Older minds don’t necessarily think alike: Hearts & Wallets

By Editor Test *Sun, May 20, 2012*

The term “income annuities” doesn’t hold the same negative connotations as “annuities” for older investors, according to a new research report from Hingham, Mass.-based consulting firm Hearts & Wallets.

Older investors generally fit into one of three categories, according to the latest study from Hearts & Wallets, the Hingham, Mass.-based consulting firm led by Laura Varas and Chris Brown.

The findings of the study, “Shining a Light on Pre- and Post-Retirees: What 3 Different Retirement Lifestyles Reveal about Language, Attitudes and Experiences with Advice and Retirement Income,” was based on responses from nationwide focus groups.

The full report is available from Hearts & Wallets.

Here’s how Hearts & Wallets described the three demographic sub-segments:

- **Full-Steam Aheads.** They plan to work at least part-time in retirement “to avoid mental deterioration and keep their options open.”
- **Balancers.** – They view part-time work in retirement “as an insurance policy for the future and a way to earn spending money.”
- **Leisure Pacers.** They plan to stop working in retirement but are “more involved with their finances now than ever before.”

Overall, Hearts & Wallets found that simply promoting your capabilities as a retirement income specialist will not automatically bring older Americans running to consolidate their assets with you or your company. The older market is more nuanced than that.

“The term ‘retirement income’ means three wildly different things to different types of older investors,” said Varas. “Many firms think of ‘retirement income planning’ as a service that helps older Americans plan how to take income from their personal assets. But using one lifestyle segment as an example, Full Steam Aheads often think the term ‘retirement income’ refers to ‘entitlements,’ like pensions or Social Security.

“Since Full Steam Aheads tend to take responsibility for themselves and others, they don’t even think ‘retirement income’ applies to them! This misunderstanding is a tragedy because many of these offerings are specifically designed to help people like them.”

The myth of asset consolidation

Contrary to what many companies hope, older Americans general don’t plan to put all their eggs in one service provider just because that provider is adept at “retirement income.” Many older investors express a reluctance to consolidate assets with one firm. Only a minority of older investors will consolidate with a single provider.

“Retirement income services may help providers increase wallet share,” said Brown. “But they need to be careful about asking for everything. And they need to understand trust-drivers and -eroders.”

Some investors have had bad experiences with advisors who have put their own interests ahead of the client. Some still work with an advisor but put in extra hours checking up on advisor recommendations.

A note about trust and calculators

A few key trust drivers/eroders include:

- An advisor who takes time to get to know the client.
- An advisor who offers reasonable and clear fees.
- Staff or advisor turnover is a key trust eroder.

The study also details how investors connect with financial services providers and advisors. Many investors met their provider or advisor through a workplace retirement plan.

Receptivity to retirement calculators is mixed. Many older investors like using calculators to try on different decisions before having to make them. But others see calculators as rigged and as prompting the investor to put more money than necessary into mutual funds. The full study provides a review of investor opinions on the usefulness of retirement calculators, how they use them or would like to, and how advisors can use retirement calculators with clients.

Investor receptivity to three retirement income concepts

The study also examined techniques older Americans use to generate retirement income today, their likes and dislikes, and language that might support optimal income solutions.

The study explored how older Americans are currently executing three popular techniques:

- Establishing a guaranteed “Income Floor”
- Breaking up assets into “Time-based Buckets” that can be used in different periods of life
- “Sustained Withdrawal,” or seeking to take income from an overall diversified portfolio

In the full report, different types of older investors provide detailed responses to these concepts. Interestingly, there were some signs of thawing in attitudes to annuities, which can perform the important, attractive economic function of providing steady income and pooling longevity risk.

Unfortunately, consumer misfortune with poor business practices, such as over-engineering or excessive fees and sales commissions, means resistance runs deep. On the other hand, the term “income annuities” doesn’t hold the same negative connotations as “annuities.”