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Wells Fargo/Gallup Investor and Retirement Optimism Index: Q1 2018

Investor optimism steady in bumpy ride

Highlights of the Investor and Retirement Optimism Index

February's market correction left most investors surprisingly calm as they weathered volatility. Surveyed investors generally were positive about tax law changes—though nearly half weren't sure if their taxes had gone up or down. Additionally, survey results show investors aren't doing much to prepare for retirement's hidden costs; they want help with Social Security and a number of planning topics, but cost is a barrier for some. Meanwhile, many of the women surveyed have differing opinions from men on tax law changes and the state of the economy.

Contents

52%

of respondents said they weren't particularly concerned about market **volatility**

51%

said they weren't sure how tax law changes have affected them

More than **HALF** of investors say they'd tolerate declines of **10% or more**

Nonretirees surveyed said they give more thought on how to spend their **leisure time** than they do to planning for retirement income, taxes, health care, Social Security, or living arrangements

Women are more **skeptical** about tax cut benefits, more **concerned** about volatility, more **thoughtful** about medical care, and more **likely** to ask for advice

70%

of nonretired respondents want advice on optimizing Social Security

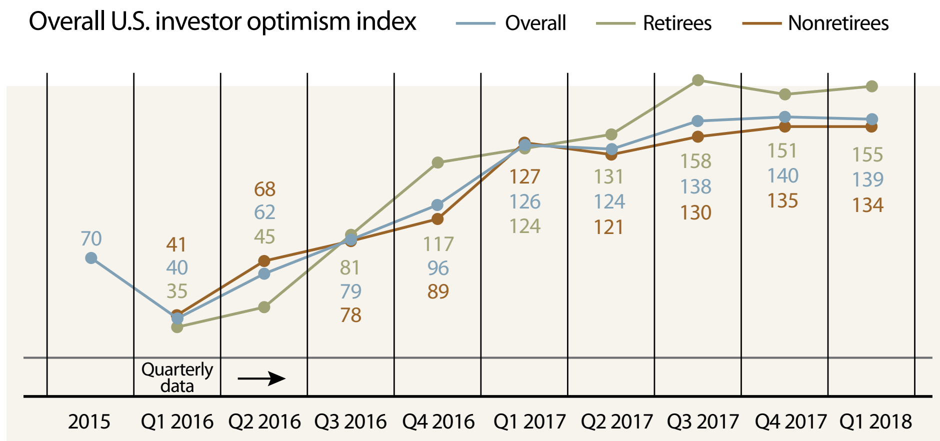
Investments in Retirement Plans: ▶ NOT FDIC Insured ▶ NO Bank Guarantee ▶ MAY Lose Value

Investors show surprising calm after market dip

Investor optimism remains at its highest level since September 2000

Investors remain optimistic despite the significant market decline in early February. The first-quarter 2018 Wells Fargo/Gallup Investor and Retirement Optimism Index survey was essentially unchanged from the fourth quarter of 2017, maintaining the index at its highest point since September 2000 when it registered at 147. As in previous surveys, retirees remain more optimistic than nonretirees (155 on the index for retirees versus 134 for nonretirees). Investor optimism among survey respondents was especially high toward the ability to maintain or increase household income (71%), reach five-year investment goals (71%), and reach 12-month investment targets (67%). Investors came out of the first plunge of this roller coaster ride unrattled, but economists have warned that there may be more thrills ahead.

Overall U.S. investor optimism index

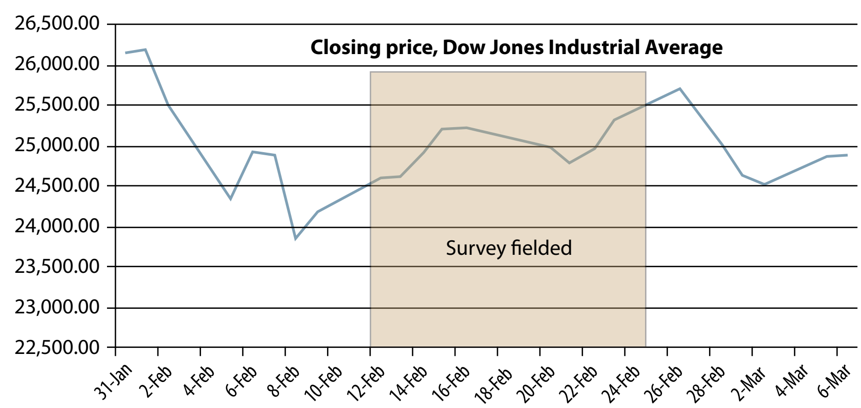


Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q1 2018

Perspective on results in a volatile market

The survey was fielded during the recent recovery

The first-quarter survey was conducted February 12–25, 2018. Interviewing began a week after the market took its first significant decline of the recent correction but just as the Dow Jones Industrial Average (DJIA) was starting to recover from its descent below 24,000. Over the course of the survey, the DJIA rose from 24,191 (at the end of trading Friday, February 9) to 25,311 (at the end of trading Friday, February 23). A strong jobs report and January's best wage growth in nine years (2.9%) also were reported.

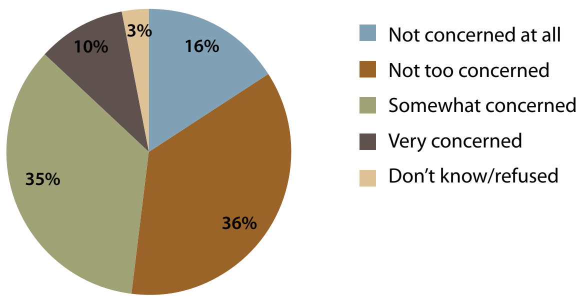


Source: Thomson Reuters, Dow Jones Industrial Average Closing Price, March 2018

Concerns about market volatility wane

The majority of investors surveyed reported little concern about stock market volatility and, while a minority had reservations, their numbers had declined. Just 45% said they were very or somewhat concerned about volatility—down from 53% and 64% in 2015 and 2016, respectively—and 16% said they were not concerned at all. The number of investors who think now is a good time to invest in the financial markets increased to 60% in this survey, up from the 51% average since 2011.

How concerned are you about recent volatility in the stock market?



52%

of respondents said they were not particularly concerned about volatility

Investors weigh in on correction tolerance

Investor comfort with volatility also is indicated by attitudes toward a market correction. When asked what the largest market drop is that they could tolerate over the course of a year for a $10,000 investment, more than half of survey respondents said they could tolerate correction-level declines of 10% or more, with 20% saying they could tolerate a 20% decline. Conversely, one-third of investors responded with comfort levels at only a 1% or 5% annual decline.

What is the largest drop you could tolerate over the course of a year for a $10,000 investment?

1%	5%	10%	15%	20%	Other	Don't Know/refused
13%	21%	25%	8%	20%	1%	12%

Women respondents were more likely to report comfort at a 1% level than male respondents (19% of women versus 7% of men) and less likely to report comfort at a 20% decline (13% of women versus 27% of men). In one of their greatest differences from men, women by a margin of 14 percentage points were more concerned about market volatility (53% of women very/somewhat concerned versus 38% of men).

More than

Half

of all respondents said they could tolerate a correction of 10% or more

✔ **Implications:** An *Institute Alert* from Wells Fargo Investment Institute called the February correction technical in nature and said it did not reflect any changes to the fundamental underpinnings of the U.S. economy or equity markets. But, it cautioned that it does "expect more market volatility in 2018 than we experienced last year" and added that tax reform and the budget agreement could "place more upward pressure on domestic interest rates, which may lead to volatility in the fixed-income markets as well."[1]

More than a

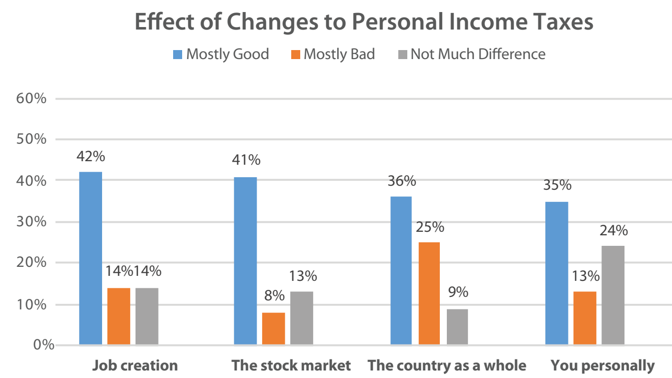
Third

of respondents

saw positives in tax reform

Investors generally are positive about the tax law

While many respondents gave favorable marks to the recent federal tax legislation, their favorable rating seldom approached half of respondents, and a fair amount of uncertainty remained. A minority of investors surveyed said the legislation would have a mostly negative effect, while others felt there wouldn't be much effect at all. Significantly, roughly one-fourth of respondents (not represented in the chart below) were unsure about what consequences the tax changes would have. Overall, respondents were more positive about the effects on job creation and the stock market and a bit less positive about the impact on themselves and the country as a whole.



Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q1 2018

When asked about the impact on their federal income taxes, 8% of respondents said their taxes had gone up, 25% said they had gone down, and 45% said they weren't sure.

Have the new tax laws caused your federal income taxes to go up, down, or stay the same?

Go up	Go down	Stay the same	Unsure	Refused
8%	25%	16%	45%	6%

51%

of respondents were unsure what direction their taxes had taken

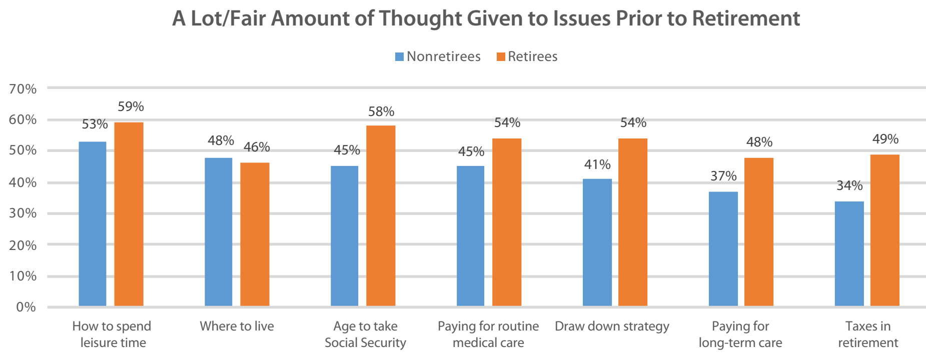
Women respondents were more skeptical about tax law changes than men, being less likely to rate them as mostly good across all measures.

Women less likely to say tax law changes were mostly good

Personal income taxes:	**Women**	**Men**
For the country as a whole	**29%**	**43%**
For job creation	**34%**	**50%**
For the stock market	**30%**	**51%**
For you personally	**26%**	**43%**

✔ **Implications:** The impact of tax cuts has yet to play out. In a March 1 *Institute Alert*, Wells Fargo Investment Institute said, "The most significant changes are unexpectedly large economic stimulus from tax cuts and new federal spending ... and the fixed-income market's new, higher inflation expectations."[2] Among other things, it forecast a bumpier ride for equities. Meanwhile, this survey showed that investors may not be considering potential advantages of lower taxes: 19% of respondents said they were focusing on before-tax savings and 57% said they weren't making changes, even though potentially higher taxes in retirement might create opportunities for Roth accounts and their tax-free withdrawals.

Qualified Roth IRA distributions are not subject to state and local taxation in most states. Qualified Roth IRA distributions are also federally tax-free, provided a Roth account has been open for at least five years and the owner has reached age 59½ or meets other requirements. Withdrawals may be subject to a 10% federal tax penalty if distributions are taken prior to age 59½.



Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q1 2018

Investors gave more thought to lifestyle prior to retirement than to factors that would make that lifestyle possible.

Planning exposes retirement's hidden costs

We asked investors how much thought they had given to seven key areas of retirement. Six of the areas concerned issues that could help them improve their financial position and one was about all of the enjoyable things they could do. It was a close race, but leisure was top of mind.

Of those surveyed, retirees were more diligent than nonretirees in nearly all categories, with many saying they had thought of these issues a lot or at least a fair amount before they retired. But even among that group, about half didn't consider them, and for those who waited until just before retirement, that may have been too late. All of these issues require thoughtful lead times and will affect the size of a retirement paycheck going forward. For example, taxes and medical and long-term care costs in retirement often are under-anticipated and a drawdown strategy and living arrangements often are overlooked. And then there is the question of when to take Social Security, which could affect the retirement date itself. These are the potentially hidden aspects of retirement that many investors don't include in their planning. Most retirees surveyed said they felt prepared for these issues when they retired; about one in five said they wished they had given them more thought.

Here are retiree responses that might inform nonretirees:

- 22% retired earlier than they would have liked, demonstrating the importance of planning early
- 45% of retirees started taking Social Security before they reached full retirement age, decreasing their monthly payments for life
- 27% said their daily living expenses are higher than they had planned
- 37% said their health care costs are higher than they had expected
- 28% said they pay more in taxes than they had anticipated
- 20% said inflation is higher than they expected

✔ **Implications:** Taxes, inflation, health care, claiming date for Social Security, and a sensible drawdown strategy potentially can lead to hidden costs of retirement that can make a significant difference in a retiree's standard of living. Forethought and planning may help reduce unpleasant surprises and open the door to the leisure experiences most investors probably would prefer to think about.

53%

of nonretirees surveyed have given thought to leisure pursuits but only 34% **to what they'll pay in taxes**

45%

of retirees surveyed took Social Security before they reached full retirement age

67%

of nonretirees surveyed haven't estimated the taxes they'll pay in retirement

62%

of nonretirees surveyed want help **developing a retirement income plan**

Room for improvement in preparation, services

Despite market optimism, relatively few respondents (34%) were highly confident that they will have enough money to maintain their lifestyle in retirement, with nonretired investors less certain than their retired counterparts (28% nonretired versus 48% retired). Only a small amount of nonretirees surveyed have done the calculations needed to determine their actual retirement needs, suggesting there is room for improvement in retirement preparation:

- 20% said they have done the detailed calculations to determine the amount of income they will need; 48% haven't even thought about it
- 20% have taken a detailed look at how much income their retirement accounts will generate; 47% haven't even estimated it
- 11% have calculated retirement taxes; 67% haven't even estimated them

401(k)s popular, still evolving

Of those participating in the survey, 68% said they are investing in a 401(k), including 75% of nonretirees and 51% of retirees. Ninety-two percent said they are satisfied with their plan.

Professional advice is a potential area of improvement for survey respondents, with nonretired investors interested in a wide range of professional advice and services that could be offered through a plan:

- 70% of nonretirees with a 401(k) are interested in receiving advice on how to optimize their Social Security benefits.
- Roughly 6 in 10 are interested in receiving professional advice on developing a retirement plan (62%) and being able to customize target date funds to the exact year they plan to retire (58%).
- Just over 4 in 10 are interested in getting advice based on all of their assets, not just those in their 401(k) (44%); having their investments automatically rebalanced (44%); and receiving advice for 401(k) asset allocation (41%).

The cost of receiving professional investment advice is a major barrier for 15% of respondents and a minor barrier for 27%.

✔ **Implications:** In its *2017 Driving Plan Health* report,[3] Institutional Retirement and Trust demonstrated how a few common mistakes in savings behavior can compromise a retirement strategy. The same is true in the decumulation phase of retirement, where overly aggressive withdrawals, neglected calculations for taxes or inflation, and a wrong turn on Social Security just as retirees are crossing the goal line can have similarly damaging effects. Ever since their creation in the early 1980s, 401(k) accounts have primarily focused on the accumulation phase of retirement preparation, but it's important to consider decumulation as well.

Women have their own take on many issues

Women's responses differed significantly from those of men on roughly one-third of the survey questions. In a few cases the differences speak to possible educational opportunities, while in others they speak to possible investing strengths.

Tax reform—In general, women were much more skeptical about the benefits of tax reform than men. As shown in the table on page 4, women were less likely to say tax reform changes were good, and this was true across all four measures.

Market outlook—Women seemed more cautious than men about the outlook for the markets and the economy in general. They were less optimistic about economic growth (59% versus 73% highly/somewhat optimistic) and about stock market performance (54% versus 64%).

Familiarity—Women were less familiar with the differences between Traditional and Roth IRAs than men (18% versus 30%) and less likely to claim they were highly/somewhat knowledgeable about the market (59% versus 71%). They also were less likely to say they were very comfortable using online/mobile technology for investing or financial advice (28% versus 40%).

Planning—Women appeared to be strong in several planning areas. They were more likely to say they had thought a lot/fair amount about paying for routine medical care/long-term care (nonretirees, 53%/42% on those two issues versus 39%/33% for men). They also were more likely to receive advice from a financial adviser (58% versus 45%) and have a written financial plan (54% versus 47%). Finally, they appeared to approach the future more circumspectly than men, with nonretirees saying they are less confident they will have enough money in retirement (70% versus 83%).

58%

of women receive professional financial advice

Background and methodology

About the Wells Fargo/Gallup Investor and Retirement Optimism Index

These findings are part of the Wells Fargo/Gallup Investor and Retirement Optimism Index that was conducted via telephone February 12–25, 2018. The index includes 1,321 investors age 18 and older that were randomly selected from across the U.S. with a margin of sampling error of +/- 3 percentage points. For this study, the American investor is defined as an adult in a household with total savings and investments of $10,000 or more. About two in five U.S. households have at least $10,000 in savings and investments. The sample size consists of 71% nonretirees and 29% retirees. Of total respondents, 36% reported annual income of less than $90,000; 64% reported $90,000 or more. The Wells Fargo/Gallup Investor and Retirement Optimism Index is an enhanced version of Gallup's Index of Investor Optimism, which provides the historical trend data. The median age of the nonretired investor is 47 and the retiree is 69.

The Index of Investor Optimism had a baseline score of 124 when it was established in October 1996. It peaked at 178 in January 2000, at the height of the dot-com boom, and hit a low of -64 in February 2009.

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About Gallup

Gallup delivers analytics and advice to help leaders and organizations solve their most pressing problems. Combining more than 80 years of experience with its global reach, Gallup knows more about the attitudes and behaviors of employees, customers, students, and citizens than any other organization in the world.

1. Wells Fargo Investment Institute, *Institute Alert*, "Market Volatility Continues—A Q&A for Investors," February 12, 2018.
2. Wells Fargo Investment Institute, *Institute Alert*, "Updating Selected 2018 Forecasts and Target Prices," March 1, 2018.
3. Wells Fargo Institutional Retirement and Trust, *2017 Driving Plan Health*, June 2017.

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