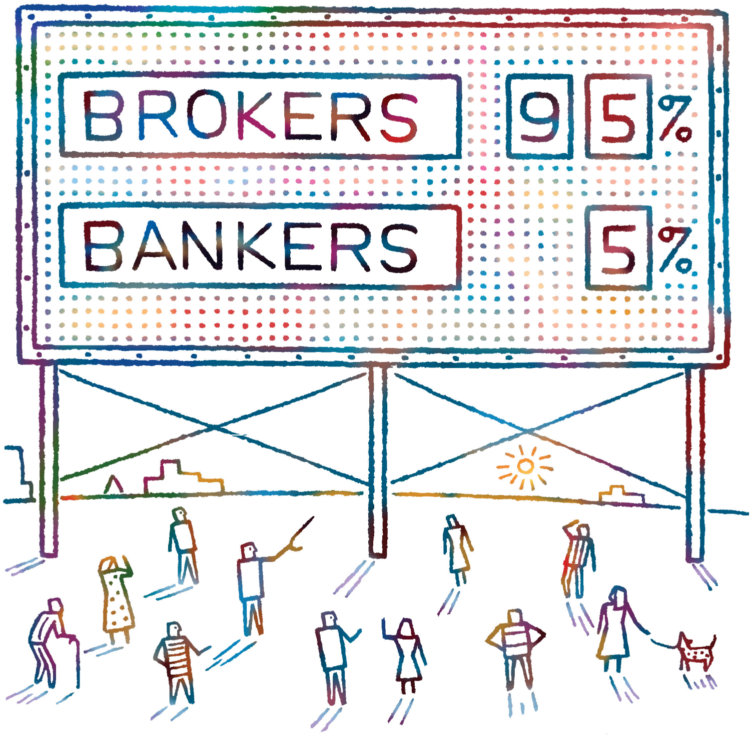
Why banks are missing the retirement boom

And more importantly, what they can do to get in the game now



It is virtually impossible for a week to go by without reading about the aging baby boomers' march towards retirement and the large opportunity this trend creates for financial service providers. Similarly, banking publications are peppered with articles preaching about the need to understand the financial needs of all of our customers—not just the wealthy few—in order to become true trusted advisors and "lock up" a customer's financial relationship. Yet, in my experience banks are doing relatively little to connect the dots between these two issues. We ask front-line employees to profile customers and to sell them a full range of products. But retirement planning and programs to encourage long-term savings are absent from virtually all of these conversations.

I don't think that any of us underestimate the scope of the opportunity. Already over $3 trillion is locked up in IRAs, and private retirement savings vehicles are growing by 4% a year. Yet the overall U.S. savings rate is a paltry .2% of personal income. We need to develop products and strategies to help more people get on the path to savings, and we need to earn a greater share of what's already out there.

Why advice is the key

Research shows that banks are hardly ever considered a key resource for retirement planning. A recent survey conducted by Bain and Co. revealed that less than 5% of those aged 55 to 70 with more than $100,000 of investable assets consider banks their primary financial resource. Most of these mass affluent individuals rely on independent financial advisors or brokers to assist in their retirement planning efforts. Equally disconcerting is the fact that when people rollover their 401(k) plans, more than 70% turn to a new service provider. These transfers alone are now approaching nearly $200 billion a year, and most of it goes to brokers. Banks are hardly even in the game.

Providing advice to customers matters. According to Roper Public Affairs, individuals with financial advisors are much more likely to be successful with their financial planning efforts than those without professional help. Advice, in and of itself, may not lead to riches, but none of us would dispute the fact that focus and attention on retirement planning can yield results. Some of these processes are less complicated than we may think. The key for banks is to start early in their customer relationships, inquire frequently, and make the process easy for their customers.

Too focused on daily sales goals

In this decade, significant progress has been made in the area of profiling customers at the time new accounts are opened to create a picture of a customer's financial needs. But long-term retirement planning is rarely a part of this front-line effort. Simple questions need to be directed towards all new customers, not just the perceived affluent: *(Continued on page 42)*

ILLUSTRATION BY LEWIS SCOTT

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- Do you have a plan or a process to save for retirement?
- Would you like help figuring out how you might save for retirement?
- Do you have a 401(k)?
- Do you have IRAs, and, if so, where and how much are in these accounts?

In my experience, customers are much more willing and comfortable talking about their savings (they're proud!), than their debt. But front-line employees are afraid to pry and aren't trained on how to make these inquiries and then identify the appropriate next steps. We are still too focused on the immediate sales transaction and just meeting today's numbers.

In small business and commercial banking, the sales force is well trained to develop a loan pipeline. Even in-store bankers break down the results of their aisle prospecting into "contacts," "quality prospects," and "follow-up leads." Why can't this same logic apply to the retirement planning arena?

Granted, very real compliance issues complicate this process in today's world. We live in fear that a customer will confuse an uninsured investment with an FDIC insured product and that the consequences will be dire. These fears are unfortunately well founded. As a result, most banks have completely bifurcated their sales force and their product set. This effort has gone too far, and more attention needs to be placed on offering savings and investments for retirement planning at the branch level. However, the strategies need to be very different for the various customer bases.

A different kind of retirement

Gone are the days when retirement was a well-identified single event, marked by a bon voyage party and a set of new luggage. Today's individuals frequently leave full-time employment only to pursue other careers or to work part-time. In fact, nearly 60% say they plan to pursue some sort of paid endeavor after retirement, based on desire, not need. One spouse may retire and the other may continue working. In addition, retirements are lasting longer. Over 50% of Americans now expect their retirement years to span at least 15 to 30 years. Over one-third expect to retire between the ages of 50 to 64. Their retirement savings and the processes for retirement planning are spread out over long periods of time, various savings and investment vehicles, and different institutions.

A better way to reach mass affluent

By and large, banks have done a good job segmenting their upper-tier customers. Programs to serve those with assets from $100,000 to just under $1 million have historically taken one-step forward and two-steps back, as banks struggle to be both efficient and effective. Should the strategies and the sales force for these mass affluent customers be branch-based, where customers frequently wish to see their bankers? If so, how can we prevent these employees from getting roped into fulfilling a broader range of lower-value activities against a larger customer base?

This question is further complicated by the fact that the issue of compliance and licensing looms large. How can we maintain licenses for employees whose range of responsibility is far greater than a single product line? Yet it is the *range of responsibility* that is a prerequisite for gaining permission to talk to customers about the *range of services*, particularly those that involve long-term planning. At the end of the day, it is critical for most bank branches to have on their platform at least one individual to serve those customers with over $100,000 in investable assets. These platform officers must have at a minimum an annuities license and a Series 6. Increasingly, however, some banks are empowering this sales force with a Series 7 and a Series 65 license so that they can offer virtually everything right there, right then.

If we expect customers to aggregate their savings and investments with one institution, shouldn't we be integrating our sales force and product offerings into our core delivery system, which is branch banking?And I am not just talking about licensed financial consultants who only accept referrals from branch employees and work their existing book of business.

I am talking about joint employees of the bank and a securities firm who handle more than investments, and, as such, provide a broader range of services. Only these employees can earn the right to become trusted advisors and are the industry's primary solution to getting back in the game of retirement planning for the mass affluent.

Finding gold in bread and butter

Customers with incomes below $75,000 are virtually ignored when it comes to retirement planning. Banks are all chasing the mass affluent and ignoring those customers whom they already bank. Simple strategies can be introduced to serve this market.

Engage the front-line to inquire about IRAs and Roth IRAs. Fifteen years ago, IRA sales production and IRA yearly contributions were a mainstay of sales activity and production in the early part of the year. Though the sale of these products now needs to be handled by licensed employees, there is no reason why questions related to IRAs should not be included in up-front profiling.

Offer automatic savings plans for customers who are just getting started. Customers of varying sophistication in the retirement planning arena know that "paying themselves first" is the holy grail of retirement security. We have forgotten how to preach this core message. There is nothing wrong with tweaking your current product set to offer a long-term insured product that builds monthly through an automatic transfer from a checking account. The opening balance can be as low as $500 to $1,000, and the monthly transfer can be as little as $50. The insurance industry has been masterful at creating these vehicles. Why don't we offer such a product as a part of our new account packaged sales process? Isn't this as important as a debit card or on-line banking? When compliance concerns led the banking industry to build walls between investment sales and deposit products, we forgot that we can help many customers reach their retirement goals with our existing FDIC insured product line.

Build more sales collateral to support retirement planning. Every new account opening package given to a customer should contain information on how to plan for retirement. The range of your bank's offering should be presented simply, from automatic savings accounts to IRAs and 401(k) plans. Again, concerns about proper disclosure loom large, but this in and of itself is not cause for abandoning the effort across the board. ***BJ***