



19th September 2012

ASR's Survey of U.S. Household Finances - Part 2

***ASR's biannual proprietary survey** provides unique insights into U.S. households' saving and investment behaviour. This is the seventh "wave" of the survey, which we first launched in June 2009. The fieldwork was conducted between August 2-20, 2012, and drew on a panel of 1,004 US adults between 25 and 65. This is the second of a three-part release of the main findings – in the [first release](#) we covered the topics of housing, debt, and deleveraging.*

Financial Anxiety Persists Amid Fragile Labor Market

If the Presidential Election was simply about how people viewed their financial situation, then Barack Obama would have a major problem on his hands. Our survey suggests a deep level of anxiety about personal finances that has persisted for much of the past three years: 87% of respondents worry about the financial situation, while 37% worry "a lot".

Looking back over the last three years, in every one of our surveys more people have felt that their financial situation has deteriorated over the previous year rather than improved. The situation may have stabilised from the grim 2009/10 period, but the net balance feeling "better off" than a year ago has stayed stubbornly negative. And while there is still a hope that the coming year will see some improvement, this latest survey reveals the second weakest positive net balance in three years. Inflation remains the primary source of economic anxiety, followed by worries about a lack of savings and the cost of healthcare. 47% now fret that the next generation could face a reduction in its standard of living.

The labor market remains fragile in the face of two disturbing trends. Not only has the percentage of respondents that believe their job to be "very secure" dropped considerably over the past three years, but the percentage of our panel in employment that think their job is insecure has also risen, to almost a fifth.

Increasingly Risk-Averse Saving Behavior

The propensity to save has improved slightly, but what remains striking is just how risk averse people are with their savings. Almost half are not prepared to take any risk with their savings – a trend that has been on the rise over the past three years. This is particularly true when it comes to saving for retirement. Only 36% think that equities have a role to play in retirement saving while 35% think equities are unsuitable.

On the face of it, there has not been a major shift in retirement plans over the past three years. However the weakness of this economic recovery is starting to prompt people to postpone their age of retirement. 22% of the panel (that have not already retired) say that they have already postponed their retirement age, with 10% claiming to have pushed back the day they stop working by more than 5 years.

Global Alert

David Bowers

+44 (0) 20 7073 0733
DavidB@absolute-strategy.com

Sarah Franks

+1 973 726 7071
SarahF@absolute-strategy.com*

ASR Survey: Climbing a Wall of Worry

At first glance, our survey confirms the bears' worst fears. Over the past three years, American households have been facing a difficult and worrying financial situation as they struggle with falling asset prices, excessive debt and a fragile labor market. **There is plenty of ammunition - both in this report and in [the section](#) published last week on indebtedness – to support the idea that Americans face a multi-year workout. The only game changer we can see is a sustained rally in the assets of the household sector... in particular a rise in house prices.**

There is plenty of ammunition to make the argument that Americans face a multi-year workout.

Our survey allows us to explore in some detail those groups that are most under pressure and to start to identify what might have to change to turn things around. In this report we have been struck by the number of respondents that persistently "worry a lot" about their financial situation. We are also struck by the **high level of risk aversion** in saving behavior. We shall explore each in turn.

To understand the source of the high-level of anxiety surrounding people's financial situation, we cut the survey into those that "worry a lot" about their finances and compared it to the remaining panelists. The results are very striking. The biggest difference between the former and the latter is over the level of indebtedness and debt servicing. Not surprisingly, the Financial Crisis has changed their attitude to debt. This group is less wealthy than average, tends to be on a lower income, feels less secure in their job, and is more likely to retire after 70. They are more unwilling than others to take risks, and are more likely to be sitting on an unrealized capital loss on their home. They are also less optimistic about a pick-up in house prices in the coming year. Interestingly, this group was evenly split across the political spectrum.

What our survey drives home (with no pun intended), is the importance of asset prices in household behavior.

Perhaps more intriguing is why Americans have become more risk averse in their saving behavior. The 48% that are not prepared to take *any* risk with their savings are more negative than most about using equities as a way to save for retirement. They are also more likely than others to believe the Financial Crisis has fundamentally changed their attitude to debt. They tend to be less wealthy than average, and somewhat more indebted. House prices also appear to play a significant role: those that are risk averse tend to be more negative about house prices.

Our view is that the macro game-changer for the next year will be whether or not we see a meaningful rise in house prices.

What our survey drives home – no pun intended - is **the importance of asset prices in household behavior**. A deterioration in real net worth tends to prompt people to save more (and borrow less) as they seek to preserve/restore their net worth. This economic recovery has been different for many because they have had to come to terms with falling house prices. It supports our view that the game-changer for the next 12 months is whether we see a meaningful rise in house prices.



Financial Security

For the fifth wave running, the survey paints a **gloomy picture** about the financial well-being of US households. For the past two years the percentage of our panel that worries "a lot" about their financial situation remained broadly static at around 35%.

Table 1: Do you worry about your financial situation?

	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
A lot	36%	33%	37%	35%	37%
A little	54%	57%	51%	54%	50%
Not at all	10%	10%	12%	11%	12%
Don't know	0%	0%	1%	1%	1%
Worry "a lot" or "a little"	90%	90%	88%	89%	87%
Net % Worry About Finances	80%	80%	76%	78%	75%

Source: ASR Ltd, TNS

Looking back over the past three years, in every single wave more people feel that their financial situation has deteriorated rather improved over the past year. Things may have stabilised from the grim 2009-2010 period, but the net balance better off than a year ago has stayed stubbornly negative.

Table 2: Would you say that you are better or worse off financially than a year ago?

	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Better off	19%	19%	23%	24%	20%	23%	21%
Worse off	44%	40%	37%	29%	35%	30%	32%
About the same	37%	40%	40%	46%	44%	47%	47%
Don't know	0%	1%	1%	1%	1%	1%	1%
Net % Better Off Than A Year Ago	-25%	-21%	-14%	-6%	-15%	-7%	-11%

Source: ASR Ltd, TNS

In America's tradition of optimism, our panel still holds out hope that the coming year will see some improvement. More people think they will be better off rather than worse off, but the latest survey reveals the second weakest net balance in three years.

Table 3: Do you think you will be better or worse off financially in a year's time?

	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Better off	36%	36%	33%	30%	25%	29%	28%
Worse off	15%	13%	14%	15%	20%	15%	17%
About the same	40%	38%	44%	46%	43%	44%	41%
Don't know	10%	13%	10%	9%	12%	12%	13%
Net % Think Will Be Better Off	21%	23%	19%	15%	5%	13%	11%

Source: ASR Ltd, TNS



Table 4: Compared to Last Year; and Looking Ahead to Next Year							
base=1,004	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Better off than last year, will be better off this coming year	14%	13%	15%	16%	13%	15%	14%
Worse off than last year, will be worse off this coming year	11%	10%	10%	10%	16%	11%	13%
About the same as last year, will be about the same next year	23%	22%	26%	30%	29%	31%	30%
All Others	52%	55%	49%	44%	42%	43%	42%

Source: ASR Ltd, TNS

While the majority of those polled feels that their job is very or fairly secure, there are some disturbing trends. First, the percentage of respondents that believe their job to be “very secure” has dropped considerably over the past three years, from around 40% in the first two waves (Jun 2009 & Jan 2010) to around 31% in the most recent two waves - a decline of almost 10 percentage points. At the same time, the percentage that think their job is insecure has risen to almost a fifth.

Table 5: At this time, how secure do you feel your job is?							
base=615, all in employment	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
My job feels very secure	41%	40%	32%	29%	32%	31%	31%
My job feels fairly secure	43%	46%	49%	52%	55%	47%	48%
My job feels fairly insecure	11%	8%	11%	10%	8%	13%	12%
My job feels very insecure	4%	5%	7%	5%	4%	8%	7%
Don't know	2%	1%	2%	3%	1%	2%	2%
Very/fairly secure	84%	86%	81%	81%	87%	77%	79%
Very/fairly insecure	15%	13%	18%	16%	12%	22%	19%
Net % Feel Job Is Secure	69%	73%	63%	66%	75%	56%	61%

Source: ASR Ltd, TNS

Inflation continues to be the main source of economic anxiety, followed by the lack of savings - and by the cost of healthcare.

Table 6: Which one of the following worries you most at this time?						
base=1,004	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012	
Higher taxes	14%	11%	11%	11%	9%	
Drop in income (e.g. lower wages, investment income or benefits)	14%	12%	14%	11%	11%	
Unemployment	15%	15%	13%	17%	12%	
A rise in the cost of living (higher inflation)	28%	36%	39%	38%	34%	
Having insufficient savings	22%	18%	16%	16%	13%	
The cost of healthcare					13%	
None of these	5%	6%	6%	6%	5%	
Don't know	1%	2%	2%	1%	2%	

Source: ASR Ltd, TNS



Attitudes Toward Saving

The past three years have seen a normalisation of saving behavior. Three years ago, 28% said they spent more than they earn; now only 14% find themselves in that situation. The net balance saying they spent less than they earn has averaged 20% in the past four surveys.

Table 7: Which one of the following statements best describes your current financial situation?

base=1,004	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
I spend more than I earn	28%	27%	15%	14%	13%	11%	14%
I spend what I earn (make ends meet)	35%	33%	54%	49%	51%	53%	51%
I spend less than I earn	36%	38%	28%	34%	33%	33%	32%
Don't know	1%	1%	3%	3%	3%	3%	3%
Net % Spend Less Than Earn	8%	11%	13%	20%	20%	22%	18%

Source: ASR Ltd, TNS

With people spending less than they are earning, there has been a modest improvement in saving behavior: a net 68% think that they are saving “too little” - down from 76% in January 2010. But what is striking in Table 9 is how risk averse households have become with their savings, particularly since the January 2011 survey.

Table 8: Generally speaking, do you think you are saving enough?

base=1,004	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
I am saving too little	76%	77%	76%	71%	72%	72%	71%
I am saving enough	21%	20%	16%	20%	18%	20%	20%
I am saving more than I need to	1%	1%	2%	2%	3%	3%	2%
Don't know	2%	3%	6%	7%	8%	6%	7%
Net % Saving Too Little	75%	76%	74%	69%	69%	69%	68%

Source: ASR Ltd, TNS

Table 9: Which of these best describes your view about your savings?

base=1,004	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
I am not prepared to take risks with my savings	40%	40%	45%	45%	50%	47%	48%
I am prepared to accept occasional losses	33%	33%	32%	32%	24%	26%	26%
I am prepared to take substantial risks with my savings	4%	4%	5%	4%	4%	4%	3%
None of the above	17%	17%	14%	14%	16%	16%	18%
Don't know	6%	7%	4%	5%	6%	7%	5%
<i>Prepared to accept occasional losses / prepared to take substantial risks</i>	37%	36%	36%	36%	28%	30%	29%
Net % Prepared to Take Risks / Accept Losses	-3%	-3%	-9%	-10%	-23%	-17%	-19%

Source: ASR Ltd, TNS



Retirement

On the face of it, there has not been a major shift in retirement plans over the past three years. The modal retirement age remains a steady 23% between the age of 60 and 64. However, 38% plan to retire after the age of 65.

Table 10: At what age are you planning to retire?

	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Before I am 50	2%	3%	3%	2%	2%	2%	3%
Between the ages of 50 and 54	4%	3%	3%	3%	4%	5%	4%
Between the ages of 55 and 59	9%	9%	7%	7%	8%	7%	6%
Between the ages of 60 and 64	18%	22%	21%	20%	18%	19%	17%
Between the ages of 65 and 69	24%	24%	23%	25%	24%	24%	23%
After I am 70	13%	10%	13%	15%	14%	14%	15%
Don't know	26%	28%	28%	27%	28%	27%	30%
Average Retirement Age	64	63	64	64	64	64	64

Source: ASR Ltd, TNS

However the lack of a robust broad-based economic recovery is starting to make people postpone their age of retirement. 22% of respondents that have not already retired say that they have postponed their retirement age, with 10% claiming to have pushed back the day they stop working by more than 5 years.

Table 11: Have you postponed the age at which you are likely to retire?

	Expected Retirement Age	% Saying
Yes, but only by a year or two	62	5%
Yes, by more than 2 but less than 5 years	64	8%
Yes, by more than 5 years	67	10%
Total % Say Yes		22%
No	63	45%
Too early to say / don't know		34%
Net % Say Yes		-23%

Source: ASR Ltd, TNS

Table 12: Expected Age of Retirement Age by Current Age

	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Those Aged 25-34	62	62	62	62	62	62	62
Those Aged 35-44	63	62	63	64	64	64	63
Those Aged 45-54	64	63	65	65	64	64	65
Those Aged 55-65	65	65	65	65	65	66	66

Source: ASR Ltd, TNS



Table 13: Do you think you are saving enough for your retirement?

base=858, all not retired and have worked

	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Yes	19%	20%	14%	18%	17%	20%	17%
No	71%	68%	73%	70%	69%	67%	70%
Don't know	10%	12%	13%	12%	14%	13%	13%
Net % Yes	-52%	-48%	-60%	-52%	-52%	-47%	-53%

Source: ASR Ltd, TNS

Two of the retirement themes have barely changed since we have commissioned the survey. The first is that the **majority of those polled believe they are not saving enough for their retirement**. Approximately one-in-six think they have put enough funds aside.

Secondly, there remains **significant skepticism that making long-term investments in the stock market is a good way to save for retirement**. Only 36% think that equities have a role to play; more than a third do not believe in "stocks for the long run", while 28% do not know.

Table 14: Do you think making long term investments in the stock market is a good way to save for your retirement?

base=858, all not retired and have worked

	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Yes	42%	39%	36%	40%	36%	38%	36%
No	33%	32%	38%	32%	32%	34%	35%
Don't know	25%	29%	26%	29%	32%	28%	28%
Net % Yes	9%	8%	-2%	8%	4%	3%	1%

Source: ASR Ltd, TNS

There is growing pessimism about the long term outlook for the American economy. Increasingly people believe that the children of their generation will have a lower standard of living in, say, 25-30 years' time. In just over two years, the net balance of those looking for an improvement less those that expect a deterioration has gone from minus 11% to minus 27%.

Table 15: Thinking about the children of your generation, how do you think their standard of living will compare with yours when they are your age?

base=1,004

	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
A lot better	7%	6%	4%	4%	5%
A little better	21%	19%	15%	18%	15%
About the same	24%	22%	19%	20%	20%
A little worse	23%	24%	26%	27%	26%
A lot worse	15%	17%	20%	16%	20%
Don't know	10%	12%	17%	15%	13%
<i>A lot/ little better</i>	27%	26%	19%	21%	20%
<i>A lot/ little worse</i>	38%	41%	46%	43%	47%
Net % Think Better	-11%	-15%	-28%	-22%	-27%

Source: ASR Ltd, TNS



ASR's Survey of U.S. Household Finances

Background

This is the seventh in a series of proprietary surveys commissioned by Absolute Strategy Research (ASR) to provide our clients with insight into U.S. consumer finances. First launched in June 2009 and conducted biannually, each survey analyzes the responses from 1,000 Americans of working age. The questions explore respondents' financial security; their saving, borrowing and access to credit; and their views on housing and retirement. The questionnaire goes beyond a typical "consumer confidence" survey because it attempts to explore the motivations behind and the perceptions of saving and borrowing decisions. We hope it complements the (less-timely) household balance-sheet data found in the U.S. National Accounts.

The Fieldwork

We commissioned TNS, the world's largest custom market research specialist, to conduct the fieldwork during the two weeks commencing August 2, 2012. Adults between 25 and 65 and living in the U.S. were surveyed about their spending and saving habits. The survey respondents took part in a Computer Assisted Web Interviewing survey, with quotas set on age, gender, region, household income, and education level; with rim weighting applied at the analysis stage to ensure that the profile of the final sample was as representative as possible. Please contact us for detailed methodology information.

Absolute Strategy Research

1-2 Royal Exchange Buildings

London, EC3V 3LF

+44 (0) 20 7073 0730

info@absolute-strategy.com

www.absolute-strategy.com

* Sarah Franks is employed by Absolute Strategy Research Services Inc. (ASRS), our U.S. subsidiary based in New Jersey. ASRS is a pure research organisation which is not regulated, although it adheres to FSA principles; ASRS employees do not provide investment advice.

This research report is issued by Absolute Strategy Research Ltd, which is authorised and regulated by the Financial Services Authority ("FSA"). The report is intended only for investors who are Market Counterparties or Intermediate Customers, as defined by the FSA, and may not be distributed to Private Customers.

Absolute Strategy Research Ltd does not solicit any action based upon this report, which is not to be construed as an invitation to buy or sell any security. This report is not intended to provide personal investment advice and it does not take into account the investment objectives, financial situation and the particular needs of any particular person who may read this report.

This research report provides general information only. The information contained was obtained from sources that we believe to be reliable but we do not guarantee that it is accurate or complete, and it should not be relied upon as such. Opinions expressed are our current opinions as of the original publication date appearing on this material only and the information, including the opinions contained herein, are subject to change without notice.

This research report may not be redistributed, retransmitted or disclosed in whole or in part, without the express written permission of Absolute Strategy Research Ltd.

© Absolute Strategy Research Ltd. All rights reserved.

Absolute Strategy Research Ltd. 1st Floor, 1-2 Royal Exchange Buildings, London, EC3V 3LF. Phone: +44 (0) 20 7073 0730 Fax: +44 (0) 20 7073 0732. www.absolute-strategy.com

Absolute Strategy Research Ltd is registered in England and Wales. Company number 5727405. Registered Office: Salisbury House, Station Road, Cambridge CB1 2LA.