

## **Banks Must Establish Dialogue with Consumers to Succeed in the Retirement Market, According to BAI Study**

**CHICAGO (November, 2007)** – Retail banks face heated competition in the race to capture their share of mass affluent consumers' trillions of dollars in retirement assets, according to a study released today by BAI, the banking industry's leading professional organization and Mercatus LLC, a strategy consulting firm.

Only 14 percent of mass affluent consumers cited their bank as their primary provider of retirement savings, compared to 53 percent for investment and brokerage firms. Additionally, banks captured just 18 percent of 401(k) rollovers to an IRA compared with 67 percent for investment and brokerage firms in the past year, according to the study.

Despite banks' weak competitive position however, consumers do respond to bank retirement initiatives. Findings show when mass affluent consumers maintain retirement accounts and seek retirement advice with their primary banks, those banks capture approximately 46 percent of these consumers' wallet share. However, they hold only 18 percent wallet share without a retirement relationship with these consumers.

The survey of 2,997 mass affluent individuals – those with investable assets between \$50,000 and \$2 million who are between 35 and 70 years old - was undertaken to better understand how they prepare for retirement and to provide banks with insights to re-establish their footing in the retirement marketplace. Research highlights will be presented at the BAI Retail Delivery Conference & Expo on November 15, 2007 in Las Vegas, Nevada. "Investable assets", for purposes of the survey, was defined as total household assets except for real estate and employer-sponsored retirement plans.

The findings indicate the mass affluent are clearly engaged in retirement planning. A majority (59 percent) cite saving for retirement as their top financial priority, followed by paying bills (cited by 34 percent as a top priority). Nearly all (89 percent) report having done some form of retirement planning.

"As baby boomers start retiring in the coming years, trillions of dollars of retirement assets that have been accumulating in 401(k)s, IRA, government pensions, and company benefit plans will come into play," said Debbie Bianucci, BAI's president and CEO. "Banks' once strong position in the retirement market has eroded dramatically in the last decade.

Investment firms, on the other hand, are increasingly leveraging their strength in retirement products to target the core deposit and lending services traditionally offered by banks, with the goal of establishing themselves as primary financial service providers."

"The focus on transactional rather than advisory relationships has undermined banks' efforts to build the marketing communications, solution platforms and customer relationship infrastructure needed to succeed in the retirement arena," said Bob Hedges, managing partner, Mercatus. "Establishing a dialogue focused on retirement solutions - in person, by phone and online - is key to banks capturing greater share of the retirement wallet."

### **Major survey findings include:**

- Investment and brokerage firms hold 43 percent of the mass affluent consumers' investable assets, while consumers' primary banks hold 23 percent.

- The retirement market remains highly fragmented. The top 10 firms control only 30 percent market share of retirement assets; over half of the 401(k) rollover market remains fragmented across a wide array of competitors.
- Despite banks' relatively low share of retirement assets, about half (49 percent) of mass affluent consumers view banks as suitable providers of retirement services. In addition, they view banks with brokerage capabilities as significantly more suitable retirement providers than banks not offering brokerage services.
- A significant portion of mass affluent consumers' retirement assets remain "orphaned" - still held in plans of previous employers. Over a third of mass affluent households have at least one orphaned 401(k) account with an average balance of approximately \$100,000.
- Sixty-one percent of mass affluent consumers report having a specific retirement plan, such as having an investment/asset allocation strategy or annual income and expense goals during retirement. For those without a plan, interest increases as retirement approaches.
- Consumers are increasingly starting earlier to plan for retirement: those under 45 started at age 30, for example, while those between ages 45 to 54 started at age 35.
- Not only are consumers interested in retirement planning, they are willing to pay for it. For example, 47 percent of those ages 45-49 said they would pay for retirement investment advice. Thirty-eight percent of those with under \$250,000 in investable assets and 55 percent of those with between \$1 – 2.5 million also said they would pay for such advice.
- Although most consumers report they are planning for retirement, they are worried about whether their investments will help them reach their retirement goals. Only 36 percent of respondents said the statements, "I feel confident that my retirement savings and investments are sufficiently diversified" or, "I am confident I am investing wisely for my retirement" describes them completely or very well.

### **Opportunities for Banks**

While retail banks lag behind brokerage and investment firms in the retirement marketplace, the findings indicate there is cause for optimism.

- *401(k) Market*

A prime opportunity for banks is the 401(k) rollover market. The findings indicate that less than half (45 percent) of 401(k) rollovers are stimulated by a change in employment status such as changing employers or starting retirement. However, 49 percent of rollovers occur in response to a stimulus directly initiated by a financial institution – such as receiving a recommendation from a financial advisor or completing a portfolio review.

"Retail banks must be more aggressive in capturing rollovers of orphaned 401(k) accounts. These accounts are largely overlooked by banks, even though the total U.S. market is well over \$1 trillion. Banks need to develop a consumer-oriented message that outlines the benefits of rolling orphaned funds into an IRA, such as gaining more control over your

money, managing assets more easily and enjoying more investment options ,” added Hedges.

- *Retirement Asset Consolidation*

Upon retirement, the priorities of mass affluent consumers generally shift from asset accumulation to securing a steady income stream. Accordingly, they tend to consolidate retirement assets for more efficient management. According to the survey, 50 percent of those ages 55 – 62 had consolidated their assets into fewer institutions, and 60 percent of 63-70 year olds had done so. Banks captured 30 percent of mass affluent consumers consolidating assets for income distribution, compared to 57 percent for brokerage and investment firms.

“Helping customers consolidate retirement assets to address income distribution needs is another major opportunity for banks,” said Paul McAdam, senior managing director, BAI Research. “Banks must respond to this threat with product and delivery innovations to address their customers’ retirement needs. In particular, they should focus on online retirement information and tools, access to dedicated retirement specialists, product bundling and simplification of cash management and payments.”

- *Retirement Dialogue with Customers*

Customers seek guidance in making retirement decisions. Over two-thirds (69 percent) of mass affluent consumers consider retirement planning to include talking with a financial advisor or having a written plan from a financial advisor. “Banks can increase their relevance and credibility with this segment by positioning themselves as a source of retirement expertise that gives customers confidence about planning for retirement and managing their assets in retirement,” added McAdam.

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## **Methodology**

The survey of 2,997 mass affluent U.S. individuals – those with investable assets between \$50,000 and \$2 million who are between 35 and 70 years old - was completed by BAI and Mercatus LLC, between April 17 and May 2, 2007. The survey was fielded to an online panel managed by Harris Interactive. The sample was stratified by age, gender, region and race based on U.S. Census Bureau data to ensure national representation. The sampling error on the national sample was +/- 1.97 percent at a 95 percent confidence level. The corporate sponsor was St. Paul, Minn.-based Deluxe Corporation.

## **About BAI**

BAI (formerly known as the Bank Administration Institute) is the financial services industry's leading professional organization focused on enhancing employee and organizational performance. Through ground-breaking research and an award-winning magazine, *Banking Strategies*, BAI provides the latest insights on complex, strategic issues in financial services. Through seminars, graduate schools and conferences – including the industry's premier event, BAI's Retail Delivery Conference & Expo – BAI reaches thousands of financial services professionals each year to deliver content designed around critical business needs and to facilitate vital connections between financial services professionals, industry experts and solutions providers. For more information, go to: [www.bai.org](http://www.bai.org).

**About Mercatus**

Mercatus LLC is a financial services strategy consulting and investment firm with expertise in retirement services. Mercatus works with leading financial services providers and private equity firms to make investment and business growth decisions. Clients represent a broad range of financial services institutions, from large corporations to early stage ventures. Mercatus is dedicated to delivering insights, innovative thinking, and execution-oriented strategies required to compete effectively in today's marketplace. For more information go to:  
[www.mercatuspartnersllc.com](http://www.mercatuspartnersllc.com)

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