain healthy (53% vs. 44%).
- > Feel that having “control over their time” is the best thing about retirement. This sentiment is even higher than in 2005 (55% vs. 45%).
- > Feel more “on track” for retirement (69% vs. 62%) than in 2005. This may be because they are better-prepared financially than they were five years ago — 83% have set aside money for retirement in an employer-sponsored plan or their own savings and investments compared with 72% in 2005.
- > Are also more likely to be working with a financial advisor (43% vs. 34%) than in 2005.

The Sixth Retirement Stage: Reconciliation (16 or more years after retirement)

In this late stage of retirement, people are getting older and beginning to encounter difficulties such as physical concerns and a sense of emptiness. This group has settled into their retirement life. Things like volunteering, determining hobbies, traveling and ensuring they remain healthy are all less important than during the Realization stage.

As they approach this later stage of life, the vast majority continue to feel happy, yet some are feeling more anxious and depressed. In contrast to the Reorientation stage, their financial preparation has not changed much from 2005, but some of their feelings about retirement have shifted. Levels of depression in this stage increased a great deal since 2005, and generally, people in this stage are enjoying retirement significantly less.

The hardest things people in the Reconciliation stage have had to deal with during retirement are the loss of income and the loss of social connections.

Respondents in the Reconciliation Stage:

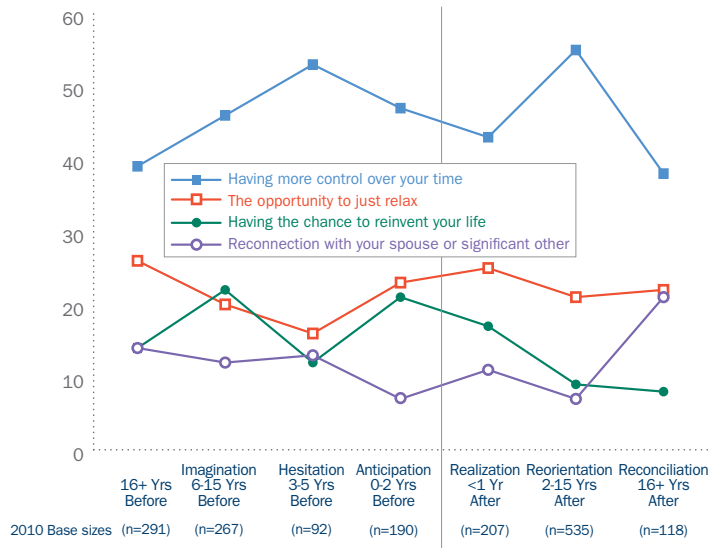
- > Are less “optimistic” (66% vs. 78%), “enthusiastic” (55% vs. 65%) and “hopeful” (68% vs. 80%) than they were in 2005. However, 80% report that they are “happy” in this final stage of retirement.
- > Experience depression at the highest rate of all stages, and report feeling depressed at a significantly higher rate than in 2005 (20% vs. 5%).
- > Have more concerns about their physical ability — 57% of respondents feel they are not physically able to do things they hoped to do during retirement, an increase from 2005 (41%).
- > Are somewhat less likely to say they feel “on track” for retirement than they did in 2005 (68% vs. 74%). They are also the least likely of all stages to say they enjoy retirement “a great deal” — only 56% in 2010 (tied with Realization), a decrease from 2005 (75%).
- > Are the least likely (38%) of respondents to be working with a financial advisor.

What Is the Best Thing About Retirement?

Both pre-retirees and retirees consider having more control over their time as the best thing about retirement. It is easy to imagine why: Retirement brings feelings of liberation from the nonstop hustle and bustle of the 24/7 workweek, in which balancing family, work and personal time can be a struggle. This finding is consistent with 2005.

The opportunity to just relax is typically cited as the second-best thing about retirement, except during the Imagination stage, in which having the opportunity to reinvent oneself ranks slightly higher. This sentiment confirms the adventurous, hopeful mood that defines the stage. Also of note, reconnecting with one’s spouse increases from 7% in the Reorientation stage to 21% in the Reconciliation stage as the best thing about retirement.

Best Thing About Retirement



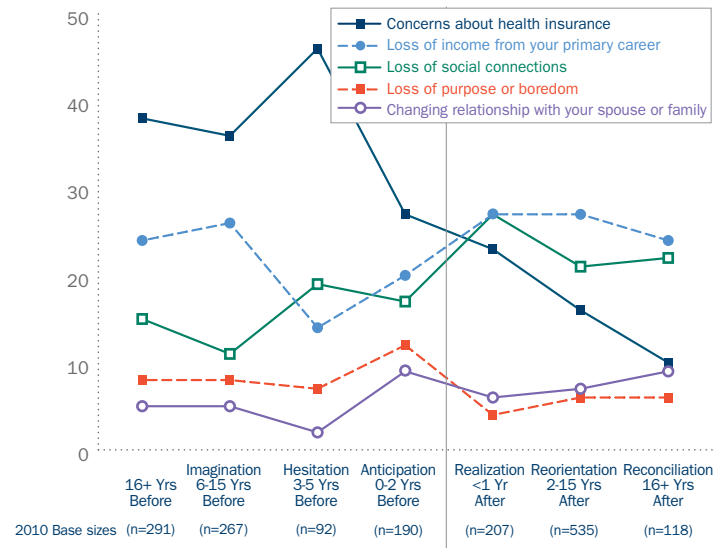
Question: What do you expect will be/is the best thing about retirement?

What Is the Hardest Thing to Deal With Related to Retirement?

Pre-retirees expect health insurance concerns to be the most difficult thing to deal with during retirement. During the Hesitation stage, 46% name health insurance concerns as the worst thing about retirement, more than double those citing concern over loss of social connections, the second-most-cited concern in the same stage. Overall, 37% of pre-retirees cite health insurance as their primary concern during retirement, followed by loss of income from their work (23%).

Once retired, consumers' perspectives change. The percentage of respondents citing health insurance as the hardest thing to deal with decreases steadily through the Realization, Reorientation and Reconciliation stages. In fact, only about 10% of respondents in the Reconciliation stage name health insurance concerns as the worst thing about retirement, likely because they have come to terms with this issue. Instead, loss of income from one's primary career (28%) and loss of social connections at work (20%) become the most cited concerns about retirement.

Hardest Things to Deal With in Retirement



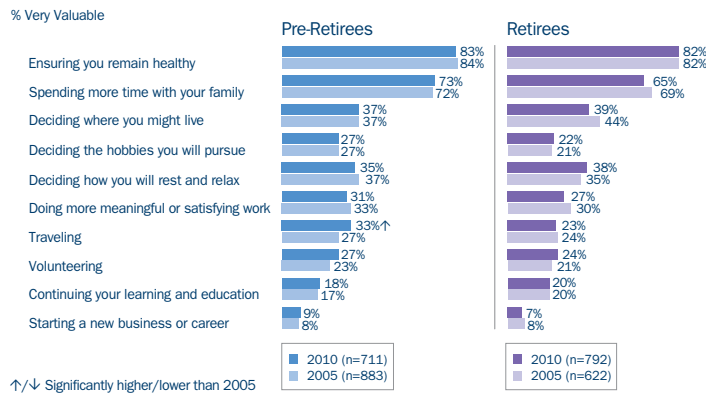
Question: What do you expect will be/was the hardest thing you/you'll have/had to deal with during retirement?

What Are the Top Priorities in Retirement?

Priorities in retirement have generally remained consistent from 2005 to 2010 for both pre-retirees and retirees. Remaining healthy topped the list for both groups (83% pre-retirees, 82% retirees), followed by spending time with family (73% and 65%). Significantly more pre-retirees said traveling was a "very valuable" priority in 2010 than in 2005 (33% vs. 27%). Deciding where to live, how to rest and relax, and doing more meaningful or satisfying work all remained top-five priorities in both 2005 and 2010.

While health and family continue to be top priorities, there has been a shift in what matters most in retirement planning. Both pre-retirees and retirees expressed less interest in additional services — such as referrals to other professionals or help dealing with legacy and inheritance matters — than they did in 2005. While advice to help their children become financially savvy remains the service with the highest perceived value, compared to 2005, fewer pre-retirees (38% vs. 51%) and retirees (38% vs. 54%) consider it very valuable.

Retirement Priorities



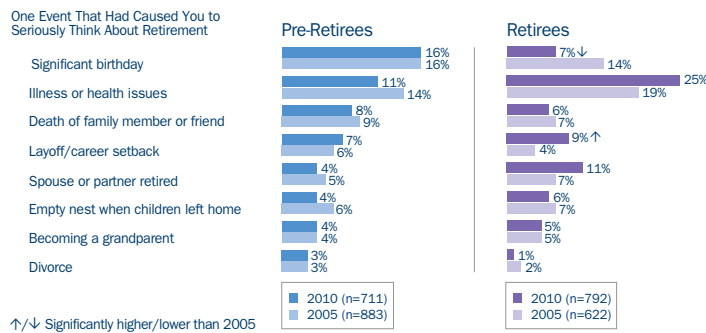
Base: Core sample respondents

Question: People have different expectations about how they'll spend their retirement/at different times in retirement. How important is each of the following to you as you think of your retirement/this year?

What Triggers Retirement Readiness?

It may not be a surprise that experiencing a layoff or other career setback would prompt one to seriously begin thinking about retirement. The recession amplified these experiences (or the perceived threat of them), as exemplified by 9% of respondents in 2010 citing a layoff/career setback as the one event that caused them to think seriously about retirement, a significant increase from 4% of respondents who cited these events in 2005. Pre-retirees most often cited a significant birthday as the primary retirement trigger event (16% in both 2010 and 2005), followed by illness or health issues, death of a family member or friend, then a career setback. Fewer retirees cited a significant birthday as a trigger event in 2010 (7%) than in 2005 (14%), while more retirees cited illness or health issues in 2010 (25%) than in 2005 (19%).

Retirement Triggers



Question: What ONE event, if any, had the greatest impact in causing you to seriously think about when, how and where you will retire?

Conclusion

Considering the current economic environment, it is not surprising that anxiety has increased throughout all stages of the retirement journey. Perhaps the most telling shift from 2005 to 2010 is apparent in the fourth stage – which in 2005 was called Liberation but in 2010 was renamed Realization. However, some encouraging insights emerge despite the challenging economic context today. People are beginning to plan more proactively for retirement and, in the preretirement stages of the journey, express a somewhat greater sense of adventure than they did five years ago. Perhaps most encouraging, a majority of those interviewed expect to enjoy – or say they are currently enjoying – retirement a great deal.

While the mindset of most Americans has changed since 2005, the significance of the retirement journey has not. By better understanding the complexities each retirement stage brings, consumers and the financial professionals who advise them can better prepare for this major milestone. The result may be a more fulfilling and confident retirement throughout all its stages.

Methodology

The *New Retirement Mindscape II* and *New Retirement Mindscape* studies were commissioned by Ameriprise Financial, Inc., and conducted by telephone by Harris Interactive in May 2010 and August 2005, respectively.

- > The *New Retirement Mindscape II* study followed a methodology similar to that of the *New Retirement Mindscape* study, published in January 2006.
- > The surveys sampled 2,007 (2010) and 2,000 (2005) U.S. adults between the ages of 40 and 75. Results were weighted to reflect general population patterns.
- > Both studies included an oversample of people who were within a year or two of their anticipated or actual retirement day in order to better understand the attitudes and behaviors of those in the midst of this major life change.
- > The sampling error is +/- 2.5%.

The 2005 study was conducted in conjunction with Age Wave and Ken Dychtwald, Ph.D.

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