



Testimony on Behalf of Prudential Financial

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Disparities for Women and Minorities in Retirement:
Asian Americans on the Road to Retirement

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Prudential's commitment to the U.S. retirement market is strong, and has grown significantly in recent years. This commitment is highly consistent with powerful trends that are shaping the nature of retirement in America and a significant amount of research has been, and will continue to be, conducted to create awareness and provide insight to better serve our customers. Our business strategies fully consider, respect and reach out to diverse consumers and communities. Our goal is to partner with them to meet their current needs, support their dreams and build their futures.

To achieve this goal, numerous market research studies have been conducted to support various diversity initiatives. A number of research studies and literature exist today that discuss the disparity in retirement savings levels for the Hispanic and African American communities, but much less is available that focuses on the needs and challenges faced by Asian Americans. I am honored to be addressing the Council to discuss our research findings from the Asian American retirement study conducted by Prudential in 2009.

Representing only about 5% of the total U.S. population, the Asian American segment is a small one. However, this group represents more than 29 countries of origin, each with unique sets of values and traditions. Despite subculture differences, they all share the desire for a successful retirement – the dream of a time when they can reap the fruits of their labor. Asian Americans have been classified by some as the model minority group that succeeds economically and educationally, which may oversimplify the challenges that Asian Americans continue to face. In my testimony today, I will discuss the retirement readiness among Asian Americans and the steps they've taken to secure their dream retirement.

Retirement Expectations

According to the U.S. Census, nearly two-thirds of Asian Americans were born outside of the United States. They or their parents have immigrated to the United States in hopes of a better life. They work hard to achieve the American Dream with the expectation of a comfortable, or even an upscale, retirement. When asked about their desired retirement lifestyle, only 5% of Asian Americans would be content with a "basic" lifestyle of just paying the bills and staying independent.

Asian Americans have very aggressive goals for when they expect to retire. Eighty three percent plan to retire before age 65, with 50% looking to retire by age 60. However, a comfortable or upscale retirement lifestyle is so important to Asian Americans that if a choice had to be made, they would rather retire later with more financial security. Financial security in retirement translates to successfully achieving major financial goals, including having adequate health care insurance coverage, making sure they do not outlive their savings and having enough money to achieve their desired lifestyle in retirement.

In many Asian cultures, the traditions and notion of *filial piety*, which points to the children's duty to take care of their parents, are longstanding cornerstones of their belief system. However, our research reveals that Asian Americans recognize the need to take charge and be self-reliant. Nearly two-thirds of Asian Americans disagree that their family is their retirement security, while 98% of Asian Americans agree a successful retirement would depend on their ability to plan well and effectively put their financial resources to work. They understand the importance of planning and that relying on their children is no longer a safety net. In fact, 80% actually expect their families may rely on them, even

after they retire. Besides their spouse or partner, many expect they may need to care for aging parents, grandparents, children and grandchildren.

Retirement Preparedness, Progress & Confidence

Despite the progress Asian Americans have made in the United States economically and educationally, the process of achieving socioeconomic success is very complex and planning for retirement is a good example. Although Asian Americans have given some thought to retirement, their plans are piecemeal in nature; they lack detailed steps and important components. Coupled with the negative financial impact experienced by many during the economic downturn, few are very confident in achieving their retirement goals.

Seventy-nine percent of Asian Americans have had their savings and investments affected by the economic downturn of 2008-09. Their ability to save has been hit hard and as a result, only 37% feel comfortable enough financially to save for the long term. One in four Asian Americans are simply paying their bills and not getting ahead. As of July 2009, 37% of Asian Americans stated they have less than \$50,000 in combined retirement savings, not including any pension benefits, while another 14% are simply unsure of how much they have in retirement savings. As a result, only 19% are very confident they will have enough money to achieve their desired retirement lifestyle.

Even amid the wide confidence gaps, only 27% of Asian Americans say they have a formal financial plan in place. In fact, less than 30% have given “a lot” of thought to how to achieve their dream retirement by taking specific steps, such as determining how much savings are needed, what monthly expenses will be in retirement, or what products to choose to help them save for retirement.

Usage, Perceptions and Understanding of Financial Products for Retirement

More than 80% of surveyed Asian Americans have or expect to be eligible for a 401(k) plan and Social Security when they retire. However, they recognize that these programs alone will not be adequate as 54% also contribute to an individual retirement account. Besides these basics, including traditional savings accounts, many Asian Americans are unaware of other financial product options that can help them bridge the gap and achieve their retirement goals.

For example, only 30% of Asian Americans perceive mutual funds to be a very important product for retirement planning, which is similar to their level of perceived relevance of individual stocks and bonds. This brings to light a potential knowledge gap in their understanding of the appeal and long-term orientation of mutual funds. Current interest rates may not enable the desired asset growth to achieve their target retirement savings. Those who deem mutual funds very relevant for retirement planning understand this and as a result, are significantly more likely to have more than \$100,000 in total retirement savings than those who do not find mutual funds as relevant.

In addition to accumulating wealth, a solid retirement plan should also include methods for protecting and securing that nest egg. While 82% of Asian Americans have plans to convert their retirement savings to a monthly income stream when they retire, less than 10% feel well prepared to do so. Moreover, only 12% understand the options they have for generating a monthly income check when they retire and only about one-third of Asian Americans are even aware that variable annuities can

guarantee lifetime annual income and guarantee against loss of principal. Similarly, nearly eight in 10 Asian Americans believe that life insurance can be an effective part of their retirement planning, but more than 50% are unsure of what type of life insurance would be best for retirement planning needs. As of July 2009, 45% of surveyed Asian Americans have no individual life insurance coverage and 29% are uninsured.

Need for Guidance and Support

Asian Americans are interested in learning more about the various foundational financial product options that are available to them in planning for a successful retirement. However, nearly three in four do not currently use a financial professional, while 9% view their friends and family as their financial advisor. Even among those that have a relationship with a financial advisor, discussions tend to be around general topics such as investments and retirement savings, often lacking focus on specific products and applications in a comprehensive retirement plan.

Despite the proliferation of the Internet, face-to-face interaction with a financial professional remains an important source of financial information for Asian Americans. Asian Americans look to make educated financial decisions based on information provided by a knowledgeable and experienced financial professional. Our research study reveals that ethnic language capability is not a primary selection criterion since only 9% of surveyed Asian Americans feel it is very important that the professional speaks their ethnic language. Even among foreign-born Asian Americans who have been living in the United States for less than 10 years, only 12% deem the ability to speak their ethnic language a very important criterion for a financial professional.

In fact, 88% of surveyed Asian Americans prefer to receive their financial information in English even though 72% are bilingual. When asked specifically about printed information for a life insurance purchase, still about nine in 10 prefer English. Our research finding reveals that ethnic language support becomes more important in the post-sale support phase, in terms of account statements and explanation of process and forms.

Recommendations & Conclusion

While more research needs to be done to truly understand the nuances among various subgroups of Asian Americans, there is a common theme of Asian Americans aspiring to a comfortable retirement. This research points to a gap between their dream and the reality, and the need for more education of financial product options that can help Asian Americans reach their retirement goals.

While financial advisors have an important role in educating Asian Americans, there are opportunities for employers to serve as an access point in disseminating helpful information to Asian American workers and to encourage discussions with financial professionals. For example, including lifetime income illustrations in defined contribution plan statements would go a long way in putting more workers on the path to a secure retirement. Our experience has demonstrated that helping participants think about their retirement savings in terms of a monthly paycheck is one of the most effective ways to get them to take action. As such, Prudential supports the lifetime income disclosure regulations that have been introduced in both the House and the Senate.

We also support the Automatic IRA bills, which include the Multiple Small Employer Plan (MSEP) concept. These bills bring attention to the critical retirement coverage gap facing 78 million American workers, including Asian Americans.

For some employers, the Automatic IRA will be the right solution. But the inclusion of Multiple Small Employer Plans will bring additional choice to the small end of the market, enabling these employers to choose the option that best meets their objectives and the needs of their workforce.

By allowing small employers to pool their resources, we believe MSEPs will increase their purchasing power, reduce administrative burden, and provide a stepping stone on the path toward implementing a more extensive qualified deferred contribution plan. And we encourage the Department of Labor to draft a model MSEP plan, which will help provide clarity and consistency across MSEPs.

As part of our response, we encourage continued data collection and analysis to continually support actions that employers, financial institutions and government agencies can take to help all Americans achieve a successful retirement.