AMERICAN FUNDS®
From Capital Group

The Wisdom of Experience: Lessons from Boomers and Retired Investors

American Funds, a family of mutual funds from Capital Group, one of the world's leading investment management firms, has been managing investments for millions of individuals throughout our 85-year history. We conducted this study to explore the current attitudes of Americans age 50 and older about what makes them feel smarter about investing for retirement and how they define a purposeful next chapter.

Participant Profile

The research focused on investors with $100,000 or more in their retirement savings, brokerage accounts and other investable assets. This is a broad demographic that represents more than a quarter of American households and includes both working men and women and retirees of varying income and education levels.

How the survey was conducted

In October 2015, APCO Insight, a global opinion research firm, conducted an online quantitative survey among U.S. adults age 50 years or older who have at least $100,000 in investable assets and some responsibility for making investment decisions for their family. A total of 1,035 respondents participated in the survey. The sample reflects national representation on key demographic measures according to the U.S. Census Bureau.

Key Findings

Overall, survey respondents – particularly those already retired – feel positive and optimistic about their retirement regardless of asset level, age or gender while also regarding it differently from prior generations. Their approaches to investing for retirement display a certain wisdom of experience that offers key lessons and insight for younger generations.

Highlights from the Boomer generation participants we surveyed

- Investors feel smartest when they stick to a long-term investment strategy.
- Nearly nine in ten expect their nest egg to generate income and grow in retirement, a surprising statistic when considering the widely reported concerns of Americans about longevity and the risk of depleting their savings.
- They believe the right funds can do better than the market and do better than average, and view low fees and protecting their gains from market downturns as equally important factors for doing well.
- And although many started investing decades ago, often before the age of 30, they would advise their children and grandchildren to start even earlier.

AS A RESULT:

- These investors expect to have more retirement income than their parents did.
- They are generally optimistic and excited about their next chapter and expect to lead a more active lifestyle than the traditional view of retirement: Namely, as a group they expect to work part time, including in new careers and business start-ups, to stay active and to fund a semi-retirement.
- Helping others – not just kids and grandkids, but charitable organizations as well – is also important.

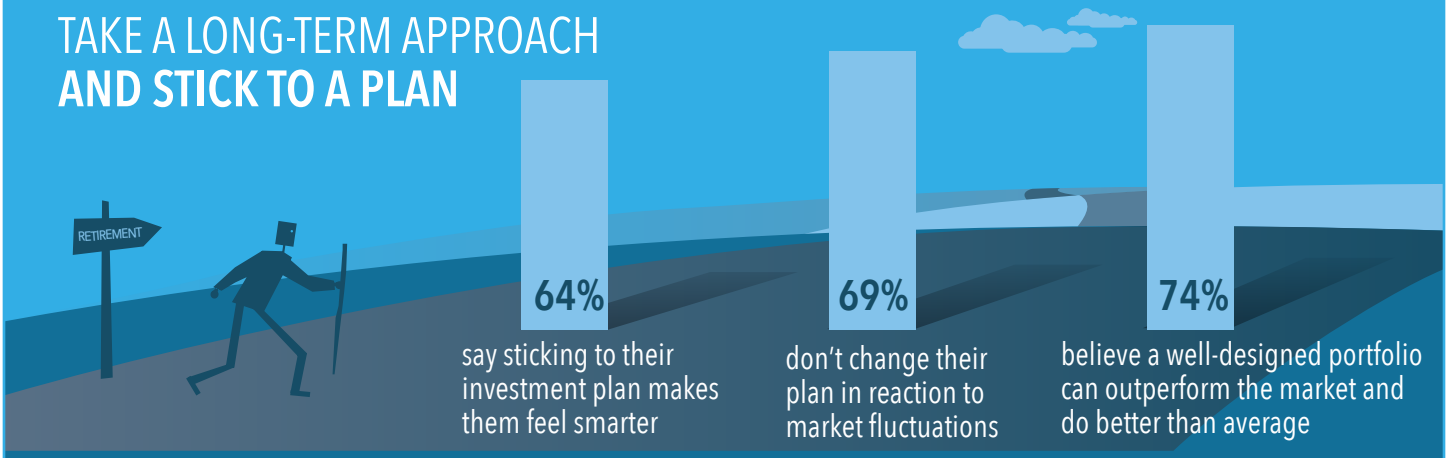
The research does reveal a less confident outlook among the Boomers still in the workforce. For example, only half of non-retirees expect to have more retirement income than their parents did. Women below age 65 are also the most concerned group when it comes to protecting their savings from market downturns.

Blind Spots Identified

Survey data also points to potential blind spots among investors, particularly during the retirement phase of investing. While four out of five investors rank protecting their savings from market downturns as a key priority and believe that lower volatility and downside resilience are important for their mutual funds, only half of investors are aware that index funds expose investors to the full ups and downs of the market. And roughly one-third agree that index funds are potentially riskier for investors who have less time to build their savings or recover from a downturn.

WISDOM OF EXPERIENCE:
LESSONS FROM BOOMERS AND RETIRED INVESTORS

TAKE A LONG-TERM APPROACH **AND STICK TO A PLAN**



64% say sticking to their investment plan makes them feel smarter

69% don't change their plan in reaction to market fluctuations

74% believe a well-designed portfolio can outperform the market and do better than average

CONTINUE TO GROW **YOUR NEST EGG IN RETIREMENT**

86% expect their nest egg to provide income and grow in retirement

75% plan to stay invested in equities to help grow their nest egg in retirement

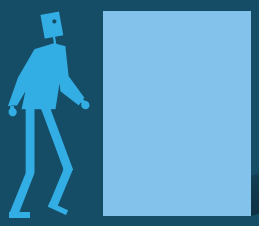
72% believe that mutual funds with objectives like growth and income, lower volatility and low fees can help people enjoy a better retirement

PROTECT AGAINST **THE DOWNSIDE**

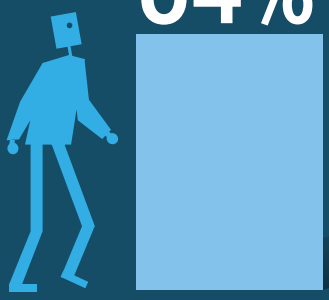
78% rank protecting savings and investment gains from market downturns as a key priority

Only 53% are aware that index funds expose investors to the full ups and downs of the market – a potential blind spot

START **INVESTING EARLY**



31% of surveyed investors began saving for retirement before the age of 25



64% advise their children/ grandchildren to start saving before the age of 25

Based on an online survey of 1,035 investors age 50 and over with $100,000 or more of investible assets conducted by APCO Insight October 19-22, 2015.

Survey Participants

Investors 50 years or older display a certain wisdom of experience. Their core beliefs and approaches to investing offer lessons and insights that are relevant for every generation of Americans saving for a secure and purposeful retirement.

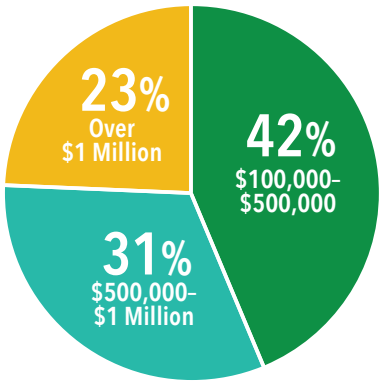
This survey was designed to probe investment objectives, as well as awareness and attitudes toward specific topics such as volatility, downside protection and fund selection criteria. It was also designed to elicit investor attitudes around the emotional and lifestyle impacts of retirement.

The research focused on investors 50 years of age and up with $100,000 or more in investable assets in their retirement savings and bank accounts, mutual funds and ETFs holdings, stocks and bonds, and other investments. The survey includes men and women in roughly equal numbers, both in the workforce and retired, with varying income and education levels.

The $100,000-plus investable asset level is representative of more than one-quarter of the nation's total households. And for people closer to or in retirement, the U.S. Government Accountability Office reports that among the nearly one-half of U.S. households age 55 or older with some retirement savings, the median amount is about $104,000 for households age 55–64 and $148,000 for households age 65–74.

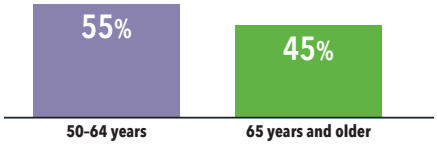
Participant Breakdown

Investable assets

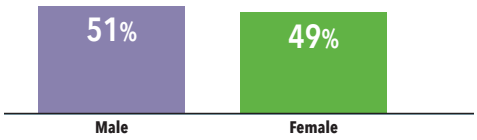


Employment situation

Age



Gender



Interestingly, more people with $500,000 or more in assets (68%) stick to their investment strategy than those who have between $100,000 and $500,000 in assets (58%).

Investors 50 years and older make an investment plan and stick to it

Seven in ten investors (69%) are long-term investors who understand market fluctuations are natural. No one can predict the stock market but when asked about their general expectations over the next ten years, many expect it to go higher but with significant volatility.

Nearly three in five older investors (58%) expect the market to climb higher in the next decade, averaging single-digit annual returns or performing as well as the bull market of the past five years.

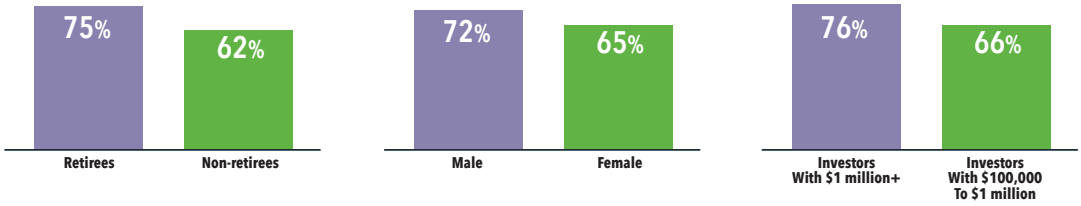
Three in ten (29%) are bracing for a bumpier ride over the next decade, with market corrections and a potential crash resulting in lower returns relative to historical averages.

But these investors do not change their plans when the market fluctuates. The long-term focus holds true across all the investors we surveyed, with older, wealthier and male investors voicing the most commitment to sticking to a long-term plan and strategy.

Take a Long-term Approach and Stick to a Plan

What Do You Do When the Market Fluctuates?

I do nothing. I am a long-term investor and understand that market fluctuations are natural

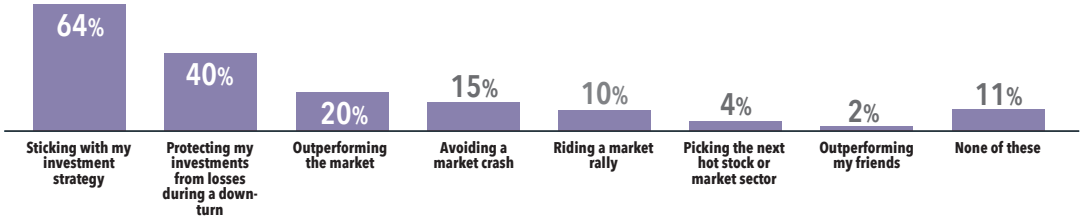


Key Insight

What Makes You Feel Smarter as an Investor?

Two-thirds of investors (64%) believe sticking with their investment strategy makes them feel smarter as an investor – the highest factor by far. They have their priorities straight: Only 10% of investors believe that riding a market rally makes them feel smarter while 4% believe picking a hot stock or market sector makes them a smarter investor. And just 2% say that doing better than their friends makes them feel smarter.

What are the things that make you feel smarter as an investor?



Investors age 50 years or older are dedicated to growing their nest egg in retirement

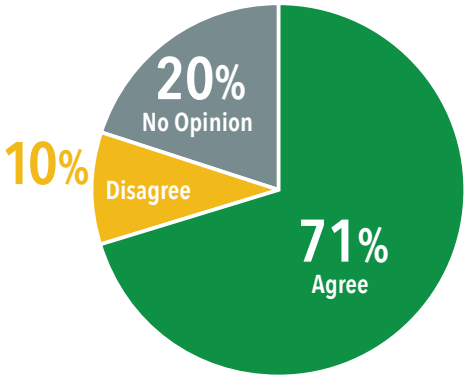
Nearly nine in ten investors (86%) expect their nest egg to generate income and grow in retirement. That is an astonishing statistic when considering the widespread concerns of Americans about longevity and the risk of depleting their savings.

Whereas two in five (42%) investors whose assets are $1 million or more strongly agree their nest egg will grow in retirement, that number declines for those with fewer assets. Of the investors with $100,000 to $1 million, only one-third (32%) strongly agree their nest egg will grow in retirement.

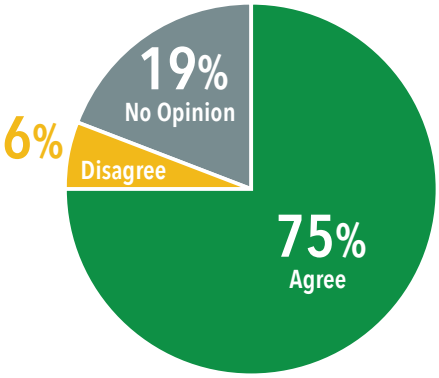
These investors are actively planning for their financial needs in retirement. Two-thirds (63%) of surveyed investors have a financial advisor and one-third (35%) of non-retirees are working with an advisor on a plan to meet their needs in the next chapter of their lives. A further 26% have done research on money issues in retirement.

Continue to Grow Your Nest Egg in Retirement

Retirees who remain invested in the stock market have a better chance of generating the income they need for a retirement that could last twenty to thirty years or more.



I plan to stay invested in equities during my retirement years.



Key Insight

Stocks Are Key to Generating Income for a Long Retirement

Growth of their portfolio is a key priority for 82% of those surveyed. Seven in ten investors (71%) agree retirees who invest in the stock market have a better chance of generating the income they need for a long retirement, and three-quarters (75%) plan to stay invested in equities in retirement.

Key Insight

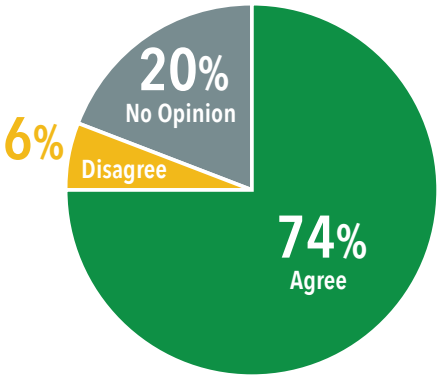
The Right Funds Can Deliver Better Than Average Outcomes

Surveyed investors recognize that the right investments can play an important role in helping them generate more retirement income and grow their wealth. Three quarters of investors (74%) believe that a well-designed portfolio can do better than the market and do better than average. Seventy-two percent agree that stock mutual funds with certain objectives such as growth and income, lower volatility and low fees can help people live better and enjoy their active retirement years.

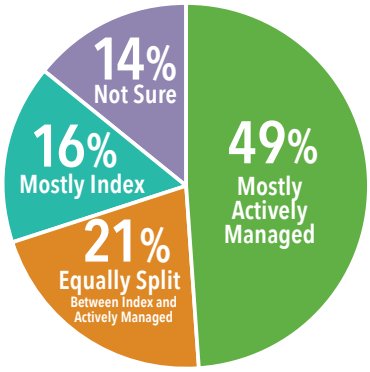
Of the investors surveyed, 49% invest mainly in actively managed funds, while a further 21% said their investments are split equally between actively and index funds, and 16% mostly use index funds

You Can Do Better Than Average

I believe a well-designed portfolio can outperform the market and do better than average.



Surveyed Investors mutual fund holdings by type

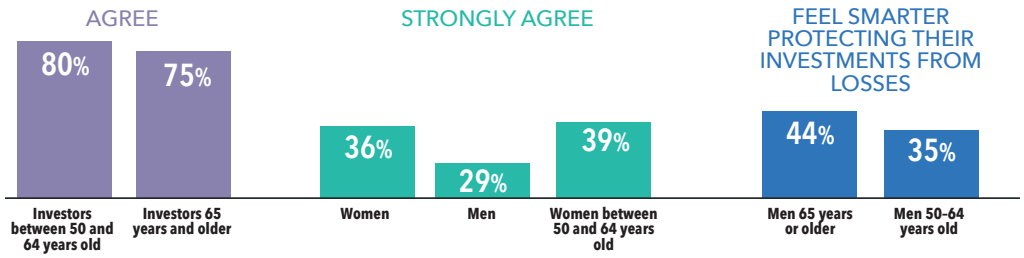


Protecting Gains From Market Downturns Is a Key Priority

Four in five investors (78%) agree that protecting savings and investment gains from market downturns is a key priority and one in three (32%) strongly agree. Protecting investments from losses during a downturn also ranked second among the factors that make investors feel smarter, with 40% providing this answer. Women ages 50 to 64 were the most concerned about protecting against the downside.

Protect Against the Downside

Protecting Gains from Market Downturns Is a Key Priority



Key Insight

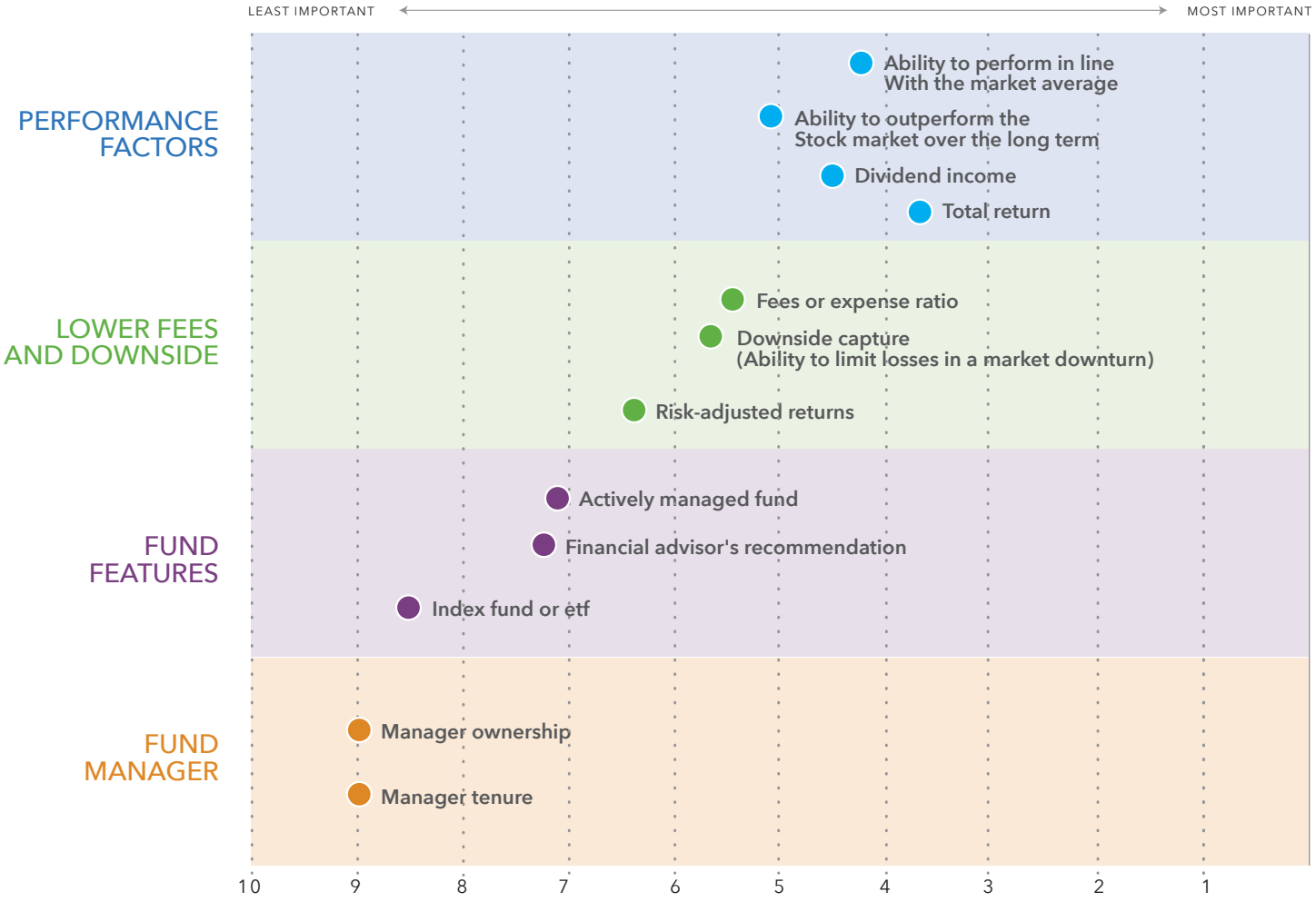
Investors rank low fees and downside protection as equally important

Surveyed investors recognize the importance of low fund fees and expenses and limiting losses during market downturns as among the most important criteria for selecting mutual funds for people who are nearing or already in retirement. They ranked these directly behind investment outcome factors – including a fund's total return, dividend income and ability to deliver outcomes in line or better than the market.

Most Important Criteria in Mutual Fund Selection

Selecting a mutual fund while you are already in or nearing retirement

Criteria in terms of importance. Closer to 1 indicates more important



Strikingly, these investors ranked fees, expense ratio and downside capture ratio (defined as a mutual fund's ability to limit losses in a market downturn) as equally important. There is considerable information available and attention paid to fund fees and expenses that can take a big bite out of investor returns. The data suggest an appetite for more conversation and information on downside capture and advice that could help investors make their investments more resilient as part of their long-term plan.

The low importance placed on manager tenure and manager ownership in the ranking highlights a blind spot for investors.

Key Insight

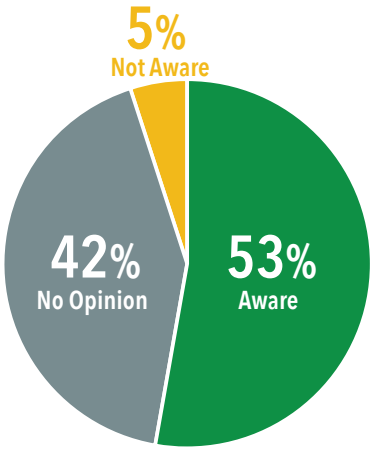
Index Funds in Market Downturns

Although four in five investors rank protecting the downside as a key priority, survey data reveals certain gaps in investor knowledge that may make it harder for them to choose investments that offer increased resilience during market downturns.

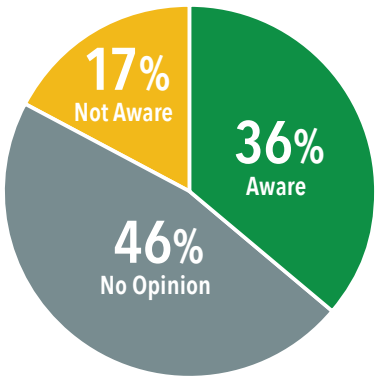
These findings suggest that while investors want to protect the downside and want funds that are less volatile and more resilient, their understanding of how funds perform in various market conditions is limited. In particular, the high number of investors offering no opinion suggests low awareness of how index funds perform during market downturns, a potential blind spot during the retirement phase of investing.

Index Funds

Only half (53%) of investors are aware that index funds deliver the actual stock market performance and expose investors to the full ups and downs of the market.



Barely one-third (36%) of surveyed investors recognize that index funds can be riskier as people don't have the ability to avoid the full market decline.



Many investors started saving early – and advise kids and grandkids to start even earlier

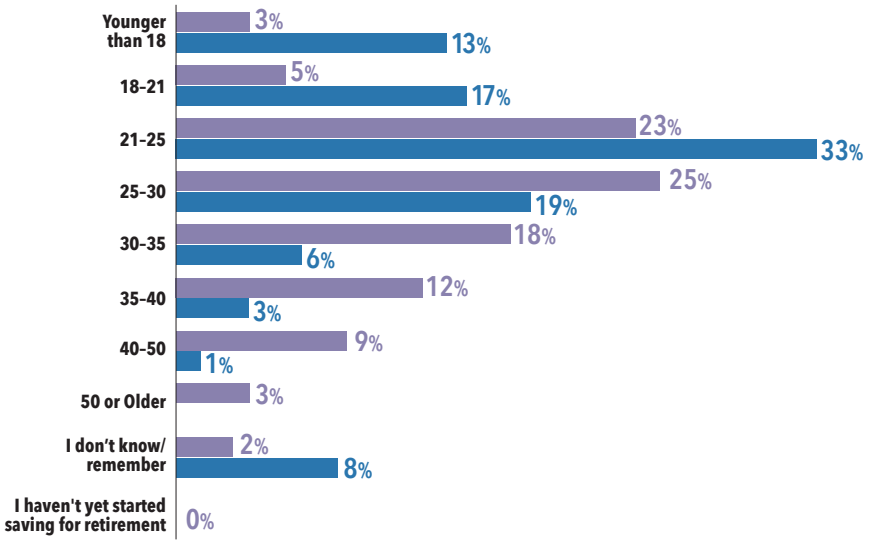
The prevailing wisdom is that investors need to save more and start saving earlier for a secure retirement. The retired investors surveyed led the way.

More than half (56%) started saving for retirement before they turned 30, including 31% who began before the age of 25.

When is the Right Time to Start Saving?

At what age did **you** start saving for retirement?

At what age do you believe your **children or grandchildren** should start saving for retirement?



31% Started saving for retirement at age 25 or before

42% Started saving for retirement at age 30 or later

64% Would advise their kids or grand kids to start saving for retirement at age 25 or before

10% Would advise their kids or grand kids to start saving for retirement at age 30 or later

Key Insight

It's Never Too Early to Save for Retirem*ent*

A full 42% of investors surveyed started saving for retirement after they were 30. And the older investors started later.

The key lesson they would share with their children and grandchildren is that it's never too early to start saving for retirement. Sixty-four percent believe their children and grandchildren should start by age 25. Among non-retirees (mainly 50–64 year olds), a full 16% hope their offspring start saving for retirement before they even reach the age of 18.

The Wisdom of Experience: Defining a Purposeful Next Chapter

The investors we surveyed are an optimistic bunch. A majority are or expect to feel "satisfied" or "relaxed" in retirement. Very few expressed negative feelings about their retirement, with no more than one in twenty expressing feelings of dissatisfaction, boredom or regret.

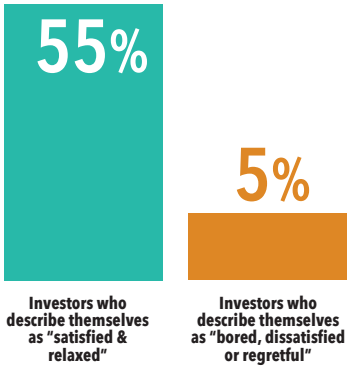
Interestingly, the optimism felt by these respondents remained consistent across gender, age and asset level. Whether they have $100,000 or $5 million of investible assets, these investors expect to feel "satisfied" or "relaxed" in retirement.

Key Insight

Investors are consistently optimistic regardless of age, gender or asset level

Although the survey respondents closely associate financial stability with finding purpose and satisfaction in retirement, most did not have extravagant plans for their retirement years. Rather, a majority said they would find purpose through more down-to-earth measures, such as living within their means, being satisfied with what they have, and helping out their children and grandchildren.

Feeling Optimistic About Retirement



75% Find purpose through living well and within their means

60% Find purpose from being satisfied that they have enough and are in control of their finances

Changing attitudes towards "traditional" retirement

Less than half of survey respondents (42%) reported that they know what they want to do in retirement. Ten percent say they have no idea, but it will be something interesting and exciting. Yet nine in ten agree that their retirement lifestyle will not be like that of their parents.

Both current retirees and those investors still in the workforce see their retirement lifestyles differing from their parents' retirement. However, the two groups have diverging views of how their retirement lifestyles will differ from those of their parents.

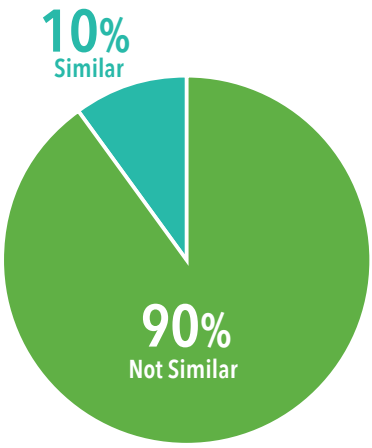
Key Insight

Big differences in how current retirees and investors still working view their retirements

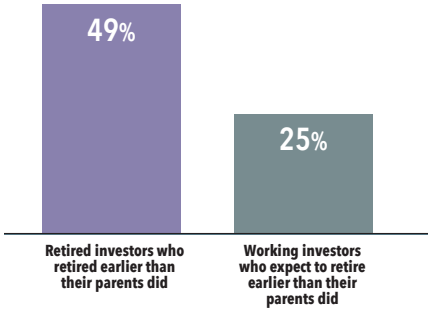
The people in these groups expressed very different opinions regarding their age at retirement and how long they expected to live in retirement. Investors still in the workforce were much less likely to say they would retire earlier than their parents had while almost fifty percent of currently retired investors did so earlier than their parents. Investors still in the workforce were also less likely to think that they would be spending several more years in retirement than their parents.

Not their Parents' Retirement

Investors belief that their retirement will be like their parents



Timing of retirement as compared to their parents



Diverging expectations among investors still in the workforce and current retirees

Current retirees and investors still working also have very different ideas on how they will spend their time in retirement. This became particularly evident when asked if they would work while in retirement. The percentage of investors still in the workforce who plan to work in some capacity during retirement was significantly higher than those currently in retirement who work. Almost 30% of investors still in the workforce plan to work part time to help fund a semi-retirement while only 3% of current retirees reported working part time.

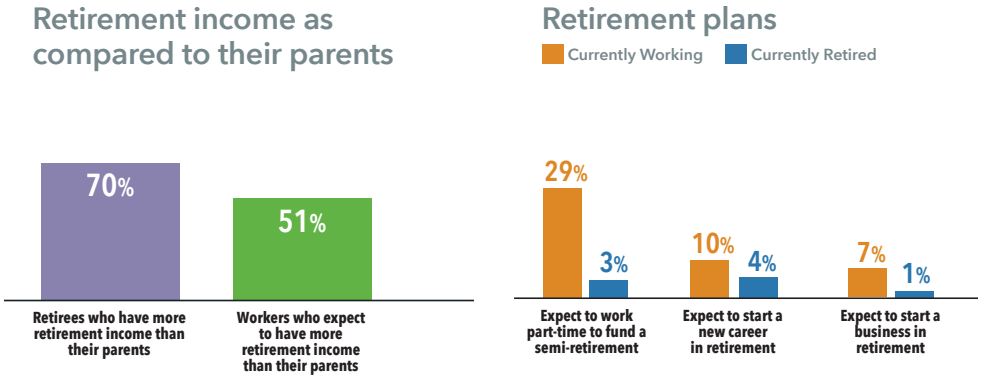
Key Insight

Almost one in three investors still working plan to continue to do so in retirement.

A sizable group of investors still in the workforce have ambitions beyond working part time once retired. Some 29% of non-retirees plan to work part time to fund a semi-retirement – and investors who expect to have more retirement income than their parents are just as likely to want to continue working part time as those who expect to have less income.

In addition, 17% percent of non-retirees report that they plan to begin a new career or start a business when they retire. This is more than three times the percentage of current retirees that reported having pursued either of these paths.

Not their Parents' Retirement

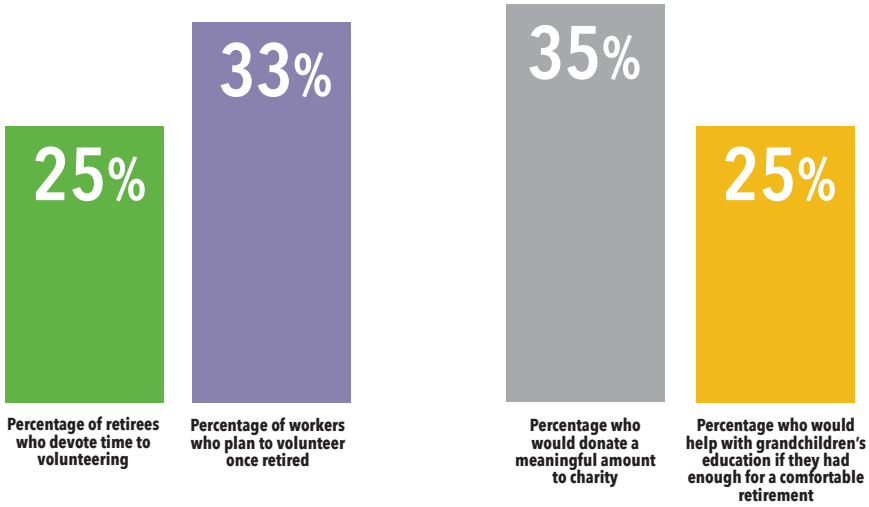


Helping others is important to all

When asked what it means to have enough for a comfortable retirement, a majority unsurprisingly ranked the ability to travel at the top of their list. However, after travel were more altruistic pursuits such as donating a meaningful amount to charity each year and helping to pay for their grandchildren's education.

Volunteering to support a cause or charity is also important. A quarter of retirees reported that they currently volunteer their time and 30% of those still working say they plan to do so as well.

Helping Others



Key Insight

For many, being comfortable in retirement means having enough to support charities and to help support children's and grandchildren's education.
The survey found similar results when respondents stated what they would do if they had a surplus of money in retirement. Travel again ranked at the top, but was closely followed by funding grandchildren's education and donating to charity. Things such as buying a nicer home, second home or new car ranked significantly lower for survey respondents.