Meeting the retirement challenge

New approaches and solutions for the financial services industry

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In 2012, the Deloitte Center for Financial Services conducted a survey among nearly 4,500 consumers from a wide range of ages and income groups. The goal was to generate insights into how financial institutions might develop new approaches and solutions by better understanding the attitudinal and behavioural constraints preventing consumers from achieving better retirement outcomes.

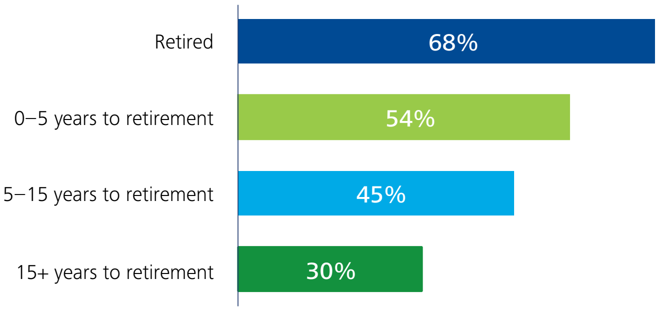
Analysis of the survey data revealed five main barriers inhibiting many Americans from taking a more disciplined approach to setting retirement goals and putting in place the required mechanisms to achieve a secure future. These interconnected barriers are:

1. **Conflicting priorities:** while retirement is a leading concern for a majority of the survey respondents, many cited difficulty balancing such long-term needs with other priorities
2. **A failure to communicate:** financial institutions struggle to effectively reach those who may need retirement planning advice and solutions, and they do not effectively integrate consumers' retirement needs as part of a broader financial plan
3. **A lack of product awareness:** many consumers are simply not familiar with their retirement product options
4. **Distrust of financial institutions and intermediaries:** a significant number of individuals do not trust the financial industry to provide objective advice and deliver on its promises
5. **The 'do-it-myself' mentality:** many consumers either do not want or do not feel they need professional advice on retirement planning

Reality check: planning makes a big difference

According to Deloitte's Retirement Survey, a majority of Americans—58%—do not have a formal retirement savings and income plan in place. This planning gap widens the further the respondent is from their expected retirement date, rising to 70% among those who do not expect to leave the work force for 15 years or more (Exhibit 1).

Exhibit 1: Percent having a retirement plan (by proximity to retirement)

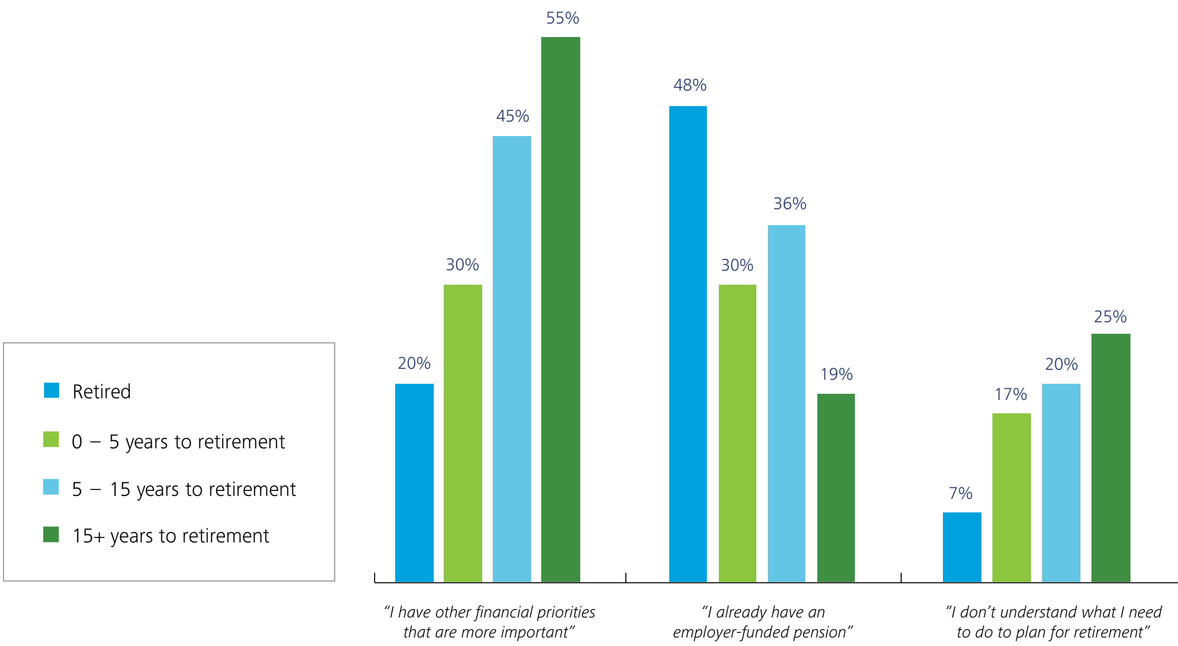


Our survey reveals that even among those with household incomes of over US$100,000, 43 percent have no formal retirement plan. These numbers get worse as we go down the income ladder. Among those with household income between US$75,000 and US$100,000, 57 percent do not have a retirement plan, rising to 61 percent in the US$50,000 to US$75,000 bracket.

Why does planning matter for retirement security?

According to research conducted by Professor Annamaria Lusardi of Dartmouth College, 'planning matters for savings.' This is particularly the case among lower-wealth households and those with less education.[1] Other research supports these findings. A paper by Ameriks, Caplin and Leahy (2002) shows *"that those with a higher propensity [to plan] spend more time developing financial plans, and this shift in planning effort is associated with increased wealth."*

Exhibit 2: 'Other priorities' cited as top reason for not having a formal retirement plan (by proximity to retirement)



Accordingly, planning for retirement can have a significant impact on savings and wealth accumulation behaviour.[2]

Planning also helps individuals feel more secure about their retirement. Our survey bears this out. Respondents with a formal plan to generate retirement savings and income were four times more likely to feel very secure (52%) about their retirement compared to those without a formal plan (only 13%. Deloitte's survey also suggests that there is a relationship between the use of professional advisors and retirement security. The survey found that 40% of those using financial advisors felt very secure about their retirement, versus only 22% of those who do not seek professional advice. In addition, 66% of respondents with a financial advisor have a formal plan for retirement savings and income, versus only 28% of those without an advisor.

According to Deloitte's Retirement Survey, a majority of Americans - 58 percent - do not have a formal retirement savings and income plan in place

Retirement game plan: what are the barriers, and how might they be overcome?

1. The 'conflicting priority' barrier

The survey found that saving for retirement is by far the most highly ranked financial goal, even among those who are years away from retiring.

For those who do not anticipate retiring for 15 years or more, just over half cited retirement savings as their first or second priority, dwarfing other considerations such as paying off a mortgage (26%) or closing out other debts (30%). Retirement savings become more important as people get closer to their anticipated retirement—it is a first or second priority for 69% among those between 5 and 15 years from retirement, and 74% among those within 5 years of retiring. Yet the most common reason for not being able to save for retirement, cited by about 40% of respondents, is that other financial priorities get in the way—including paying off a mortgage, student loans and other debt, or saving for their children's education. This is particularly the case among the younger respondents (Exhibit 2).

1 *Annamarie Lusardi, "Preparing for Retirement: The Importance of Planning Costs," 2002, Working Paper, Dartmouth College*

2 *John Ameriks, Andrew Caplin and John Leahy, "Wealth Accumulation and the Propensity to Plan," NBER Working Paper No. 8920, May 2002*

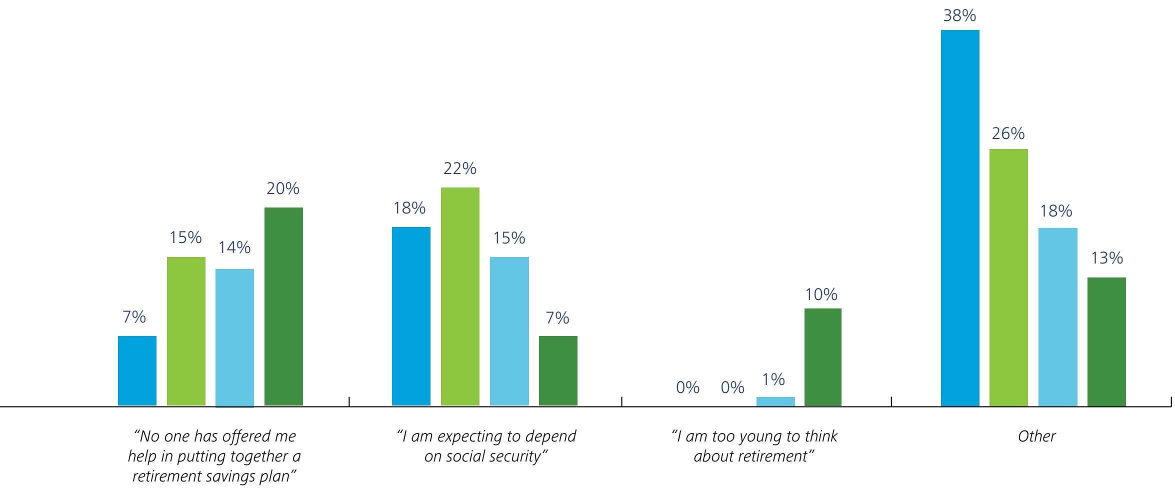
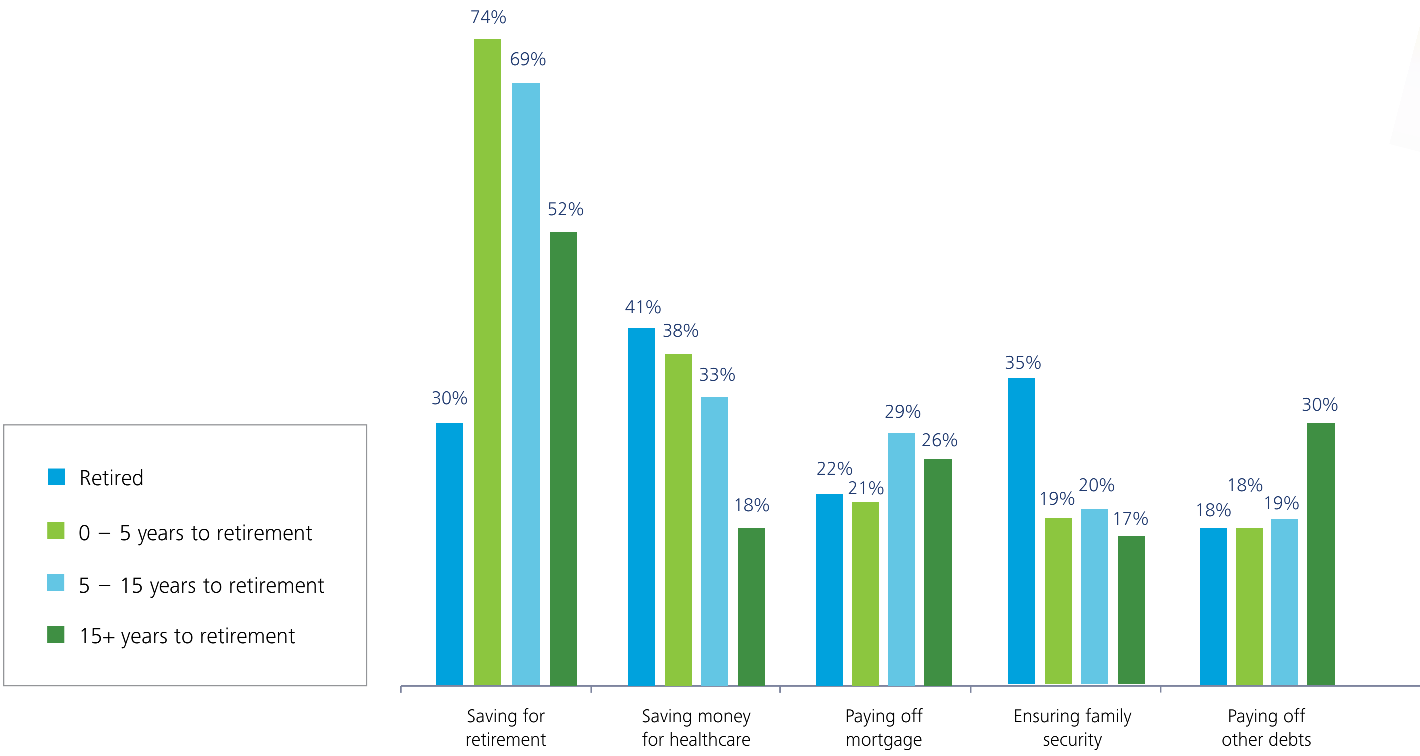


Exhibit 3: Importance of financial goals (by proximity to retirement)
Percent rating as the top two goals



Next to retirement, the second most important financial priority, especially among older respondents, is saving money to pay for healthcare costs (Exhibit 4). This is not surprising, considering that 70% of those surveyed said they expect their medical expenses to increase during retirement.

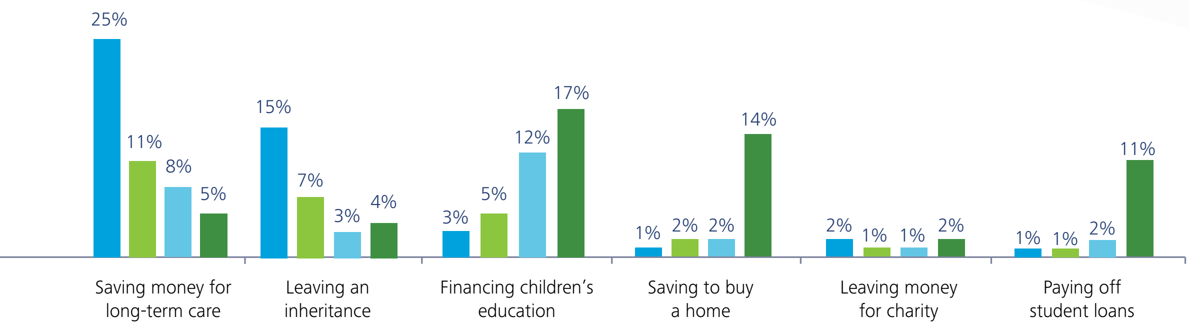
A smaller number of respondents listed a related concern—long-term care expenses—as a top two priority as well. These findings are in line with a study from the Insured Retirement Institute showing that *"confidence in meeting long-term care costs appears to decline with age."*[3]

Concern over medical costs also appears to discourage the retirement planning process itself. One-third of respondents within five years of retirement surveyed by Deloitte said that no matter how well they prepare, they are concerned that healthcare and/or long-term care expenses could overwhelm their retirement savings and income goals. The percentage of doubters increases to 40% for those more than five years from retirement.

Overcoming the 'conflicting priorities' barrier
A way to overcome this barrier is to address the conflicts up-front and show consumers that you are prepared to help them through a prioritisation process. By broadening the discussion beyond investments and retirement and including issues such as health care, long-term care and debt, you can begin to have very meaningful conversations on how to get people saving.

2. The communications barrier
Six in ten surveyed by Deloitte say they have not had interactions in the past two years with any financial institution about their retirement savings and income needs, whether via in-person meetings, phone conversations, email communications or seminars. This disengaged percentage rose to about three out of four among those aged 45 and younger. Even half of the respondents between ages 56 and 64 said no one had been in touch with them on this subject. And fewer than one in four with a 401(k) plan says they have been contacted by the plan provider to discuss their retirement needs.

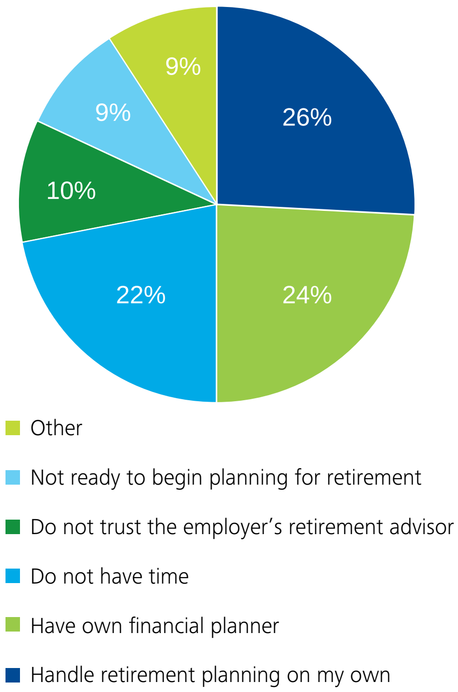
3 *Insured Retirement Institute, "The Long-Term Care Challenge," November 2012. https://www.myirionline.org/eweb/uploads/November%202012%20Report%20LTC.pdf*



The workplace is a natural venue to communicate with the widest range of consumers about their retirement needs, given that for many Americans, a work-based 401(k) may be the primary retirement vehicle beyond social security. Four in ten between the ages of 26 and 45 surveyed by Deloitte cited affiliation with their employer as one of the reasons for choosing a financial institution to meet their retirement needs. However, it appears that financial services institutions have not been able to fully tap the potential of workplace marketing.

According to research conducted by Professor Annamaria Lusardi of Dartmouth College, *"planning matters for savings"*

Exhibit 4: Why don't employees seek advice via workplace plan providers?



Overcoming the communications barrier
The workplace is one of the most effective vehicles for reaching consumers, therefore asset managers with retirement offerings should work to enhance these efforts. The first step is to make sure they have the plan sponsor's agreement for their communications efforts. Educational retirement planning seminars offered in person or via technologies such as internet, video and text messaging are also viable ways to reach more consumers. Some financial institutions are also experimenting with new technologies such as social media, texting, web and podcasts to reach consumers. The reality is that the way people communicate has radically shifted as technology has evolved, and firms that do not embrace the new technologies risk being left behind.

3. The product awareness barrier
Accentuating the challenge for financial institutions is the fact that many consumers do not know enough about the most common products marketed to help address retirement savings and income needs (Exhibit 5).

For example, six in ten either do not know anything about target date mutual funds (48%) or say they have heard of the product but do not understand how it works (12%). The percentages showing lack of awareness are consistently high across age and income segments.

This lack of product knowledge extends to annuities and non-term life insurance as well. Nearly 40% surveyed by Deloitte do not know anything about annuities or understand how they work, with the percentage even higher among younger respondents. 25% either do not know about non-term life insurance or, if they are aware of it, do not know what these products can do to bolster retirement savings and income.

Concern over medical costs also appears to discourage the retirement planning process itself

Overcoming the product awareness barrier
Product design that is straightforward and accessible will help overcome the product awareness barrier. Asset managers should also consider streamlining their product lines and only offering targeted product sets to certain consumers in order to help them avoid being paralysed by too many choices.

4. The trust barrier
Lack of trust is another major reason why a large segment of consumers may be reluctant to allow financial services providers to help them with their retirement planning. The survey found that trust in all types of financial institutions is quite low, with no more than two in ten of all respondents having a high degree of trust in any type of financial institution (Exhibit 6). Intermediaries did not fare any better, with only 15% expressing a high degree of trust in financial advisors, and only 11% finding insurance agents and brokers to be highly trustworthy. This is illustrated by the finding that 20% of those surveyed by Deloitte indicated they do not trust intermediaries (such as financial planners and insurance agents) to provide objective advice to address their retirement savings and income needs.

Exhibit 5: Familiarity with investment products

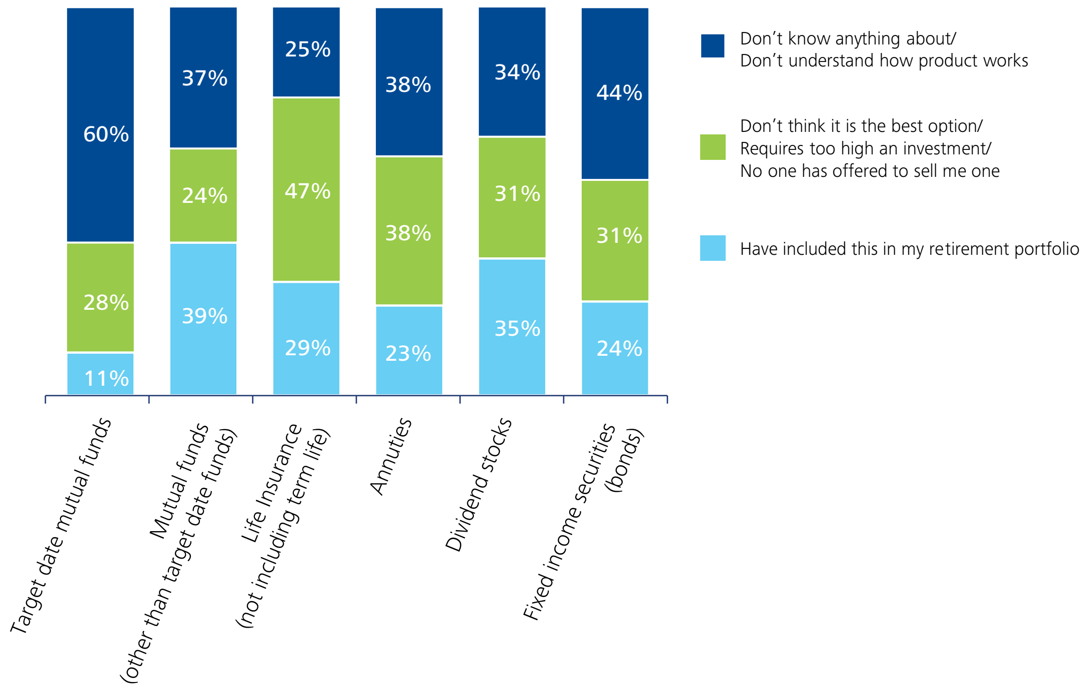
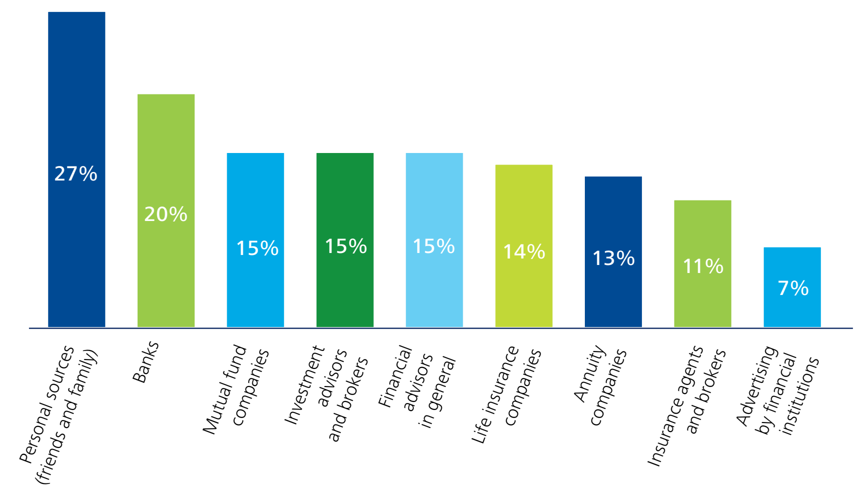


Exhibit 6: Who do consumers trust on retirement?
Percent cited as highly trustworthy



Gaining such trust is imperative. The Deloitte survey found that among respondents with formal plans for retirement, 83% of those who have a high level of trust in advisors used one to help put their plan together, compared with only 32% of those who have a low level of trust in such intermediaries.

The trust barrier likely influences product choice as well. For example, three in 10 respondents in Deloitte's survey said they do not trust institutions promising guaranteed income in terms of being able to deliver on their commitment when they retire.

Complicating efforts to overcome the trust barrier is the widespread scepticism towards advertising about retirement products and services, with only seven percent of those surveyed characterising ads from financial institutions as highly trustworthy.

Overcoming the trust barrier

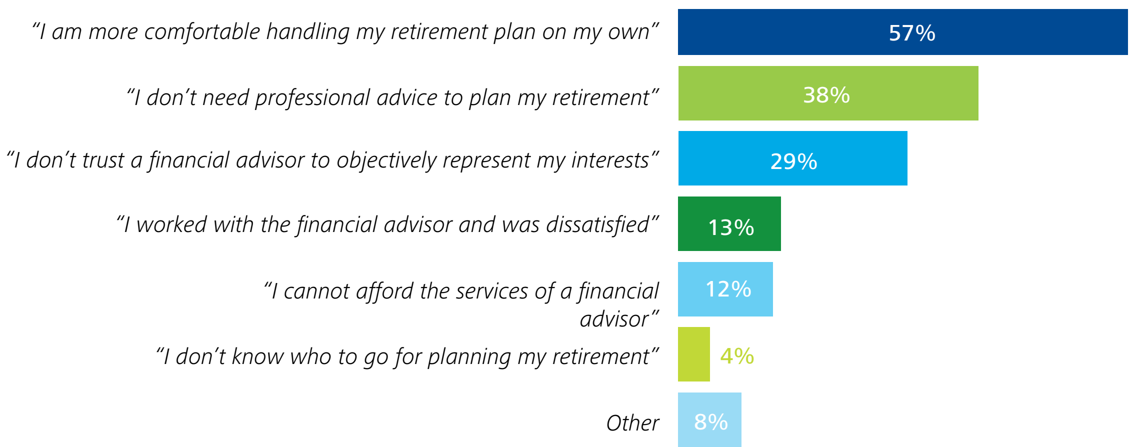
There is no easy or quick way to build something as complex and multifaceted as trust, and firms cannot expect overnight changes. However, highlighting success stories and profiling examples of content customers can be very effective. Also, talking about retirement in the context of lifestyle goals rather than in purely financial terms can be powerful. Finally, using technology to reach out to younger consumers and to build 'virtual' face-to-face relationships is an interesting area to explore.

5. The 'do-it-myself' barrier

Nearly two-thirds of those surveyed by Deloitte (and about three-quarters of those who are 15 years or more from retirement) do not consult with a professional financial advisor for their retirement needs. Relatively few (13%) say that this is because they have had a bad experience with an advisor. Fewer think price is an issue, with only 12% saying they cannot afford an advisor's services.

So, what's holding most people back from seeking professional advice?

Exhibit 7: Reasons for not consulting a financial advisor



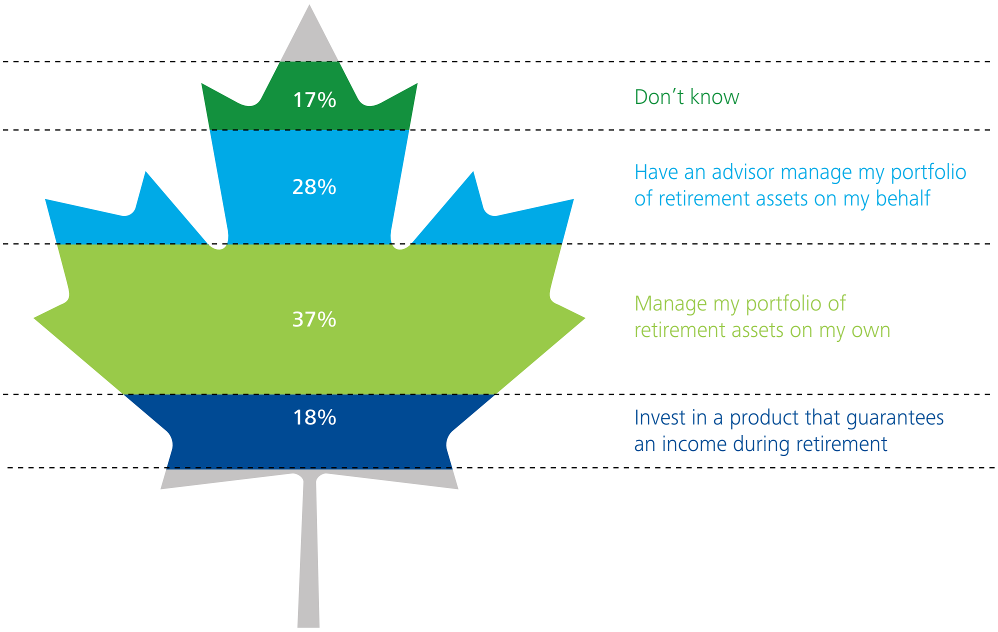
Beyond the trust issues already addressed in the prior section of this report, there are a number of reasons why many choose not to consult with an advisor (Exhibit 7). But the main reasons for many represent two sides of the same coin—their higher comfort level in handling retirement planning on their own (Exhibit 8), and the belief that they do not need professional advice.

Overcoming the 'do-it-myself' barrier

One of the most powerful ways to overcome this barrier is to use data, such as from the Deloitte survey, that show that people using expert advice are better prepared for and more comfortable with their retirement planning. Another good strategy is to offer a range of advisory solutions such as serving as facilitators and enablers rather than only full service advisors for consumers who wish to remain in control of their retirement portfolio. Finally, institutions can highlight to consumers that managing retirement income is a far more complex process than managing retirement savings accumulation and that they are ready, willing and able to provide the necessary expertise.

The reality is that the way people communicate has radically shifted as technology has evolved, and firms that do not embrace the new technologies risk being left behind

Exhibit 8: Preferences for managing retirement assets



Conclusion: meeting the retirement challenge

The retirement challenge facing many Americans seems increasingly daunting. Efforts to help consumers meet these challenges appear to have resulted in limited success, judging by the general lack of preparation among survey respondents, knowledge about the options available and trust in financial institutions and professionals offering retirement solutions.

This state of affairs, despite the billions of dollars spent by the retirement industry on sales, marketing and advertising of retirement products and services, indicates that the industry needs to change its approach.[4]

The good news is that Deloitte believes that significant progress can be made by financial institutions that are willing to closely examine their organisations and are committed to change. New technologies present possibilities that did not exist in the past, and the need for retirement education and advice is tremendous.

We invite those interested in a more detailed discussion to read the full survey results which can be found at:

http://www.deloitte.com/view/en_US/us/Industries/Insurance-Financial-Services/e8b8d86e6161d310VgnVCM2000003356f70aRCRD.htm.

4 *10 2012 Ad Age Insights Trends Report on Financial Services Marketing. http://gaia.adage.com/images/bin/pdf/AdAgeFinancial%20ServicesReport2012.pdf*

To the **point**:

- Respondents with a formal plan to generate retirement savings and income were four times more likely to feel very secure (52%) about their retirement compared to those without a formal plan (only 13%)
- 40% of those using financial advisors felt very secure about their retirement, versus only 22% of those who do not seek professional advice; 66% of respondents with a financial advisor have a formal plan for retirement savings and income, versus only 28% of those without an advisor
- Retirement savings are a first or second priority for 69% among those between 5 and 15 years from retirement, and 74% among those within 5 years of retiring
- Six in ten surveyed by Deloitte say they have not had interactions in the past two years with any financial institution about their retirement savings and income needs
- 48% had not heard of target date mutual funds, nearly 40% surveyed by Deloitte do not know anything about annuities or understand how they work and 25% either do not know about non-term life insurance or, if they are aware of it, do not know what these products can do to bolster retirement savings and income
- Nearly two-thirds of those surveyed by Deloitte do not consult with a professional financial advisor for their retirement needs
- Among respondents with formal plans for retirement, 83% of those who have a high level of trust in advisors used one to help put their plan together, compared with only 32% of those who have a low level of trust in such intermediaries

About the survey

The data presented in this report are from an online survey conducted by Harris Interactive on behalf of the Deloitte Center for Financial Services. The survey was conducted during the last two weeks of August 2012 and had a total sample of 4,491 respondents. Survey respondents were required to be at least 26 years of age and be responsible for financial decisions in the household. Respondents were distributed across various geographic regions, income levels and age groups. The sample also included nearly a third of respondents from households with income above $100,000 per annum.
The sample was weighted to represent the broader U.S. adult population. The information obtained during this survey was taken 'as is' and was not validated or confirmed by Deloitte.

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