

UBS Investor Watch

Analyzing investor
sentiment and behavior

4Q 2013

80 is the new

60

What is “old”?

Retirement does not equal old

As people are living longer, the definition of “old” is changing. Investors feel that for their parents’ generation, 62 was the age when someone became old; this was also close to traditional retirement age. However, today, most people do not feel old until they are in their 80s. And being “old” is not just defined by a number. Investors believe that when people lose their independence, i.e., they can no longer live in their own homes or can no longer drive, that’s when they’ve become old. Eighty-four percent of investors say retirement is not a sign of being old.

If 80 is the new 60, and retirement \neq old, then what does retirement look like going forward? Nine out of 10 working investors under 65 believe they will go through multiple distinct phases of retirement, which, together, may last as long as 30 years. They foresee three phases:



Transition

When they will still work, but in a reduced or different capacity



My Time

Focused on travel and leisure



The Last Waltz

When they will lead a relaxed, simpler life, and health issues eventually will become the focus

Not surprisingly, investors expect their financial needs to vary across the three phases, and they recognize that their income needs will vary, too—e.g., they will need more income during the “*My Time*” years. However, they appear to underestimate the income likely required for all three phases of retirement, particularly “*The Last Waltz*” phase where healthcare expenses could escalate.

While pre-retirees (ages 50-64) expect to go through a lengthy retirement period with these distinct phases, they face another challenge as well. Like most investors, they are providing financial support and guidance on key financial decisions for their aging parents and their young adult children. All this while planning for their own, often underfunded, retirement. Truly comprehensive financial planning takes into account these realities, as well as the different phases of retirement today.

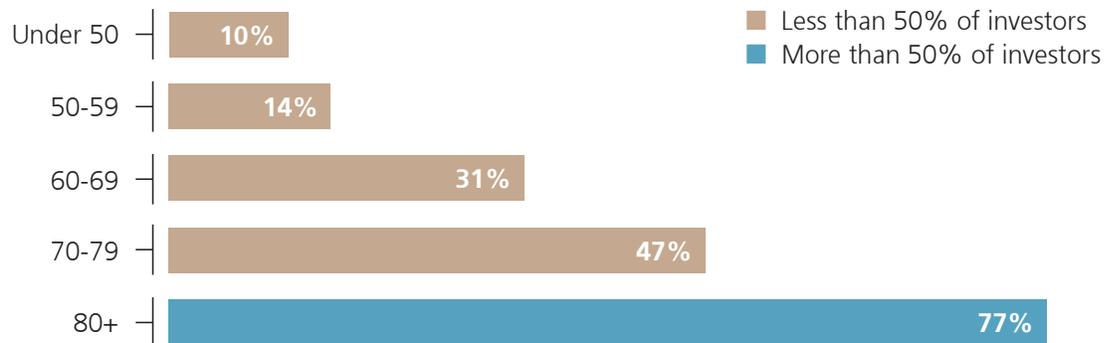
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What is “old”?

Most investors do not feel “old” until they are in their 80s. Only 31% who are in their 60s and 47% who are in their 70s feel old, while 77% of those in their 80s feel old. This demonstrates a notable shift from prior generations, as investors believe on average that their parents were old at 62, a number that also coincided with when people typically retired.

Percentage who consider themselves “old” by age group

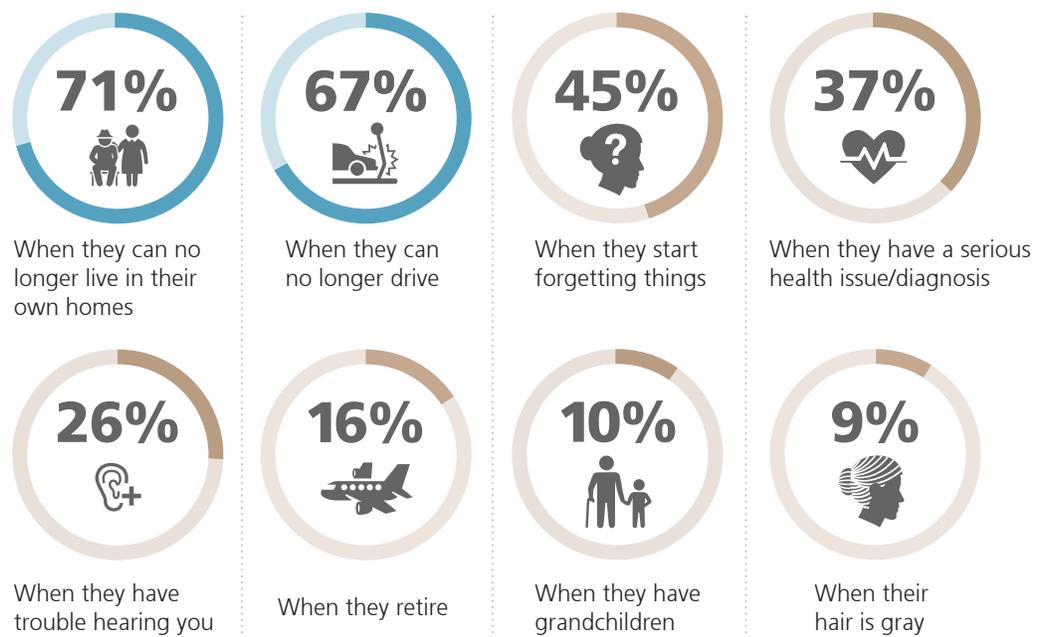
Question: “Do you consider yourself ‘old’?”



But today, retiring from work does not equal old. And even the onset of health and memory loss issues doesn’t equal old. To most people, it’s when people can no longer live in their own homes or when they can no longer drive. In short, you get old when you lose your individual independence, when you can’t do things for yourself.

Life events which make someone “old”

Question: “After which life events do you consider someone ‘old’?”



2

Retirement is one word, but three phases

With retirement lasting for an increasing number of years, it's not surprising that non-retirees expect their retirement to consist of multiple, distinct phases. Nine out of 10 expect their retirements to have multiple phases, and the majority expects to go through each of these three phases, which we call "*Transition*," "*My Time*" and "*The Last Waltz*."



Transition

Most investors under 65 do not expect to stop working completely at age 65, but they do picture working differently—redefining their priorities. Sixty percent plan to go through a transition phase where they work in a similar career but reduce hours, switch careers/start their own businesses, or devote significant hours volunteering for philanthropic purposes. While for some, this additional time spent working is at least in part out of necessity; for many, it's a chance to rechannel their talents and energies into new challenges, or achieve a work/life balance where they still enjoy their work, but with more free time to pursue hobbies.



My Time

Most investors expect during retirement they will go through a phase focused on increased travel and leisure activities, giving themselves a reward for all their hard work. This is their chance to do all the things they always wanted but didn't have the time, to tick off any items on their "bucket lists" or spend more time on their favorite hobbies. Investors' perceived financial needs during this phase are similar to the "*Transition*" phase, but with an even greater emphasis on cash flow/income stream now that they have no more work income, and their spending is likely to increase.



The Last Waltz

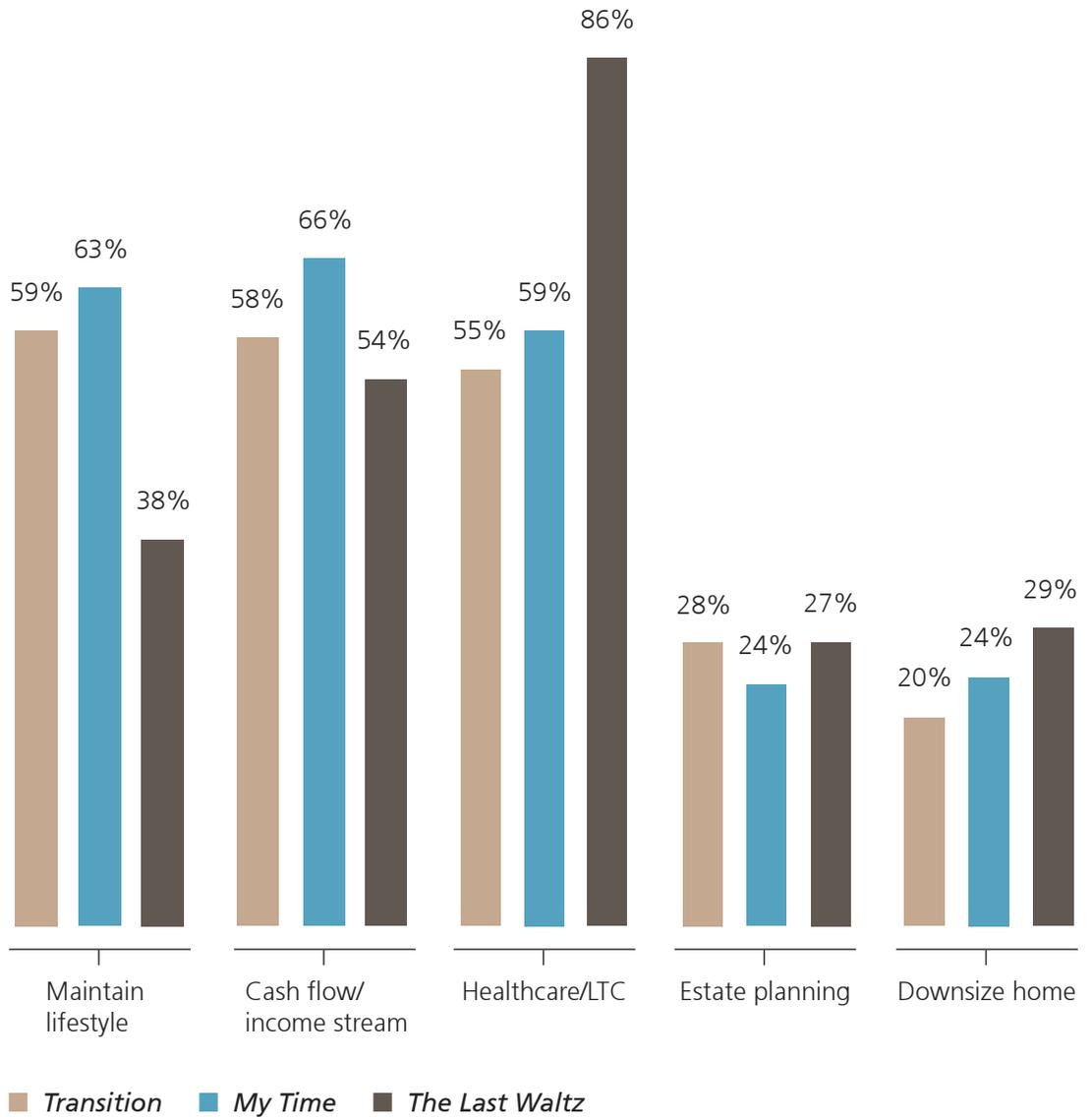
The third phase of retirement involves slowing down, living a simpler life and having time to reflect on one's life and legacy. This period involves less travel, with family more likely to come visit rather than the other way around. "*The Last Waltz*" period is most associated with one's 80s and beyond, coinciding with the "old" definition. This phase is sometimes brought on by an accident (e.g., bad fall) or health scare (e.g., stroke), which prompts the person to decide to slow down, ending the "*My Time*" phase.

But while "*The Last Waltz*" brings an increased emphasis on health concerns, it is not just about the downward spiral of people's last few years. In fact, most investors expect this phase to last 10-15 years and tend to underestimate how much they may have to deal with health issues. They do recognize that healthcare and long-term care are the primary financial needs during this phase.

Phase	Transition	My Time	The Last Waltz
Definition	Reduce work hours, departure to start a new business or career, or increased volunteerism	Focus on travel and leisure activities	Slowing down with heightened focus on health issues and losing independence
Expected length	5-10 years	10-15 years	10-15 years
Associated ages	60s	70s	80s+

Key financial needs by retirement phase

Question: "For each of these retirement phases, which of the following do you think will be your key financial-related needs during that time?"



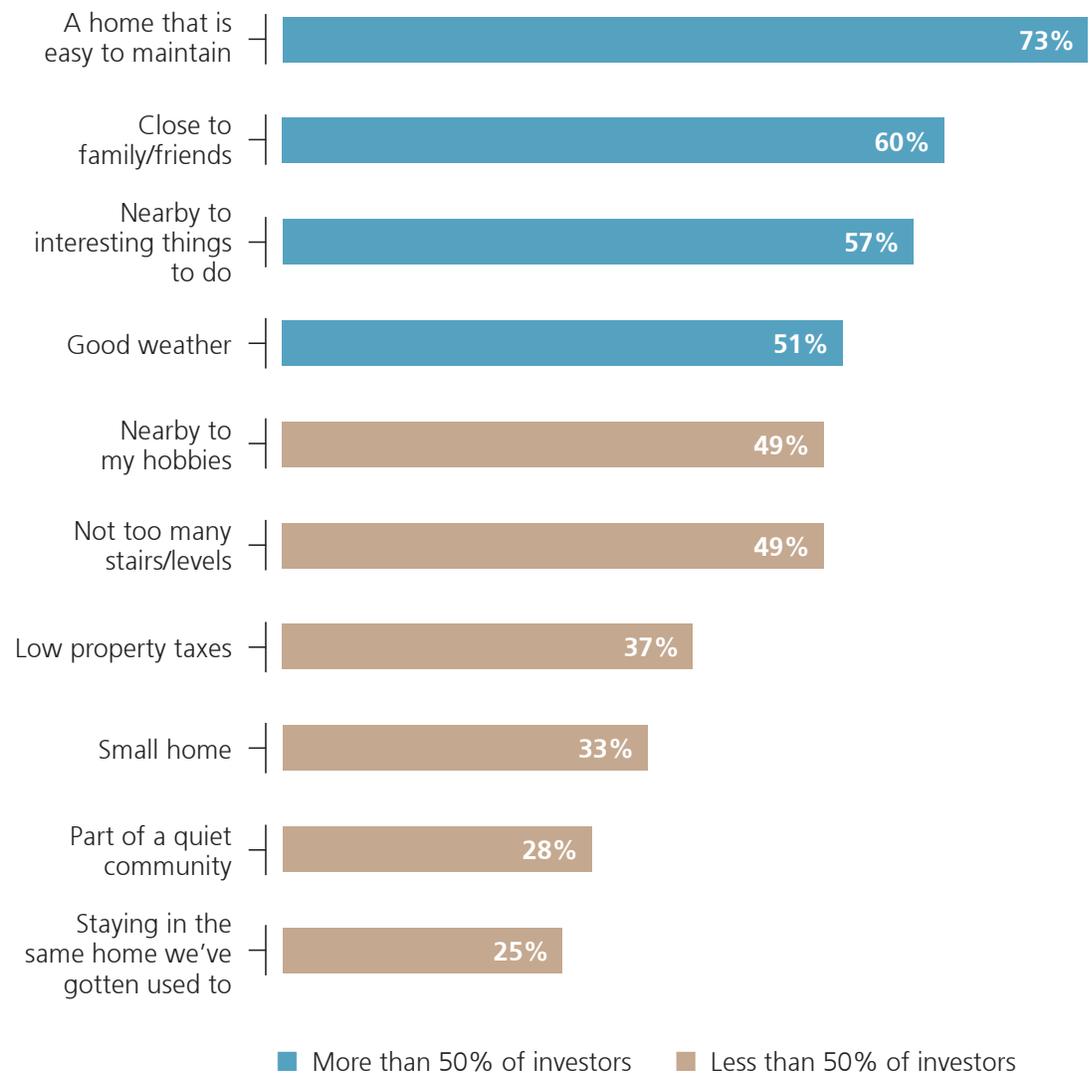
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Retirement may last as long as 30 years

Investors expect to live comfortably during retirement—which they believe may last three decades. When asked what they would like to be doing at age 65, investors are evenly split between working and traveling. As referenced previously, 70% of investors expect to experience the “My Time” phase of retirement, which is marked by increased travel and leisure activities. While downsizing homes is often expected to help cash flow in retirement, only 33% of investors expect to change homes when they retire. Investors have a long list of desired attributes in a home during retirement and having a small home is not high on the list.

Home preferences in retirement

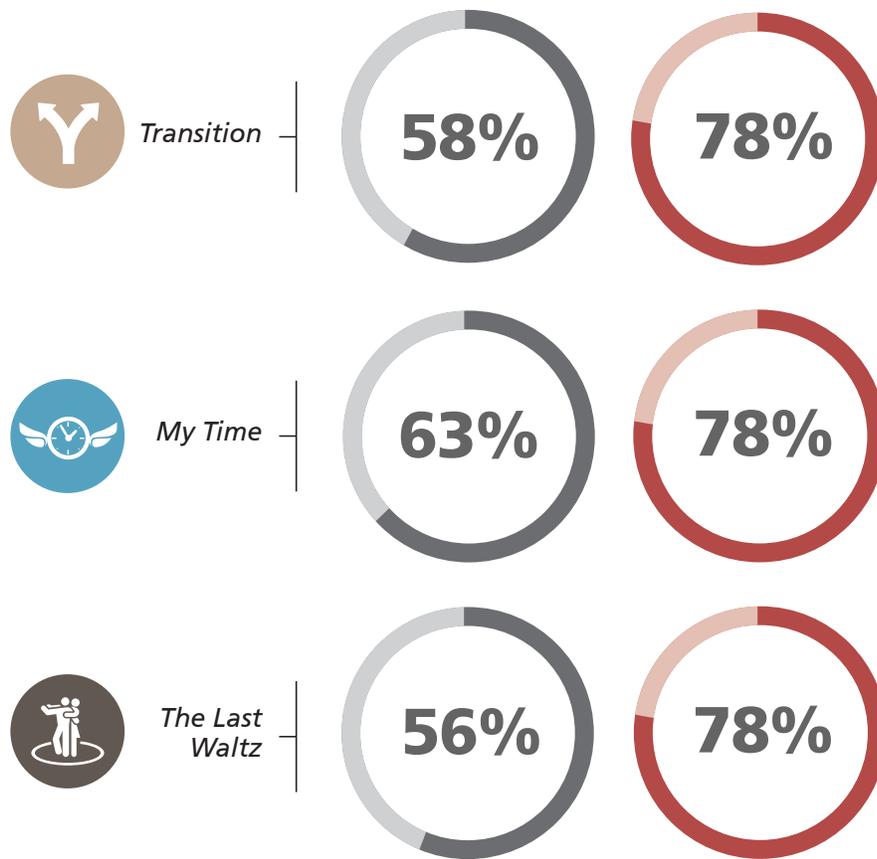
Question: “How important do you think each of the following considerations will be when deciding where to live during retirement?”



Overall, investors seem to underestimate how much of their prior income they think they will need during retirement. On average, they believe they will need about 60% of their prior income during retirement. This is well below standard industry estimates of 78% of prior income. Underestimating annual income needs becomes even more acute in the context of a retirement that may last as long as 30 years. Investors recognize they will need more income during the “My Time” phase (63% vs. 58% for “Transition”), but are still underestimating their expenses for this period. And while they may spend less during the “The Last Waltz” phase on travel and hobbies, most will eventually have high medical and long-term-care expenses during this phase, so their estimate of 56% of prior income again appears quite low.

Investor expectations for income needed in retirement phases

Question: “Traditional retirement planning assumes you will need a certain percentage of your previous income during retirement. Thinking about each of these phases separately, what percentage of your previous income do you expect you will need during each phase?”



■ Working investor view (average) for each phase of retirement
 ■ Traditional industry “rule of thumb”*

*Aon Consulting and Georgia State University’s Replacement Ratio Study™

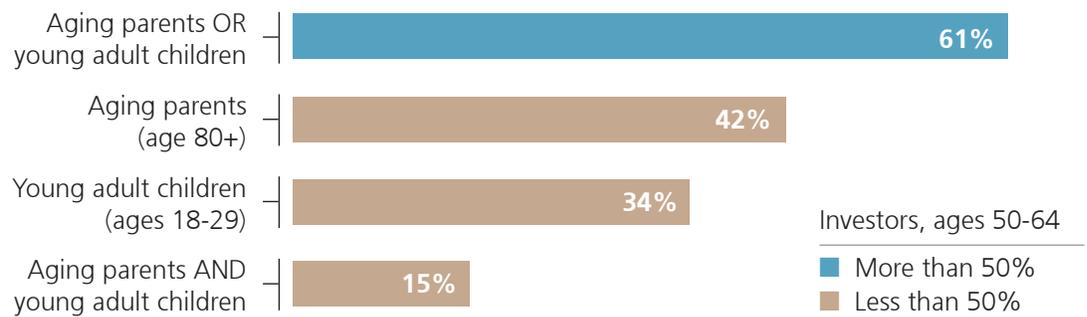
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Pre-retirees guide financial decisions for multiple generations

Pre-retirees find themselves in difficult positions. They are preparing for longer, more complex retirements with three distinct phases, but are often also providing financial support and guidance to their aging parents and/or adult children. The majority (61%) of these pre-retirees has either adult children (ages 18-29) or aging parents (age 80+), and 15% have both.

The "sandwich" generation

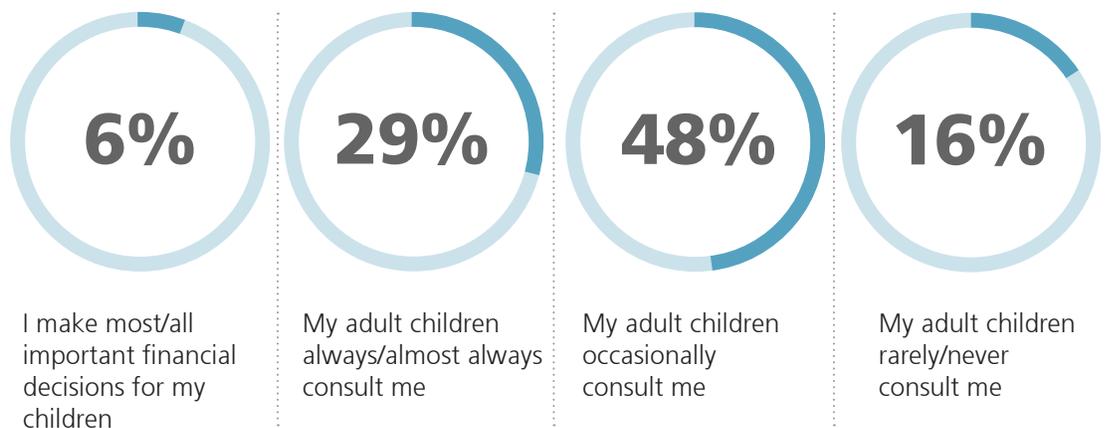
Question: "Do you have adult children, ages 18-29? What ages are your parents (including those who selected 80+)?"



Among investors with adult children, ages 18-29, 36% either make their key financial decisions for them or are always consulted on key financial decisions. Only 16% do not play a role in their adult children's financial decisions. If 80 is the new 60, 30 may be the new 20, as many young adults rely on their parents until they reach their 30s.

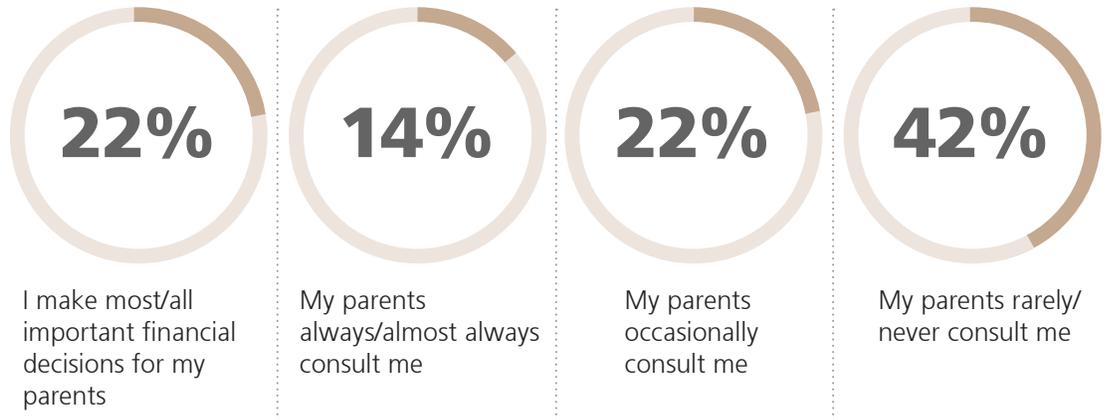
Role in key financial decisions for other generations

Question: "Which of the following best describes the role you play in your adult children's financial decision making?" (Adult children, ages 18-29)



Similarly, for investors with parents, age 80+, 36% are making the decisions or are always consulted, and the majority plays some role in their aging parents' key financial decisions.

Question: "Which of the following best describes the role you play in your parents' financial decision making?" (Parents, age 80+)



In our last edition of *UBS Investor Watch*, we found that four in five investors provide financial support for either their adult children or their aging parents, indicating that they are providing both guidance and monetary support on financial matters.

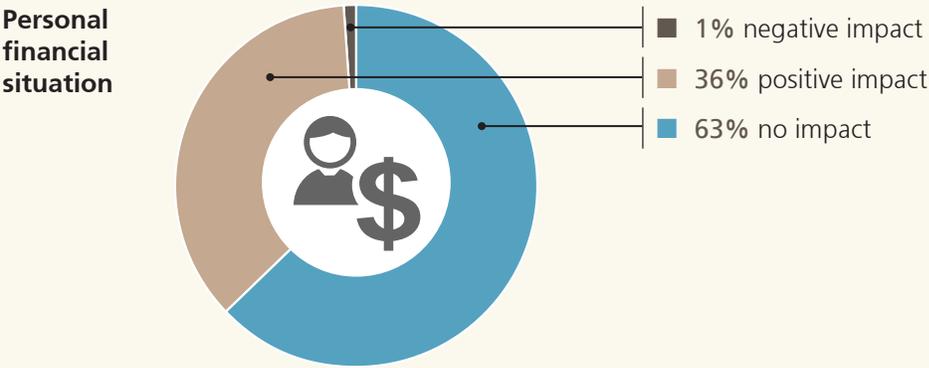
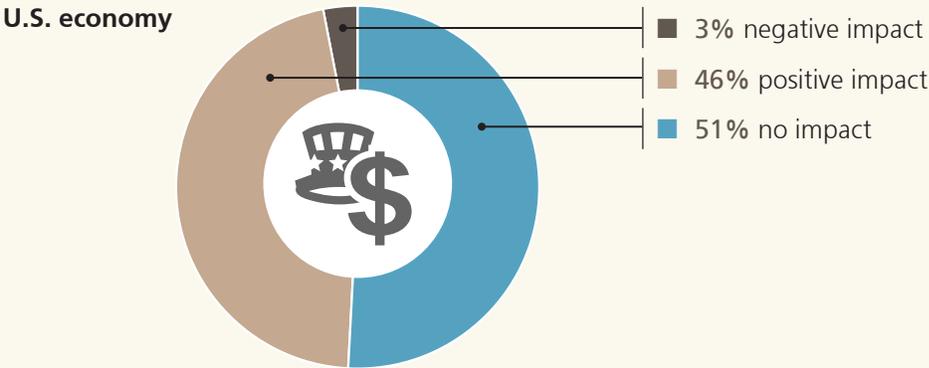
Improved housing market and volatile political environment impact investor sentiment

Rising real estate values have improved investor sentiment about the U.S. economy and their personal finances, particularly for those who have outstanding mortgages. Three in four investors indicate that housing values have risen in their areas in the last year. Nearly half of these investors believe increasing values have had a positive impact on the U.S. economy, and 36% believe it has positively impacted their personal financial situations. Among those who still owe money on their mortgages, 44% believe rising real estate values have positively impacted their personal finances.

Investors expect both interest rates and home values to continue to rise in the next year. Most do not expect another real estate bubble (only 9% believe highly likely), but they are not ruling it out either (37% see as somewhat likely).

Impact of rising real estate values

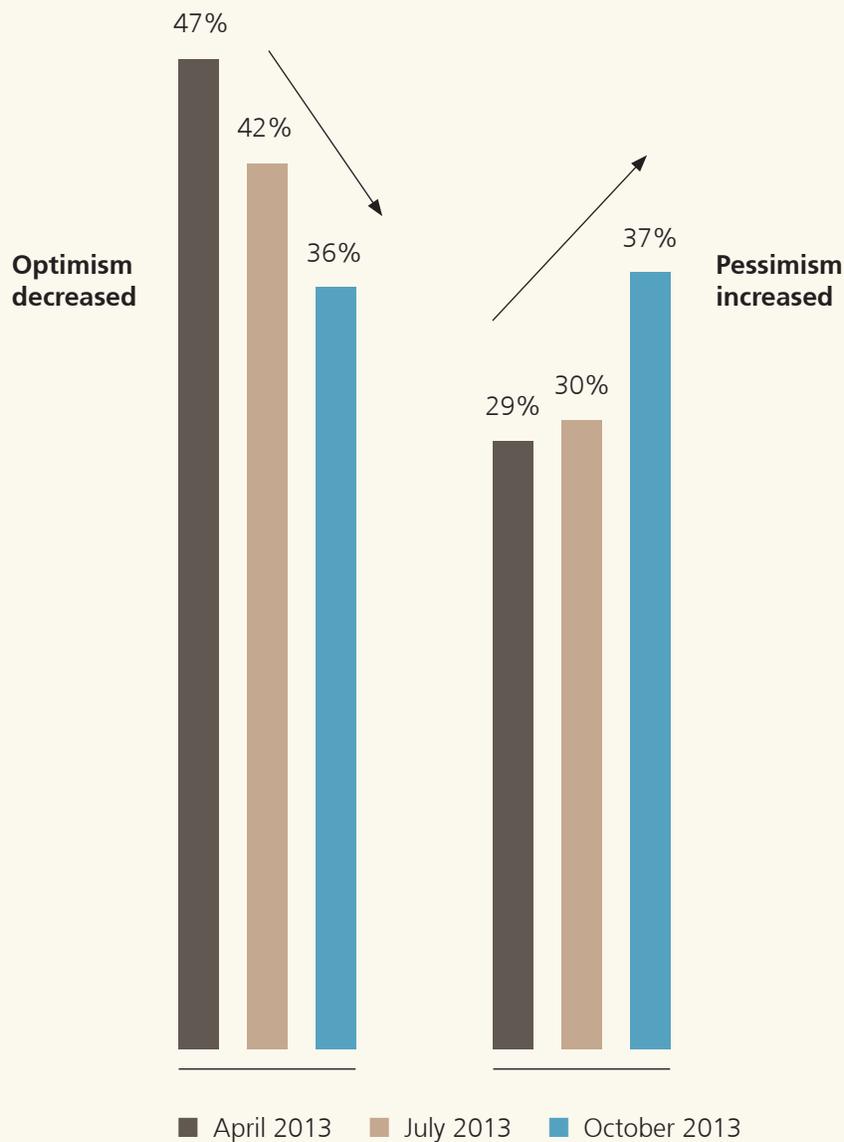
Question: "How has the increase in real estate prices in your area impacted your view on each of the following:"



The current political environment in Washington has negatively impacted investors' economic outlooks, but so far has not led to changes in optimism about their own finances, investment behavior or cash holdings, which remain stable at 20% on average. Seventy-three percent are highly concerned about the political environment in Washington in terms of the potential impact on their financial goals, up from 67% in July, when it was already the biggest investor concern. This has led to a downturn in investor economic outlook—with pessimism rising from 29% to 37% since April. However, 63% feel excellent/very good about their own finances, virtually unchanged over the last six months.

Short-term economic outlook

Question: "How would you describe your outlook on the U.S. economy for each of these time periods?"



About the survey: UBS Wealth Management Americas surveys U.S. investors on a quarterly basis to keep a pulse on their needs, goals and concerns. After identifying several emerging trends in the survey data, UBS decided in 2012 to create the *UBS Investor Watch* to track, analyze and report the sentiment of affluent and high net worth investors.

UBS Investor Watch surveys cover a variety of topics, including:

- Overall financial sentiment
- Economic outlook and concerns
- Personal goals and concerns
- Key topics, like aging and retirement

For this fifth edition of *UBS Investor Watch*, 2,319 U.S. investors responded to our survey from September 24-30, 2013. Investors surveyed have at least \$250,000 in investable assets; half have at least \$1 million in investable assets. This *UBS Investor Watch* includes an oversample of 416 UBS clients; results are weighted by UBS clients/non-clients to account for this.

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