

Retirement Market Insights

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Economic Crisis Delays Retirement Plans

The economic crisis experienced globally in the Fall of 2008 will have an impact on the behaviors and attitudes of investors that will forever change the way individuals invest, utilize advisors and rely upon financial services organizations. This economic downturn has been a significant and life altering experience for many Americans, and the impact this crisis may have on households across the country can probably be classified as stunning. Baby Boomers, especially those with between 5-10 years to retirement, are befuddled and will soon begin to panic.

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In November, 2008 Spectrem Group surveyed individuals with over \$1 million in wealth qualitatively in focus groups in five cities: New York, Palm Beach, Seattle, Los Angeles and Chicago. Additionally, a quantitative online study was conducted with over 750 Millionaires. Even those at this level of wealth are feeling some drastic changes in their daily lives and certainly their long-term retirement plans. For 80% of Millionaires, this is the worst financial crisis they have ever experienced. Over 49% are changing their spending habits in the short term. Approximately 20% are being forced to

delay their retirement. The largest percentage anticipates that the economy will not recover for at least two years.

The individuals whose plans are impacted most significantly by the economic crisis are those individuals who are within 5-10 years of retirement. Sixty-one percent of those individuals indicate that the financial crisis has seriously impacted their long-term financial goals. Over one-third of those who are not retired have changed their retirement plans and plan to retire later. Among those who



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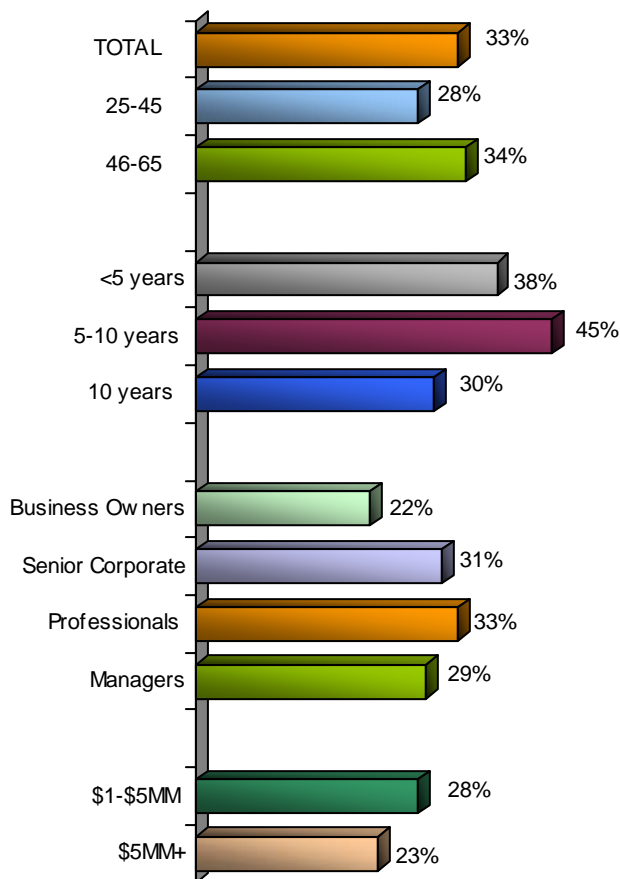
planned to retire in 5-10 years, 45% have changed their retirement plans to later. Thirty-eight percent of those who planned to retire in less than five years have also changed their retirement plans and now plan to retire later. Among those who plan to retire in more than 10 years, 30% plan to retire later. The retirement plans of various professions of Millionaires are impacted differently; Professionals and Senior Corporate Executives are more likely than Business Owners to have changed their retirement plans and plan to retire later as a result of the crisis. Those with less wealth are more likely than those with more wealth to alter their retirement plans and retire later.

As a result of the crisis, investors are making changes in asset allocation as well. More

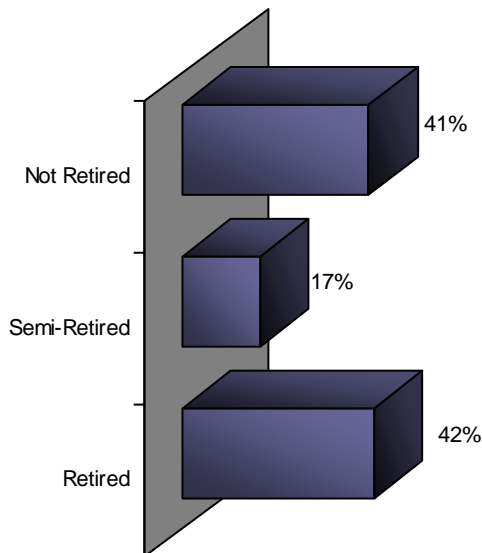
than 50% of Baby Boomers plan on moving their portfolios to a greater concentration of cash. Clearly the Baby Boomers are realizing that they may have a difficult time maintaining their existing standard of living during retirement due to the significant losses to their portfolios. The challenge of this instinctive move is that investing in cash may not be the best way to grow their overall portfolios. Safety, however, is an important issue for these individuals who are still reeling from seeing their balances dip and dive. Though a shift is occurring from wealth accumulation to wealth preservation for almost all Millionaires regardless of age, the average plan participant may still need to grow their money to make up for their losses. Panic may ensue, across all wealth levels, when plan participants realize they still must accumulate to maintain their lifestyle.

Millionaire and other high-balance plan participants need to have their very real fears assuaged and a new and rethought retirement plan put into place. Postponing retirement may be a reality for many Americans, even the most wealthy, but making sure all plan participants know the best steps to take for their portfolios depending on their position in life and account balance is important. Now is not the time to misstep because of poor information, or panic.

The current financial crisis has changed my retirement plans and I plan to retire later (Among those not retired)



Retirement Status



The Facts about TPAs

Third Party Administrators, or TPAs, a major factor in the retirement marketplace, serve clients of all sizes and represent a very large distribution channel through for investment providers. Just 58% of TPAs rate their partners 4 or 5 on a 5 point satisfaction scale. This leaves considerable room for improvement and indicates an opportunity for investment providers to either upgrade their offerings and services or to enter this channel.

In a Spectrem survey, respondents were asked for the names of the three most important alliance partners and respondents with which they work. Many had arrangements with more than three providers. Since multiple relationships ensure that TPAs have the range of services and investment options they need to meet the needs of clients at different size companies, different service demands and different price tolerances. Plan providers need to design products for the TPA channel with specific target markets in mind. Success in penetrating this channel requires supplying a “better mousetrap” for the segment already served or helping TPAs enter markets they do not currently serve.

Two-thirds of TPAs say they want face-to-face meetings with a representative or wholesaler from their alliance partners semi-annually or annually.

While telephone and e-mail suffice for day-to-day operations, these respondents want periodic face-to-face meetings. Larger TPAs prefer more frequent meetings. In addition, one-third of TPAs say that periodic meetings (not necessarily face-to-face) with portfolio managers to review investment performance and strategy are a necessary service they expect from alliance partners.


TPAs make a wide variety of plan services available through their alliance partners rather than maintaining these services in-house.

Participant and plan sponsor websites, investment advice and participant communications materials are areas where plan providers may be able to develop offerings that make their plan a more attractive alternative than that offered by a competitor. Marketing the availability of “turn-key” automatic enrollment programs with all of the required sponsor notifications is one area that presents itself as an opportunity.

About 40% of TPAs say that they do business under their own brand, not that of an alliance partner.

Alliance partners who successfully penetrate this channel must have the capability of meeting this preference. **TPAs say that leads or referrals are the most important sales assistance they receive from alliance partners.** Three-quarters of TPAs say this assistance is very important to them, more than double the proportion who consider other types of sales assistance very important. Many smaller TPAs also place high importance on technical assistance in plan design.

Don't forget defined benefit business.

Overall, 73% of these TPAs administer some DB business. On average, it accounts for 19% of their revenue. Opportunities for stand-alone DB business and consolidated DB/DC business are likely to be available. 

Providers are Key in Communication

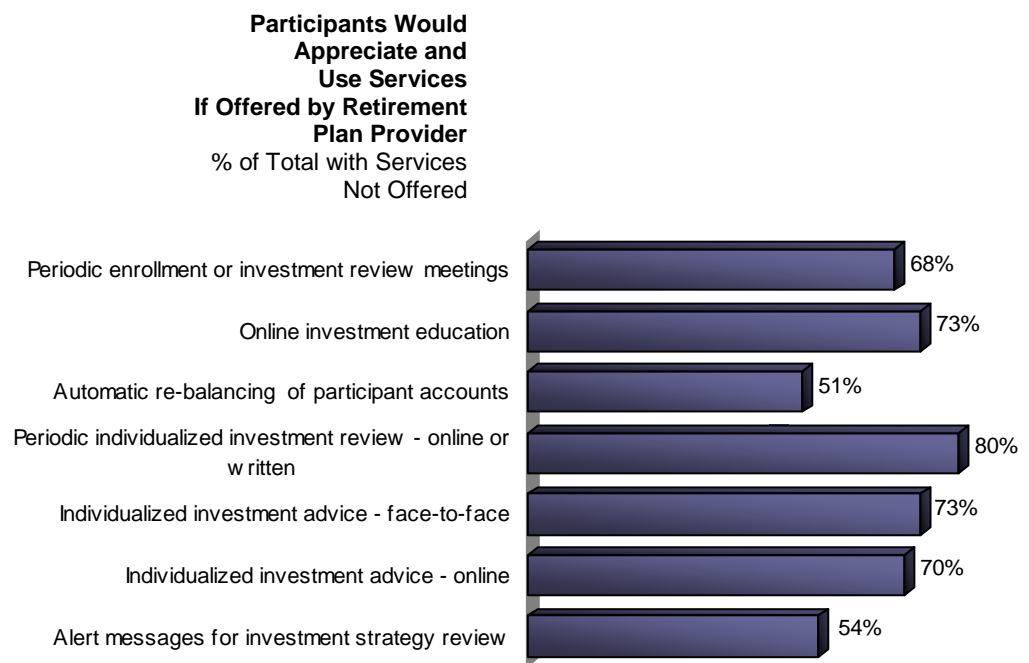
Retirement plan providers play an important role in providing investment advice to plan participants. Over two-thirds of sponsors say their retirement plan provider conducts periodic enrollment or investment review meetings and offers on-line investment education to participants. Automatic account rebalancing and individualized investment reviews (online or written) are provided by 40% of plans. Overall, three-quarters say that their provider offers plan participants individualized investment advice. This group is split about equally between those who offer advice on-line or in face-to-face meetings. Only 6% of plan sponsors say that their retirement plan provider offers none of these services.

Face-to-face investment advice is more likely to be offered in plans with 200-999 participants (56%) than in larger (23%) or smaller (36%) plans. There is no significant difference in the way investment advice services are delivered across plan asset segments.

Overall, usage levels are moderate for these services. Sponsors report that about half of their participants take advantage of enrollment and investment review meetings, auto-

matic rebalancing services and written or on-line investment reviews. The lowest reported usage is for online investment education and advisory services (31%).

Most sponsors whose retirement plan providers do not currently offer these planning/advisory services believe that their employees would appreciate and use them if they were available. About half say that their employees would use automatic rebalancing services and alert messages for their personal investment strategy review. Across all other services tested two-thirds or more say they think participants would appreciate and use the services.



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