MacroMonitor Market Trends

September 2009

MacroMonitor Market Trends is a monthly newsletter from the Consumer Financial Decisions group that highlights topical news and trends of interest to you and your colleagues. If you would like more information about the items in the newsletter or would like to discuss other ways that we can assist you in your research and marketing efforts, please contact Larry Cohen, Jon Gray, or Chris Taylor at +1 609 734 2048.

IN THIS ISSUE:

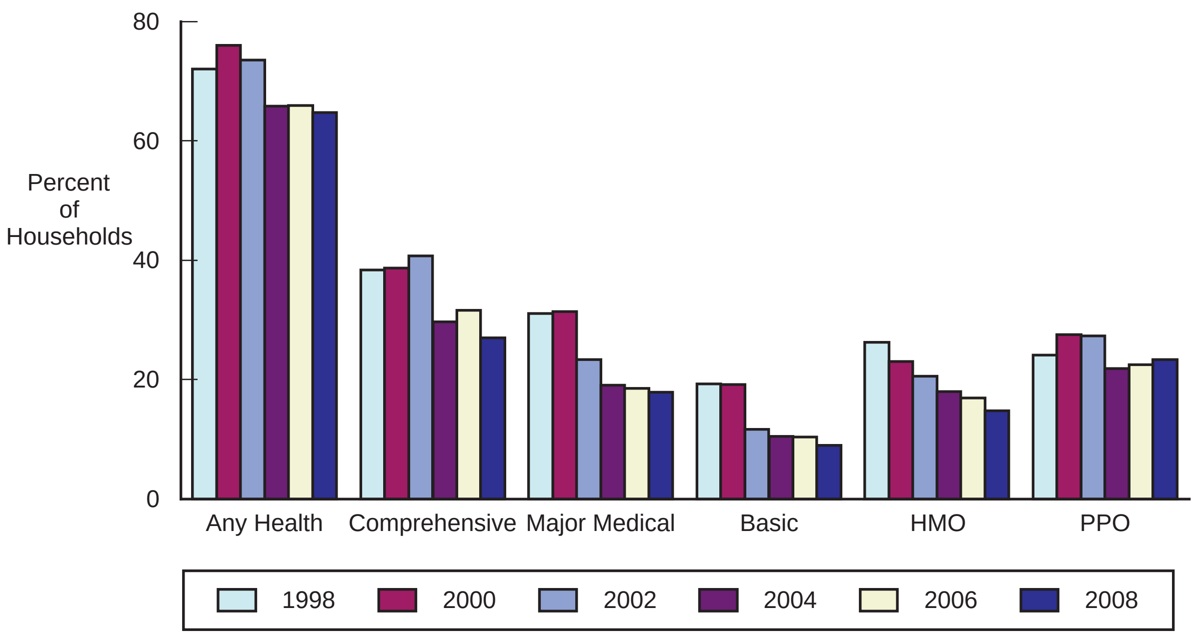
- Is Health-Care Reform Warranted?
- What Defines a Successful Retiree?
- The Economic Downturn Affects Wealth: One Year Later

This newsletter appears on CFD's **MacroMonitor** Web site.
Subscribe at www.sric-bi.com/CFD/newsletter.shtml .

IS HEALTH-CARE REFORM WARRANTED?

Undeniably, health care is among today's most hotly contested topics. Reforming health care and broadening the availability of medical insurance remain high on the Obama administration's agenda, and perhaps rightly so. As Figure 1 indicates, **MacroMonitor** data show a continued decline in private health-care coverage: In 2008 just 65% of households have health insurance—the lowest incidence this decade and far from the 76% high in 2000. The incidence of households' having comprehensive coverage alone fell nearly 5 percentage points in the past two years. Meanwhile, the U.S. Census Bureau reports that the incidence of government-sponsored health-care plans increased significantly since 2000: from 24% of all U.S. adults to 28% in 2007. Not surprisingly, data from the **2008–09 MacroMonitor** indicate that low-income households lag far behind all U.S. households in ownership of health insurance: Just one-quarter have health insurance; 68% have some form of government-sponsored health-care plan in 2008.

Figure 1
INCIDENCES OF OWNING HEALTH-INSURANCE PRODUCTS

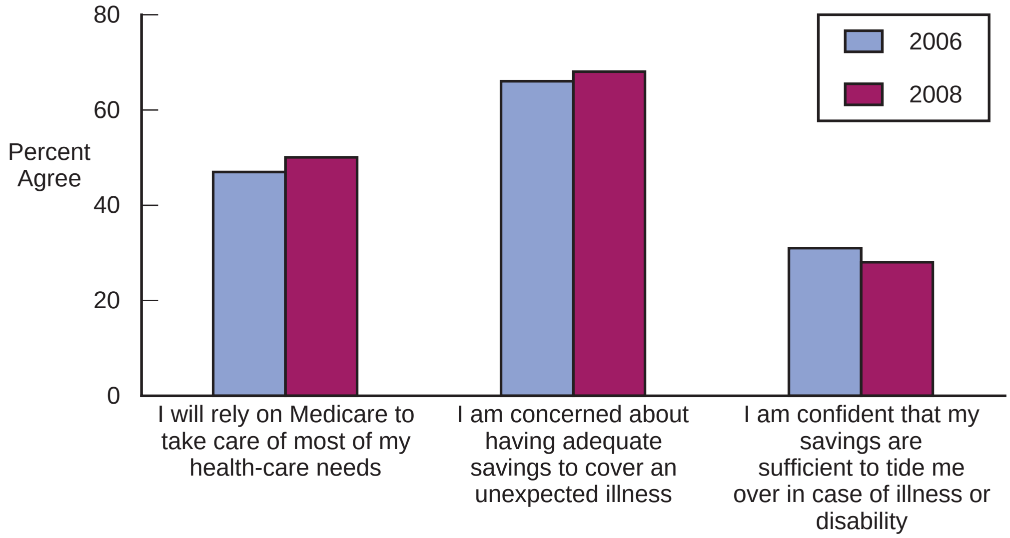


Base: All U.S. Households

Source: **The MacroMonitor**

Attitudes about health insurance reflect households' growing uncertainty. More than two-thirds of households (68%) are concerned about having adequate savings to cover an unexpected illness and fewer than three in ten (28%) are confident that their savings are sufficient to tide them over in case of illness or disability (the incidence fell 11% since 2006). Reflecting the decline in private-insurance coverage, the percentage of households that indicate that they will rely on Medicare to take care of most of their health-care needs increased 6% to half of households overall in 2008.

Figure 2
ATTITUDES ABOUT HEALTH INSURANCE



Base: All U.S. Households

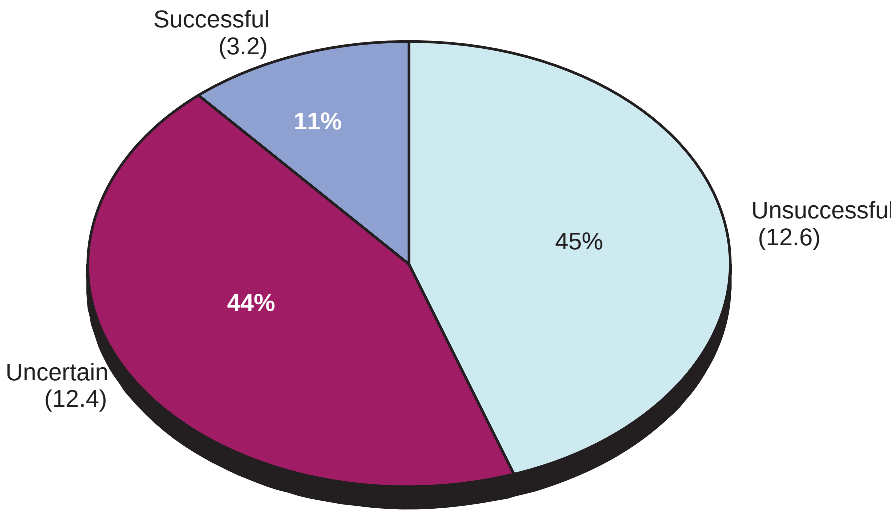
Source: **The MacroMonitor**

Given the substantial declines in private health-care coverage over the past decade as well as the growing fear among households about their health-care needs, reform appears likely warranted. According to **2008–09 MacroMonitor** data, more than 12 million households (11% of all U.S. households) had a household member experience some type of major illness in the past two years; 10.5 million households (10%) had a household member become disabled or unable to work. Without some form health insurance, these life events can be debilitating to a households' finances. Thus, policy reform that increases the availability of insurance in a way that maintains cost and takes into account consumers' health-care needs and concerns is necessary. Although the details of how this inevitable reform will come to life are far from final, financial institutions—especially those active in insuring health care—must prepare to face structural changes in the industry. Financial institutions that are prudent and strategically plan to face this reform by understanding where consumers stand on health care now and how that stand might change in the future will be best positioned to take advantage of this changing marketplace.

WHAT DEFINES A SUCCESSFUL RETIREE?

What makes a successful retirement? This question has no answer except "It depends." Given the events of the past year, the concept of retirement itself is undergoing redefinition. Nevertheless, it would be extremely useful to understand what it means to be successful from the perspective of those retirees who consider themselves to be successful. CFD is currently working on a report that describes what households that consider themselves to be successful retirees look like, including an examination of their income sources, demographics, balance sheets, institutional use, product use, recent and likely transactions, and attitudes toward retirement and financial advice.

Figure 3
SEGMENT SIZES
(Millions of Households)



Total: 28,156,000 Retired Households

Base: Retired Households

Source: **2008–09 MacroMonitor**

For this report, we created a population of self-defined “successful” retirees on the basis of their responses to two attitudes:

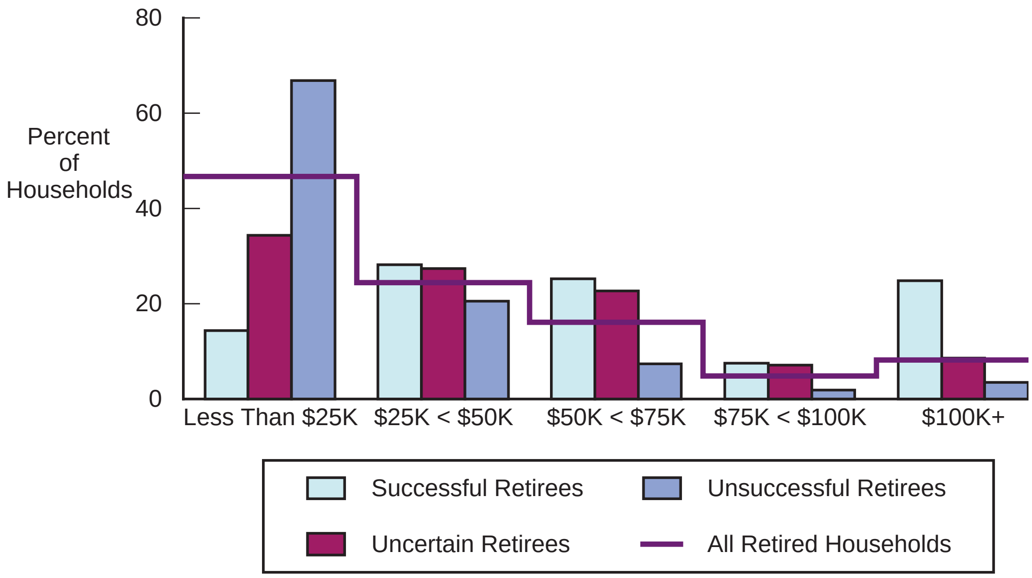
- “I am satisfied with my household’s current financial situation.”
- “I am currently in a position to meet my long-term financial goals.”

Successful Retirees strongly agree with both of these attitudes; Unsuccessful Retirees disagree with one or the other of them, either strongly or somewhat; and Uncertain Retirees are all the remaining retired households. Of the 28 million retired households, 3 million strongly agreed with both these statements and we consider them to be Successful Retirees. Of the remaining 25 million households half fall into the Unsuccessful and half into the Uncertain Retirees.

Given the recent, significant decline in the stock and real estate markets, many households close to retirement have had to postpone retirement, rethink their lifestyle, or even forgo retirement. But one of the findings from this report strongly suggests that a (self-perceived) successful retirement involves more than money. When we look at the proportions that each of our three types of retired households are receiving by five basic income ranges, one expected pattern is confirmed by the data, but another is missing. The confirmed pattern is that Unsuccessful Retirees are much more likely to have annual incomes of less than $25 000 per year, and Successful Retirees are much more likely to have annual incomes of $100 000 or more.

And as part of this pattern, the Uncertain households are right in the middle at both ends of the income spectrum. (See Figure 4.)

Figure 4
INCOME RANGES



Source: **2008–09 MacroMonitor**

However, somewhat unexpectedly, between Successful and Uncertain Retirees in each of the three middle-income ranges between $25 000 and $100 000, no significant differences exist in the proportions of households in all these ranges! (Unsuccessful Retirees are lower in all these income ranges.) The only possible conclusion is that whatever it is that makes people strongly agree that they are both satisfied with their current situation and in a position to meet their long-term goals, for a majority of Successful Retirees it is something other than their income. The report highlights that the many factors that differentiate the Successful Retiree include more than simply wealth and health. For more information about how to obtain a copy of *Successful Retirees,* call us at +1 609 734 2048 or email CFDinfo@sric-bi.com .

THE ECONOMIC DOWNTURN AFFECTS WEALTH: ONE YEAR LATER

September 15 marked the one-year anniversary of the collapse of Lehman Brothers, which was followed by a long string of bad news from other financial institutions: banks, insurance companies, wirehouses, consumer credit companies—few were safe. The downturn ended investment banking as we knew it and has significantly changed the financial services landscape. No less affected by this crisis was the financial consumer. Values that were merely slipping in both real estate and equities plummeted, critically wounding the retirement accounts, financial plans, and stability of millions of U.S. households.

The Consumer Financial Decisions team has taken the opportunity to conduct an analysis using **2008–09 MacroMonitor** data to estimate losses to the assets of U.S. households in the past year. Because we calculate total household assets by summing the precise dollar values for various types of hard assets, such as real estate, and the values of all the various financial products and instruments the household owns, we are able to use indices to estimate the effect on various asset classes and the total loss in household wealth. Looking at these data along with results from the **2008–09 MacroMonitor Recontact Study** produces some interesting findings:

- *Consumers have shifted.* Consumer shifts were occurring before the financial meltdown: there was a growing desire to control debt and live within one's means. Part of this desire, pre-crisis, was due to demographics as the older and relatively large cohort of Boomers moved from being net debtors to net creditors. The crisis has accelerated the need for control, especially among those with young families for whom a significant proportion of their wealth is in their homes. This desire to control debt and take more control over household finances significantly affects households' use of credit, the way they make transactions, the savings and investment products they use, and how they receive financial advice.
- *Household wealth has not been affected uniformly.* The diversity in the way households manage finances, Life Stage, propensity for risk, use of professional advice, and attitudes about products, services, and relationships is evident in households' asset allocation and the types of products they own, which in turn affects the degree to which household wealth has eroded in the past year. The data show that U.S. households, on average, have lost 12.5% of their total net worth in the past year, but segmenting on Life Stage shows that households in their formative stages—those that are single or married with no children—fared significantly worse than Retirees on a percentage basis: Single No Child households lost 20% of their net worth, and Married No Child households lost 17% of their net worth. By contrast, Older and Younger Retirees lost 11% and 13%, respectively. The expansive coverage of the **MacroMonitor** provides a large number of populations for which we can conduct a wealth analysis (see examples in Table 1).

Table 1
TOTAL NET WORTH
(Mean Values in Dollars)

	August 2008	September 2009	Percent Change
All U.S. Households	403,491	352,919	–12.5
Life Stage			
Single No Child	105,012	84,056	–20.0
Married No Child	205,493	170,661	–17.0
Oldest Child 0–11	318,571	276,528	–13.2
Oldest Child 12–17	312,560	269,107	–13.9
Oldest Child 18+	542,086	468,132	–13.6
Preretired	501,761	445,943	–11.1
Younger Retired	477,023	417,113	–12.6
Older Retired	485,572	431,561	–11.1
Socioeconomic Level			
Low	67,822	59,264	–12.6
Low middle	92,211	78,986	–14.3
High middle	211,262	182,373	–13.7
High	852,731	748,274	–12.2
Level of Total Financial Assets			
Less than $50K	96,434	82,615	–14.3
$50K–$99.9K	243,683	206,207	–15.4
$100K–$249.9K	511,251	448,500	–12.3
$250K–$499.9K	805,599	711,399	–11.7
$500K+	2,082,799	1,833,909	–11.9

Source: **2008–09 MacroMonitor**

- *The household balance sheet doesn’t tell the whole story.* Although it is important to understand households’ balance sheets and the losses they have incurred, using these data alone for targeting can be misleading. Individuals’ emotional and psychological makeup will have a significant effect on how (and if) they will change the ways they save, invest, and interact in the financial marketplace. The **2008–09 MacroMonitor Recontact Study** shows clear differences between households’ emotional reaction to the downturn. These reactions have enormous consequences for how households will conduct their financial lives moving forward.

The **MacroMonitor** provides the basis for analysis across all aspects of household finances. The wide scope and coverage, stable trendability, and CFD’s expertise in analyzing the findings assure that you don’t miss out on the macrolevel trends but can still focus on understanding your target market and emerging opportunities. The interim measure of U.S. households after the worst financial crisis of our time coupled with our estimate of how household wealth has been affected in the past year gives us tremendous insight during an uncertain period. Please contact us to learn how the **2008–09 MacroMonitor Recontact Study** and our household wealth analysis can help your organization.

