Strategic Business Insights

CFD
Consumer Financial Decisions

# MacroMonitor Market Trends

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**MacroMonitor Market Trends** is a monthly newsletter from Consumer Financial Decisions 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, Chris Taylor, or Karen Montecuollo at +1 609 378 5041.

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## THE DYNAMIC CHALLENGE OF SERVING CHILD-FREE HOUSEHOLDS

The “child-free” subsegment of households is back in the news. The CFD team first examined this group in the fall of 2000 with an in-depth marketing report: *Child Free: Financially Uninvolved or Financially Underserved?* Now, a decade later, these households are a valid Life Stage segment with financial needs that are often different from those of their contemporaries who pursued family life that includes raising children.

To indentify Child-Free households in the **1998–99** and **2008–09 MacroMonitor** data, we imposed a series of filters:

- No children present in the household
- Head(s) of household not retired
- Head(s) of household 40 to 54 years old
- No mention of children in 15 financial-goals and life-events items.

Overall, the number of Child-Free households has remained quite stable. In 1998, the total number of Child-Free households was just fewer than 7.5 million, representing 6.8% of U.S. households; in 2008, that number was slightly more than 8 million, representing 6.4% of all U.S. households. In 1998, nearly all the primary heads of Child-Free households were Older Boomers. In 2008, nearly three in four primary heads of Child-Free households (72%) are Younger Boomers, with the rest falling into the Gen X generational cohort. The fact that the composition of readily identifiable segments changes over time suggests that it is a good idea to test assumptions periodically to make sure product and channel positioning remains on target.

## THE CHANGING FACE OF RETIREMENT

Everyone has been saying that Boomers are going to change retirement. Now we are actually beginning to see how that new retirement is going to look. By comparing households whose primary head is at least 55 years old from 2002 to 2008, we are already seeing some major shifts. Some of these shifts are due to the current economic situation; others are due to the impact of changing demographics, extended life expectancy, and societal evolution.

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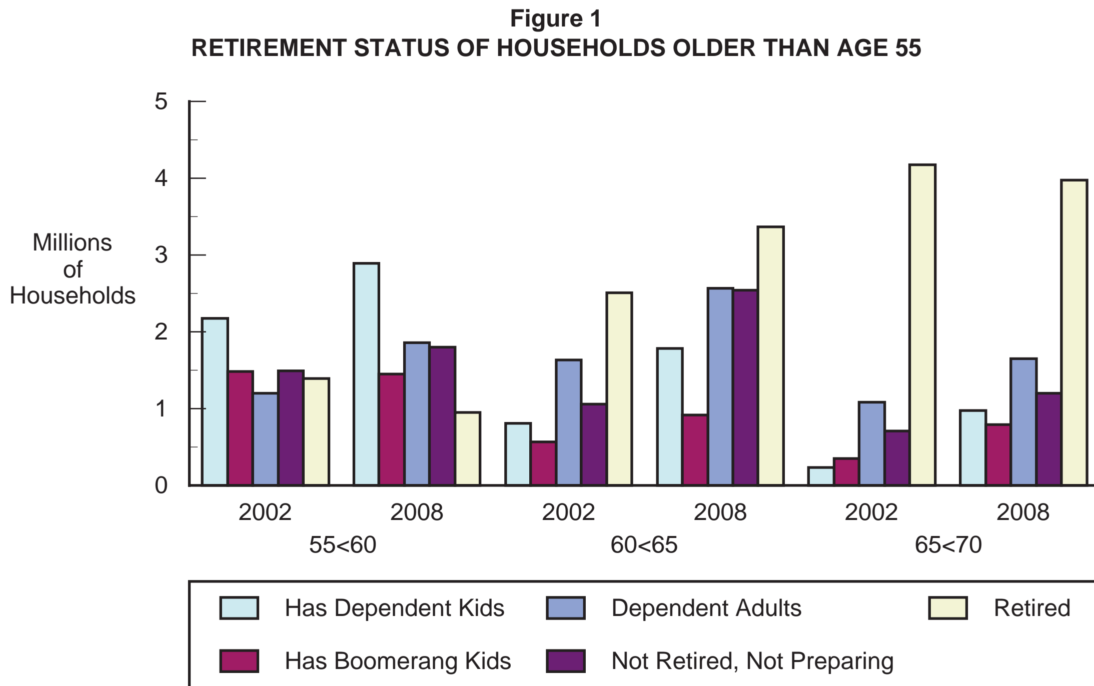


**Figure 1**
**RETIREMENT STATUS OF HOUSEHOLDS OLDER THAN AGE 55**

Source: **The MacroMonitor**

In a comparison of these households between 2002 and 2008, one of the first changes that become evident is that more households older than age 55 have dependent children (still on their parents' taxes). Regardless of whether the primary head's age is the late fifties or the early or late sixties, more of these households still have children living at home (light blue bars) in 2008 than in 2002. This situation is not because of "helicopter parents" and the economy. It is because half of all Boomers delayed starting families until their thirties or forties. By the time these Boomers finished having children, they were in their forties (or their fifties), and given a 20-year period for childrearing, these households are naturally more likely still to have children at home into their fifties and sixties. We are now seeing that outcome. Unless they are wealthy or have managed to save a lot, these households will need some time without children in which to ramp up their saving for retirement.

This fact, in combination with the current economic situation, helps explain why more households (in all three age ranges) are not retired and say that they are not even preparing for retirement (see the purple bars in Figure 1)—a very pragmatic solution for a problem with so much uncertainty. At the same time, fewer households are retired (see the yellow bars) in their fifties now than in 2002. And among those households in their sixties, which number many more now that the Boomers have entered these years, the proportion that are retired is about the same (60<65) or even smaller (65<70) because so many more Boomers households are in that age.

The current economic situation (and the "helicopter-parenting" phenomenon) may also help explain why Boomerang Children number more now than in 2002 (see the maroon bars). More households—particularly households in their sixties—have adult children who have returned (or never left) living at home. These Boomerang Children are only the tip of the iceberg. We have no way of knowing how many households continue to provide financial support for their adult

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children who are living outside the home. Either situation drains resources from the parents' efforts to increase their saving, ostensibly for their retirement.

Finally, increased life expectancy, in combination with better treatment for medical conditions associated with end of life, may explain the increase in households' reporting being responsible for the care of dependent adults (see the periwinkle bars). The number of households with this responsibility has increased for households in their fifties, sixties, and early seventies. Here again is a financial drain (not to mention emotional burden) on the households' ability to focus on saving for retirement. In some cases, these dependent adults are moving in with their children for efficiency, economic, and emotional reasons.

In the midst of the worst recession since the Depression, many of the Boomer households are experiencing the immediate impact of being the "sandwich generation," sometimes in their own homes. And, because of their lower savings, higher debt, and greater losses to their investments, Boomers are facing greater uncertainties about their own retirements. As a result, many Boomers are working longer and reducing their expectations about when they will retire and how they will live in retirement. The standard products and services for a retirement when men were the breadwinners who would retire with a pension, savings, and Social Security for seven to ten years, after which their widows would continue to live on these resources are as antiquated for what the Boomers face as that stereotype misrepresents their reality.

## BEHAVIORAL FINANCE AND THE MACROMONITOR WEBINAR

On 24 June 2010, CFD hosted the second in a series of half-hour Webinars—*Behavioral Finance and the MacroMonitor: Losses, Gains, and Time in the New Normal*—to explore how behavioral finance is revolutionizing the way the financial-services industry thinks about meeting consumer financial needs. We were very fortunate to have Dr. Eric Johnson of Columbia University join us on this Webinar to introduce two major innovations in behavioral finances—loss aversion and discounting—and their implications on all aspects of financial services, such as investing, pricing, mortgages and credit, and annuities and retirement savings.

Understanding different segments' loss aversion and discount-rate preferences better enables financial providers to target and market specific features of financial products and services more effectively. To learn more how the **2010–11 MacroMonitor** has improved to measure loss aversion and discounting, email us at CFDinfo@sbi-i.com to obtain a copy of our Webinar.

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