

Competing in the Retirement-Dominated Future

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We examined mass affluent consumer behavior and decision-making across the retirement lifecycle



- **Consumer Decisions**
- **Underlying Attitudes**
- **Key Decision-making Criteria**
- **Competitive Benchmarks**

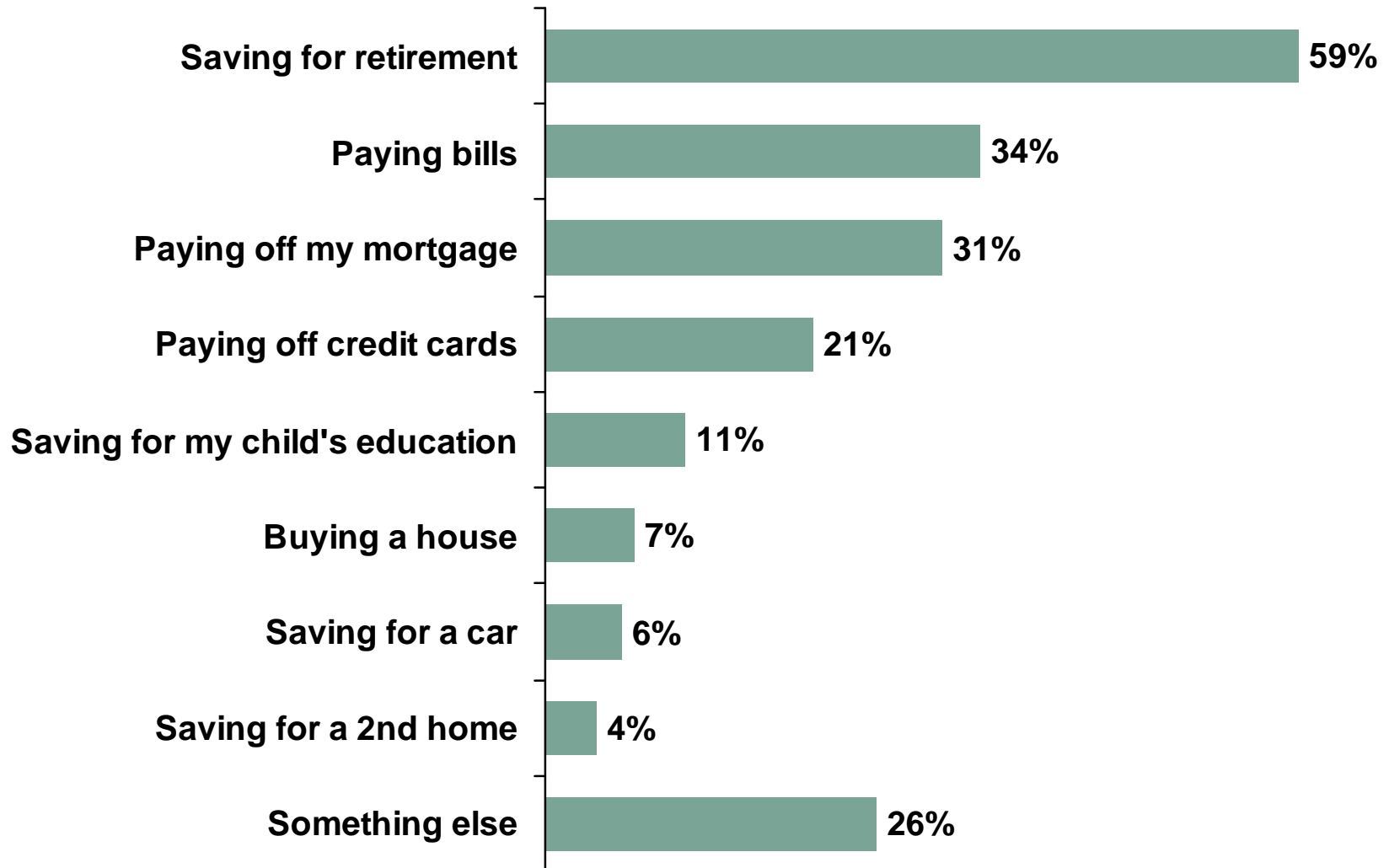
The research focused on the retirement attitudes and behaviors of the mass affluent

- **Focused on the U.S. mass affluent market**
 - \$50,000 to \$2 million in investable assets, excluding 401(k) assets and real estate
 - Ages 35 - 70
- **Utilized the Harris Interactive Online Panel**
 - 2,997 respondents
 - 26-minute online survey
 - Margin of error of +/- 1.97% at 95% confidence level
- **Conducted interviews in April – May, 2007**
- **Research sponsorship was provided by five top-10 U.S. banks and Deluxe Corporation**

Agenda

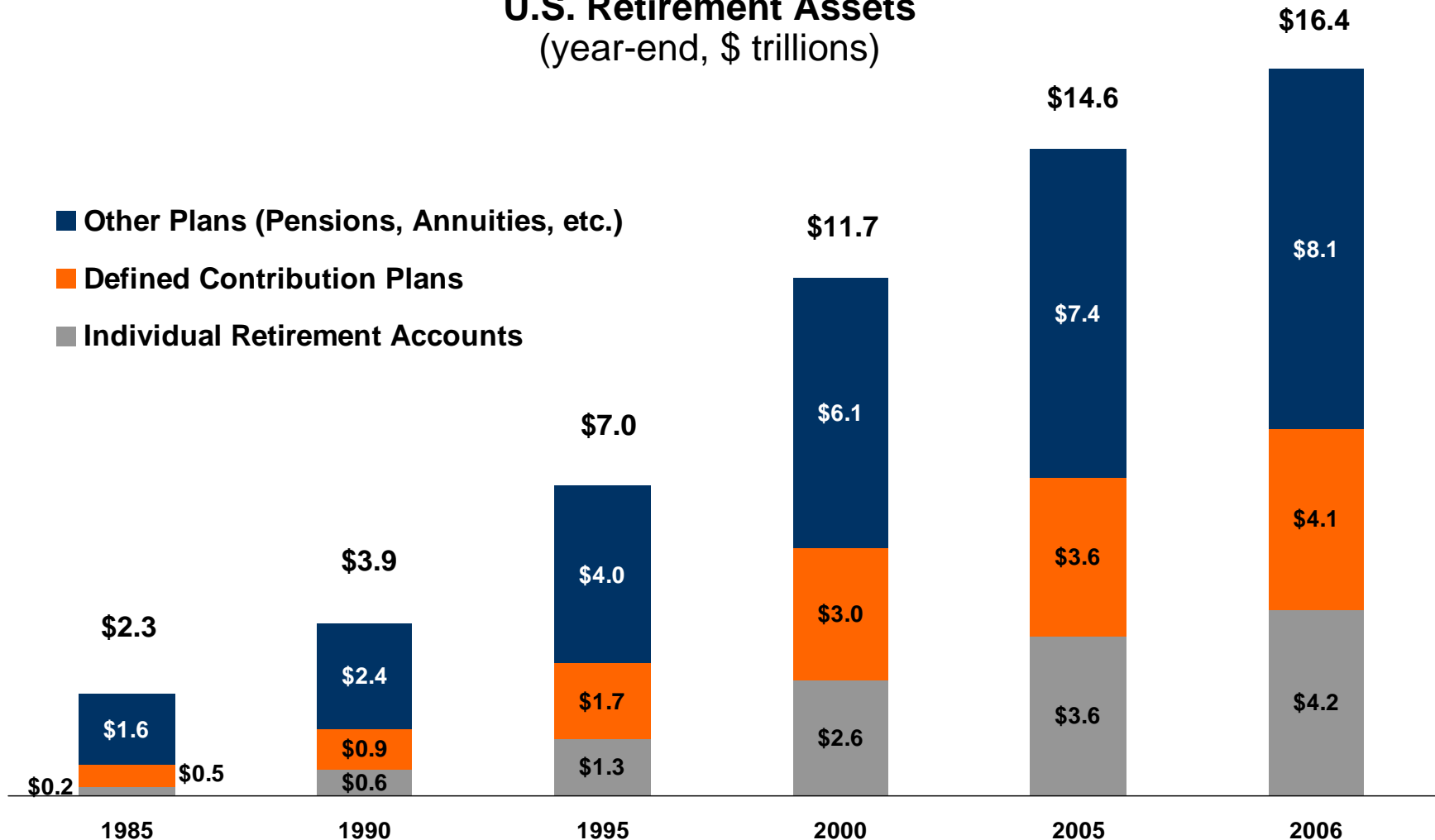
- **Retirement as Opportunity and Challenge**
- **Capturing 401(k) Money in Motion**
- **Retirement Asset Consolidation: A Prime Opportunity for Banks**
- **Taking Action: Establishing a Retirement Dialogue**

Today, retirement is decisively the most pressing financial priority of mass affluent consumers

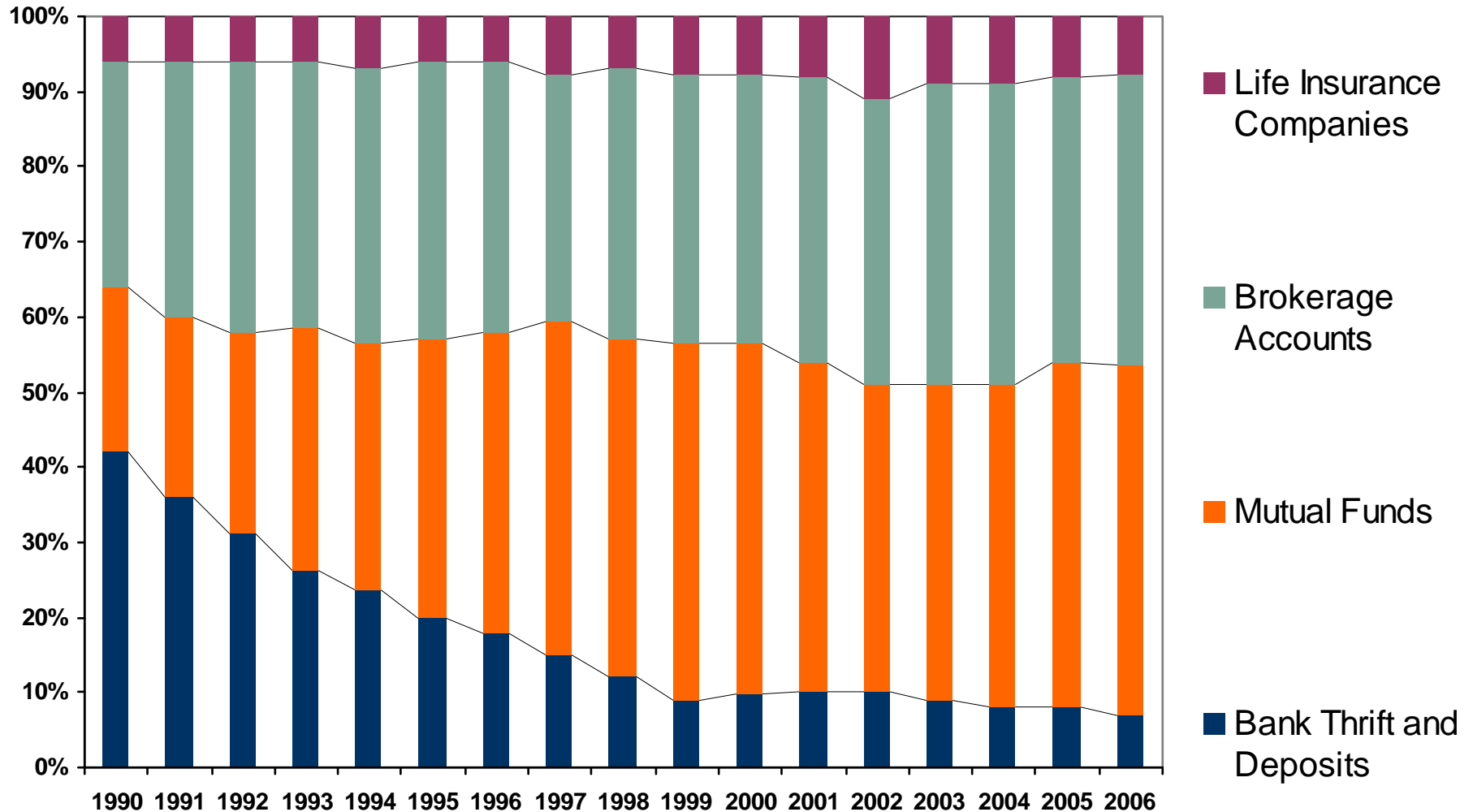


The retirement marketplace represents the largest opportunity and challenge in financial services

U.S. Retirement Assets (year-end, \$ trillions)

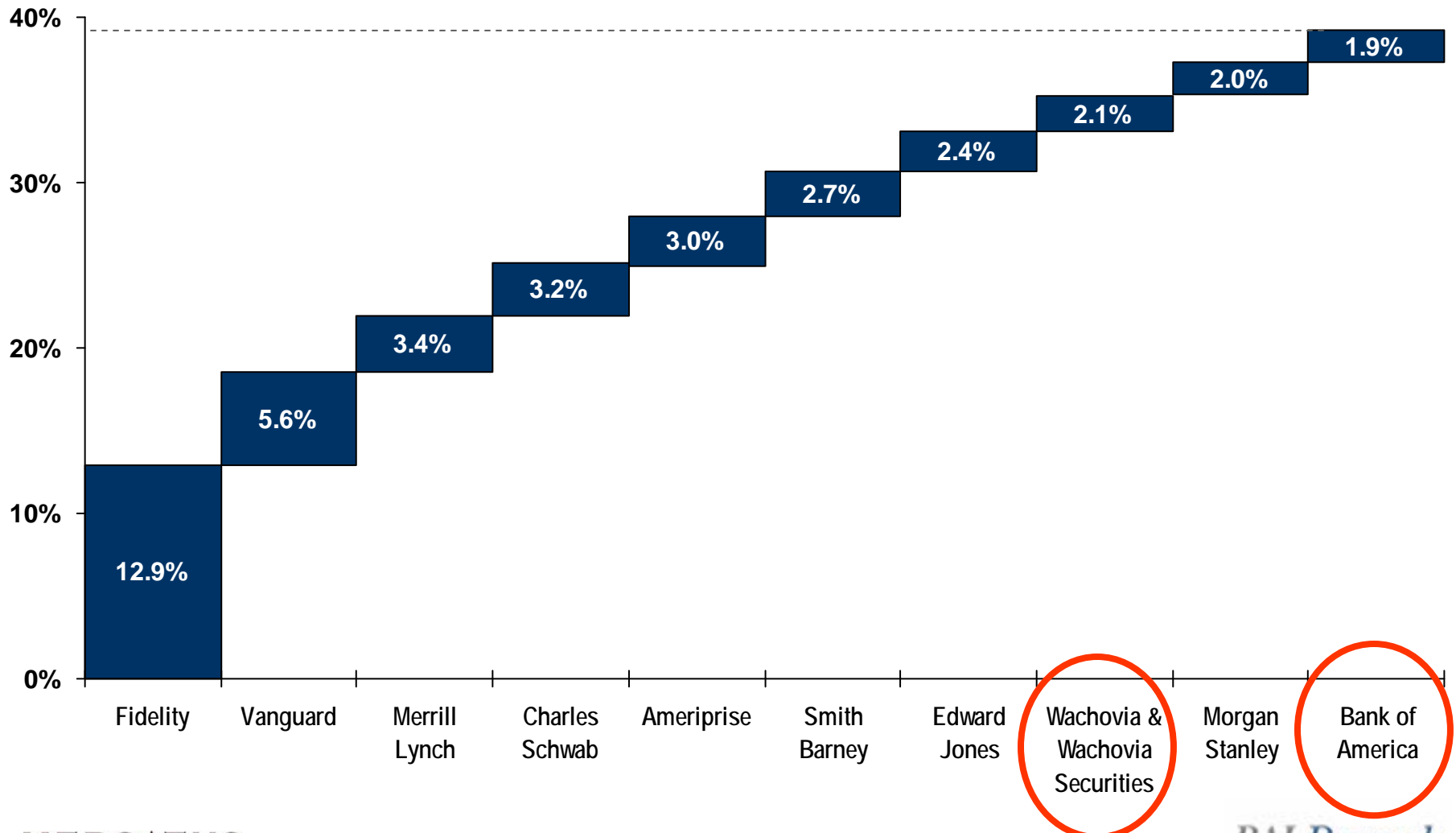


While the retirement marketplace has rapidly expanded, banks' share of IRA assets have declined dramatically



Only two banks are represented among the top-10 firms considered to be “primary” retirement services providers

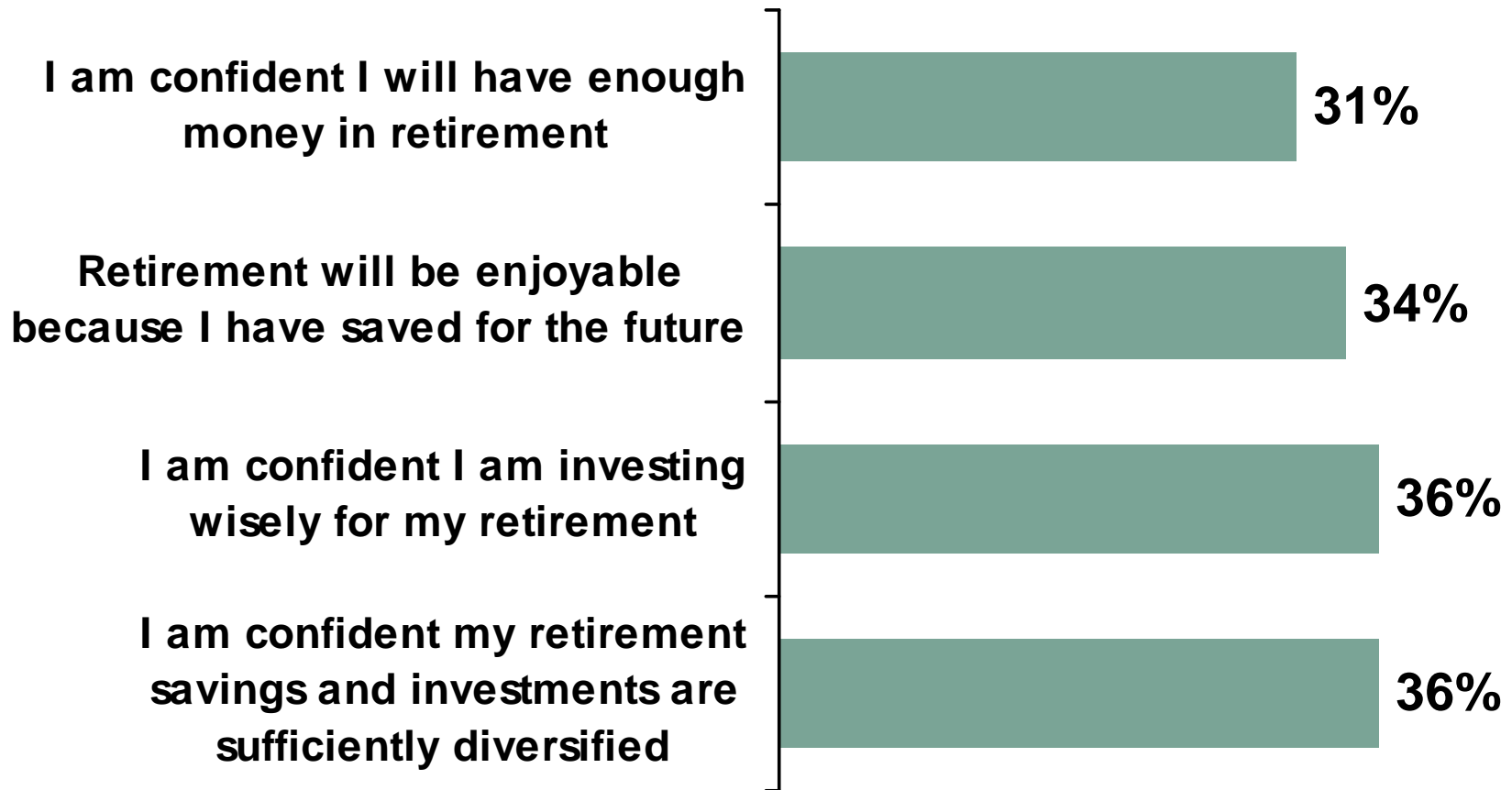
Top-10 “Primary” Providers of Retirement Solutions and Savings



Among mass affluent consumers, confidence about both “saving” and “investing” for retirement is not strong

Top 2-box Responses

(“This statement describes me completely or very well”)



Banks have a significant opportunity to engage mass affluent in a retirement dialogue

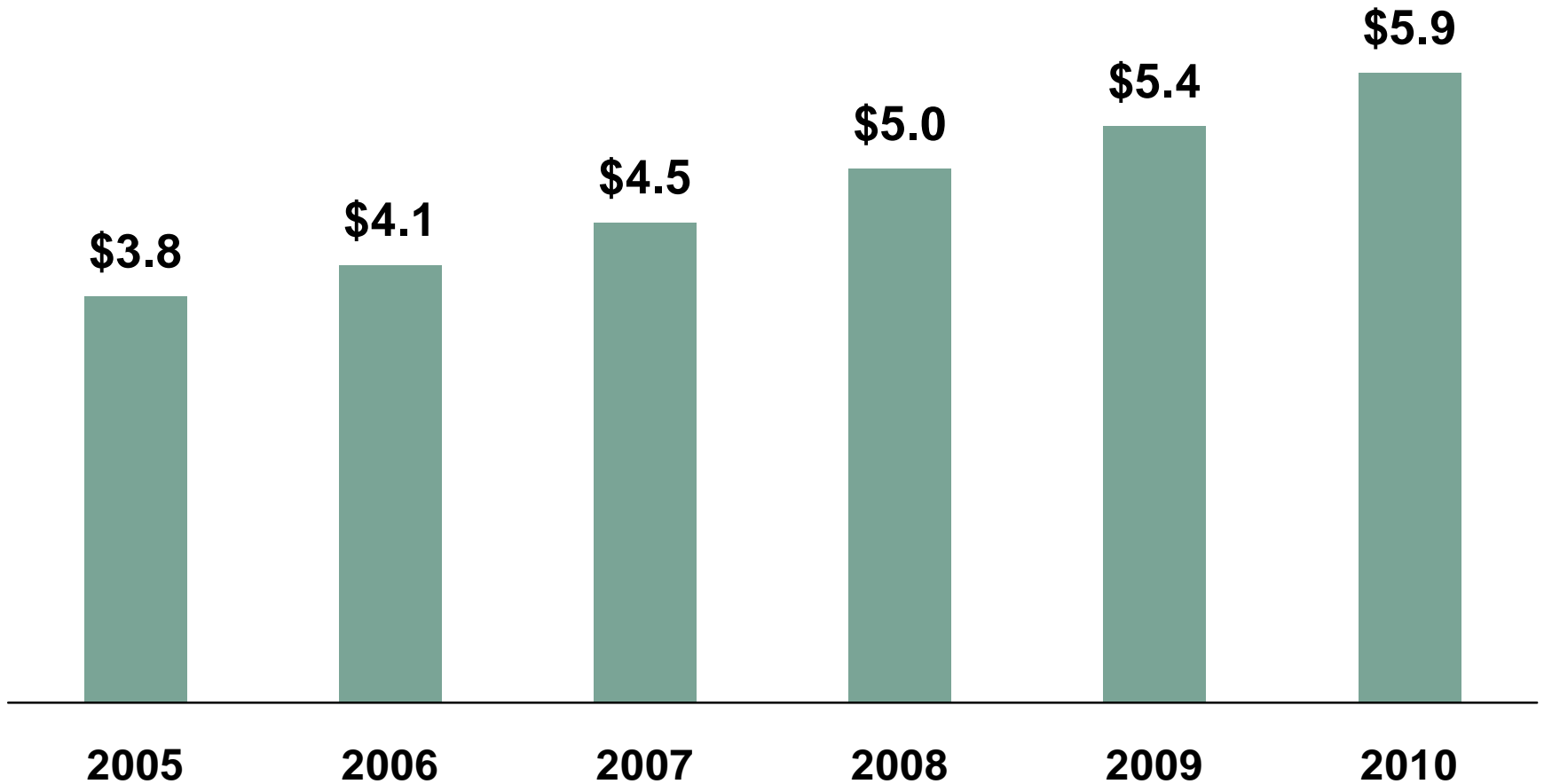
- **A profoundly large and growing market is available**
 - Retirement assets total more than \$16 trillion
- **Despite the success of premier competitors, the market is fragmented**
 - The top-10 primary providers control less than 40% of the market
- **Saving for retirement is the top financial priority among mass affluent households**
 - Confidence with both saving and investing for retirement is weak
 - Consumers realize they need assistance and are looking for answers
 - They will accept providers that can reduce the sources of intimidation

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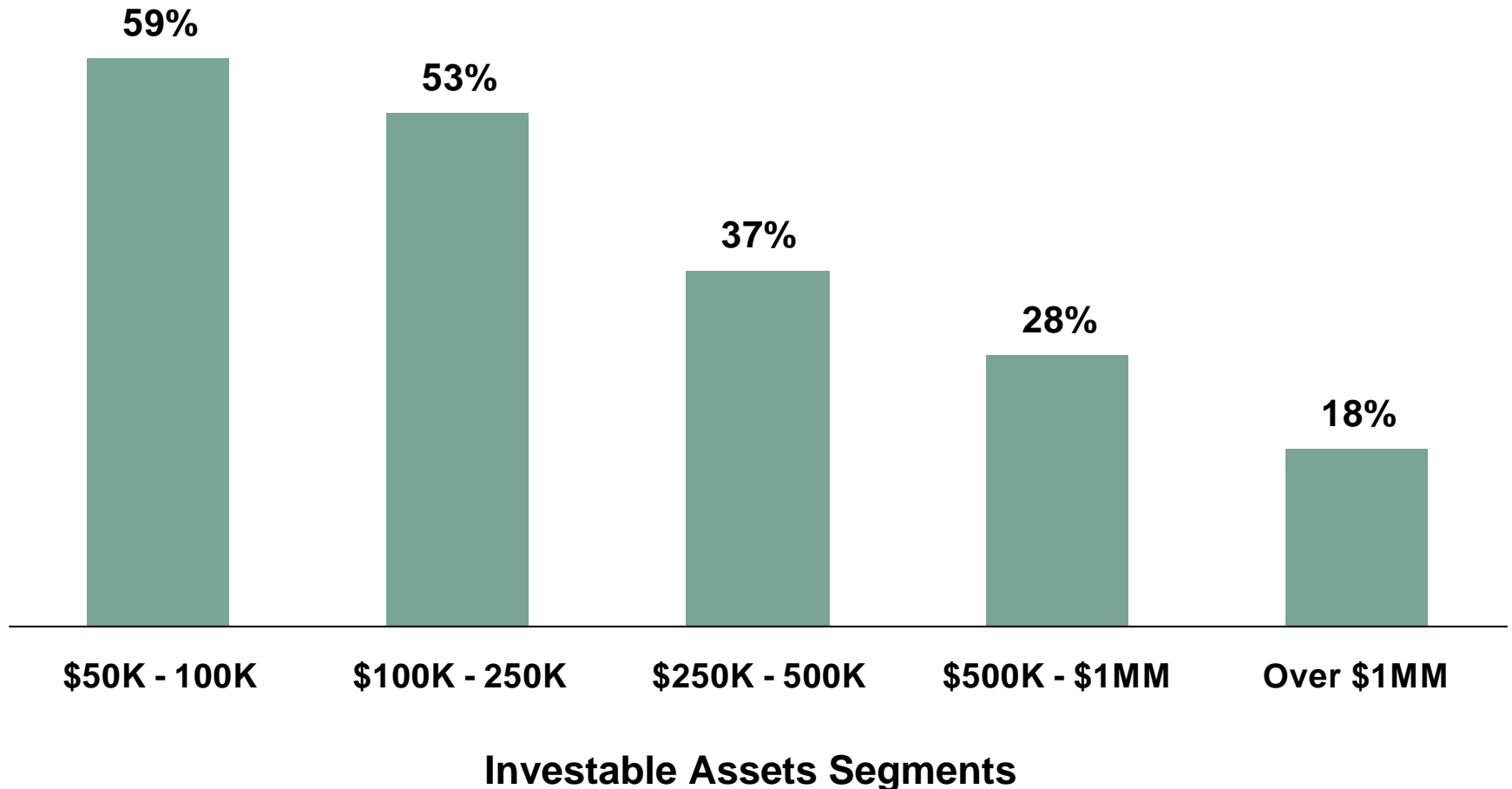
IRA and rollover assets will be a critical arena for competition

Projected IRA / Rollover Assets 2005 - 2010
(*\$ trillions*)

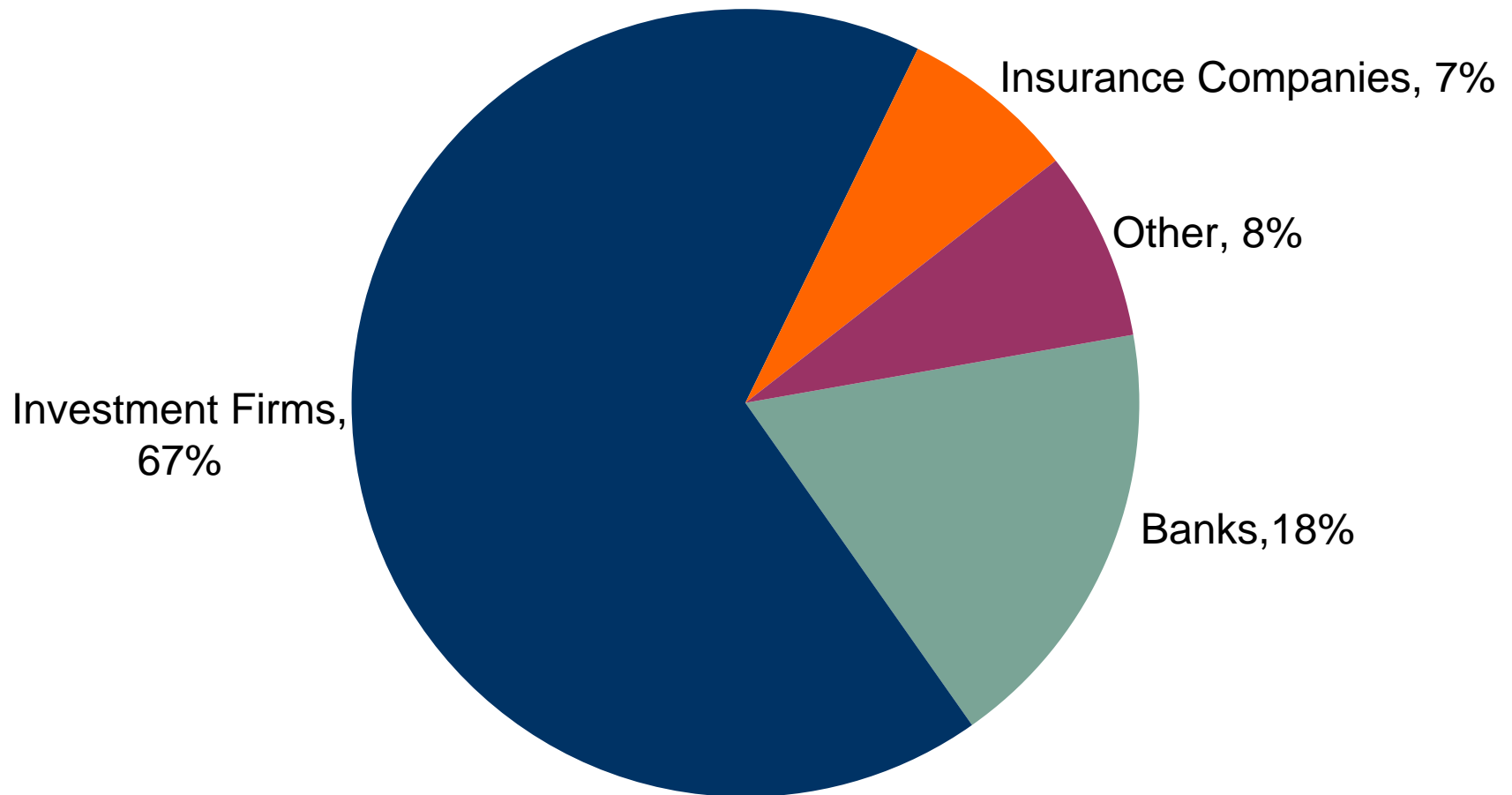


For the mass affluent, 401(k) assets represent a significant portion of financial assets

401(k) Assets as a Percent of Investable Assets

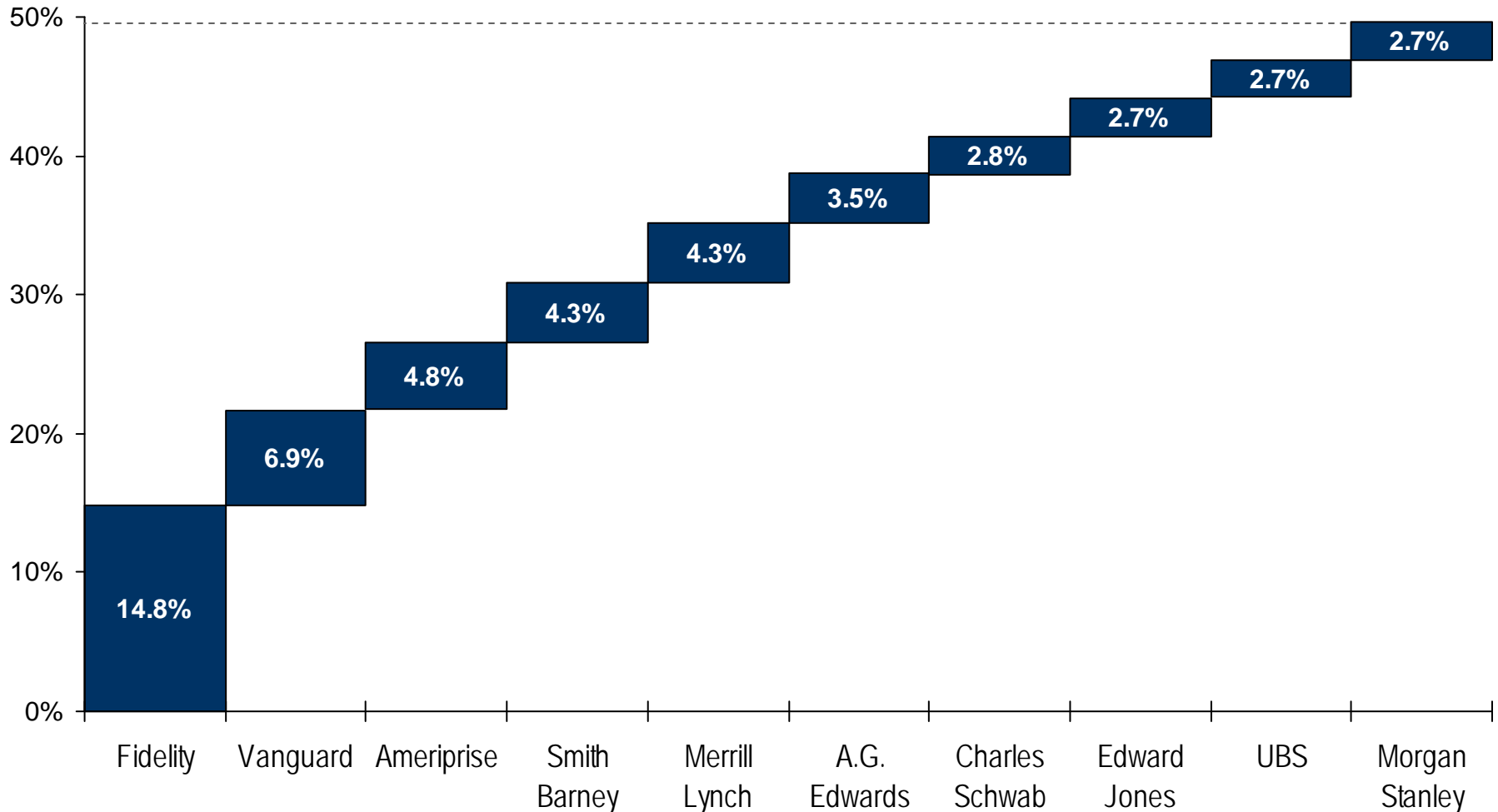


Today, investment/brokerage firms as a group dominate the share of 401(k) rollovers captured

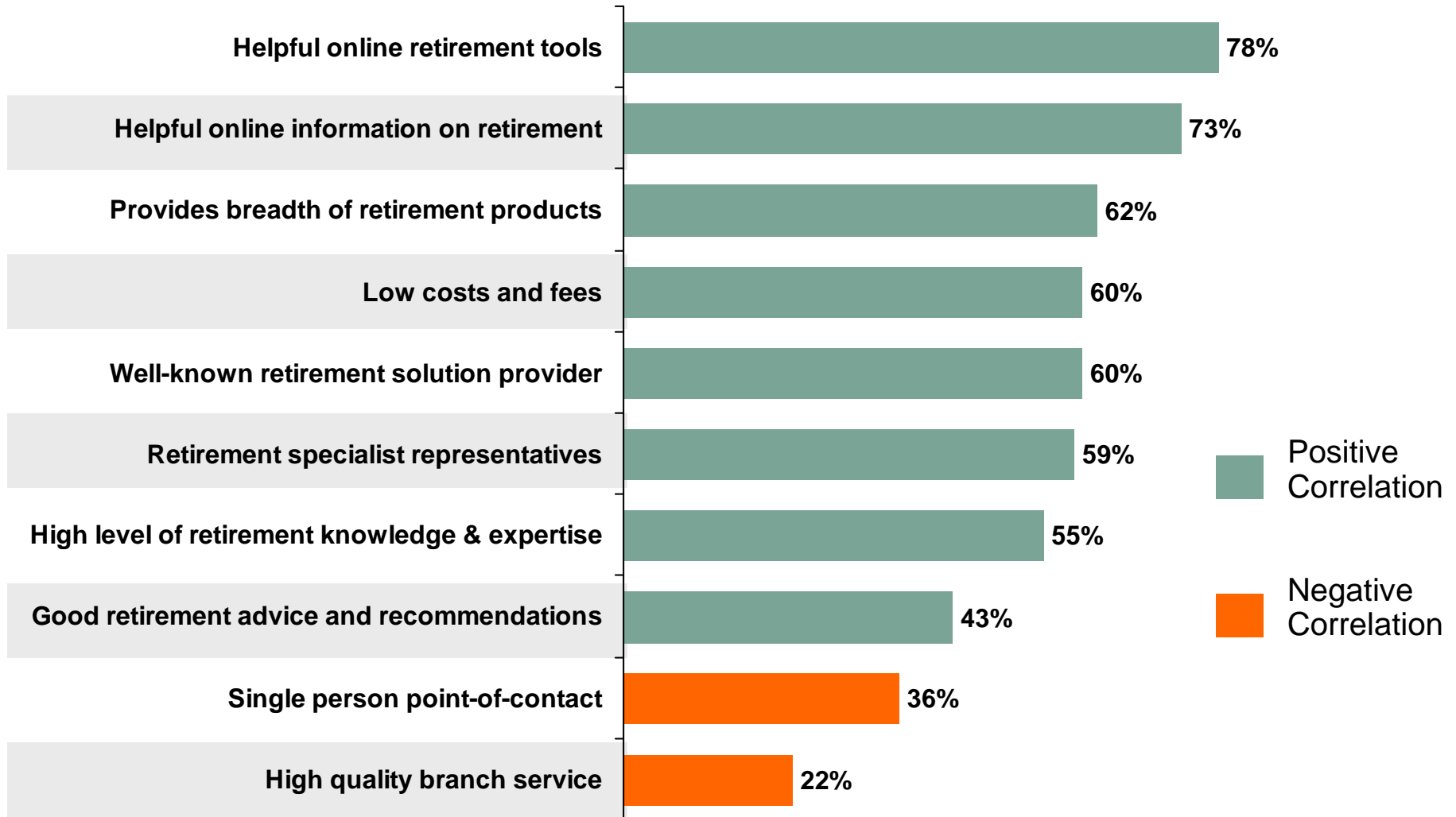


Beyond the top-ten competitors, the 401(k) rollover market is highly fragmented

401(k) Rollover Market Share (%) of Top-10 Firms

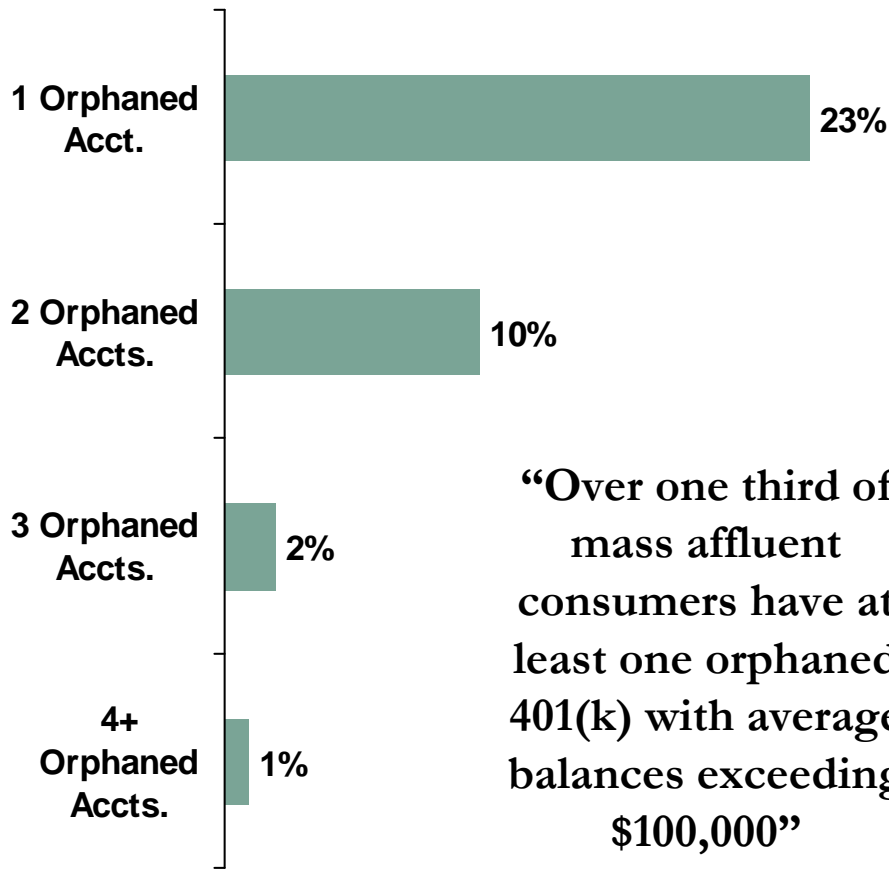


Key characteristics and their correlation to the number of 401(k) rollovers captured

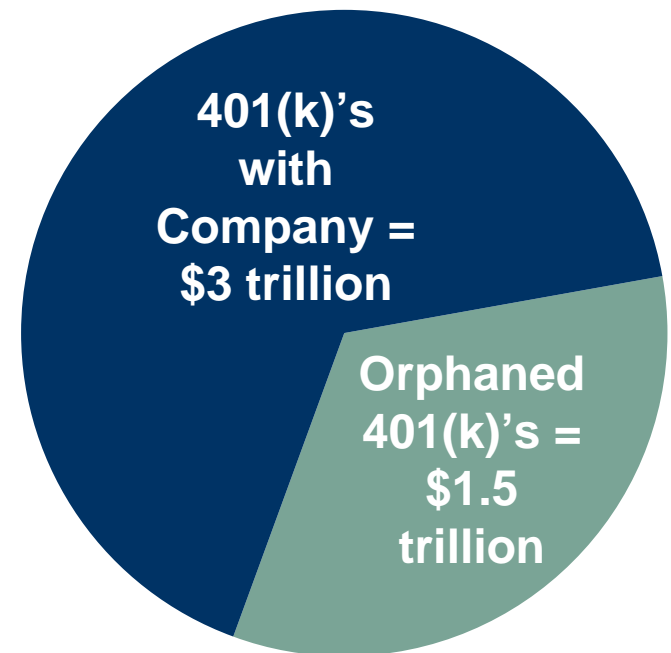


Orphaned 401(k) positions are an opportunity for consolidation and improved management

Frequency of Orphaned 401(k) Accounts

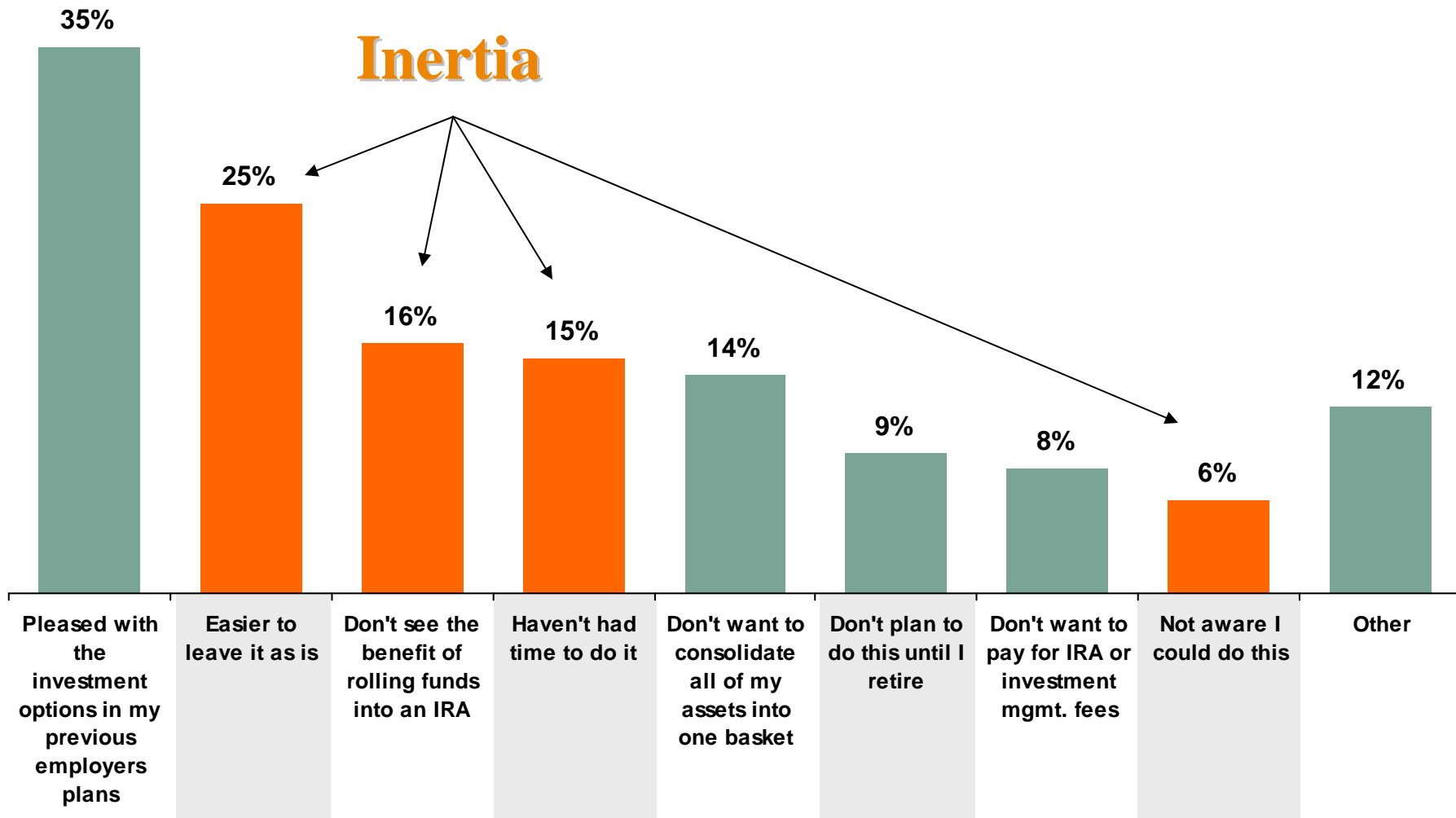


The Market for Orphaned 401(k)'s Represents a \$1.5 Trillion Opportunity

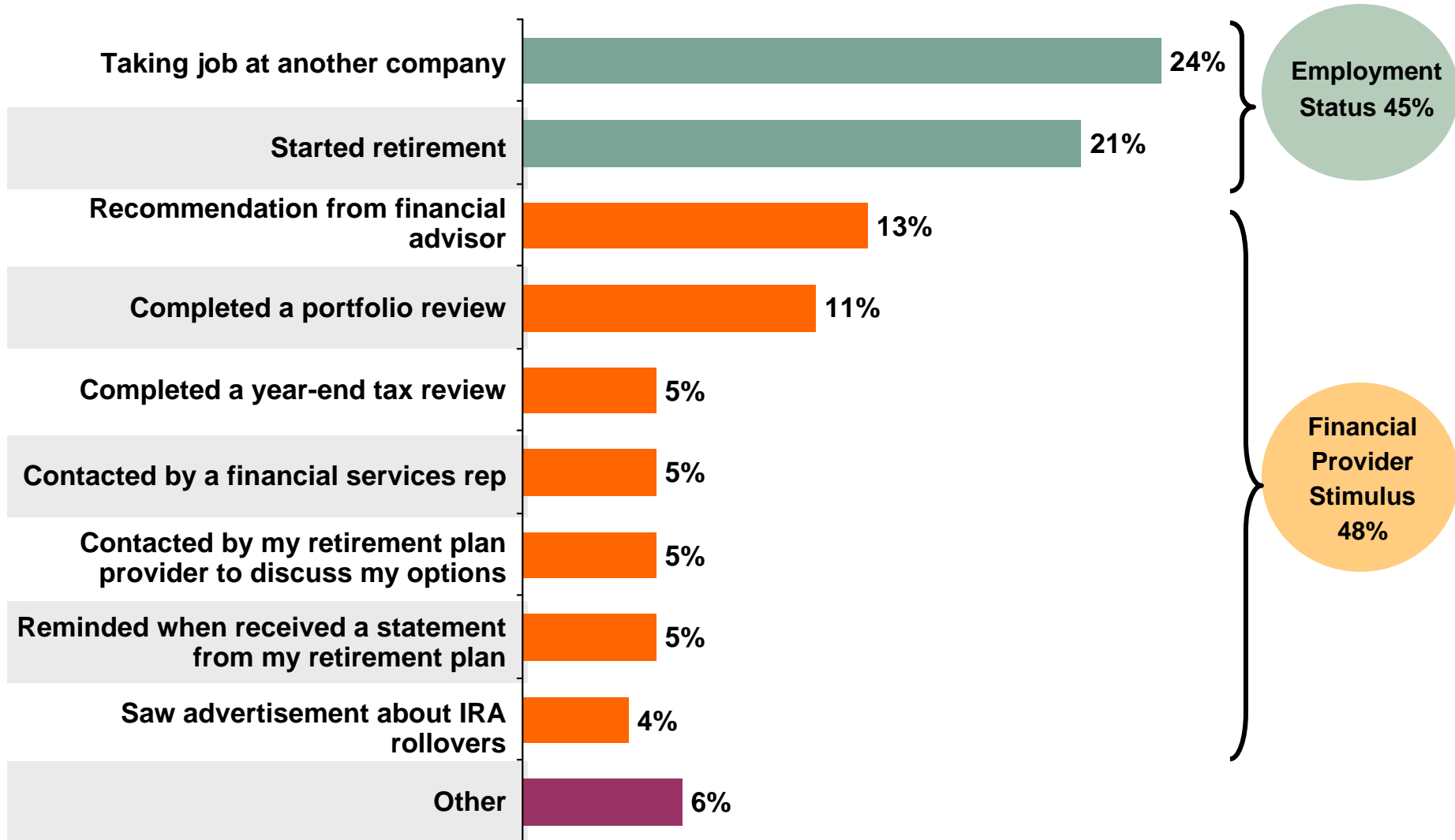


Significant consumer inertia underlies the 401(k) orphan phenomenon

Reasoning Behind Not Rolling Over Orphaned 401(k) Assets into an IRA



Banks can counter inertia by creating a dialogue with customers and asking for the business



The 401(k) rollover market represents a significant opportunity

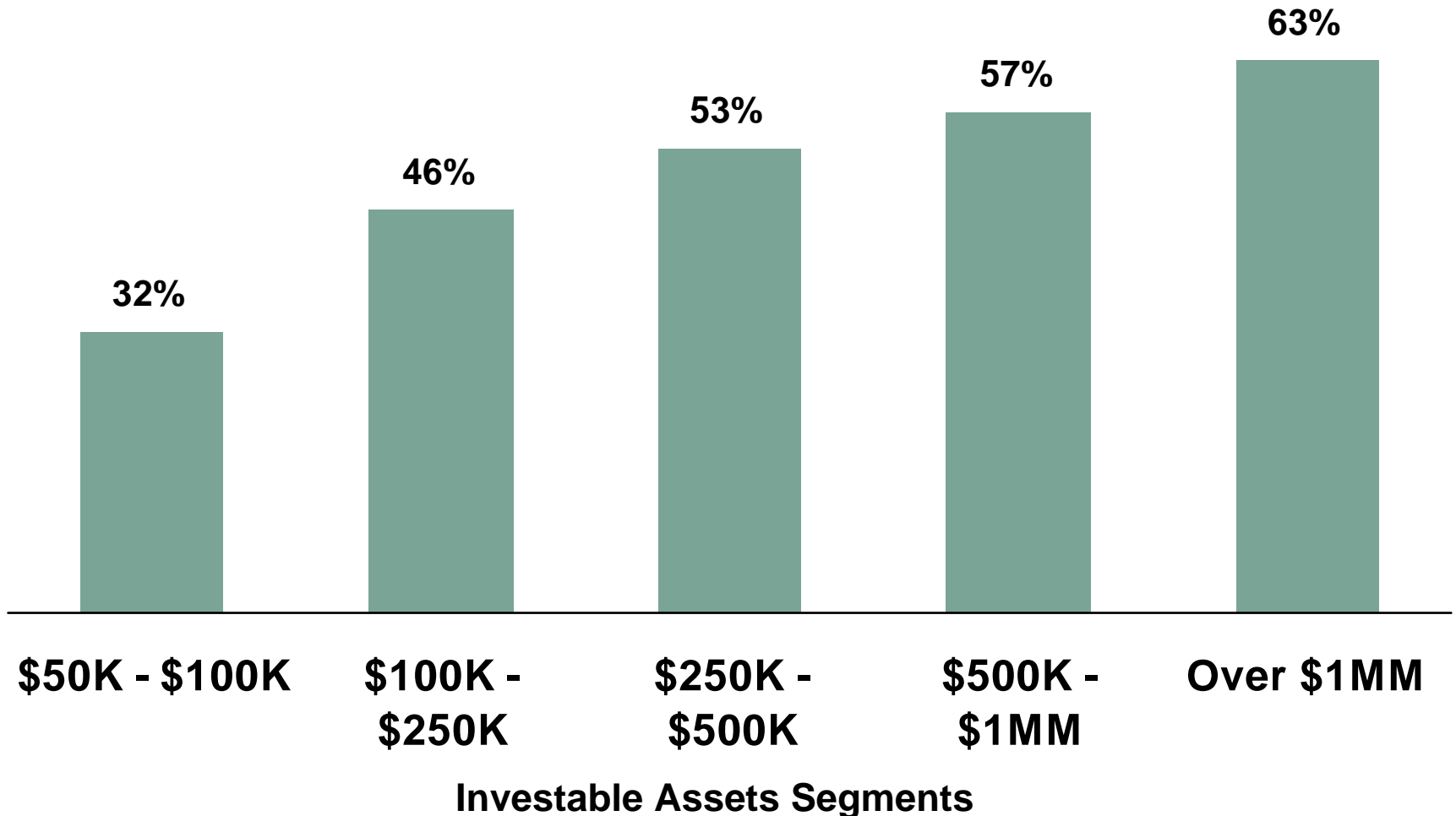
- Annual rollover volumes will soon exceed \$500 billion
- More than 33% of consumers' 401(k) assets are “orphaned” — totaling \$1.5 trillion
- Consumer inertia, however, is a powerful influence on the rollover market
- Success in capturing rollovers requires marketing, sales and retirement dialogue and planning
- The 401(k) rollover market leaders recognize that “retirement” expertise is more important than “investment” knowledge in consumer decision-making

Agenda

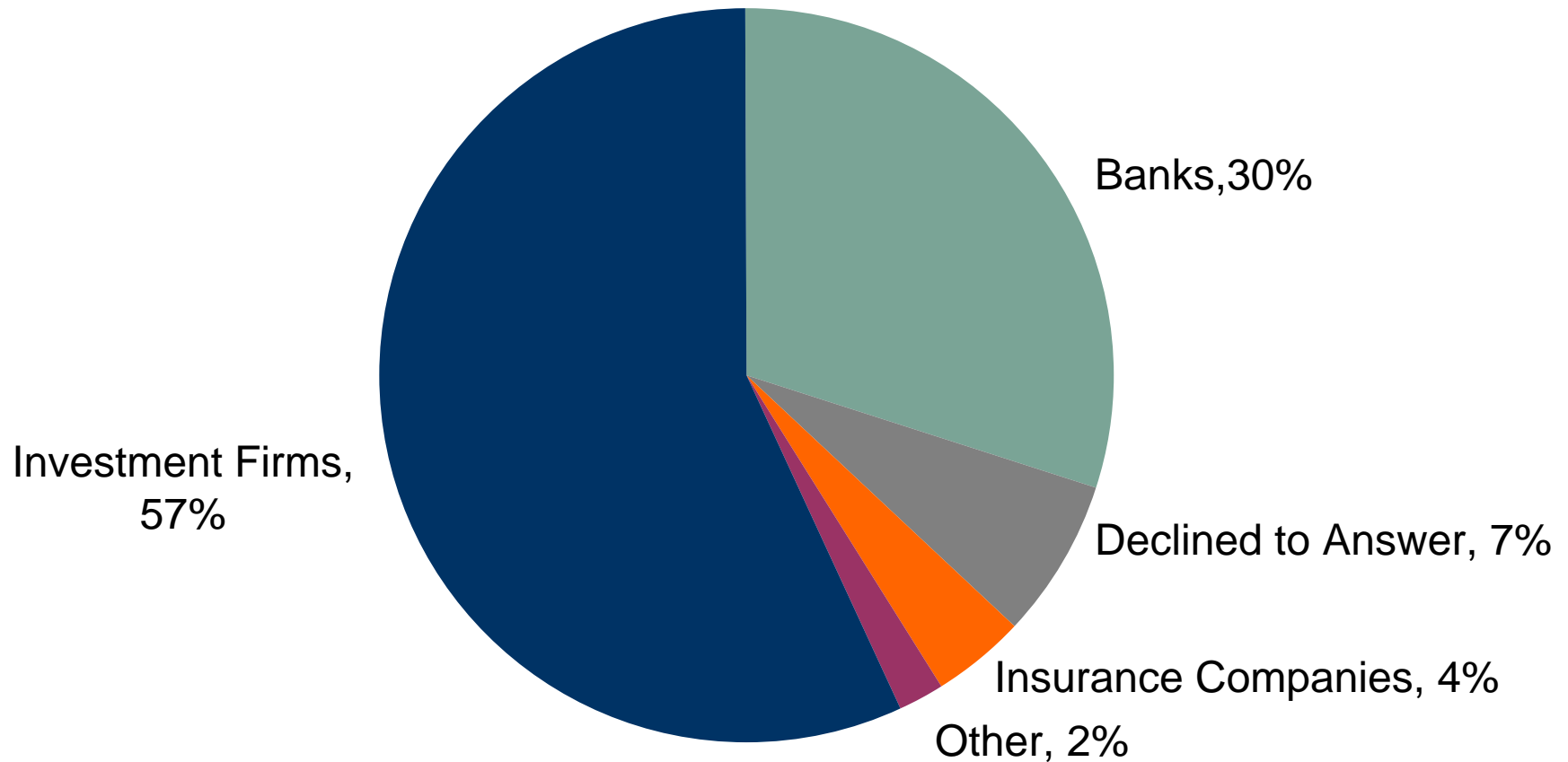
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Mass affluent consumers pursue significant asset consolidation as they approach retirement, and it is more pronounced by asset level

Percent of Population Having Already Consolidated Retirement Assets

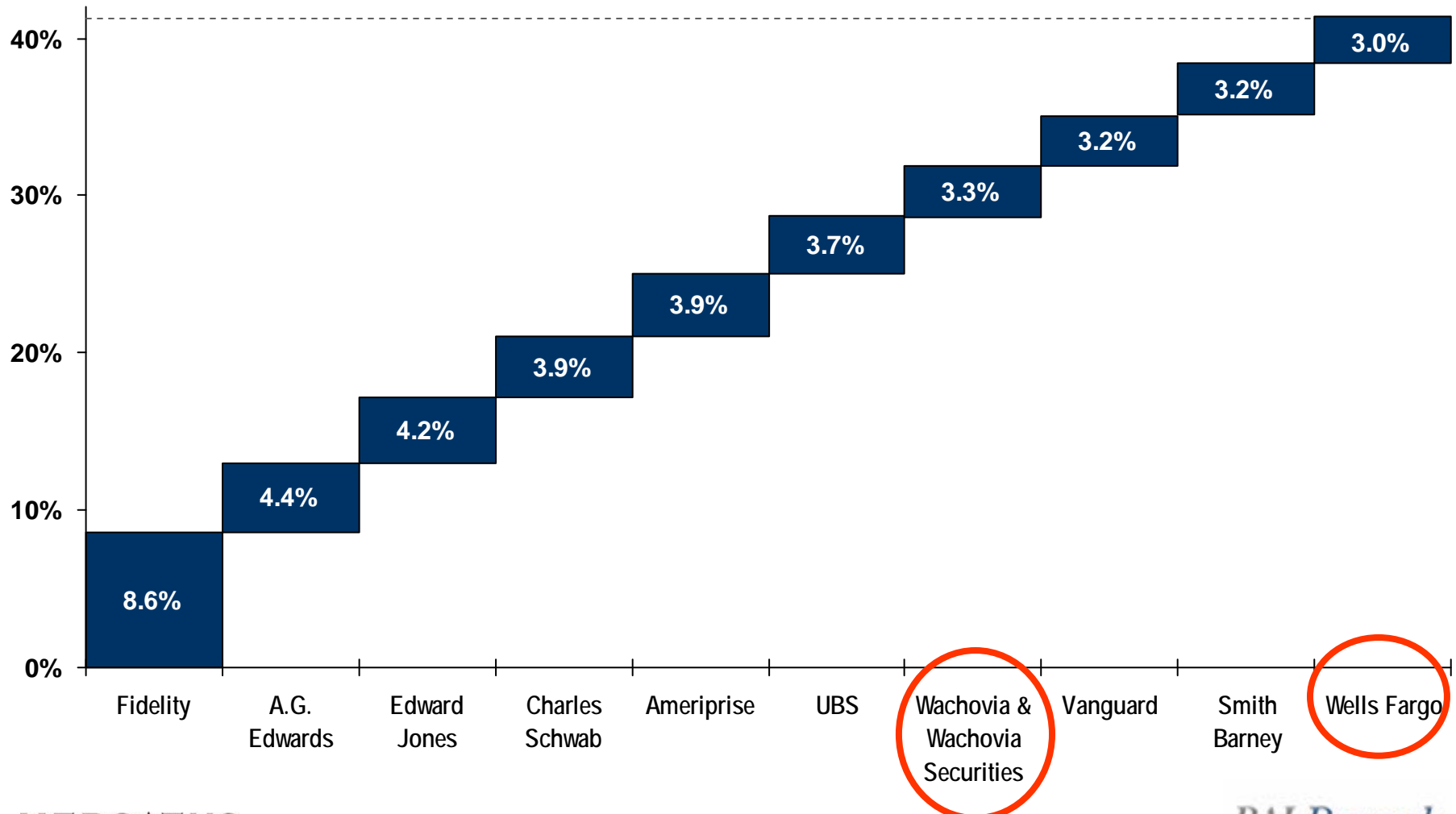


Banks' experience stronger market share in consolidation of retirement assets for income distribution purposes

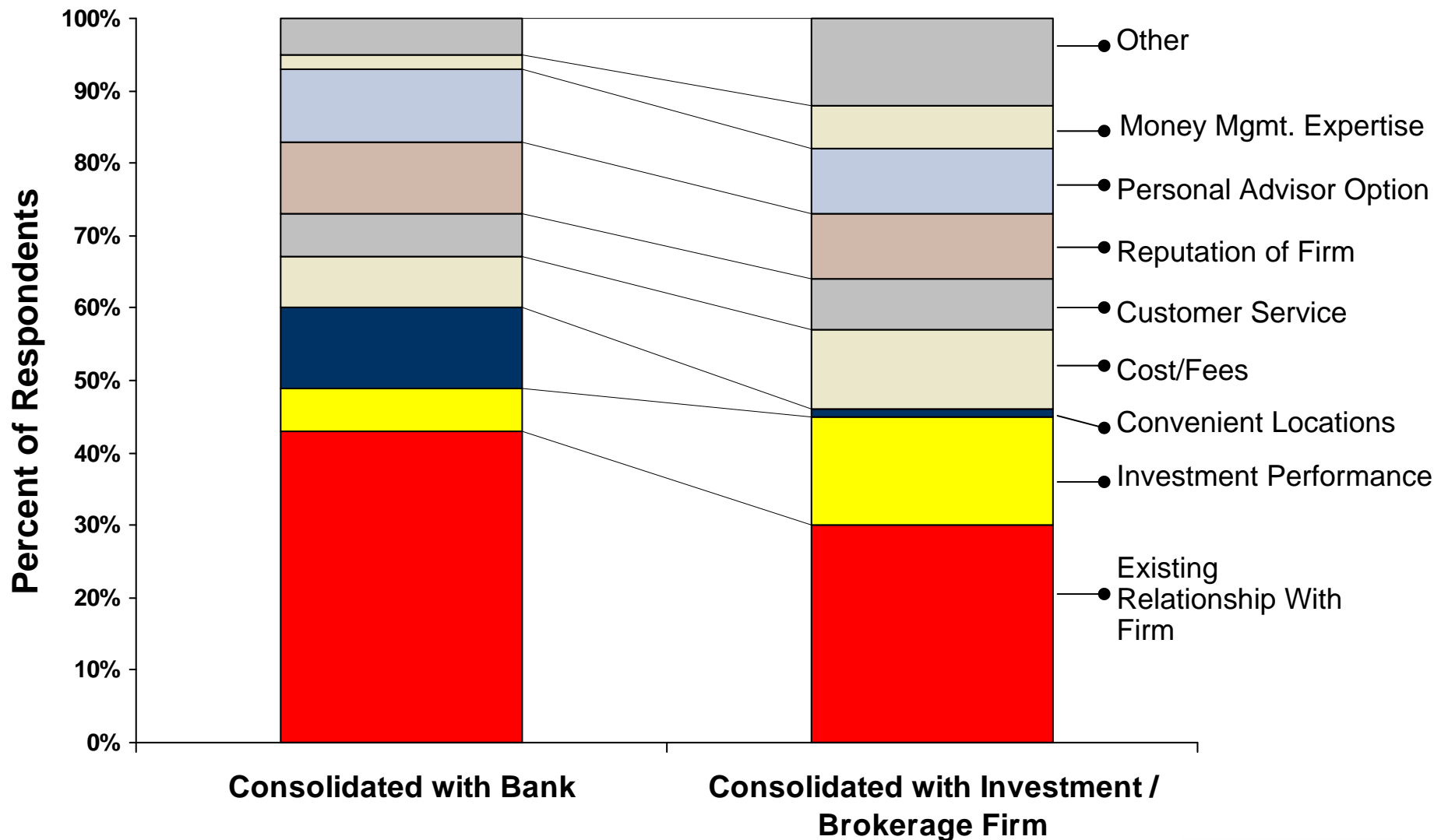


A similar pattern of fragmentation marks retirement income consolidation decisions

Percent of Relationships Captured by Top-10 Firms During Income Consolidation





When consolidating for income distribution purposes, a pre-existing relationship is a strong driver



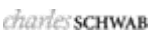







As consumers move into retirement, cash management and transaction capabilities are becoming increasingly important

- **Investment and brokerage firms are in a strong position today with leading shares of retirement assets, 401(k) rollovers, and asset and income consolidation decisions**
- **However, banks possess important capabilities**
 - Cash management and transaction capabilities must be leveraged
 - Investment and brokerage firms will become competitively vulnerable
 - Banks' historic leadership position in online banking and bill pay become both a capability to be levered and protected

Non-banks have entered the market with strong cash management products

		
Introduced:	August 2007	April 2007
Rate/Minimum Balance:	<ul style="list-style-type: none"> ▪ 3.00% APY with no minimum balance requirements and no monthly fees 	<ul style="list-style-type: none"> ▪ 4.00% APY with no minimum balance requirements and no monthly fees
ATM Card/Fees:	<ul style="list-style-type: none"> ▪ No ATM fees ▪ Automatic rebate of any ATM fee charged by any bank 	<ul style="list-style-type: none"> ▪ No ATM fees ▪ Automatic rebate of any ATM fee charged by any bank
Online Bill Pay:	Free	Free
Account Transfers:	Free	Free
Overdraft Protection:	Yes, with linked brokerage account	Yes, with linked brokerage account
Checkbook:	Free	Free

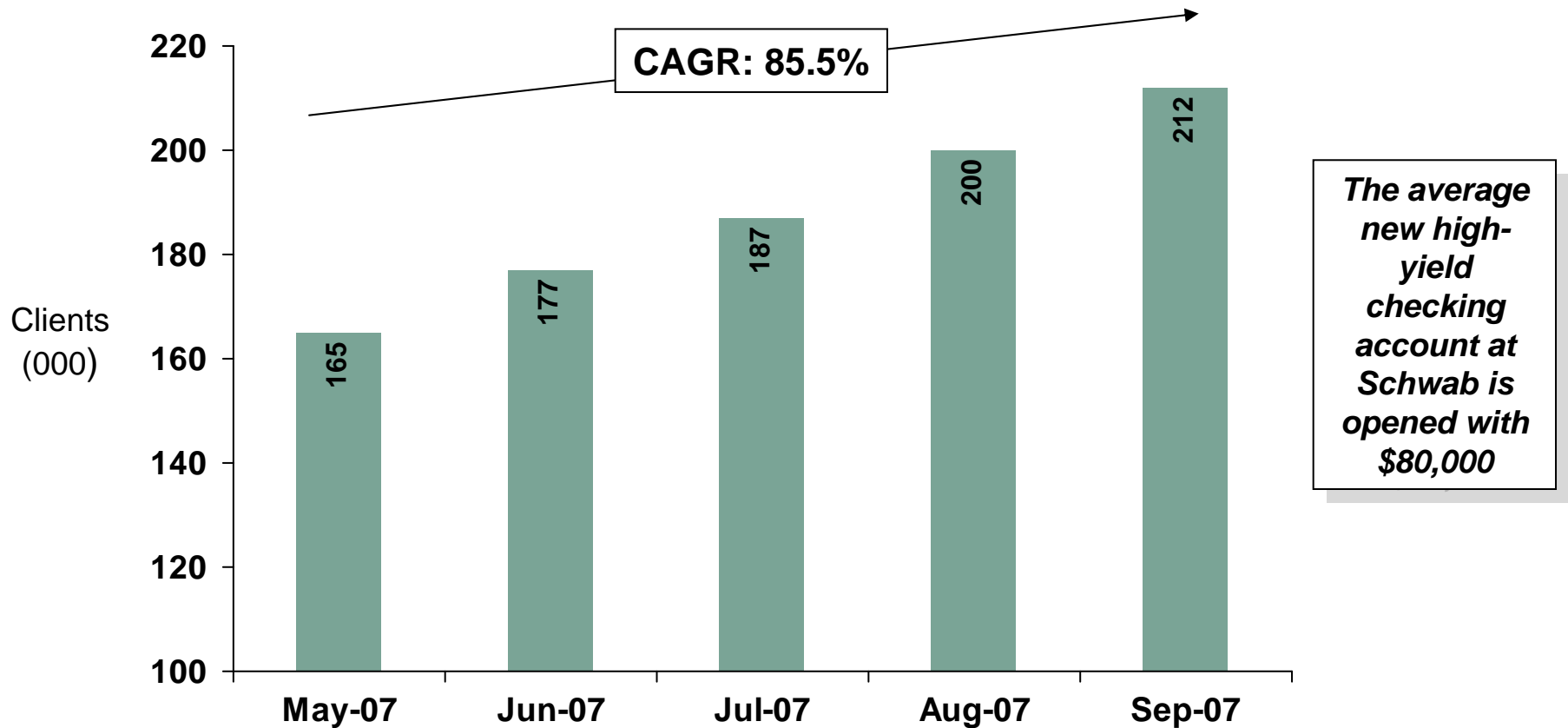
Today, a broad set of investing/brokerage competitors offer banking services

	 CHARLES SCHWAB	 E*TRADE FINANCIAL	 Ameriprise Financial	 Edward Jones MAKING SENSE OF INVESTING	 MERRILL LYNCH	 Fidelity	 Vanguard	 TD AMERITRADE
CASH MANAGEMENT								
Checking	●	●	●	●	●	●	●	●
ATM/Debit Card	●	●	●	●	●	●	●	●
Rebate/ATM surcharges	●	●	●	●	●	●	●	●
Online bill pay	●	●	●	●	●	●	●	●
Overdraft protection	●	●	●	●	●	●	●	●
Account transfers	●	●	●	●	●	●	●	●
Recurring payments	●	●	●	●	●	●	●	●
CREDIT CARDS								
Credit Card	●	●	●	●	●	●	●	●
Point loyalty	●	●	●	●	●	●	●	●
SAVINGS								
Savings accounts	●	●	●	●	●	●	●	●
REAL ESTATE FINANCING								
Home equity loan	●	●	●	●	●	●	●	●
Home equity line	●	●	●	●	●	●	●	●

Source: Company websites

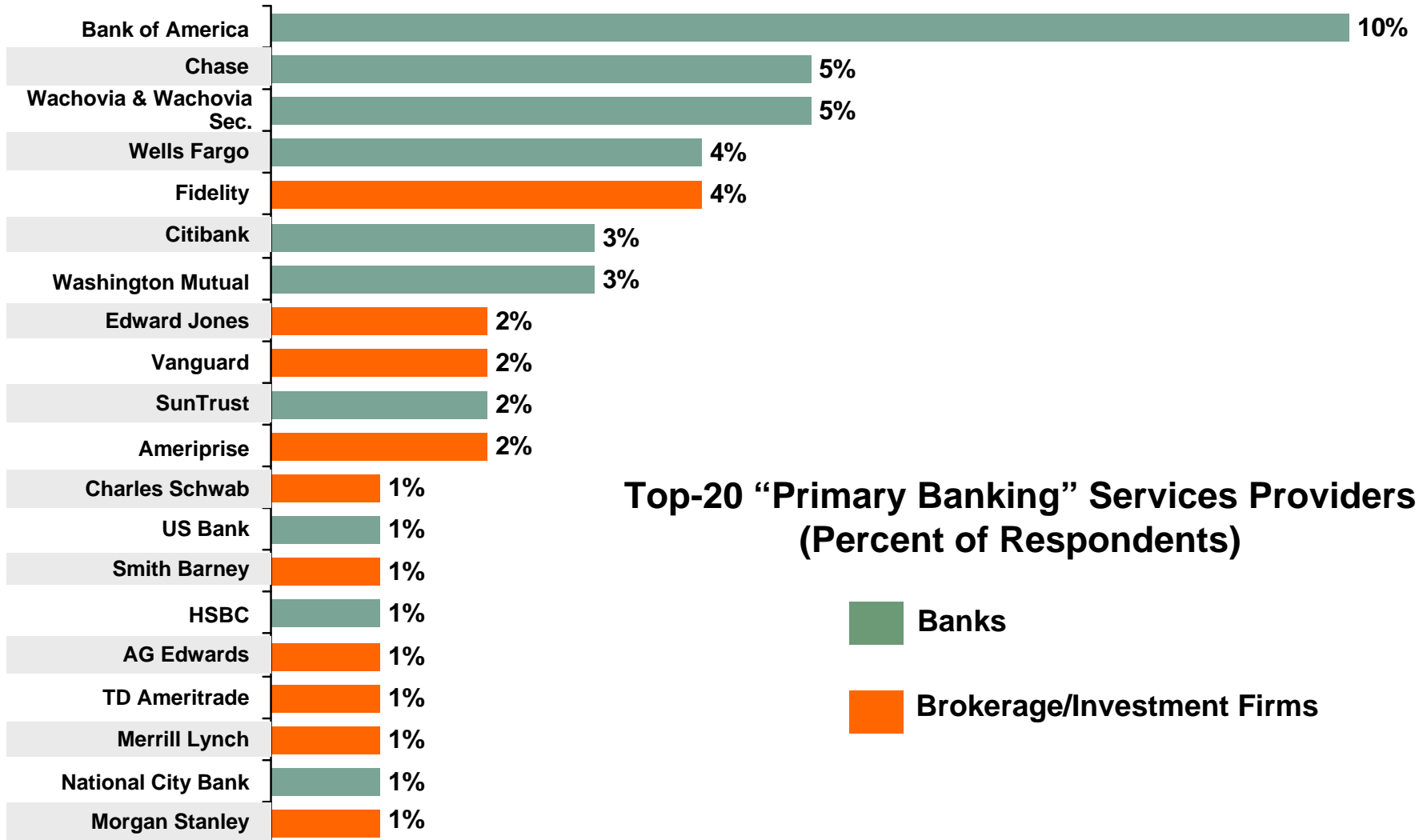
With compelling banking offers, significant growth has been achieved

**Schwab Case Example:
Number of Bank Account Clients at Month End, 9/06 – 9/07**



Source: The Charles Schwab Corporation Monthly Market Activity Report for September 2007

Mass affluent consumers report 10 of the top-20 “primary banking” relationship providers as investment firms



Consolidation of retirement accounts for income distribution offers significant potential for banks

- **Leverage existing relationships**
- **Tap into cash management and transactional capabilities**
- **Pro-actively defend against investment/brokerage firms' efforts to enter banks' historical core products franchise**
- **Focus on product innovations that address the underlying needs of pre-retiree and retirees**

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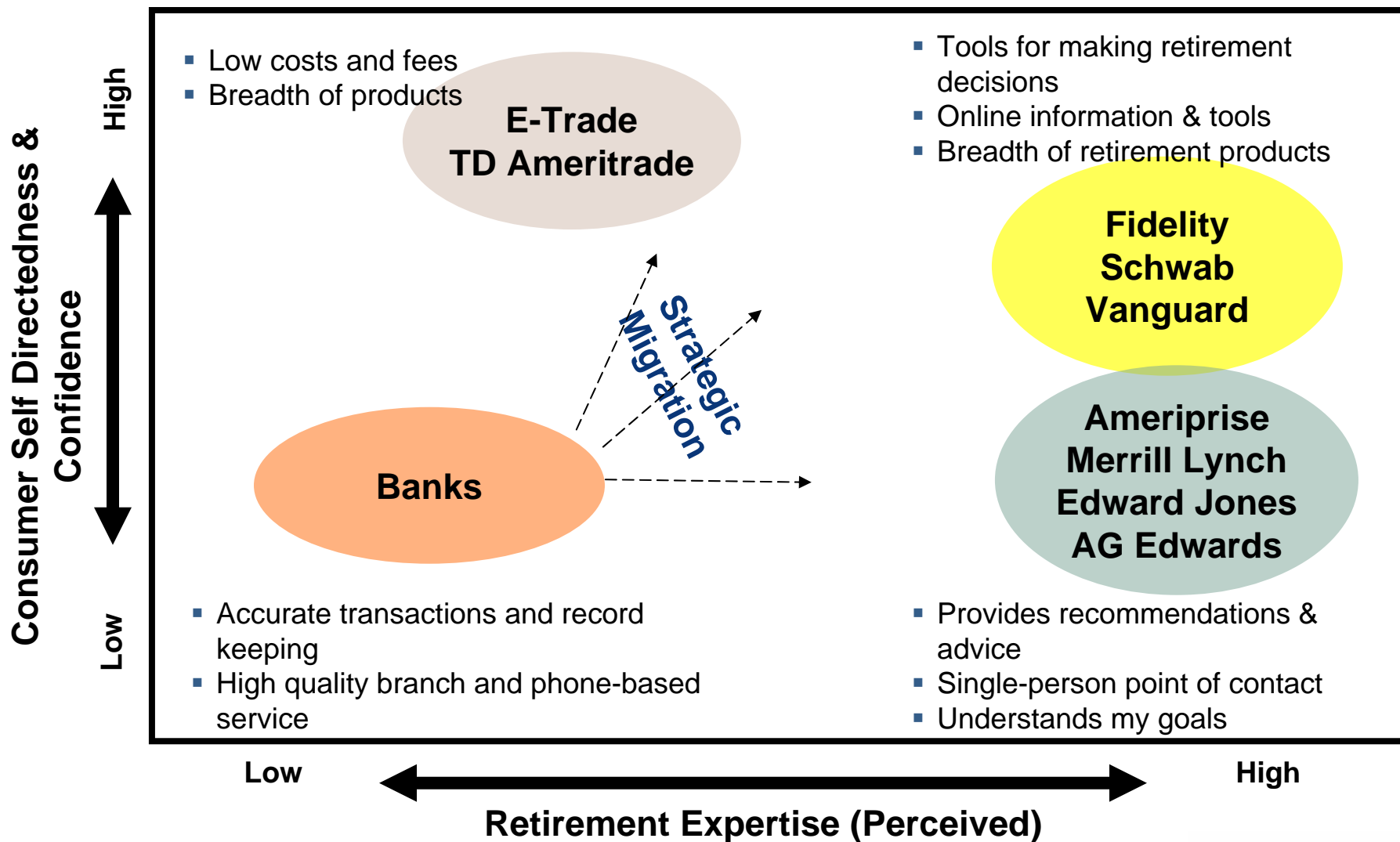
Banks that focus on retirement can gain ground

- 51% of mass affluent consumers would consider going to a bank for retirement planning
- 46% of mass affluent consumers would respond favorably to a referral from a bank



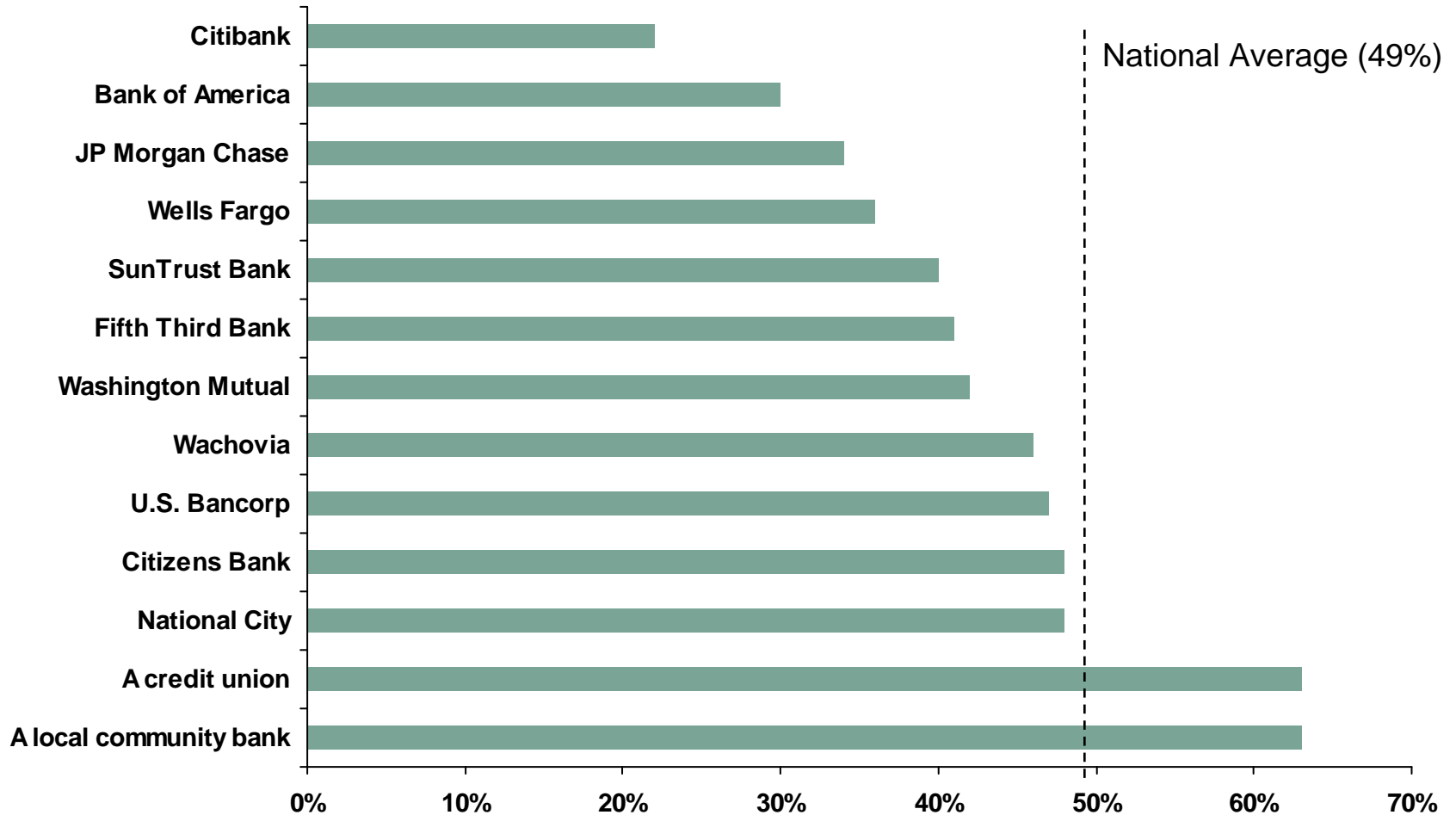
- Leverage the strength of relationships with existing customers
- Let them know you are in the retirement business
- Establish a dialogue focused on reducing the sources of intimidation
- Direct the marketing to customer segments that are receptive to banks

Banks must adopt focused, customer needs-based strategies to migrate to a stronger positioning in retirement



Banks must also re-establish the position of being a trusted advocate

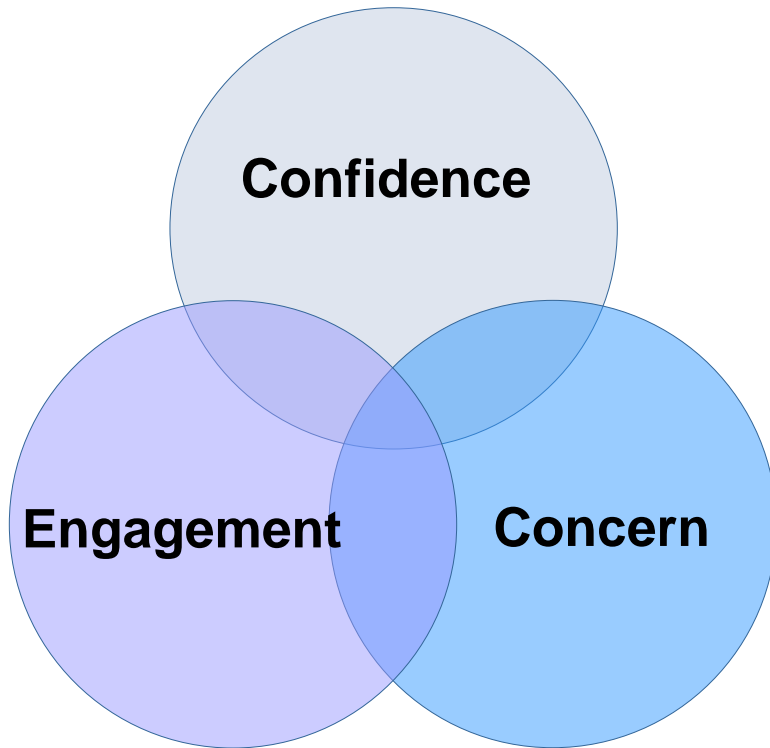
Percent of Respondents Who View Their Bank as “Honest”



Source: Forrester Research NACTAS Q4 2006 Finance Online Survey

Consumers' retirement decision-making is driven by three factors

What drives consumer behavior regarding Retirement?



- 1. How confident are you in managing retirement assets?**
- 2. How concerned are you that you will have sufficient assets in retirement?**
- 3. How engaged are you in making retirement financial decisions?**

Many mass affluent consumers are receptive to banks, but banks must invest to establish dialogue

Communication Channels

- **Branch**
- **Call Center**
- **Online**
- **ATMs**
- **Statements**

Key Messaging Objectives

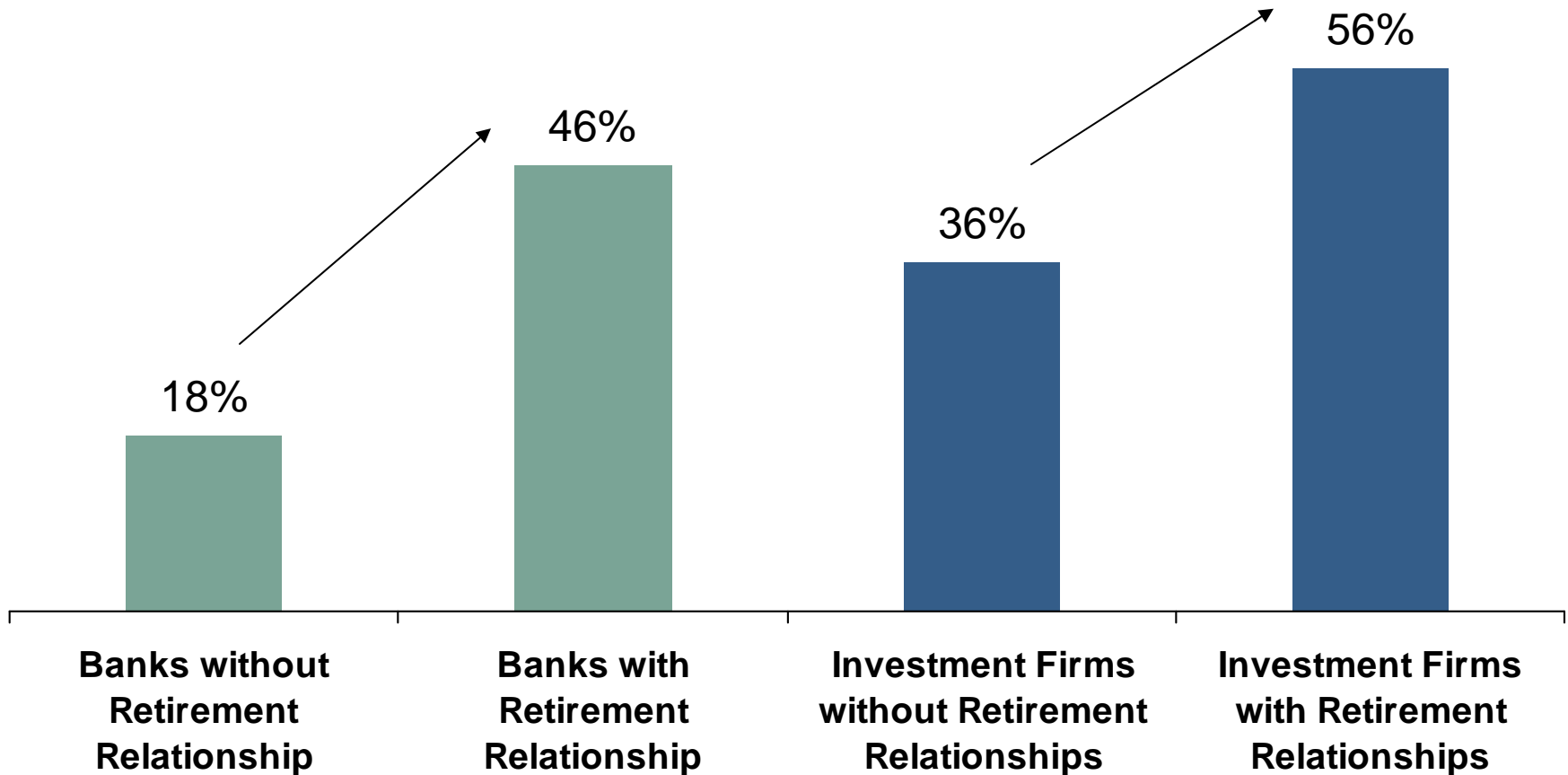
- **Demonstrate Retirement Expertise**
- **Offer Simple Solutions**
- **Establish “Approachability”**
- **Build Empathy, and Trust**
- **Provide Retirement Confidence**

Establishing engagement is the first step towards building the retirement business

- 1. Establish the consumer dialogue about retirement**
- 2. Introduce/upgrade online retirement capabilities mirroring 401(k) “best practices”**
- 3. Determine how to best lever your strategic assets (distribution, product, brand, existing deposit relationships), without being encumbered by them, to capture retirement asset consolidation**
- 4. Simplify critical sales and fulfillment processes (e.g. rollover)**
- 5. Ask for the business**

When consumer engagement around a retirement dialogue is achieved, banks make significant gains

**Percent of Investable Assets Held
(Across Banks & Investment Firms)**



Success will come from focus and execution

- **The success requirements — positioning, capabilities, sales and marketing approaches — are well defined**
- **The market remains fragmented, with consumer inertia explaining most consumer decision-making**
- **Significant traction has been established by a limited set of competitors**
- **For banks prepared to focus and execute, the opportunity, and probability, of success is significant**