

Prudential Retirement
Financial Literacy and Retirement Readiness Study
North Carolina

June 12, 2014

Financial Goals

- *Not run out of money in retirement* is the most important financial goal among North Carolina residents, followed by *afford medical care in retirement*, and *maintaining desired lifestyle in retirement*
- North Carolina residents place a higher importance in achieving financial goals than U.S. consumers overall
- Confidence in achieving the top financial goals are among the lowest---only a third of North Carolina residents feel confident that they can achieve the goal of *not running out of money in retirement*

Financial Literacy

- As with the rest of the country, financial literacy is a relevant issue in North Carolina
 - More than a quarter of working age and retired North Carolina residents lack the basic knowledge of investing and saving for retirement
 - Many do not have a good grasp of fundamental concepts of economics and finance---only about half are able to answer 4 or more financial literacy questions correctly
- Many North Carolina residents -- even those currently retired -- do not feel fully prepared to make financial decisions
 - Fewer than 30% of retirees say they feel well-prepared for financial decision making. This is significantly lower among younger age cohorts

- Financial literacy in North Carolina is lower among men, public employees, those who are less affluent, younger, less educated, do not have a retirement account or do not currently work with an advisor
- Among public sector workers, millennials, women and those less affluent exhibit the lowest levels of financial literacy
- Pursuit of initiatives that are focused on improving financial literacy remains highly relevant
 - Financial literacy strengthens people's confidence in achieving their most important financial goals, leads to better portfolio decisions and can help prepare more people for retirement

Retirement Readiness

- Similar to total US, North Carolina rates a C when it comes to retirement readiness
- A third are below average or failing when it comes to retirement planning
 - In particular, women in North Carolina are more vulnerable---39% rated their retirement planning below average or failing (compared to 27% for men)
- Retirement readiness is lower among women, younger workers, less affluent and those who do not have a retirement account
- Among public sector workers, women, younger workers and less affluent are the least prepared for retirement

- There is a strong need to promote better financial practices related to saving and planning for retirement
 - Less than a third are saving with a goal in mind
 - More than 6-in-10 are less than 20% of saving the amount they need for retirement
- There is an opportunity to provide solutions that can help North Carolina residents plan and secure a steady income stream in retirement
 - Despite expectations of working and living longer, very few are taking steps around estimating income and expenses in retirement
 - Less than a third are confident of *being able to generate income for the duration of their retirement*. This is lowest among Gen X and non-affluent
 - Current retiree experience in North Carolina points to the strong impact that longevity, healthcare cost/illness, market volatility and inflation can have in retirement. A solution that addresses these risks and puts an individual on a path to a secure retirement would be well-received

- The Financial Literacy and Retirement Readiness Study was conducted using an online survey among 1,302 adult Americans nationwide and 636 North Carolina residents
- All participants met the following criteria:
 - Age 21 and up
 - Some involvement in household financial decisions
 - Employed full-time or part-time, self-employed, stay at home parent, or retired
 - Students and those who are unemployed were excluded in the non-retiree sample
- The survey was fielded between October 31 and December 2, 2013 by the Financial Services Group of Lightspeed Research
- Results were weighted by gender, age, income and employee type (public vs. private) to ensure alignment with actual proportions in the population
- The study looks at financial literacy from a variety of perspectives using self-perceived information as well as actual performance on basic financial knowledge questions
- A significant portion of the research was focused on measuring current level of retirement planning and readiness. The study also captures overall financial capability, whether or not people are saving, if they are clear on what their goal should be, and if they are taking the right steps to achieve a successful retirement
- Additional insights were derived by looking at attitudes towards risk, money and saving, sources of information, and use of financial advisors

Survey Participant Characteristics – North Carolina

Gender	(%)
Male	48%
Female	52%

Age	(%)
Under 35	26%
35 - 44	17%
45 - 54	19%
55 - 64	20%
65+	19%

Employment	(%)
Retired	24%
Employed full-time	47%
Employed part-time	9%
Stay at home parent	11%
Self-employed/small business owner	9%

Employee Type	(%)
Public	29%
Private	71%

Household Income	(%)
Less than \$25,000	23%
\$25,000 to \$49,999	26%
\$50,000 to \$74,999	18%
\$75,000 to \$99,999	12%
\$100,000 to \$124,999	10%
\$125,000 to \$149,999	6%
\$150,000 or more	6%

Value of savings and investable assets	(%)
Less than \$25,000	46%
\$25,000 to \$49,999	11%
\$50,000 to \$74,999	7%
\$75,000 to \$99,999	4%
\$100,000 to \$124,999	5%
\$125,000 to \$149,999	2%
\$150,000 to \$174,999	2%
\$175,000 to \$199,999	3%
\$200,000 to \$224,999	3%
\$225,000 to 249,999	2%
\$250,000 to \$499,999	8%
\$500,000 to \$1,999,999	6%
\$2 million or more	2%

Marital Status	(%)
Single, never married	22%
Married	58%
Living with a domestic partner	6%
Divorced/separated	11%
Widowed	4%

Highest Level of Education	(%)
Some high school	3%
High school graduate	17%
Some college	36%
Four-year college degree	30%
Master's or professional degree	14%

Retiree Status	(%)
No, fully retired (not working at all)	93%
Yes, retired but still working full-time	0%
Yes, retired but working part-time	7%
Other	1%

Survey Participant Characteristics – North Carolina (Cont'd)

Financial Responsibilities (current)	(%)
Spouse/ domestic partner	57%
Children	35%
Grandchildren	4%
Parents/In-laws	6%
Grandparents	0%
Other	1%
None	32%

Financial Responsibilities (expected during retirement)	(%)
Spouse/ domestic partner	57%
Children	26%
Grandchildren	7%
Parents/In-laws	7%
Grandparents	2%
Other	1%
None	33%

Race	(%)
White/Caucasian	85%
Black or African American	11%
Latino, Spanish or Hispanic origin	1%
Asian or Pacific Islander	1%
Native American or Alaskan Native	0%
Mixed ethnicity or multiracial	1%
Other	1%

Total Household Debt	(%)
Less than \$1,000	21%
\$1,000 to \$4,999	11%
\$5,000 to \$9,999	6%
\$10,000 to \$24,999	15%
\$25,000 to \$49,999	15%
\$50,000 to \$99,999	16%
\$100,000 to \$249,999	15%
\$250,000 to \$499,999	2%
\$500,000 or more	1%

Industry	(%)
Professional, scientific, & technical services & management of companies & enterprises	10%
Educational services	9%
Retail trade	9%
Healthcare & social assistance	9%
Manufacturing	9%
Public administration, government	5%
Construction	5%
Finance & insurance	5%
Information	4%
Accommodation & food services	3%
Transportation and warehousing	3%
Arts, entertainment & recreation	2%
Other Services	2%
Administrative & support & waste management & remediation services	2%
Wholesale trade	2%
Real estate & rental & leasing	1%
Agriculture, forestry, fishing and hunting, & mining & utilities	1%
Other	21%

Financial priorities of North Carolina residents reflect a strong focus on achieving retirement security

- *Not run out of money in retirement* is the most important financial goal among North Carolina residents, followed by *afford medical care in retirement*, and *maintaining desired lifestyle in retirement*
- *Saving for retirement* is an important goal particularly among younger residents -- 78% see it as important, compared to 65% of North Carolina residents overall. Among retirees, *protecting existing savings* comes out high on the list of priorities

Important Financial Goals

	North Carolina	Nationwide
Not run out of money in ret	80%	75%
Afford medical/healthcare in ret	72%	68%
Have income to maintain desired ret lifestyle	70%	66%
Not become a burden to loved ones in ret	69%	64%
Pay for unexpected expenses in ret	68%	65%
Save for retirement	65%	58%
Protecting existing investments and savings	60%	55%
Reduce debt	59%	54%
Financial security to my loved ones if I die	58%	52%
Afford nursing home care	42%	39%
Save for major purchase other than home	40%	39%
Support family members	37%	31%
Fund education for children/grandchildren	34%	28%
Save to purchase a home (primary)	30%	27%
Leave inheritance	29%	25%
Give to charity	25%	20%

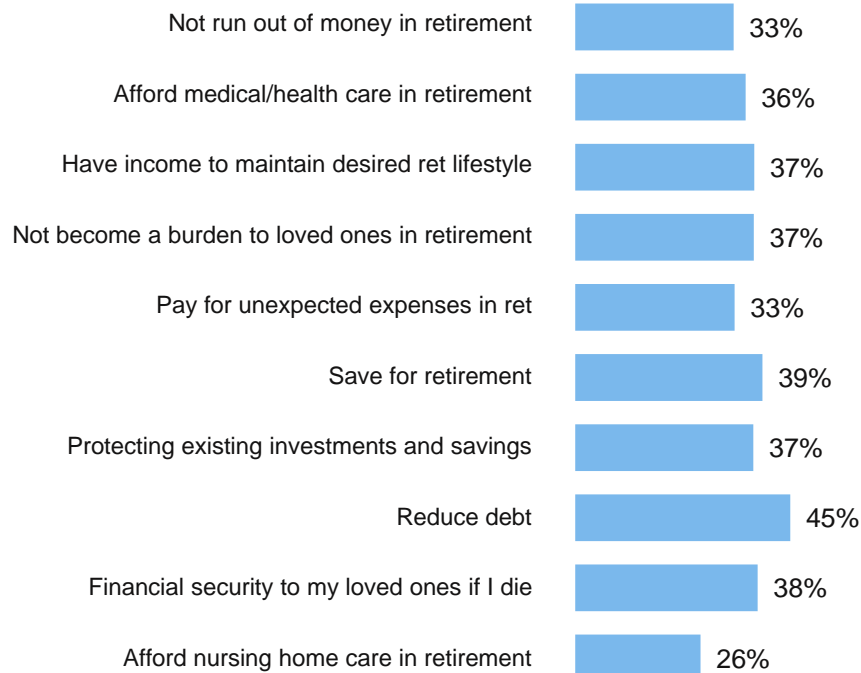
Second most important goal (78%) among the younger population

Relatively more important among retirees

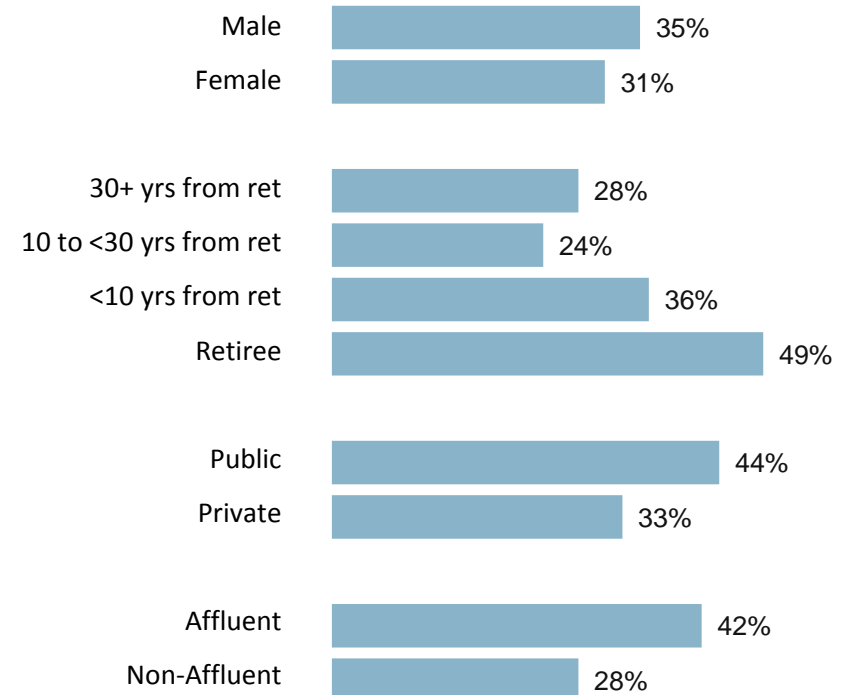
Confidence in achieving the most important financial goals are among the lowest

- Only 33% are confident that they will achieve the goal of *not running out of money in retirement*. This is lower among women, private sector workers, those who are less affluent, and those far off from retirement

Confidence in Achieving Top Financial Goals



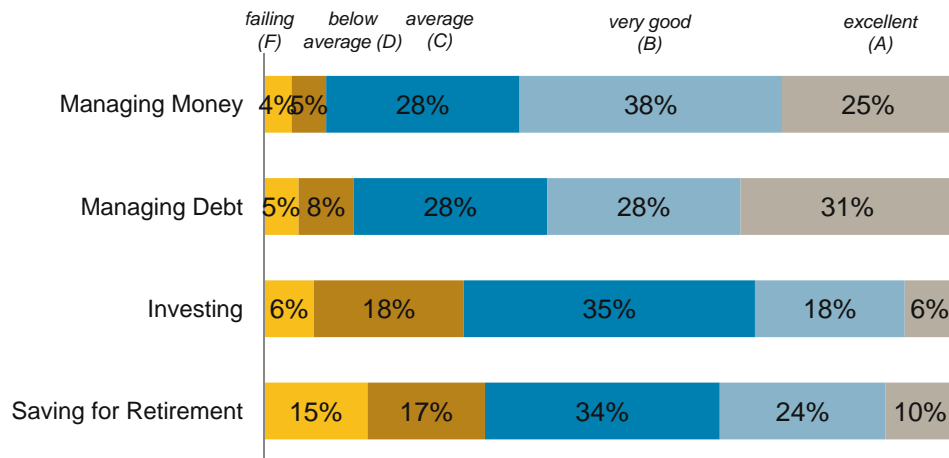
Confidence in achieving top goal of 'not running out of money in retirement'



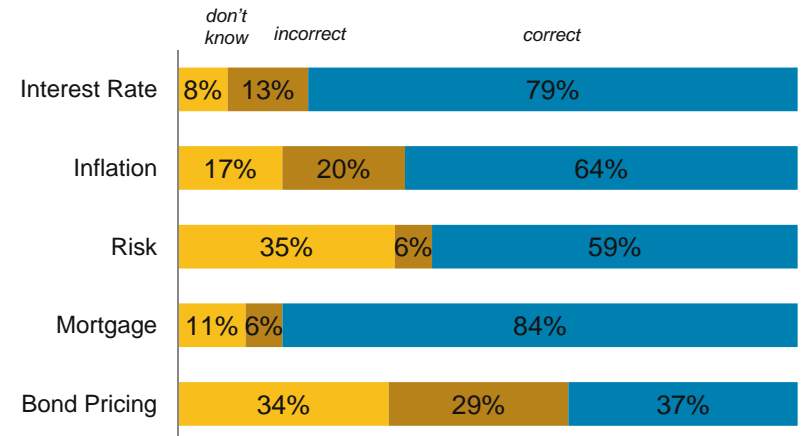
Financial Literacy in North Carolina

- More than a fifth of working age and retired North Carolina residents lack the basic knowledge of investing and saving for retirement; 16% are beginners and ill-equipped to make financial decisions
- Many do not have a good grasp of fundamental concepts of economics and finance---only about half are able to answer 4 or more financial literacy questions correctly

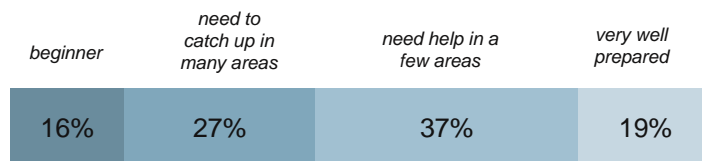
Knowledge of Different Financial Areas



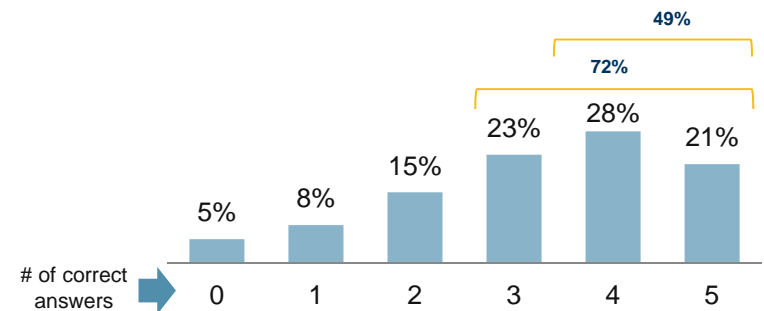
Financial Knowledge*



Level of Preparedness to Make Wise Financial Decisions



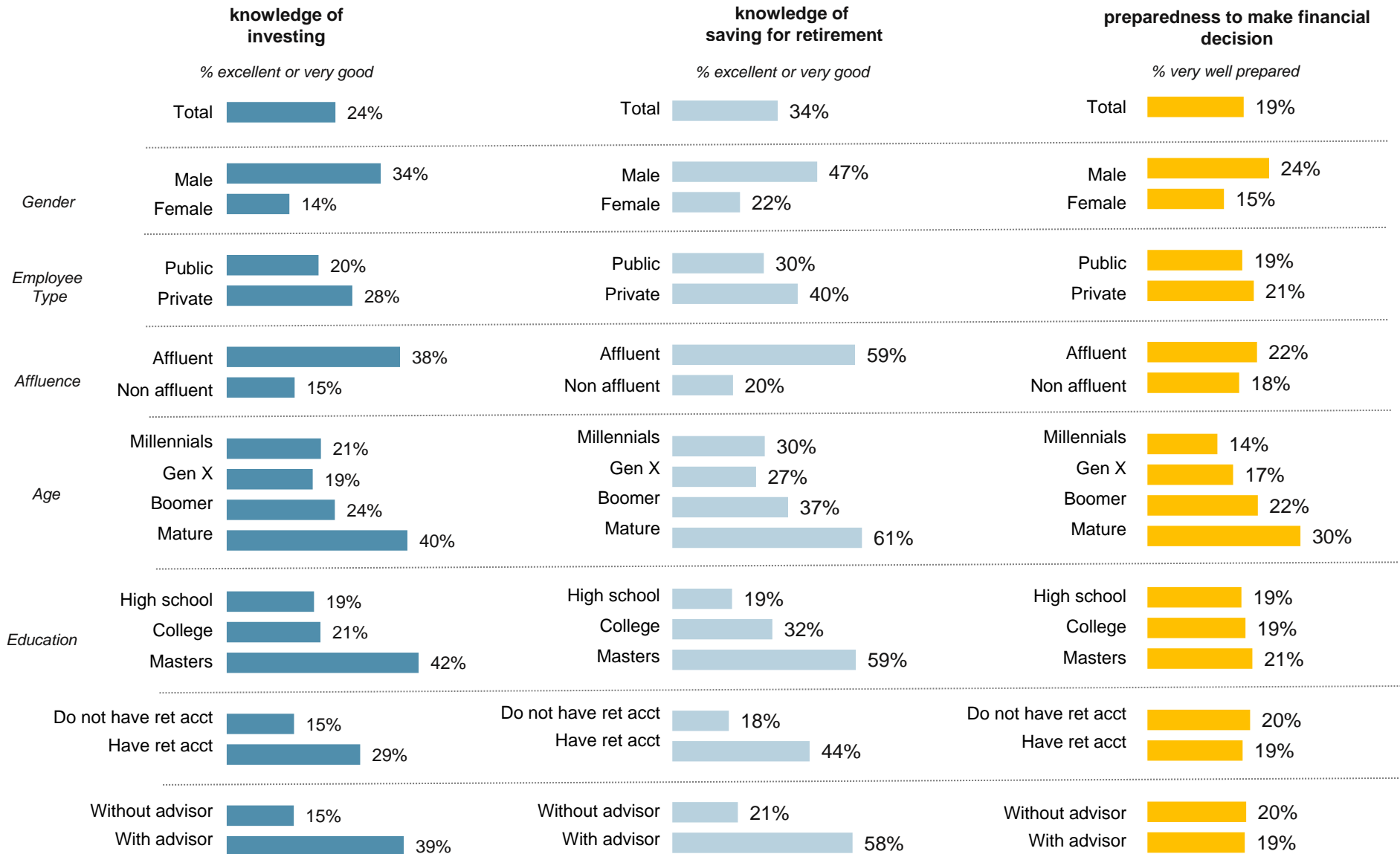
Financial Knowledge Summary (# of Correct Answers)



*Questions are consistent with National Financial Capability Study by the Finra Investor Education Foundation

Financial literacy in North Carolina varies widely across different segments

- Financial literacy is lower among women, public employees, those who are less affluent, younger, less educated, do not have a retirement account, or do not currently work with an advisor



Among public sector workers, financial literacy tends to be lower among women, those who are younger and less affluent

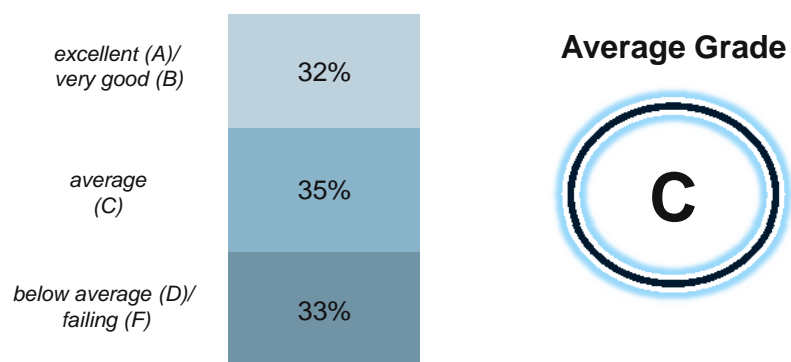
Financial Literacy Among Public Sector Employees

	Preparedness to make financial decisions <i>% very well prepared</i>	Actual Financial Knowledge <i>% answered 4 or more financial literacy questions correctly</i>
Total	19%	47%
Male	26%	62%
Female	13%	36%
Affluent	20%	68%
Non affluent	18%	34%
Millennials	10%	15%
Gen X	21%	44%
Boomer	19%	54%
Mature	23%	72%

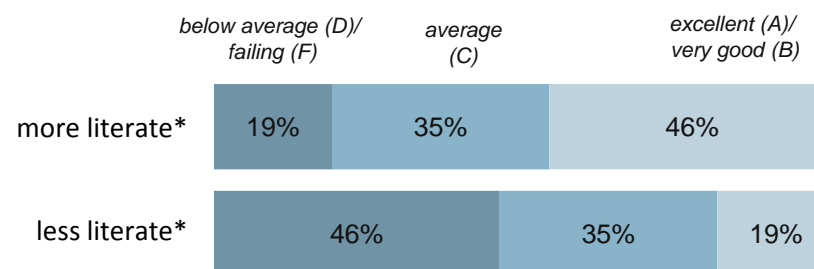
Retirement Readiness – North Carolina

- A third are below average or failing when it comes to retirement planning
- Financial literacy is associated with better retirement planning (or conversely, lower levels of financial literacy is associated with lower retirement readiness)

Level of Retirement Planning



Financial Literacy and Retirement Readiness



*more literate = answered 4 or more financial literacy questions correctly; less literate = answered 3 or less correctly

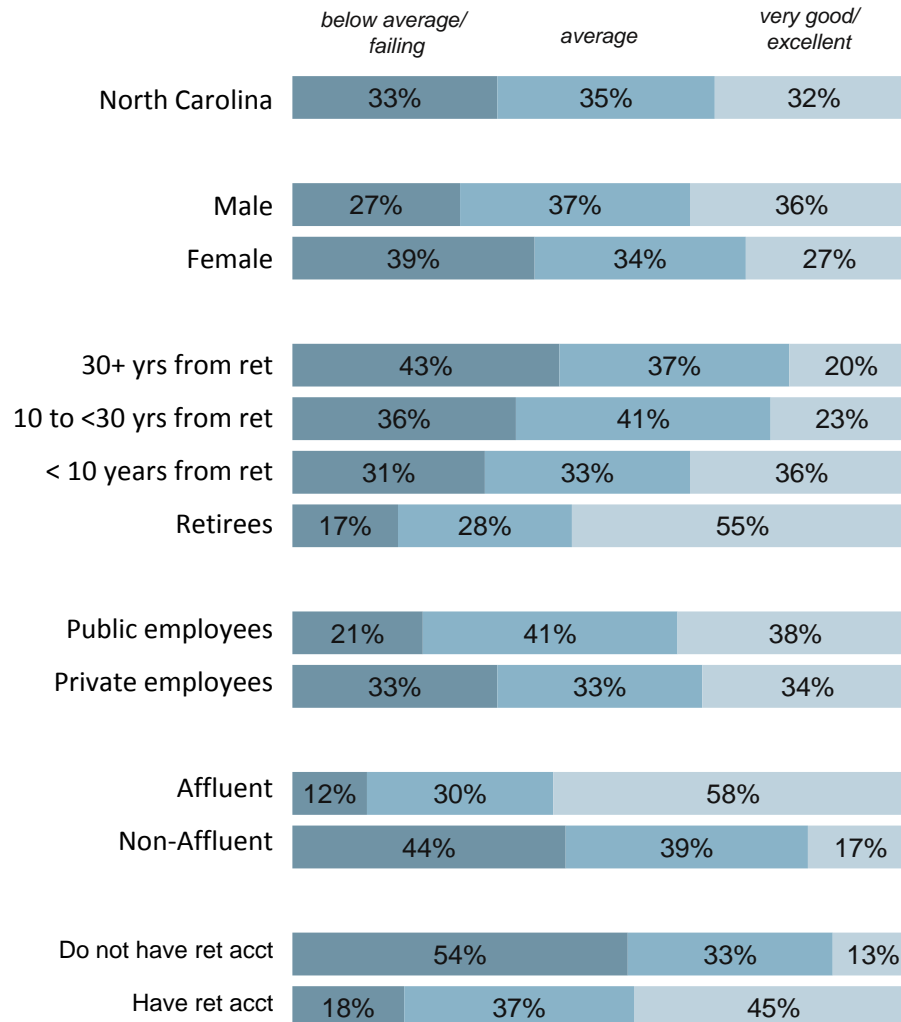
Low level of retirement planning is evident even among those who are closer to retirement

	Total North Carolina	10 years to ret
How many think they have < 20% of what they need for retirement?	63%	32%
How many are currently not saving for retirement?	31%	20%

Retirement readiness is lower among women, younger workers, less affluent and those who do not have a retirement account

- Public sector workers are in a slightly better position vs. private sector counterparts when it comes to retirement planning

Level of Retirement Planning



Similar patterns in retirement readiness are observed when looking at specific demographic segments within public sector workers

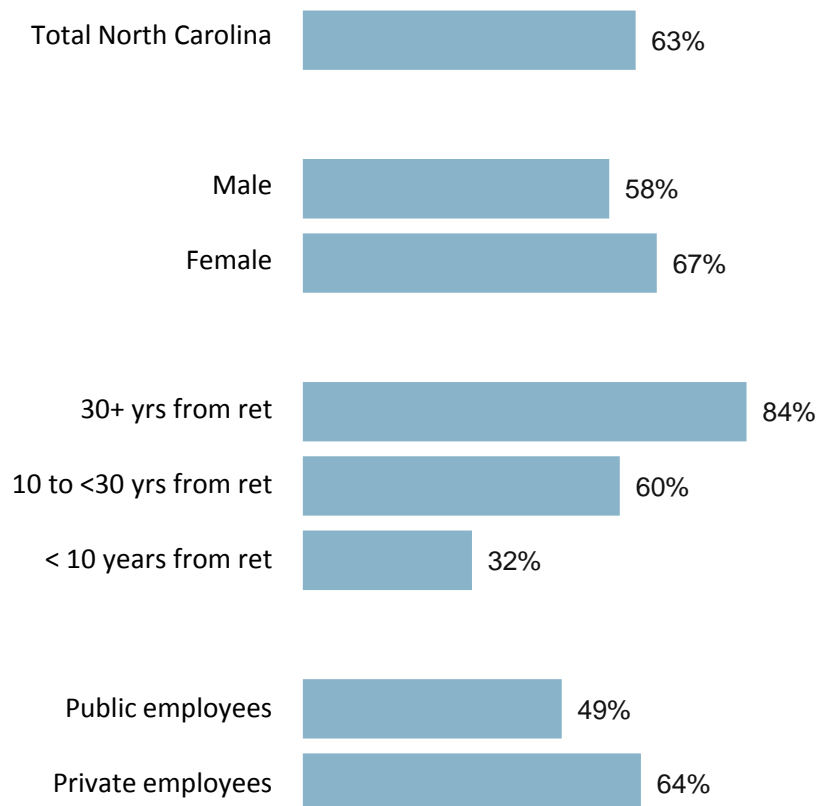
Level of Retirement Planning among Public Sector Workers

	very good/ excellent
Male	44%
Female	32%
Millennials	23%
Gen X	23%
Boomers	44%
Matures	67%
Affluent	54%
Non-Affluent	27%
Do not have ret acct	27%
Have ret acct	44%

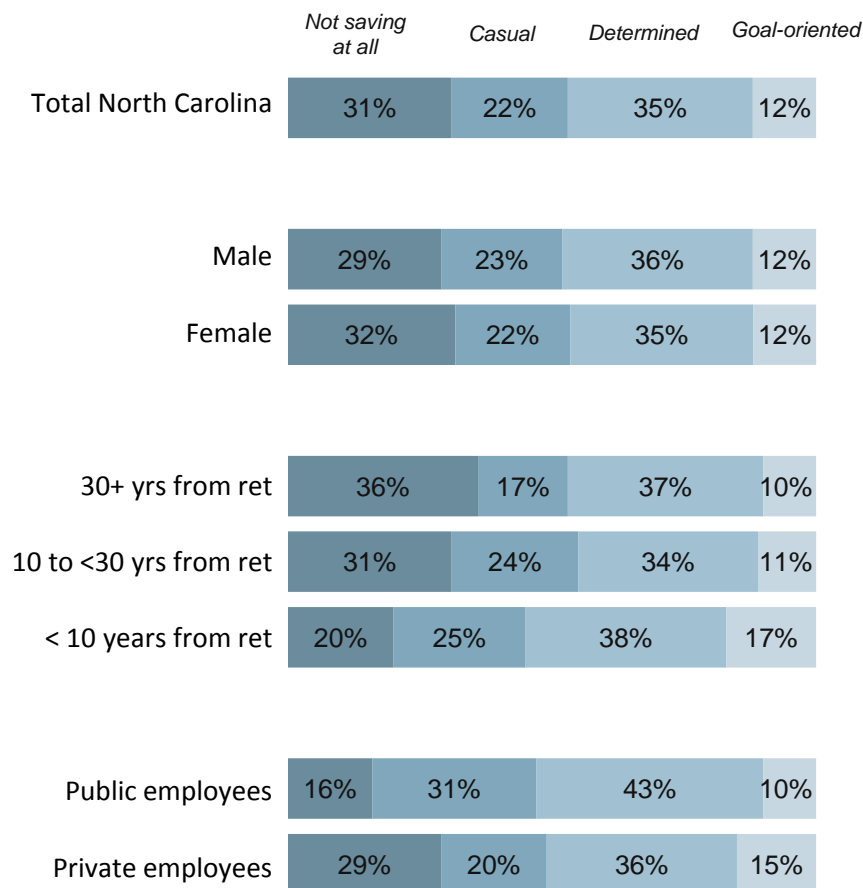
Very few are saving with a specific goal in mind

- Close to a third are not saving at all for retirement; majority have less than 20% of what they think they will need for retirement

Pre-retirees < 20% vs. Saving Amount Needed for Retirement



Household Saving Behavior



Views on Retirement Age and Longevity

- As with total US, North Carolinians expect to work and live longer
- Millennials are the most optimistic when it comes to retirement age---expecting to retire at an earlier age vs. Gen X and Boomers; Boomers expect to live the longest
- Despite expectations of a longer life, average life expectancy remains lower than age of oldest person known

Expected Retirement Age and Years in Retirement

	Total	Male	Female	Millennials	Gen X	Boomer
Expected Retirement Age	66.64	66.72	66.54	64.84	67.24	66.95
Estimated Years in Retirement	22.52	21.11	24.13	22.02	19.50	23.55
Calculated Life Expectancy	89.16	87.83	90.67	86.86	86.74	90.50
Age of Oldest Person Known	93.59	93.89	93.31	92.24	92.46	94.43

secondary data
(based on census estimates for
total US):

average retirement age is 64
• men – 64
• women - 62

average life expectancy is 79
• men – 76
• women - 81

Estimated Amount Needed in Retirement

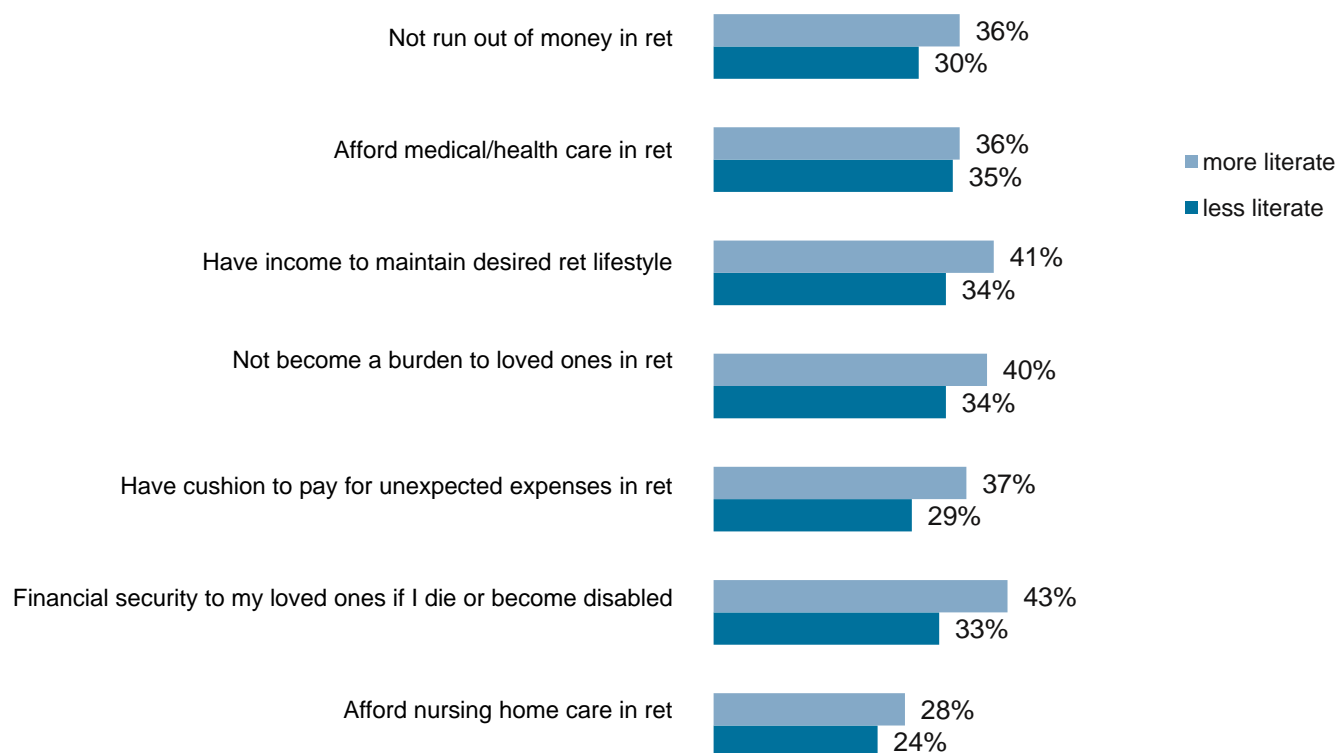
- On average, North Carolina residents estimate the monthly income needed for retirement at a little over \$3,000. This varies by segment with men, millennials, higher income, private sector workers and those with a retirement account having a higher estimate
- Estimates from those who are more financially literate do not differ by much vs. the State average
- Compared to other segments, those without a retirement account and with lower HH income have the lowest rate of retirement saving

Expected Amount Needed in Retirement

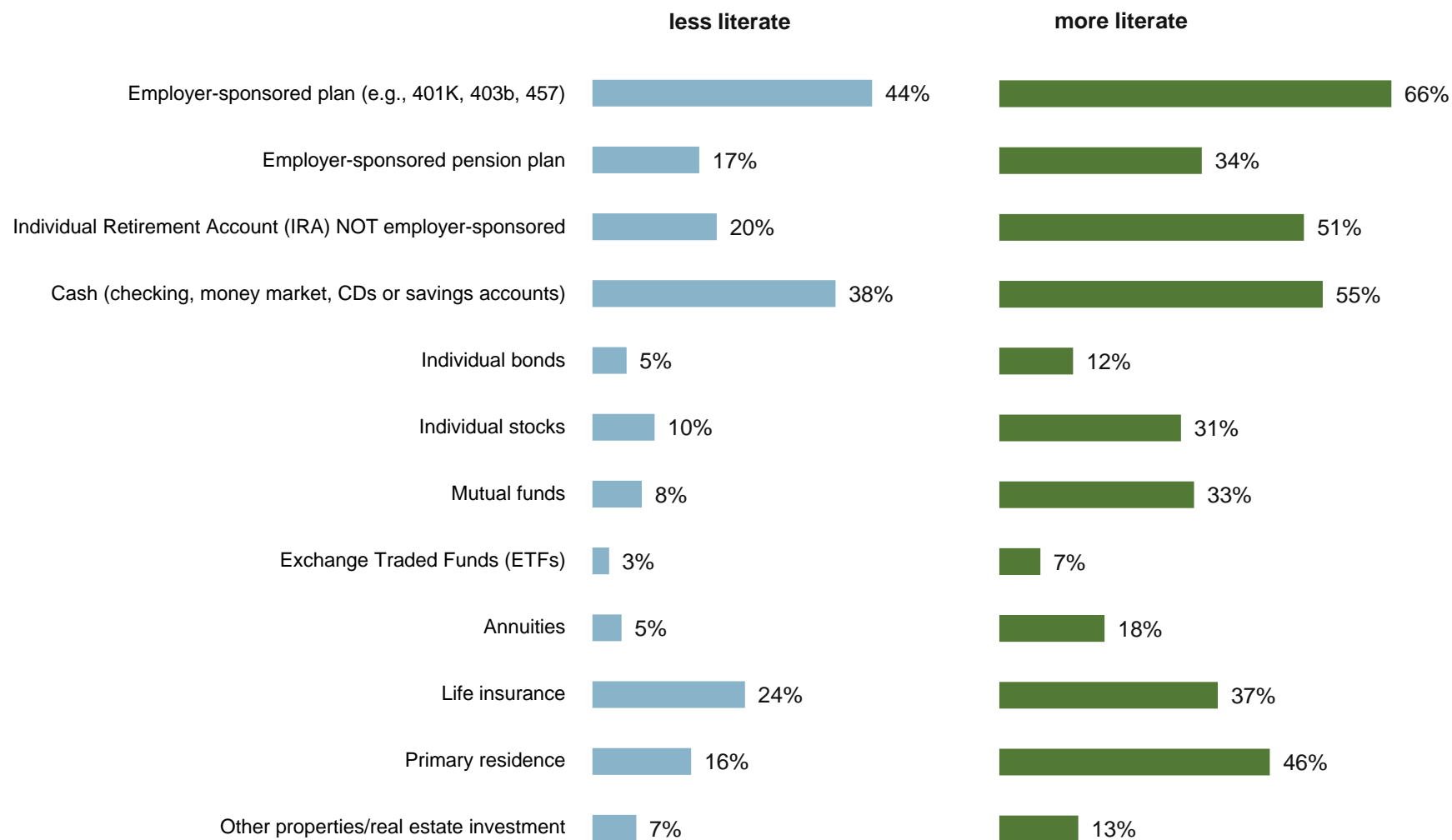
	Total Amount Needed in Retirement (estimate in US\$)	Monthly Amount Needed in Retirement (estimate in US\$)	Average Annual % of Total HH Income Saved for Retirement
Total	858,885	3,040	10
Male	1,006,693	3,244	11
Female	723,411	2,851	9
Millennials	1,394,410	3,140	9
Gen X	1,012,922	2,760	10
Boomers	565,101	2,972	12
<\$25K	539,411	1,901	5
\$25K to <\$50K	725,211	2,972	9
\$50K to <\$75K	1,018,714	3,327	11
\$75K to <\$100K	744,084	3,375	12
\$100K to <\$125K	858,721	3,128	15
\$125K+	1,637,285	4,544	15
Public	605,379	2,511	14
Private	1,010,521	3,418	11
Does not own a retirement acct	675,306	2,801	8
Own a retirement acct	986,468	3,204	12
More literate	959,946	3,116	10
Less literate	763,415	2,967	10

Efforts to improve financial literacy in North Carolina can help strengthen people's confidence in achieving important goals

Financial Literacy and Confidence in Achieving Top Retirement Goals



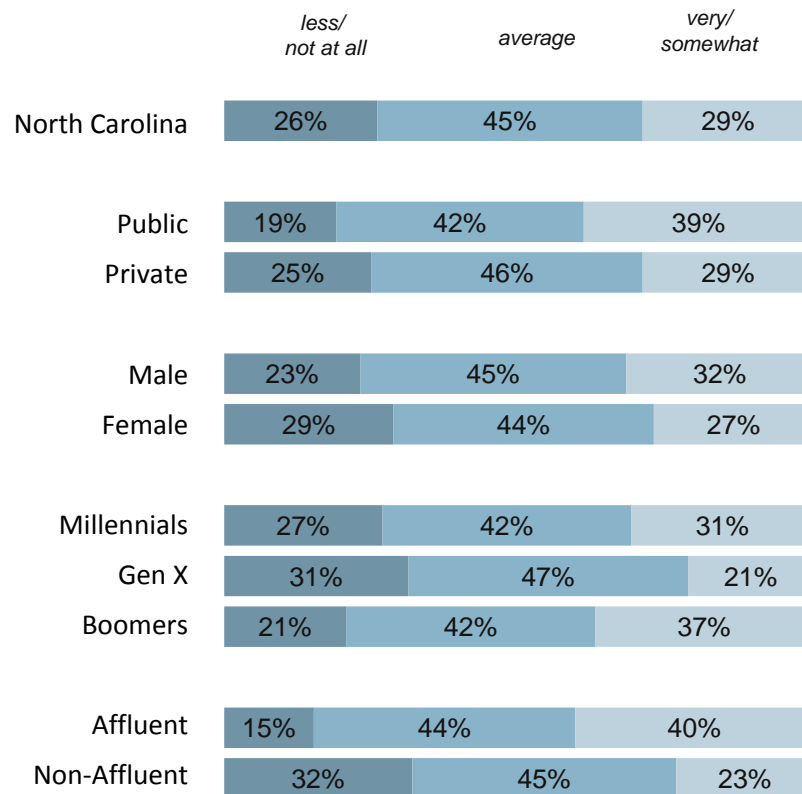
Financial Literacy and Products Used to Save for Retirement



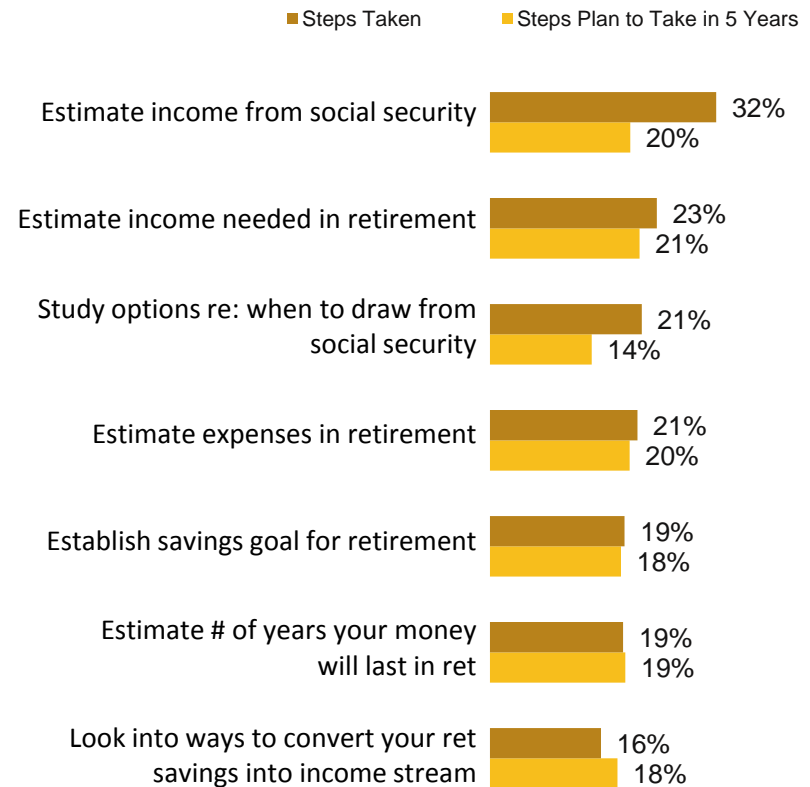
A strong case can be made about the need to help North Carolina residents plan and secure a steady income during retirement

- Very few North Carolina residents have done any planning around income or expenses in retirement
- Less than a third are confident of being able to generate income for the duration of their retirement. This is lowest among Gen X and less affluent

Confidence in “being able to generate income in retirement” (among non-retirees)

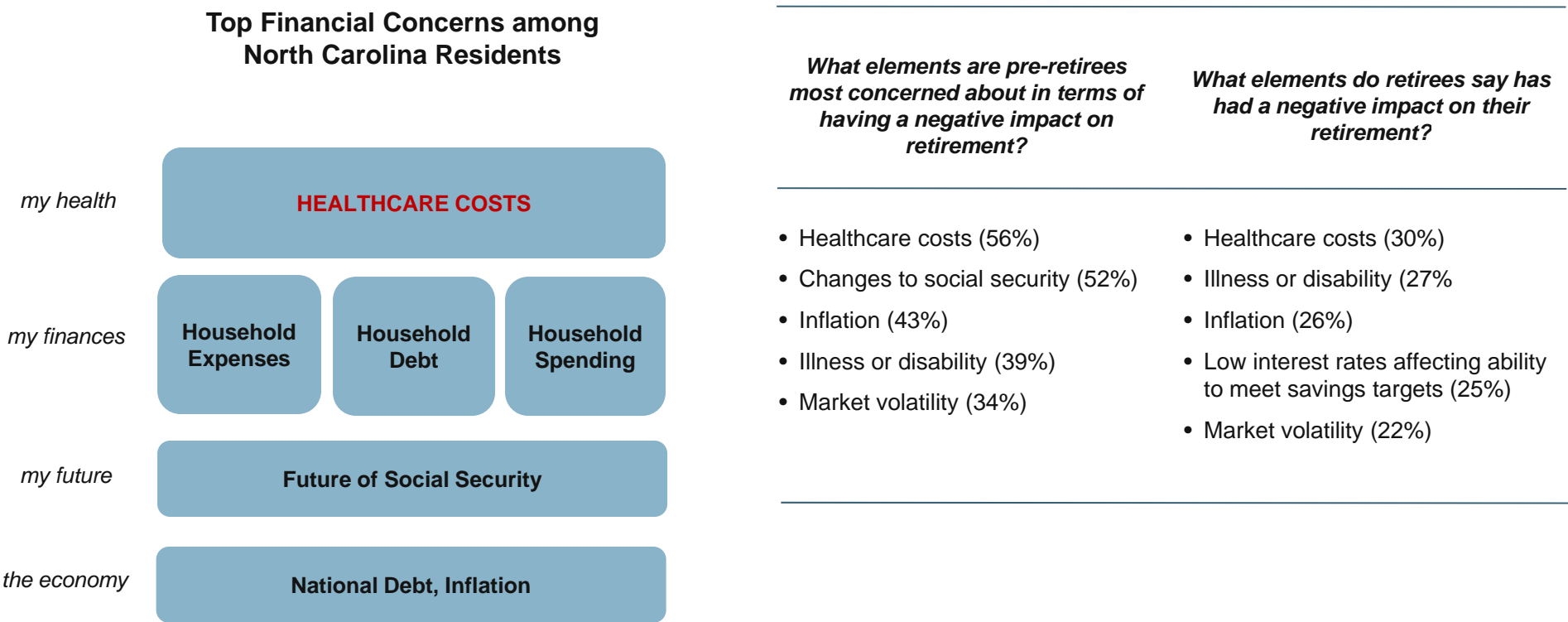


Financial Planning Steps Taken/Plan to Take



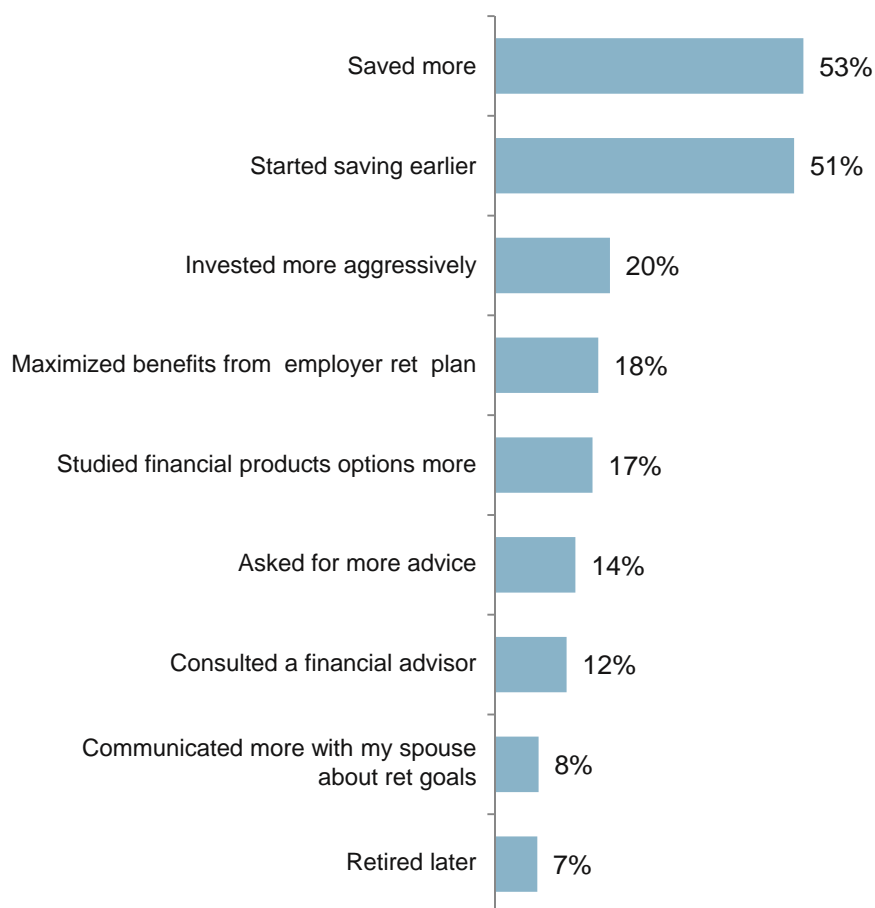
Healthcare cost is a big concern and is most likely to have a negative impact in retirement

- Income solutions can help alleviate potential impact of healthcare cost in retirement, while at the same providing added benefits to address concerns around market volatility and inflation



- More than half of retirees wished they saved more and earlier; a fifth would have wanted to have invested more aggressively and maximized benefits of employer retirement plan
- Specific advice to pre-retirees from retirees follow a similar theme

Things Wished Had Done Differently



Advice to Pre-Retirees

(among retirees)

Start saving earlier

- "Start putting away money early, no matter how old you are"
- "Start saving at an earlier age. Save on a schedule so as to make it a habit. **DON'T CARRY DEBT.**"
- "Start saving for retirement as soon as you start working."
- "Start saving now, small amounts if necessary, but start."
- "Start saving young! Get advice on what to do with savings"

Save more

- "Save as much as you possibly can because costs of everything is going up"
- "Save more and plan ahead."
- "Save as much as you can for the future can throw us some nasty curves"
- "If you want to live well in retirement, it requires giving up things now!"

Seek financial advise

- "Get a financial planner ASAP"
- "Spend less then you earn and get a financial advisor"

Maximize benefits from employer retirement plan

- "Contribute maximum to employee sponsored plans."
- "Make a financially secure retirement a priority. Consider investing in your retirement just like any other monthly bill or you'll never have the extra funding to begin."

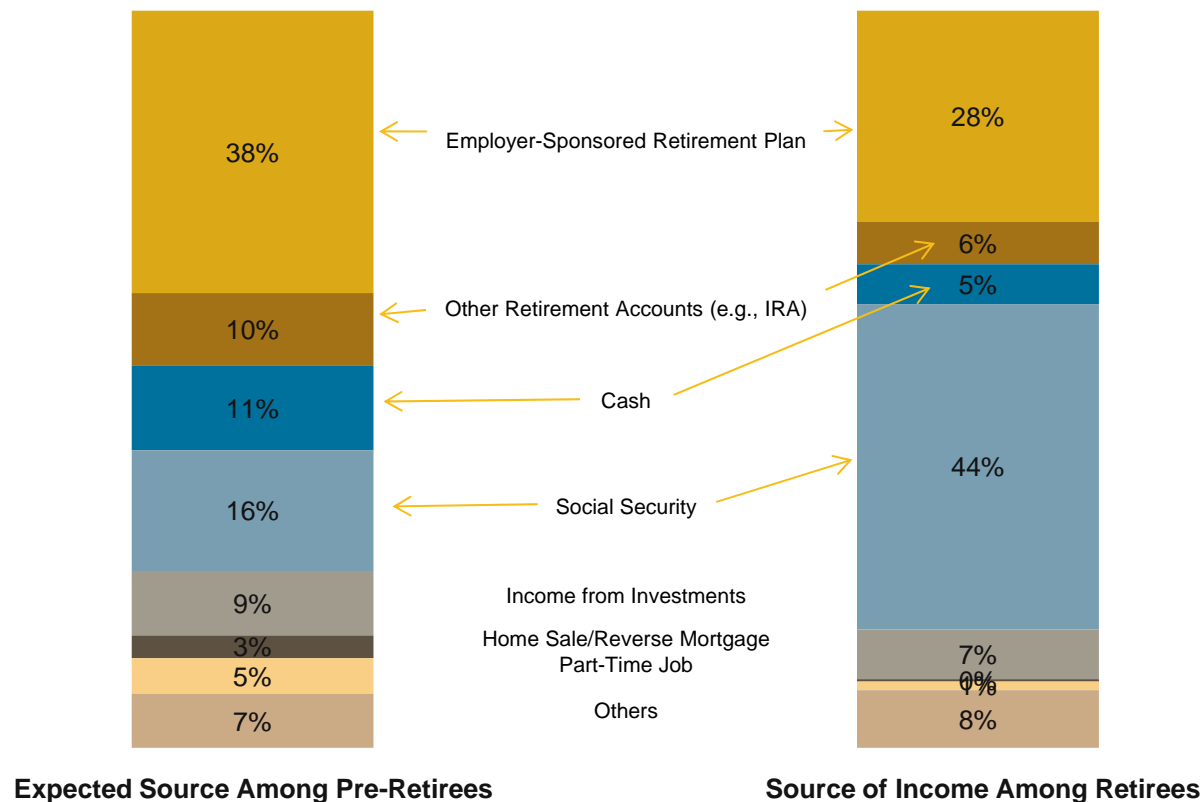
Reduce debt

- "Own your home free of debt."
- "Pay off mortgage before retirement."
- "Reduce debt spending"

Funding sources for retirement in the future are likely to be different from those currently relied on by retirees

- North Carolina pre-retirees expect to draw majority of their income in retirement from retirement accounts. In contrast, current retirees get more than two-fifths of their income from social security
- Bigger role of retirement accounts in the future highlights the need to make sure that they can adequately cover income needs in retirement

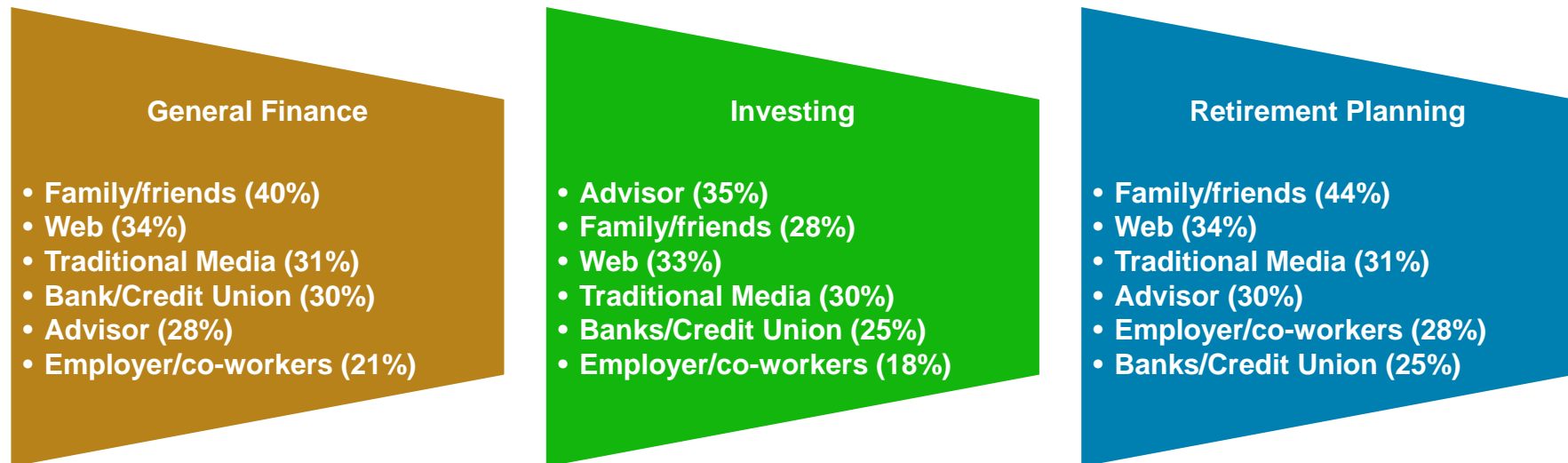
Sources of Income in Retirement



Sources of information for financial planning vary depending on goals; family and friends are among the key influencers

- Advisors are the main source of information when it comes to investing
- Employers play a secondary role behind traditional media and web sources

Main Sources of Information



- ✓ Reliance on family and friends for information is higher among millennials
- ✓ Retirees and affluent consumers see advisors as their main source of financial information

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