
Reading the Minds of the Affluent

By Editor Test *Wed, May 25, 2011*

Cogent Research has tapped into the attitudes of wealthy retirees and pre-retirees toward retirement income products.

A new survey of 700 U.S. retirees and pre-retirees with at least \$100,000 in investable assets by Cogent Research confirms what many annuity marketers already sense: that only a minority of either the Silent Generation (22%) or “first-wave” Boomers (35%) are open to “products specifically geared for producing retirement income.”

But the report, “In-Retirement Income: Addressing the Needs of a New Generation of Retirees,” found that most retirees and pre-retirees want what those products can deliver: a regular, inflation-proof, lifelong income in retirement regardless of market activity. And 41% of pre-retirees with at least \$500,000 in investable assets said they were “investing in specific products designed to generate a consistent stream of income.”

Confusing? You bet. Yet the opportunity is huge. Cogent estimated that 3.1 million affluent U.S. households currently include at least one member who will retire within the next seven years.

“Providers have a huge challenge,” said Cogent principal John Meunier in an interview with RIJ. “They have to deal with the high bars set by investors, who want regular income, inflation-protection—they key in on that—and protection from outliving their resources. On the one hand, it’s a tall order. But it couldn’t be clearer what they want and need. It’s always been said that guaranteed products are sold and not bought. But I think that’s changing. Investors are looking for those solutions. It’s just a matter of how the options are presented.”

More than three-quarters of affluent retirees and pre-retirees feel confident that they can generate retirement income from products they already own than from new products designed specifically for retirement income. The same proportion said they have “investigated ways to achieve in-retirement income goals on their own.” Yet only 55% of pre-retirees expressed confidence in their ability to generate retirement income.

The study showed some interesting differences between the current retirees, most of whom belong to the so-called Silent Generation, and pre-Retirees, who are Boomers ages 56 to 65. While 44% of retirees expected to rely most on a pension for retirement income, only 27% of pre-retirees said so—an apparent sign of the shrinkage of defined benefit plans.

Retirees held more money in IRAs than 401(k) accounts (42% vs. 12%) while pre-retirees showed the reverse (35% in 401(k) accounts and 26% in IRAs). That may indicate that the Silent Generation had less access to 401(k)s, or it may simply indicate that they've already rolled over their DC assets to IRAs.

The biggest difference between these adjacent generations, the study showed, was in their relative insistence for complete liquidity. "Willingness to give up control of principal was almost twice as high among the first-wave Boomers as among the Retirees, by 31% to 17%," Meunier said. "We don't often see differences of that magnitude. Basically, a number of the younger people realize they don't have pensions, they expect to live longer, and they've experienced market turmoil. A confluence of factors is making them face reality."

The presence of an advisor, not surprisingly, makes a big difference in the products that affluent investors buy or don't buy, the study showed. While half of the "advised" older investors owned a retirement income product, only 35% of "unadvised" older investors did. Thirty-one percent of advised clients owned a variable annuity, but only 13% of unadvised clients did so. Twenty-seven percent of advised clients owned a fixed annuity, but only 20% of unadvised clients did.

"We've seen a greater tendency among advisors to embrace guaranteed products as a separate asset class," Meunier said. "You have your equity bucket, your fixed income bucket, and your guaranteed income bucket. Advisors used to think, 'If the [variable annuity living benefit] guarantees ever kick in, I've failed as an advisor.' I think that's changing. More advisors see these products as meeting a functional need, instead of as emergency backups."

Affluent older Americans are much more likely to look for help from mutual fund companies (34%) or brokerages (25%) than from insurance companies (14%). Meunier said that this finding probably indicates that, of the three, mutual fund providers have the most frequent direct contact with investors—not that investors trust insurance companies less.

The study showed that the least affluent of those surveyed, the retirees and pre-retirees with \$100,000 to \$500,000 in investable assets (\$276,000 average), were the most constrained and probably the most in need of guaranteed income products. They reported an average need of \$55,000 a year in retirement. Even assuming that Social Security and pensions would cover part of that, they would probably need to spend an unsustainable percentage of their invested assets each year to cover their needs.

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