

For the financial industry, there's a retirement bar to be raised

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For some, the word "retirement" brings to mind a vision of leisure, swinging a golf club, buying a summer home or finally spending time with the grandchildren. For the anxious majority, however, retirement can symbolize the absence of a steady paycheque and the possibility of deteriorating health, soaring expenses, and even chronic debt. Yet for all the hand-wringing about their financial future, most people take little positive action to address the issue.

There's clearly a disconnect between the anxieties that pre-retirees feel and the hesitant steps they actually take to prepare for retirement. On the other hand, the financial services industry - for which retirement planning services could be a large driver of growth and profitability over the next decade - has substantial opportunity to improve its offerings.

According to a new McKinsey study of more than 3,000 people nearing or in retirement, pre-retirees of all income levels worry about a range of retirement risks such as inflation, health expenses, market risk and a lack of guaranteed income. Women, in particular, scored 10 to 15 percentage points above men for anxiety about all retirement risks. However, only one in six pre-retirees has done any significant planning for retirement - among women it's only one in eight. More than half of retirees believe they have saved too little for retirement.

Two major reasons explain consumers' inaction. First, consumers have expectations about funding retirement that are out of sync with their retirement realities. For instance, 40 per cent of pre-retirees plan to fund their retirement by working longer, yet two out of five people (regardless of wealth level) are "forced" into retirement for health or unemployment reasons before they planned. This brings the average retirement age to a surprisingly low 57. One-third of pre-retirees think they will reduce their spending - but more than 40 per cent of retirees actually spend the same or more. The plan for 30 per cent of pre-retirees is to downsize their home, a step only 5 per cent of retirees take.

Second, even when pre-retirees recognize they need help, most financial institutions fail to meet their needs. More than 1 in 4 affluent pre-retirees seek advice on how to ensure guaranteed retirement income, but only 7 per cent of that already-small segment have received any counsel from their financial advisers.

Consequently, more than half of consumers change advisers after the age of 40. For the industry, that's a significant missed opportunity.

The financial industry must take the following steps to better serve their clients:

Simplify products and

services, and embed advice into the product

The success of "do it for me" products, such as life-cycle retirement funds that automatically rebalance their assets to become more conservative over time, shows consumers' desire to eliminate the need for costly hand-holding or meticulous planning. The industry can profitably serve clients by simplifying additional elements of the process, such as finding additional avenues to "wrap" advice into retirement products.

Better understand

the consumer psyche

Winners in other industries have long understood how to move consumers to action. Retailers create urgency through limited-time offers, recommend products based on peer groups, or offer a "cooling off" period to ease regrets about a recent purchase. By better understanding consumer mindsets and behaviours, financial firms could encourage more people to take positive action.

Create retirement plans, not just financial plans

Early "winning" financial providers have helped clients construct holistic plans beyond portfolio and investment allocation - addressing personal financial issues such as guaranteed income, later-life care expenses, and wealth transfer.

Develop models targeting underserved segments

There is great potential demand among women, who are less prepared for retirement than men and expect more experience, more objectivity and a simpler planning process from their advisers. Other attractive segments of the market - such as business owners, immigrants, and those who direct their own retirement plans - need more customized solutions and service models.

By rethinking the way they serve their aging customer base, and by fine-tuning and simplifying their offerings, financial firms can provide practical services and products to anxious consumers - and better service experiences that make retirement planning successful can also lead to customer relationship growth, loyalty and profitability. With the baby boomer retirement wave rapidly advancing, firms that realign their approach now will be well positioned to capture growth from customers eager for their help.

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