Catching Baby Boomer Money in Motion: The Unmet Need for Tailored Products

The last of the 78 million baby boomers has reached 50 years old, and the financial services industry must anticipate the impact of the largest and longest-lived generation entering retirement. Yet the financial products available to help them manage their retirement incomes are fairly rudimentary, especially for those not affluent enough to have a wealth management account.

One reason for this dearth of targeted products: As retirement experts focus on the need to save abundantly and invest wisely, there is limited understanding of where retirees prefer to keep their money, how they will spend and manage it, and which payment products they will use.

How can financial services companies meet the challenge?

Executive Summary

As Baby Boomers prepare for and enter retirement, they will move their money to the financial institutions they perceive as best equipped to meet their changing financial needs. The amount of money in motion is enormous. Americans over 50 control an estimated 80% of US aggregate net wealth. About 10,000 people are retiring per day, with $765,000 in average wealth per household.

This shift represents a huge opportunity – and risk – for financial services companies. Those that come to understand the unmet needs of people making the transition into retirement, and develop products to meet those needs, will be the winners in our view. Companies must act fast, because the last of the Baby Boomers will all reach age 65 by 2029. Strategic choices made now, including what technology to leverage and how to prioritize products and features brought to market, will affect a company’s ability to compete for Baby Boomer business for the next 15 years.

Best practices include: (1) Analyze the behavior of your customers over 50, with a focus on unmet needs. (2) Understand how your particular sector will be affected. (3) Assemble a technology ecosystem that incorporates FinTech and spending data.

1. Analyze the Unmet Needs of Your Customers Over 50

At some point after they turn 50, people move away from salaries toward reliance on their accumulated wealth for daily living. (For that reason, we refer to people between 50 and 70 years of age as “Transitioners.”) At the same time, Transitioners’ spending priorities change, with a heightened focus on healthcare, quality of life, philanthropy and leaving a family legacy.

Yet, today’s retiree is still a long way from the ideal of centrally managing an entire investment portfolio with an ongoing budget and a forecasted positive wealth for a potentially very long life. Few have a unified view of all their financial assets and income, along with the access to funds, money movement capabilities and other tools they need to manage their money. This vacuum presents the opportunity for a financial services institution to create a breakthrough product that protects current assets and captures money in motion by satisfying Transitioners’ unmet needs.
In our view, these unmet needs include:

- **Account Aggregation.** America has shifted from defined benefit pensions and guaranteed Social Security to self-saving via a wide range of vehicles such as 401k, IRA, SEP, annuities, 529c (tuition savings), and profit sharing (see figure atop the next page). Retirement funds may be held at different non-bank financial institutions, making it difficult even to monitor balances. The ability to show the funds held in all accounts not only helps the customer manage cash and wealth, but also gives the financial institution valuable customer information.

- **Easy Access to Funds.** Experience shows that Transitioners prefer to move their money to institutions that provide a range of payment options (including checks, debit and prepaid cards, P2P, and bill payment) and vehicles for cash movement between accounts (configured for automated, manual or parameterized funds movement). Accounts that are limited in these respects are in danger of losing Transitioner assets.

- **Money Management Tools.** One reason many Baby Boomers are underprepared for retirement is that they may not know how to manage their cash flow effectively. Financial institutions can respond with financial education, automated alerts to encourage healthy behaviors, and specialized robo-advice regarding budgeting, cash management and wealth management.

- **Omni-Channel Functionality.** The vast majority of today’s financial services customers, regardless of age and wealth, want an omni-channel experience. Even if they primarily work with a wealth manager or bank branch, they value the option of a seamless experience on their computer, mobile phone, or tablet.

- **Age-Specific Needs.** Advanced age can lead to issues such as elder fraud (which leads to estimated losses greater than $3 billion annually) and dementia (which creates the need for trusted advisors to manage finances). Any company looking to better reach Transitioners will need to address these age-specific issues, particularly the balance between fraud protection and transparency required by aging clients and their caregivers.

- **Rewards, Discounts and Other Benefits.** Retirees seek to control costs and use their group buying power to maximize discounts and rewards. Member discounts generated by AARP nearly doubled from $25 million in 2011 to $45 million in 2014.

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**Changing Sources of Retirement Income: The Generational Shift toward Self-Savings**

US Baby Boomers face a wide array of retirement saving options, and will derive 30% of their retirement income from workplace self-saving, compared to just 4% for the prior generation.

Source: T.Rowe Price & Retirement Saving & Spending Study, 2015
To meet any of these needs, or preferably a strategic bundle of several, a financial institution will need to better understand the behaviors and preferences of its Transitioner customers and prospects. This means using all available information and data analytics to inform the development and rollout of innovative products.

2. UNDERSTAND HOW YOUR SECTOR WILL BE AFFECTED

The shifting of Transitioner funds and lack of effective cash management solutions will challenge each sector in different ways.

Payments, Including Credit Cards

Ironically, the generation that was born with the credit card – and drove the increased reliance on credit for day-to-day living – must now reassess their use of credit. Many facing reduced incomes will choose to limit their credit card use or slash their revolving balances, while some will see their access to credit decline. And retirement account checks can replace spending that currently occurs on payment cards.

Payment networks and the institutions that issue their credit cards need to anticipate the effect on usage, balances and price sensitivity, and find ways to retain mass market and mass affluent individuals over 50; debit cards and prepaid instruments are areas to look at. Nontraditional payments companies such as PayPal and the new mobile payments players also have an opportunity to tailor products and features to Transitioners.

Insurance

Non-bank providers of annuities and other retirement products face potential large-scale de-accumulation, and weakening of their balance sheets, as retirees withdraw these funds to live on – or move them into a bank account at another institution. Retaining these funds will require innovative solutions that meet retirees’ needs.

For example, an insurance company, working with a payment network, could issue debit cards and prepaid cards to allow direct access of funds in retirement accounts – enabling the insurer to compete with banks without being a bank. On top of this easy access, the insurance company could add money management tools, account aggregation features, omni-channel access, and benefits including awards and discounts – creating a new kind account to satisfy Baby Boomers’ unmet needs.

Banks

The central role that banks enjoy in holding balances and facilitating payments is under attack from all sides. Distrust of banks is high. New digital platforms are allowing non-banks to compete for relationships. Intensified regulation is raising operating costs while restricting pricing flexibility. External forces including low interest rates are squeezing bank profitability. Rising fees are met by increases in the already high rates of customer dissatisfaction and mistrust.

Part of the solution, we believe, is to introduce new products and services that satisfy the needs of important customer groups, such as Baby Boomers, in novel ways. For example, a bank could launch a digital platform with sophisticated reporting as a way to entice older customers to continue to move their funds into their checking accounts.
**Investment and Wealth Management Firms**

Investment and wealth management firms currently hold much of the self-saved retirement wealth in 401Ks and IRAs. They offer a wide range of retiree investment accounts and investment options, but their accounts are not designed to function as savings or checking accounts. These investment accounts tend to lack basic services such as bill pay, FDIC insurance, and regulatory protections (e.g., the Electronic Funds Transfers Act, which limits an account holder’s liability for unauthorized transactions). To help retain retirement savings after payout, investment and wealth management firms could offer new payment, investment, and cash management options.

In all financial services sectors, the competitors that best anticipate Transitioner needs can change the paradigm for their benefit while others will likely suffer a slow decline not only in assets but in relevance to their customers. Any company competing for this business must familiarize themselves with the new payment and banking technologies available to build better retirement cash and wealth management solutions.

### 3. ASSEMBLE A TECHNOLOGY ECOSYSTEM INCORPORATING FINTECH

To deliver innovative offerings, a company must create the right “technology ecosystem,” which we define as *the coordinated set of internal and external resources that drives the creation and delivery of data and information for an organization and its stakeholders*. In other words, the ecosystem defines the data sources, platforms, applications and protocols that enable implementation and refinement of the offering that will increase capture of Transitioner money in motion.

The ecosystem should be guided by a technology strategy that is aligned with the business needs arising from the enterprise and business unit strategies. The hallmarks of success are:

- **Ease of use**
  - A single, simple way for internal users to access, manipulate and present any of the data
  - A simple, intuitive user interface to engage the account holder
- **Extremely high performance and scalability, at reasonable cost and low risk**
- **Ability to access data from wherever it exists – internally or externally – without interfering with pre-existing technology**
- **Flexibility and scalability to accommodate future business needs and changing user requirements within the context of a single solution ecosystem**
- **Open-ended architecture, to better meet user requirements and help keep pace with rapid advancements in technology**
- **Integrated approaches to security, privacy, and storage**

Financial services technology has been evolving so quickly it has spawned an entire investment sector: FinTech. Whether it acquires a promising startup, enters into a joint venture with one, or establish an in-house technology incubator, any innovative financial services company will need to incorporate one or more FinTech platforms into its technology infrastructure. The resulting software can efficiently meet customer needs – such as account aggregation; seamless access to funds from multiple sources; omni-channel service, including mobile; access to discounts and rewards; and money management tools to help the make a budget, manage cash flow, and forecast wealth.
In all that has been written about retirement in recent years, not much attention has been paid to the strategic role of payments. Yet payments represent the critical link between people’s wealth and their spending needs. At one time, the payments provider would almost certainly have been a bank. Now, thanks to PayPal, mobile wallets like ApplePay, and the increasingly common issuance of prepaid cards by program managers (e.g., NetSpend and Green Dot), non-banks play an important role.

Payments data deserves an important place in a technology infrastructure. Properly analyzed, it can provide valuable information on spending habits that can drive insights into consumers’ behaviors and preferences. A financial services company can use these insights to inform segmentation, increase cross-sell, provide cash management tools such as budgeting apps, and offer targeted rewards and discounts.

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With Americans over 50 controlling an estimated 80% of US aggregate net wealth, their retirement is unleashing tremendous forces that will lead to winners and losers within the broad financial services industry. Technology is now available to address critical unmet retiree needs. Firms that best understand their Transitioner customers and nimbly create services with new banking technologies and payments will be winners in the battle to own the retiree relationship and capture their money in motion.
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**How Artemis Worldwide Can Help**

We are a boutique management consulting firm serving mainly financial services companies, with specialties including strategy formulation, business development, digitization and FinTech.

### We have deep experience in:
- Retiree behavior and Money in Motion
- Banking digitalization
- Prepaid and mobile payments
- Financial services operations and technology
- Data & information strategy design
- Corporate and business unit strategy formulation & refreshment
- Financial services operations and technology
- Both corporate management and management consulting

### We have access to other resources:
- Big data and big analytics platforms
- Advanced data protection and data privacy solutions
- Artificial intelligence and machine learning know-how
- Highly cost effective data storage and access solutions
- Organizational development, people search and partner search capabilities

### Examples of our services:
- Update strategy to optimize Transitioner business
- Performing customer research to produce actionable segments and define needs
- Define optimal offering, including product, marketing, sales, and pricing
- Develop business case including investment requirements
- Design operating platform
- Manage platform development and deployment, including supplier selection
- Define enterprise-wide change requirements

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