Redefining Retirement for Baby Boomers

By Dan Richards

As its members have moved up the age spectrum, the baby-boomer generation has cut a swath through society, transforming every institution that it has touched—from universities to auto makers, from the real estate market to airline and travel industry. Now that the first wave of boomers has entered retirement—with many more to follow—they are redefining retirement, too. As a financial advisor, dealing with baby boomers in retirement will be an entirely different proposition from interacting with their parents at the same stage. Those advisors who fail to make the transition will risk becoming big losers—and those who succeed will have the opportunity to be big winners.

Although the baby-boomer demographic is not homogeneous, five key traits mark the behavior of typical middle- and upper-income boomer clients: They believe they can have it all, they’re skeptical of authority and institutions, they’re reluctant to give up control, they want to keep their options open, and they’re looking for value.

Trait 1: “I Want It All”
The “I want it all and I want it now” mindset has marked baby boomers all their lives and is following them into retirement. Perhaps better than any other characteristic, the have-it-all ethos defines boomers. After all, it’s not for nothing that this has been called the “me generation.”

When, for example, is the last time that you heard talk of “deferred gratification,” the notion that you sacrifice today so that you can enjoy tomorrow? This concept marked the behavior of previous generations, and its disappearance among boomers is one explanation for plummeting savings rates.

(Interestingly, immigrants have more traditional values about saving and sacrificing for the future.)

Boomers in retirement will demand that you tailor your approach to accommodate their preferences. Using e-mail is an example. Some boomers love e-mail for its efficiency, others hate it for its lack of personal connection and intrusiveness. As e-mail devices such as the Blackberry follow personal computers and cell phones and migrate from business to personal use, communicating with clients electronically will become more important.

So you had better know how each of your key clients feels about technology, then communicate on their terms, not yours. This doesn’t apply just to e-mail. The demand for solutions tailored to their preferences will apply to other communication as well: where and how frequently you meet, frequency and timing of phone calls, format and delivery of reporting, and nature and location of educational programs. The most affluent boomers in particular feel entitled to service on their terms, and they are impatient with anyone unable or unwilling to do so.

Trait 2: Skepticism about Authority and Institutions

Baby boomers are skeptical about conventional wisdom and unwilling to accept authority uncritically. This generation’s influence has led to an erosion in respect for virtually every institution (whether it be churches, government, the media, or big business) and to a dramatic decline in respect for once-cherished professions such as law, accountancy, medicine, and banking. Anyone who works with baby boomers in retirement had better be prepared to honestly, openly, and clearly answer questions and back up advice with solid evidence. Remember, just because you say so isn’t going to cut it with these retirees.

This tendency to question advice already characterizes many clients in their 40s and 50s, but additional free time that comes with retirement will lead to a torrent of queries, and not just about the investments that boomers hold with you. As more of them become involved in their aging parents’ financial affairs, be prepared for tougher scrutiny of how you’re handling their parents’ investments.

Some advisors—already pressed for time and reluctant to bring on additional staff—will be challenged to find ways to deal with this greater demand for information. One solution may be to offer a frequently asked questions section on your Web site to provide easy access to information for tech-savvy retirees. Another may be to ramp up educational forums and workshops to reach clients in a time-efficient fashion.

Trait 3: Reluctance to Give Up Control

Boomers are driven to be in control, particularly on important issues. Look, for example, at how hyper-involved baby-boomer parents are in their kids’ educations compared to previous generations. Indeed, the phrase “helicopter parent” has arrived to describe parents of university students who continue to hover.

The drive for control is fuelled by increasing access to information on virtually any issue via the Internet. The real impact of the Internet lies not in changing where people buy but rather in how they buy. The Internet levels the information playing field and already has had a profound impact on our business, with more changes to come. In inter-
views with affluent retirees, for example, I am struck by the number who go online each morning to check how their investments did the previous day.

This will not be good news for advisors, who already are under the gun on short-term performance. Try as you will to discourage clients from focusing on day-to-day market events, you cannot persuade all clients not to check results on a daily basis. If you don’t offer online statements and real-time performance tracking, think now about how you’re going to offer these services soon to do whatever it takes to help clients feel in control of their financial futures.

This quest for control also will feed a growing demand for streamlined financial plans. Boomers (and almost all clients) don’t want 60 pages of dense type and charts. They want an easy-to-comprehend summary of where they’re likely to be relative to their goals and the options available to close any gaps. Some super-analytical clients are exceptions, but these are relatively few. If you prepare an in-depth plan, consider giving it to clients as an addendum to the executive summary you review with them (and be prepared for clients to shelve it, never to see the light of day).

Indeed, the addendum may give your recommendations greater credibility, but do not expect clients to slog through the details. Financial plans help boomers feel more in control of their financial futures, and they help clarify options for those with the “I want it all” mindset—people who have unrealistic retirement objectives. If you aren’t set up to prepare these types of financial plans, now is the time to start.

One final impact of boomers’ drive for control: Be prepared for more frequent, open, and honest conversations with clients. To the extent possible, ensure that you initiate communication, because clients assign more value to proactive contact than to responses to requests. As part of those conversations, recognize that there are no secrets. A physician friend recently told me about all the online research his patients do in their search for further explanation or alternative treatments. In the future, you have to be prepared to be absolutely open and transparent on compensation and other issues that may have been masked in the past.

Trait 4: Desire for Flexibility

Boomers want flexibility and are reluctant to get locked in on financial matters. This is an extension of their quest for control. A recurrent theme in interviews I conducted was concern about getting tied into investments or life insurance solutions from which investors would have difficulty extracting themselves.

This impacts the selection of products you present to boomer retirees and has profound implications for manufacturers of those products.

Trait 5: Quest for Value

After the tech crash earlier this decade, media commentary focused on investors’ “flight to safety.” Now, we see a similar shift among boomers, but this is a flight to value. Never have we seen a more fickle, less loyal, more value-driven consumer. The sad state of the North American automobile industry is just one example of what can happen if you get this wrong—because boomers led the flight from U.S. car makers.

It’s not that boomers have no loyalty but that traditional relationships are much less important to them. On important issues they make hard, cold comparisons of historical and alternative providers, and if they see a better deal, they speak with their feet. The rise of airline discounters and the financial problems of almost all traditional airlines is an example.

Advisors need to prepare for tough scrutiny of their value. Those who provide superior value will be richly rewarded and those who fail the value test will be severely punished. And just because you’re being rewarded for providing superior value today is no cause for complacency. You will be put to the test again tomorrow. Even powerful brand icons such as Toyota, Blackberry, iPod, and Starbucks prosper only as long as consumers perceive that they provide better value than the alternative.

The bar for the perception of superior value will keep rising. Today’s differentiated value (regular, proactive contact, for example) will be the minimum that clients expect tomorrow. The quest to have clients see us as providing better value each year will be never-ending. This shift already has begun, but as boomers have better information and more time to process it, the shift will accelerate. In many regards, our business will transform from relationship-driven to value-driven.

Conclusion

As you think about the five traits of baby boomers—reluctance to compromise, skepticism about authority, drive for control, focus on flexibility, and quest for value—think about how you’re going to respond. These five traits along with additional information and more free time form a potentially lethal combination for advisors.

The boomers’ move into retirement is both bad and good for the advisory business. Boomer retirees pose new challenges that may be threats to your practice. But if you are proactive and prepare for the new retirees now, they can propel your business to the next level of success.

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