

Wealth Management Strategies for Boomer Retirement

BY WAYNE CUTLER

Asset accumulation has been the centerpiece of wealth strategy, both for households and their financial services providers. But the impending retirement of the post World War II baby boom population has introduced a new set of priorities for an important segment of the wealth market, centered on distribution and payments.

Rather than seeking additional savings and investment products, a tidal wave of retiring households will be looking for critical assistance in managing resources, both to supplement monthly budgets and to extend core retirement assets as long as possible. This shifting customer orientation has significant implications for banks.

Already well-positioned in household cash management and payments, banks will need to extend this customer orientation with retirement assets, and carve out an essential role in the boomer retirement market. The goal is to provide the expertise, advice and tools that retirement households will need to manage their finances, as well as innovative products for the staged disbursement of retirement assets.

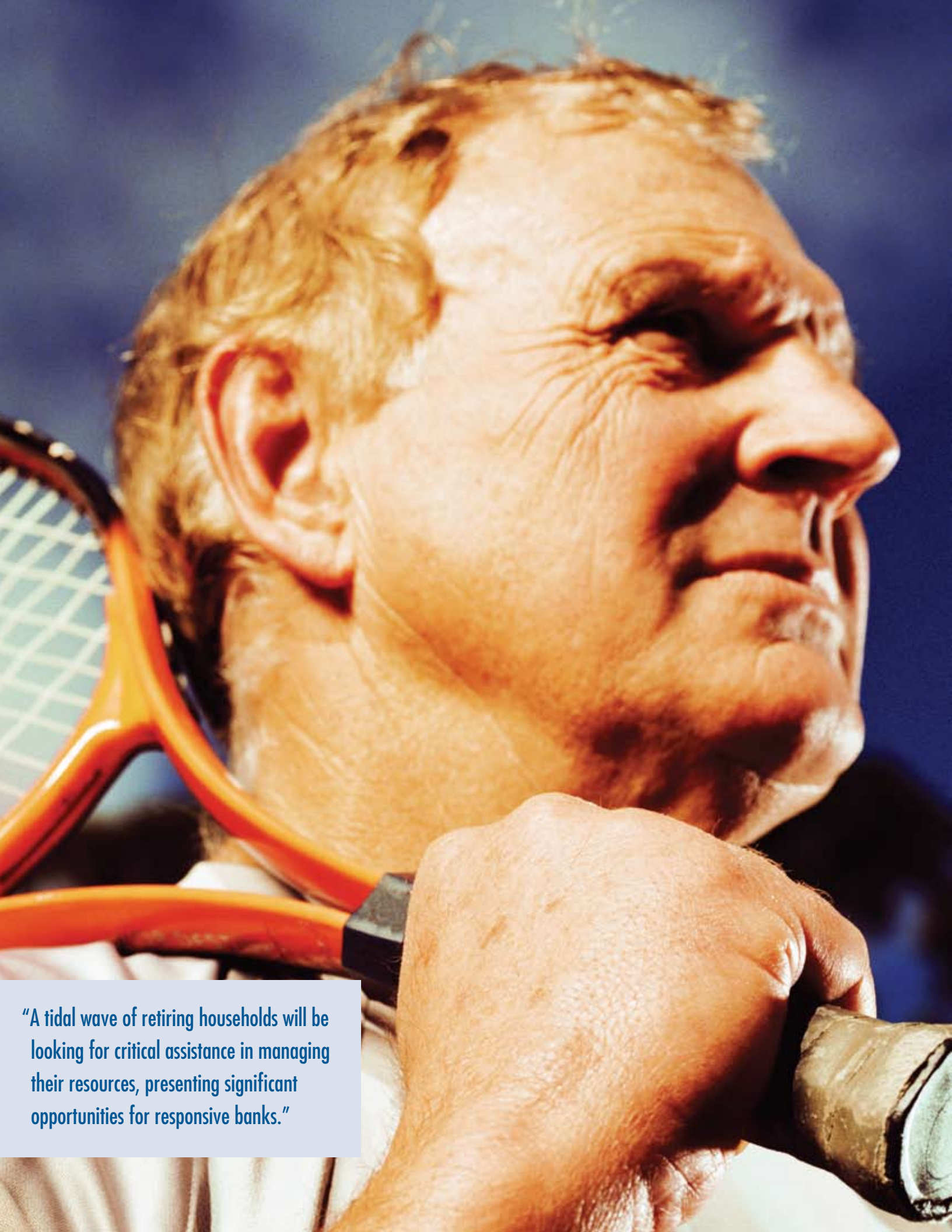
The opportunity is enormous. During the next five years, about 1.4 million households will retire in the mass affluent category, which broadly encompasses those with \$100 thousand to \$1 million of investable wealth (exclusive of formal retirement accounts, insurance policies and home equity). This group alone will carry roughly \$380 billion of investment assets into retirement, plus other substantial resources, with the average individuals spending roughly 17 years in retirement.

Institutions that play a role in managing these resources stand to realize substantial revenues, including margin income on standby retirement balances and fee income on advisory and payment services. This opportunity will grow as additional waves of baby boomers retire.

To win in this new market, banks will need a different customer orientation, a variety of new skills and a much more coordinated customer outreach. Along with a composite financial picture of wealth and retirement customers, banks will need a segment-level understanding of customer needs and behaviors, and explicit strategies to win “share of wallet” with each major customer group. This will also necessitate new products and online tools to stay competitive with myriad non-bank players circling the waters.

BUILDING CUSTOMER RAPPORT

Banks have many opportunities to serve the boomer segment of the mass affluent market, but they need to start engaging customers now. The majority of retirement assets are currently held by those who are still working. As more baby boomers move beyond their working years, there will be a cross-over



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Many boomer households will need post-retirement financial services before then. Over the next 10 years, for example, the mass affluent segment will liquidate approximately \$4.5 trillion of assets to pay for retirement expenses, an amount equaling 10% of total U.S. household wealth today.

Longer-term investments will be sold in this “de-accumulation” phase, and retiring households will be looking to park the proceeds in vehicles that can provide spending resources and also generate earnings on standby balances. Given their central role in the payments system, banks are well-positioned to manage these interim balances. But competition will be fierce, from both bank and non-bank players. As underscored by Novantas consumer research, banks have some homework to do in understanding the diverse needs and behaviors of mass affluent households and creating winning responses.

Complexity. Although the typical mass affluent household has about a fifth of the wealth amassed by the average affluent household (assets of more than \$1 million), customer needs are just as complex. For example, our wealth survey showed that the mass affluent segment has almost the same number of investment products per household as the affluent segment, 3.1 vs. 3.5 (multi-institutional holdings of a product type were counted as one product). Also, people in this segment tend to be less self-directed and less educated, and therefore require more advisory time.

Resource adequacy. More than one third of mass affluent households face serious risk of outliving their retirement resources, according to our research. But in many cases, the primary issue is not so much asset accumulation as it is fiscal discipline.

In our survey of customers who intend to retire in 15 years, we found that underfunded households had about the same amount of current wealth as the sufficiently funded households (\$445,000 vs. \$466,000). However, monthly expense levels varied dramatically, with underfunded households averaging \$12,200 in monthly spending, or 70% more than the \$7,200 average for the sufficiently funded households.

To have any material impact on retirement feasibility, the underfunded households would have to cut expenses by at least 40%, which is highly unlikely. Other alternatives are to work longer than planned, identify opportunities to earn

more on investments, or find other funding sources, such as tapping into the equity in their homes.

Advisory context. Households have wide variations in their preferences for using a professional advisor versus managing their investments and retirement plans on their own. In fact, only 31% of mass affluent households have a strong preference for using an advisor.

Given that retirement affordability is driven more by individual lifestyle choices than by their inherent wealth levels, providers face some critical questions in serving this market. To what degree are people aware that they are spending beyond their means? Do they have the resolve to change their lifestyle and make the hard choices to reduce spending? What role should financial institutions play in helping customers come to the realization that they will be in serious trouble if they don't reduce their spending?

CRITICAL QUESTIONS

As banks consider how best to serve retiring boomers, they face critical questions about distribution and sales. Mass affluent households have been caught in a “grey” area of servicing. On the one hand, they are under-served by financial advisors, who tend to curtail time with these customers to focus elsewhere on larger accounts. On the other hand, there is an excess of branch service that primarily focuses on individual product sales rather than more comprehensive financial planning.

The issue revolves around economics and the extent to which banks can profitably serve the mass affluent customer group. The challenge is to provide complex retirement advice and services on a mass production platform that lowers the cost of delivery. Innovation, particularly using online technology, will be needed to reach customers in a compelling way that will also improve distribution economics.

Banks also need to think about planning tools and fee-based services for retirement household financial management. We found only a handful of market leaders within the top 20 U.S. banks with a strong emphasis on retirement and high degree of innovation in their products and tools, as rated by third-party web sites.

Most big banks are focused but shallow in their approach to the retirement market, meaning that they have a reasonable amount of “shelf” space on their web sites, but they are only supported by a very basic set of products and services that often come across as repackaged bank offerings.



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In particular, banks need to develop a new generation of “staged disbursement” products for management of retirement household finances and payments. Non-bank competition is already heating up in this area.

Fidelity Investments, for example, has launched a family of “Income Replacement Funds,” which provide a combination of professionally managed investments and timed disbursements to meet customer expense needs. Banks are often wary of products such as these, as historically retirement households would liquidate long-term investments and then transfer the cash to bank savings and checking accounts.

Online players, such as mint.com and smartypig.com, also have been making inroads into budget management by offering aggregation tools to customers and introducing creative ways for people to track their money and save for specific goals.

Such offerings pose a major risk for banks, given that budgeting tools tend to make loyal customers. Banks are already aware of this relationship durability from their experience with online bill pay. Once consumers have all of their banking and financial information entered into an online system and begin using a particular budgeting tool, they are reluctant to go through the hassle of switching to another tool from a competitor.

Banks have a clear mandate to develop the tools, products and servicing models needed to support mass affluent households as they plan and live out their retirement. The important question is how best to organize the effort.

Today in banking, the constituent parts of the total wealth management business often are scattered among various product lines and distribution channels. Mass affluent customers tend to buy several individual products and occasionally

seek advice, but seldom are they presented with coordinated, attractively packaged offers centered on helping households to achieve long-term retirement goals.

To remedy this situation, some banks have appointed “retirement czars” to coordinate the various bank departments. Unfortunately, these leaders often are largely confined to ceremonial roles, given that they do not have the clout to reprioritize development initiatives among the product and distribution silos, and otherwise lack direct control of the resources needed to get things done.

Other banks are moving to a wealth “council” approach, where executives from various business lines are brought together as a team. In our experience, this can work if the team can build consensus and commit to specific objectives. Obviously, it will help if the chief executive officer and head of retail banking are sitting in on meetings.

Banks also will need strategies that are guided by the composite retirement needs of mass affluent customers. Why let customers get lost in financial cafeterias when unified programs can improve sales and boost customer satisfaction and loyalty.

Generally in bank wealth management, a primary customer relationship (with the majority of business consolidated in a single provider) is four times more valuable than subordinated service, which often goes no further than a single account. A top priority for banks is to develop strategies (and supporting metrics) to capture share of wallet.

Often this will be achieved through targeting and segment responsiveness. Only a certain portion of mass affluent households has the investable resources, receptivity and discipline to take fuller advantage of bank offers. Careful research will be needed to identify “sweet spot” customer segments and their varying needs, behaviors and attitudes.

Ultimately the bank needs to establish a set of segment-prioritized growth initiatives. In terms of competitive positioning, banks should double down on their strengths in the payments and cash management space, extending this center of gravity to include the needs of retirement households. Non-bank players are making fast inroads here, and there is no time to waste. Banks should also build on their brand loyalty with custody and trust services, via a “lite” version to the mass affluent segment.

EXECUTIVE AGENDA FOR 2012

In the quest for a more prominent role in household cash management for the retirement market, most banks are closer to the start of the journey. Five years from now, we expect to see a variety of mid-stream strategies and robust offers. But going into next year, there is some important work to be done.

First, banks need to dimensionalize the opportunities by considering the following: brand positioning and customer set; robust composite estimates of the current book of business with mass affluent households; and scenario analyses and multi-year projections of the various possibilities for revenue growth. Banks need to determine what is at stake and what is the “size of the prize.”

Second, banks need to establish strategies to retain and expand relationships with an enormous group of customers who park retirement funds in everyday banking products, such as certificates of deposit and money market deposit accounts. Often the intent of these balances is known only to the account holders themselves, placing banks in the position of passively fulfilling product orders. In a sense, the future retirement household cash management market has already arrived, but is almost totally lacking in customer context, proactive outreach and product innovation and packaging.

Third, a serious developmental effort is needed to bring banks up to speed in the fast-moving online market for financial management and ancillary product sales. The competitive situation could become steep if banks do not quickly establish themselves as an online destination, and innovations are necessary anyway in enabling banks to solve the efficiency problem in meeting the complex needs of mass affluent households.

The good news is that banks are solidly positioned to serve the retirement household cash management needs of retiring baby boomers. The job will not get done, however, by passively supplying a collection of discrete products and services. Winners will distinguish themselves through proactive outreach, and the time to get started is now.

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