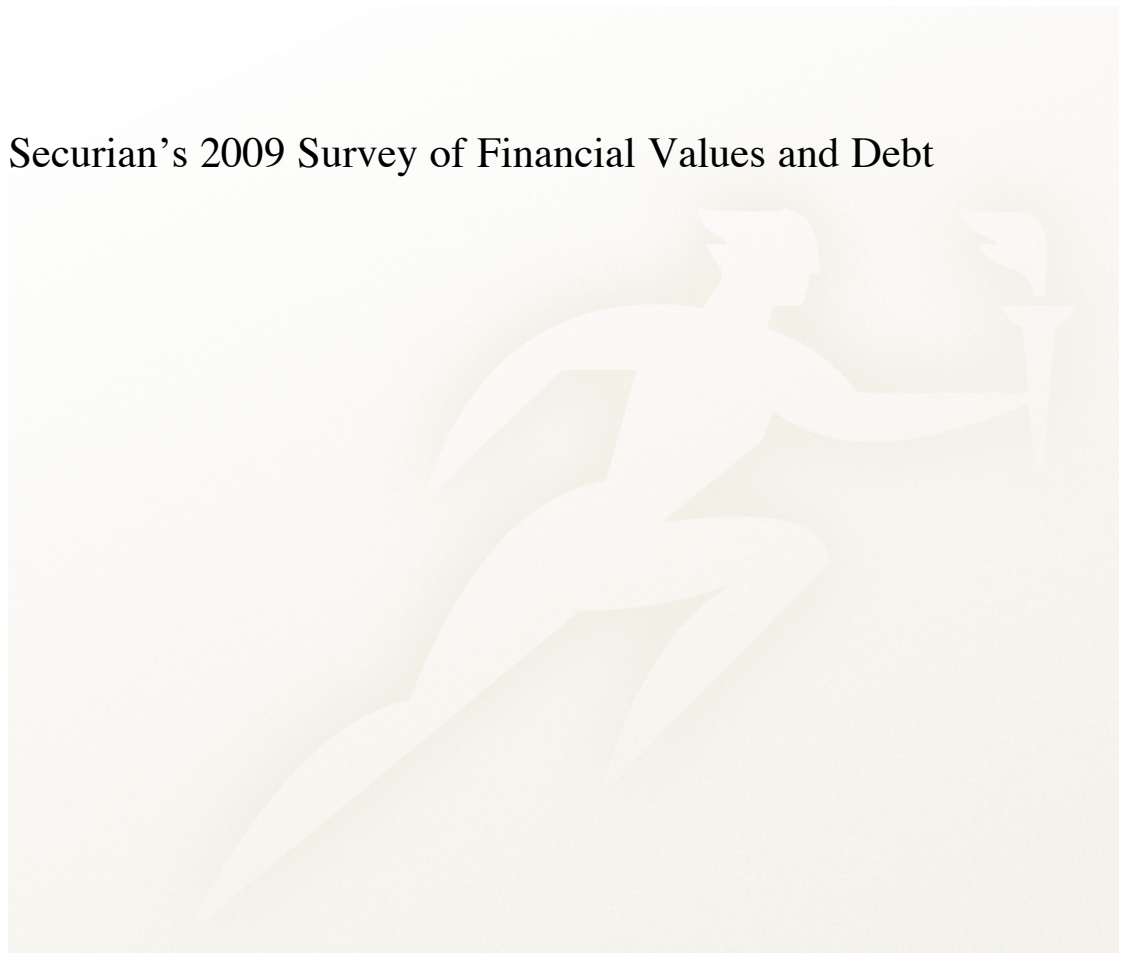


# Debt: The Detour on America's Road to Retirement

Securian's 2009 Survey of Financial Values and Debt



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## Introduction

**Concern and discussion about the level of debt in this country are rising as we learn more about the role Americans' use of debt played in creating today's recession.**

In October 2007, before the economic downturn began, Securian conducted a study to better understand how attitudes and usage of debt differ from one generation to another. Securian commissioned a similar study this year to determine whether financial attitudes and behavior changed as Americans experienced economic distress.

### **The study set out to learn:**

- What are Americans' attitudes toward debt?
- Is their debt behavior consistent with their attitudes?
- Do Americans come to grips with debt as they approach retirement?
- Are Americans realistic about debt and how they will manage it in the future?

The 2007 study focused on differences among four generations – Generation Y consumers (born 1981-1987), Generation X (born 1965-1980), Baby Boomers (born 1946-1964), and the Silent Generation (born 1934-1945). This 2009 study focuses more on how consumer attitudes and behavior changed over the 16 months since the initial study, though intergenerational comparisons remain of interest.

This study was conducted by Securian Financial Group, a company in the business of helping consumers achieve financial security

for the long run. By better understanding attitudes and behaviors regarding debt, and any inconsistencies between the two, the financial planning community is better equipped to tackle this problem, particularly with an eye on the impact it may be having on Americans' ability to achieve retirement security. Keeping track of trends also will shed light on changes in Americans' behavior and perceptions over time.

For purposes of this study, the definition of debt does not include mortgages, unless otherwise noted. The majority of Americans own homes, and it is reasonable to assume they can only afford to do so with a mortgage. The study also set income minimums for each generation.

### **Changes in Respondent Demographics Since 2007**

Respondents to the 2009 study are in slightly less favorable financial situations than fall 2007 respondents. In particular:

- The percentage employed full time has fallen from 56% to 48%.
- Household income is lower, on average, with the proportion reporting household incomes under \$50,000 rising from 30% to 38%.
- Household assets also have declined, with three-quarters (75%) now saying they have less than \$100,000, compared with 68% in late 2007.

These changes may be due, in part, to the recession. For example, the national unemployment rate rose from 4.8% in October 2007 to 8.1% in February 2009 when this survey was conducted.<sup>1</sup>

<sup>1</sup>Bureau of Labor Statistics, unemployment rate among Americans ages 16 and older, from the Current Population Survey.

## Survey Methodology

Securian worked with Mathew Greenwald & Associates, a leading market research firm specializing in the financial services industry, to implement the study. The study was fielded online from February 6 - 23, 2009 with 1,204 individuals, including 176 in Generation Y, 303 in Generation X, 415 Baby Boomers, and 310 in the Silent Generation. The results are compared with the October 2007 study findings.

All participants in both studies had household incomes above minimum thresholds set for each generation: \$20,000 for Generation Y, \$40,000 for Generation X, \$40,000 for Baby Boomers who were not retired and \$20,000 for Boomer retirees, \$30,000 for Silents who were not retired and \$20,000 for Silent retirees.

Self-employed individuals were excluded from the study to avoid intermixing business debt.

The sample was balanced so each generation had a mix of about half men and half women, a mix of educational levels, and representation of whites and minorities. Data from both studies were weighted by age, education, and gender to the population that meets the income screening criteria. Population characteristics used as weighting targets were determined by analyzing the 2007 Current Population Survey.

## Executive Summary

Americans are saving more for emergencies this year than in 2007, and many employed Americans say they are contributing more to their retirement accounts than they did last year.

Behavior has shifted from spending toward savings as consumers search for ways to cut costs. They are more likely to see debt as something to avoid; accordingly, they are less likely to use debt for non-necessities. Most are proud of the ways in which they are cutting back.

Despite the current shifts in behavior, eight in 10 consumers have non-mortgage debt, unchanged since 2007. Although amounts of debt have not increased overall since 2007, Baby Boomers' debt has risen.

Few are actively paying down their debt, but most expect to have fully eliminated all non-mortgage debt within the next five years. A contrasting finding is that many non-retirees believe their debt will affect their ability to have a comfortable retirement. Perhaps at a subconscious level, people are aware that their debt is a long-term issue.

Although behavior is beginning to shift, consumers are not making progress in reducing or eliminating their debt. Encouraging a debt reduction strategy among consumers and providing additional education will serve to get them to better manage their debt.

## Findings

### **Consumers today feel less financially secure than they did in 2007.**

Consumers' satisfaction with their current financial situation has declined since fall 2007 (from 58% very or somewhat satisfied to 49% in 2009). Their sense of financial security has also dropped. Specifically, on a 10-point scale where 10 is "extremely financially secure" and 1 is "not at all financially secure," their average rating has dropped from 4.8 to 4.4.

Even with the income thresholds, nearly half (46%) report their household's income is barely enough to cover the necessities. One-third (35%) convey a sense of hopelessness about their situation – they agree that no matter how hard they try, they do not think their financial situation will improve.

Not surprisingly, the recession has an effect on consumers' personal lives. Two-thirds (65%) report their level of day-to-day stress has risen because of it. Further, about half say they don't have as much fun (49%) or their ability to do fulfilling things outside of work and family has declined (47%).

The situation is not entirely gloomy. A large majority of employed consumers (74%) feel their jobs are somewhat or very secure. Most consumers (85%) say they spend as much or more time with family members, and 83% say the same about quality of their family time.

Most consumers are optimistic about their future financial security; 68% anticipate they will be more secure in 10 years than they

are now. However, this sense of optimism is slightly lower than it was in the fall of 2007. Now, consumers rate their expected financial security as 6.6 out of 10 on average, whereas in the fall of 2007 it was rated as 7.0 out of 10.

### **Americans are beginning to reorient their financial goals. Saving for children's education and retirement may be on hold for consumers who are trying to build their emergency savings.**

All respondents are now more likely to say saving money for emergencies is one of their top three most important financial goals. Among non-retirees, this goal as one of their top three rose from 28% to 35%, and among retirees, it rose from 29% to 40%.

Which goals have become less important as consumers place more emphasis on saving for emergencies? Fewer non-retirees now identify saving for their children's education as a top goal (12% vs. 17% in 2007). Among retirees, a smaller share now consider making sure they can afford a comfortable retirement for the rest of their life as one of their top goals (63% vs. 54%).

Other financial goals appear to be unchanged since October 2007. The goal non-retirees most commonly place among their top two is paying off loans, overdue bills, or other debts (60%). Being able to afford a comfortable retirement is their next most commonly mentioned top goal (40%).

## Financial Goals

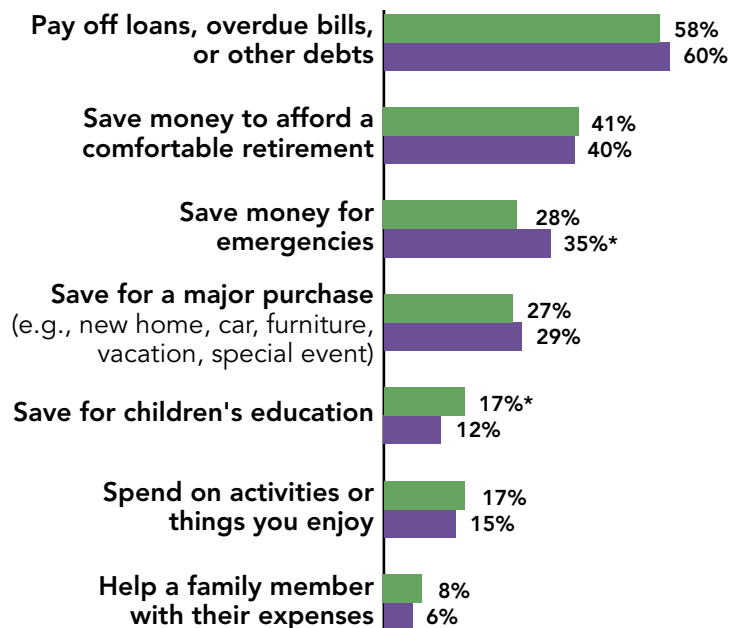
Base: All

% First or second most important goal

### Non-Retirees

■ 2007 (n=1,507)

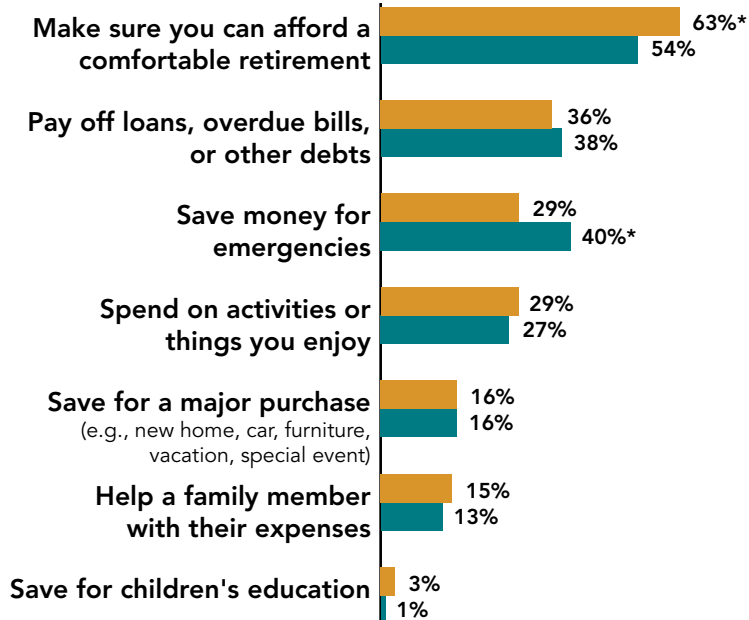
■ 2009 (n=814)



### Retirees

■ 2007 (n=554)

■ 2009 (n=390)



\*Significantly changed from comparison year

**In line with their goals to save for emergencies, consumers are changing their spending habits. They are finding ways to trim spending every day to generate extra cash.**

Consumers say they spend less now than they did a year ago. Large percentages say they now find ways to save on groceries (68%), fuel costs for home and car (64%), dine out less often (62%), or buy fewer new clothes (58%). Half are finding ways to generate extra income (53%) or they travel less (51%).

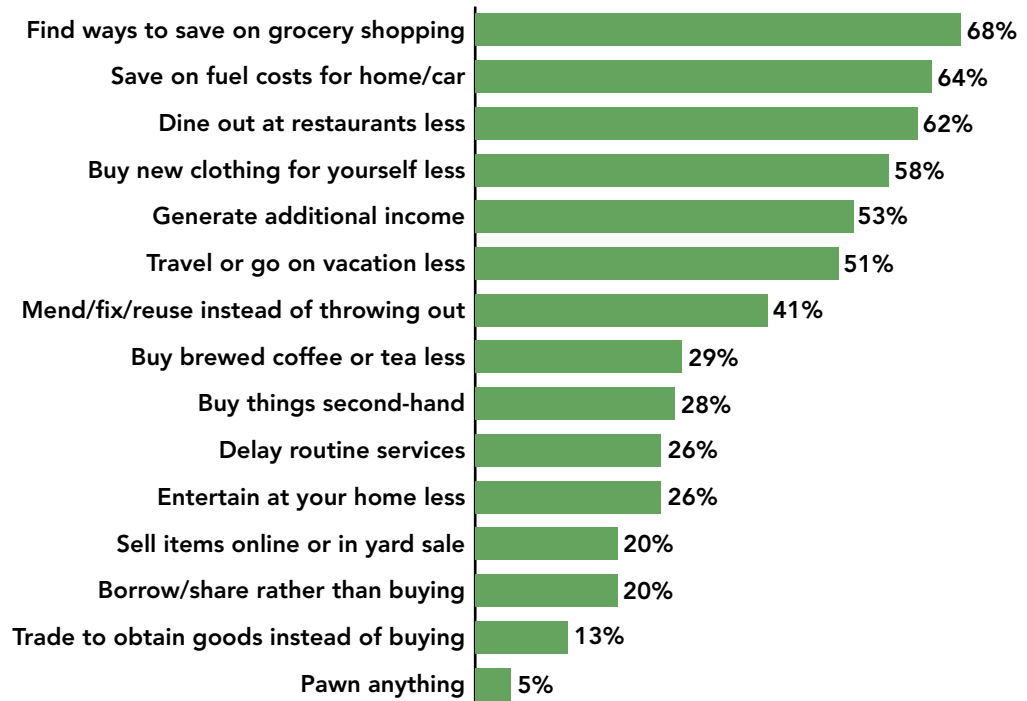
Many other savings strategies are also gaining ground – mending or reusing things instead of throwing them away (41%), buying less brewed coffee or tea from shops (29%), buying used items (28%), entertaining at home less often (26%), or delaying routine services (26%).

Eight in 10 (81%) indicate they are proud of the ways they have reduced expenses. There also is a slight shift from those who spend more than they should (from 56% in 2007 to 51% now) to those who spend less than they could (12% to 16%). The remaining one-third (33%) feel they spend the right amount.

### Saving and Income Generating Strategies

Base: All (n=1,204)

% doing more often



### Consumers seem less willing to use debt to pay for things they want but may not need.

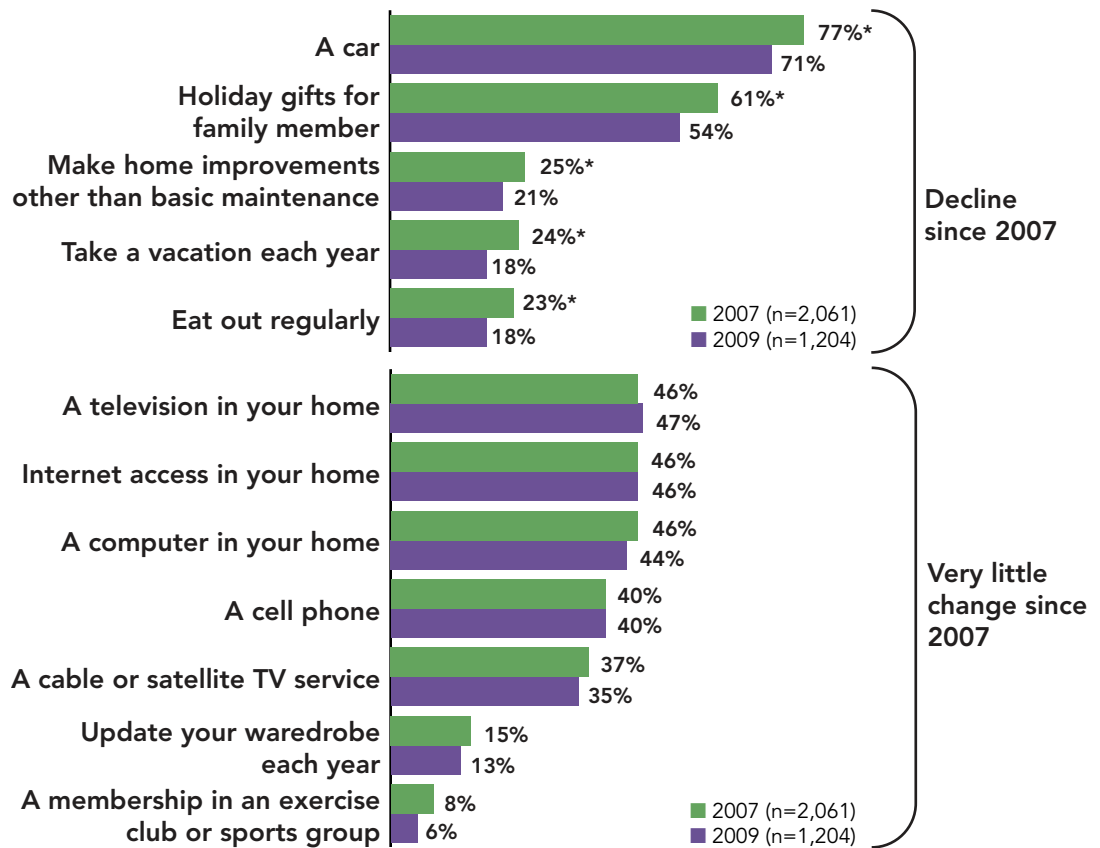
There has been a decline in the proportion of consumers who say they are likely to incur debt to buy a car (from 77% in 2007 to 71% now), to buy holiday gifts for family members (61% vs. 54%), to make home improvements (25% vs. 21%), to take an annual vacation (24% vs. 18%), or to eat out regularly (23% vs. 18%).

Willingness to cut back, however, only goes so far. Now, as in the fall of 2007, significant proportions say they are likely to use debt for the new “necessities” of today, including a television (47%), home internet access (46%), a home computer (44%), a cell phone (40%), and cable or satellite TV (35%).

### Willingness to Use Credit if Having Money Trouble

Base: All

% Extremely or Somewhat likely to use credit if couldn't pay outright



\*Significantly changed from comparison year

**Americans' philosophy on the role of debt in their lives is also shifting. Consumers are less likely to see debt as a way to fuel their lifestyle.**

The percentage of consumers who view debt as a normal part of their lifestyle has declined from 23% in the fall of 2007 to 18% today. Boomers are driving this change – they show a decline from 28% to 19%.

Half of consumers (51%) continue to see debt as something they should avoid and three in 10 (32%) view it as something to be used only in important situations.

Gen Y (61%) and the Silent generation (59%) are more likely than other consumers to feel that debt should be avoided if possible (Gen X and Boomers – 47% each).

**In spite of shifts toward saving, debt is still prevalent.**

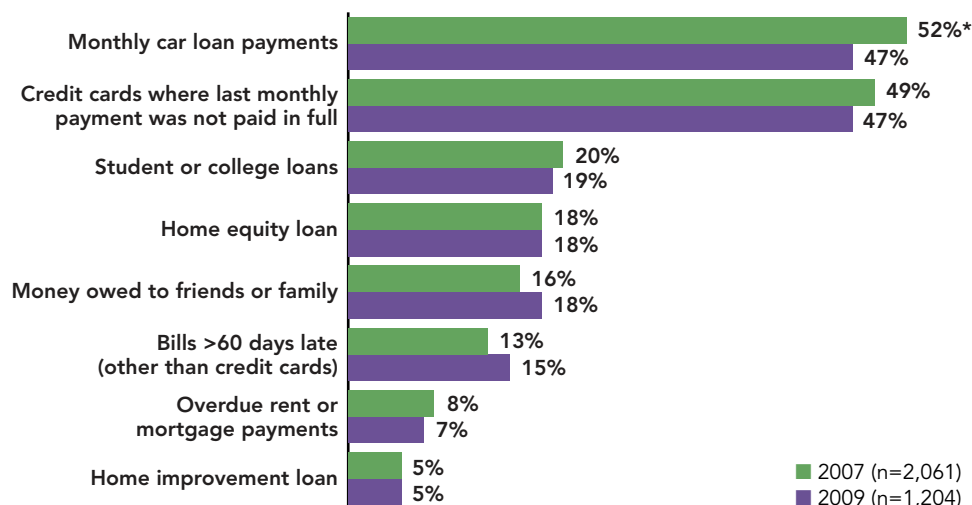
Eight in 10 consumers (82%) currently have debt other than a mortgage, slightly fewer than in late 2007 (85%).

The proportion of consumers who have monthly car loan payments dropped from 52% in late 2007 to 47% now. This is consistent with news reports about new car sales dropping and consumers keeping their cars longer.

There are no significant changes, however, in other types of non-mortgage debt held by consumers. Half continue to have credit card debt (47%). About one in five (19%) have student loans, home equity loans (18%), or owe money to family or friends (18%). In addition, 15% have bills that are more than 60 days late, other than credit card bills.

**Types of Debt**

Base: All



\*Significantly changed from comparison year

### Consumers understand they control their debt.

Consumers' reasons for getting into debt are similar to their reasons 16 months ago, with one change: The share citing lack of sufficient household income as a reason has risen from 55% in 2007 to 61% in 2009. This change could be explained by actual declines in income.

Six in 10 (59%) think the reasons they got into debt were within their control. Some of the reasons they give for acquiring debt are consistent with that thinking: Half (53%) did not want to pay all at once for a high-cost item and half (52%) acknowledge spending too much on things that are not necessary. However an even larger share (58%) say bad luck was one of the reasons they acquired debt.

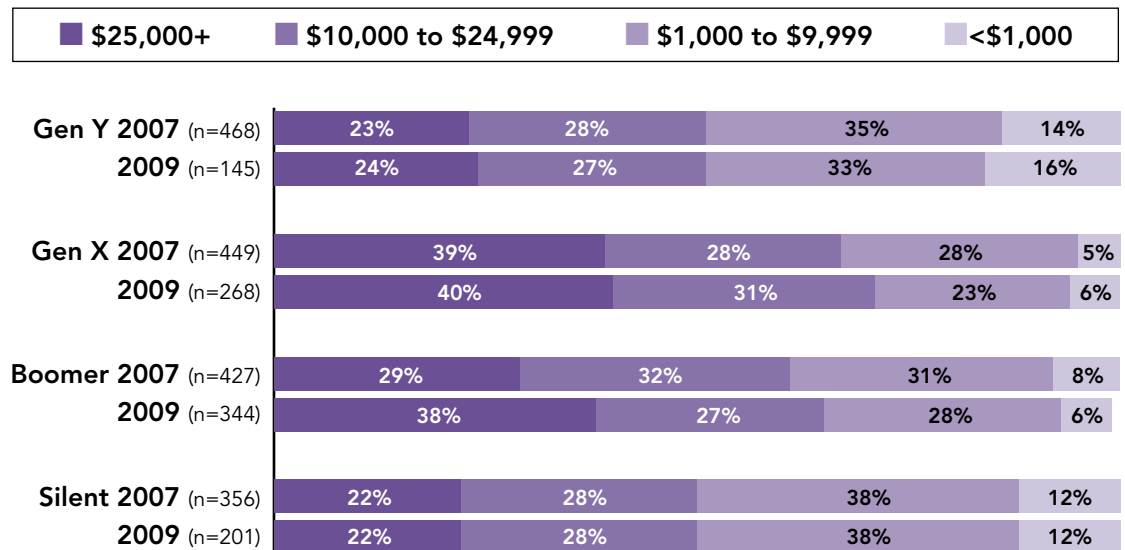
### Consumers' cost saving strategies and debt payment goals have not translated into lower debt levels. In fact, Boomers' debt has grown.

Overall, the dollar amount of debt reported by consumers has not changed since late 2007. Half (52%) owe \$2,500 to \$24,999 and one-third (35%) owe more, which is comparable to debt levels seen in 2007. It seems that consumers' cost saving strategies have not been in effect long enough to lower debt levels or else they are not pursuing them with enough consistency to have a noticeable effect on their debt.

Among Boomers, debt levels rose. Now, 22% owe at least \$50,000 in non-mortgage debt, compared to 12% in the fall of 2007. However, the number of Boomers who see debt as a normal part of their lifestyle has dropped significantly (see page 8). Perhaps this change in philosophy is the consequence of Boomers' recognition that the growth of their debt cannot continue.

### Amount of Debt

Base: In debt



**Many consumers who want credit can't get it.**

One in five (22%) applied for some type of credit or loan in the past 12 months, other than a mortgage or refinancing. Of those, more than four in 10 (42%) were denied a loan or credit.

**Still, a majority have not added debt despite the bad economy.**

Now as in late 2007, nine in 10 (93%) see paying off debt as a priority, including seven in 10 (69%) who consider it to be a strong

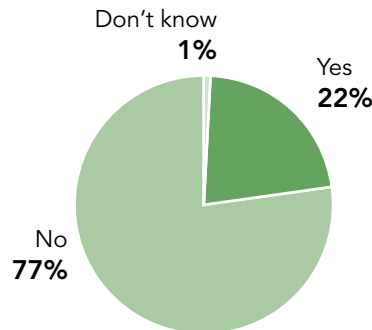
priority. While there has been some decrease in the number of Americans who are paying down debt (35%, down from 40% in 2007), four in 10 (42%) say they added more debt than they paid and 20% say their level of debt remained the same over the past 12 months.

Looking specifically at credit card debt, 25% paid more debt than they added. Similar shares either added more debt than they paid (23%), said it remained the same (24%), or had no credit card debt in the past 12 months (26%).

**Credit**

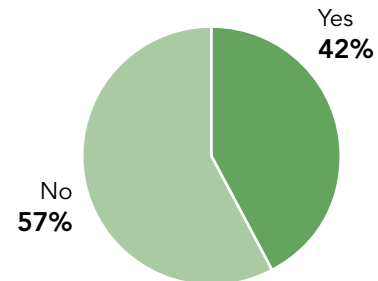
**Have you applied for a loan or any type of credit in the past 12 months, other than a mortgage or refinancing?**

Base: All (n=1,204)



**Were you denied any of those loans or credit you applied for during the past 12 months?**

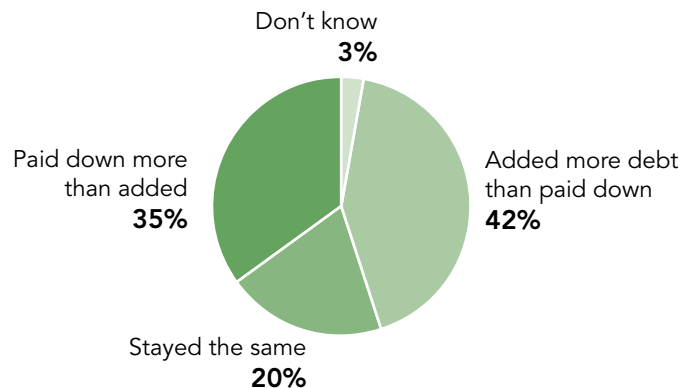
Base: Applied for loan or credit in past 12 months (n=261)



**Change in Debt in Past 12 Months**

**Over the past 12 months, how, if at all, did your amount of debt change?**

Base: Currently in debt or was in debt 12 months ago (n=1,009)



**A large majority of non-retirees are offered retirement savings plans through their employers and value the importance of saving for retirement at this point in their lives.**

Nine in 10 of pre-retirees (91%) continue to believe that at this point in their lives, it is important to save for retirement. Consistent with 2007, seven in 10 of those who are employed (69%) are offered retirement savings plans through their employers.

One bit of good news is that a majority of consumers (55%) are contributing the same amount to their retirement plans as they contributed in the prior year. Another one-quarter (27%) report contributing more than last year. Only 17% are contributing less.

One in eight (12%) have borrowed or withdrawn money from their employer-sponsored retirement plans in the past 12 months.

**Consumers worry about having debt in retirement and the effect debt will have on their ability to prepare for retirement.**

Among those who are not retired, three-quarters (75%) are concerned about the amount of debt they think they will have when they enter retirement.

A majority of those who are not retired acknowledge that their current debt will affect to some extent their ability to enjoy a comfortable retirement. Four in 10 (38%) feel it will affect their retirement a great deal and 23% think it will affect it a little. Three in 10 non-retirees (33%) don't know how their current debt will affect their retirement.

**Consumers' optimistic expectations for eliminating debt appear unrealistic.**

Nearly two out of three consumers (63%) expect to fully eliminate all non-mortgage debt within the next five years. Their estimates are probably overly optimistic, judging from the findings that two-thirds of the Silent generation and eight in 10 of younger generations are in debt today.

A larger share of consumers enter retirement with debt than expect to do so. Only one in five non-retirees (19%) believe they will have non-mortgage debt when they enter retirement, but more than half of retirees (54%) say they did. Likewise, one-quarter of non-retirees (24%) believe they will have a mortgage when they enter retirement, but the actual percentage of retirees who did is double that (48%). While consumer goals are optimistic, it is not clear they will be any better at achieving them than the last generation of retirees. Among retirees who entered retirement in debt, 33% say the amount of debt they had was more than they had in savings.

## Conclusion

### Changing perspectives on debt – a silver lining in the financial storm

One of the fundamental shifts found in the 2009 Survey of Financial Values and Debt commissioned by Securian, is Americans' increasing focus on savings and the household balance sheet. Americans are finding ways to trim spending, and more have made saving money for emergencies a key financial priority. While many employed Americans are also contributing more to their retirement savings accounts than in the prior year, a declining proportion of retirees place top priority on affording a comfortable retirement.

The study also shows that with worsening economic situations and a diminished sense of security, more consumers are shunning debt. In 2009, consumers are more likely to see debt as something to avoid and are proud of the ways in which they are cutting back. They are less likely to view debt as a normal part of the lifestyle they want and are less likely to use debt to pay for such things as gifts or a new car. More this year are likely to attribute debt to inadequate household income as opposed to bad luck, making an unwise financial decision, or other reasons.

The debt incurred by Americans, on average, has not risen, perhaps because more of them are monitoring their spending and using debt only to pay for items they deem necessary.

In fact, the consumer non-mortgage debt level in 2008 grew by only 1.7%, compared to 5.5% growth in 2007.<sup>2</sup> Although fewer consumers report paying down their debt, we do not see dramatic evidence of Americans taking on more debt this year – while 42% increased their debt, 35% paid down debt and another 20% kept debt levels the same. Furthermore, data this year show just as many reducing credit card debt as incurring it.

There is one exception to this positive news: the Baby Boom generation has more debt now than in 2007. However, they also show the largest shift away from a philosophy of using debt to support the lifestyle they want.

One factor behind these changing priorities is a growing uncertainty of the effect debt will have on retirement. More Baby Boomers are worried about having debt after they retire. More Generation Y consumers are worried about the effect debt will have on their ability to prepare for retirement. Many more express uncertainty regarding the impact debt will have on their ability to retire.

While the study shows little evidence that more Americans are paying down their debt, the ability to tread water against the current is encouraging. It appears the recession is teaching Americans a lesson about debt and dealing with personal finances, leaving them optimistic about future improvement in their financial lives.

<sup>2</sup>Federal Reserve Board, D.1 Debt Growth by Sector Table. March 12, 2009.

## About Securian Financial Group, Inc.

Securian Financial Group (securian.com) helps provide financial security for individuals and businesses in the form of insurance, retirement plans and investments. Affiliates include Minnesota Life Insurance Company, Advantus Capital Management, Allied Solutions, LLC, Securian Financial Services, Inc., and Securian Trust Company. Securian has \$775 billion of life insurance in force, \$23 billion in assets under management, and a work force of 3,500 employees nationwide. Securian serves more than 9,000,000 individuals in all 50 states, the District of Columbia and Puerto Rico.

## About Mathew Greenwald & Associates

Mathew Greenwald & Associates is a full service public opinion and market research company. Greenwald is an industry leader when it comes to providing research insights to financial services companies, including many of the nation's largest investment, insurance, mutual fund, and pension companies. Headquartered in Washington, D.C., Greenwald is known for its customized research and many publicly-released studies, including the annual Retirement Confidence Study.



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