



RIIA's Retirement Typology

Consumer Research Results

Presented to:

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Agenda

- Introduction
- Unfolding a Typology of Retirement
- Market Shift from Accumulation to Distribution
- The Emerging Industry Opportunity
- Research Topics Under Consideration

Introduction

This is the first presentation of the findings from a research study commissioned by RIIA. Members may obtain a copy of the complete report at:

<http://www.riia-usa.org/pdfs/RIIA-AvailableReports.pdf>

- Cutting-edge profiles of consumers and their retirement income challenges
- Comprehensive view of the financial affairs of all US households
- Proprietary segmentation that provides actionable findings regarding the households of most interest to the financial services industry

Introduction

This presentation provides some of the initial results of the consumer research

- The Creation of a Retirement Typology
- Insight into one of RIAs' current 2006 questions:

Is the market shift from asset accumulation to distribution for income real?

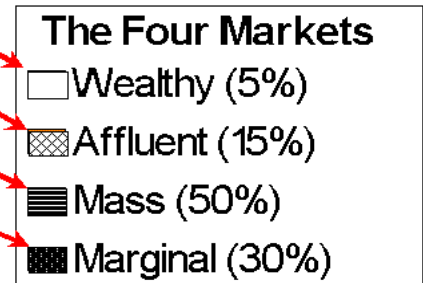
- Presentation of Industry Opportunities

Creating RIIA's Retirement Typology

The Four Market Segments in RIIA's Retirement Typology

- ✓ First we look at household wealth to create the markets
- ✓ We divide all U.S. households into four wealth levels
- ✓ These wealth levels correspond to the way that RIIA maps consumers relative to financial services institutions

Market Segment	[Commissions] Distribution	[Fees] Intermediary	[BPS/Premiums] Manufacturer
Wealth	Full Service Brokers	CPAs/RIAs	Investment Mgr.
Affluent	Discount Brokers Bundled Vendors Insurance Agents	CPAs/CFPs/PSs/RK Bundled Vendors	Investment Mgr. Bundled Vendors Underwriter
Mass	Insurance Agents Bundled Vendors Banks (Com m./Nat'l)	CPAs/CFPs/PSs/RK Bundled Vendors	Underwriter Bundled Vendors
Marginal	Banks Credit Unions	Online None	Banks Mutual Funds

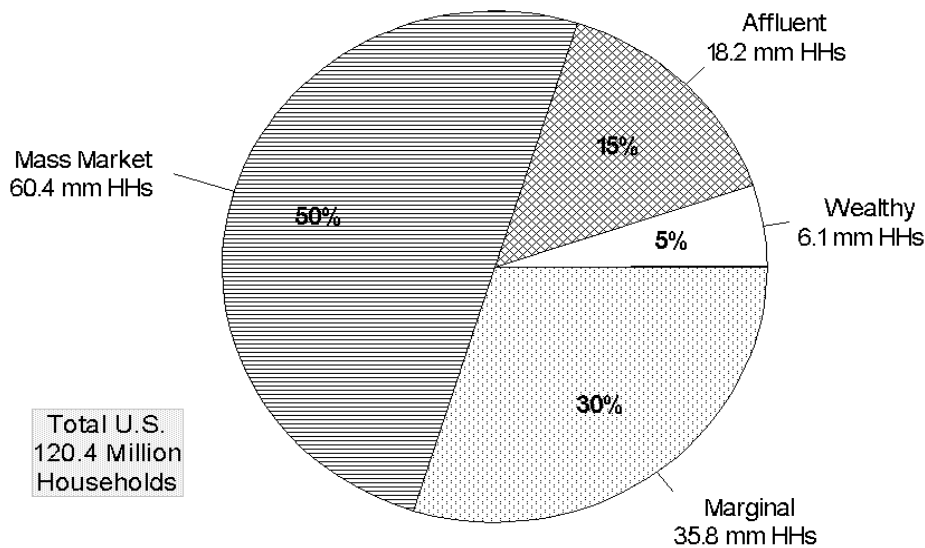


Source: RIIA & SRIC-BI's MacroMonitor

Creating RIIA's Retirement Typology

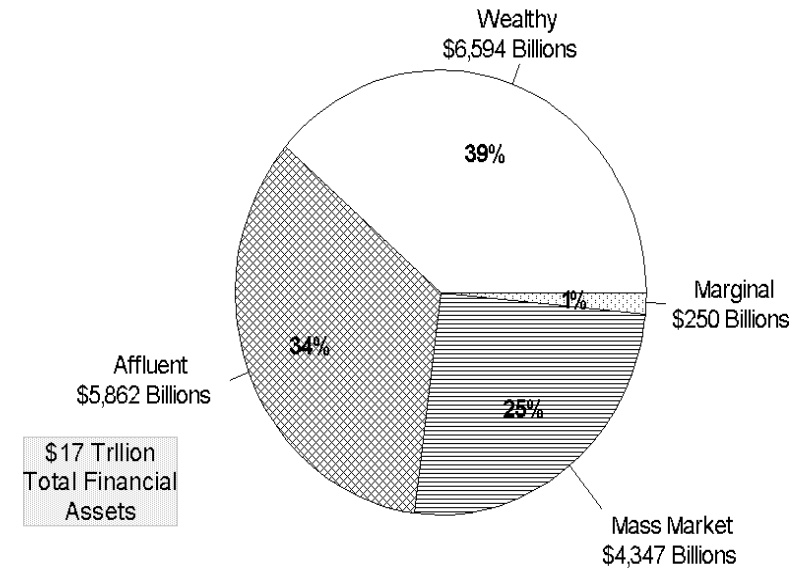
Households and Assets in the Four Market Segments in RIIA's Retirement Topology

Population Size of The Four Markets



Source: SRIC-BI's MacroMonitor

Aggregate Financial Assets of The Four Markets



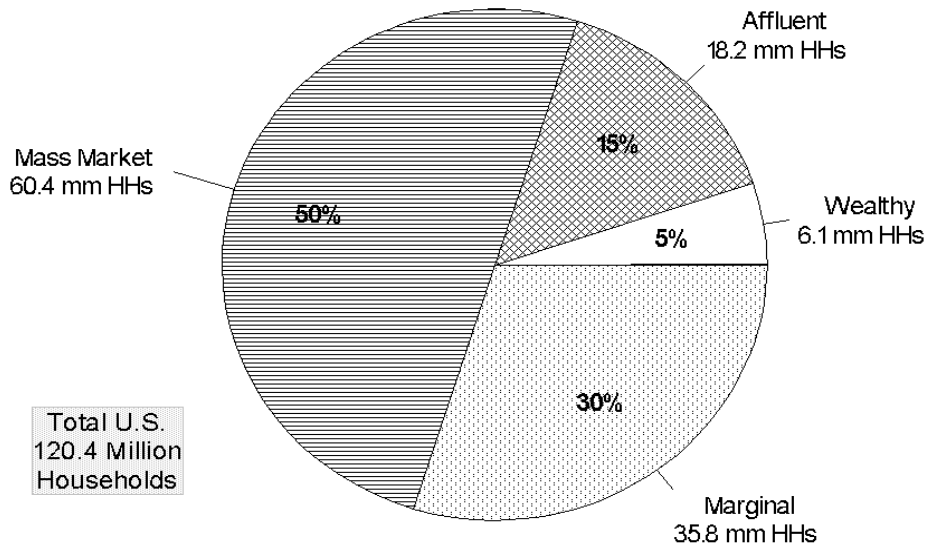
Source: SRIC-BI's MacroMonitor

Creating RIIA's Retirement Typology

**The Wealthy control almost 40% of the total financial wealth...
yet are only 5% of the population.**

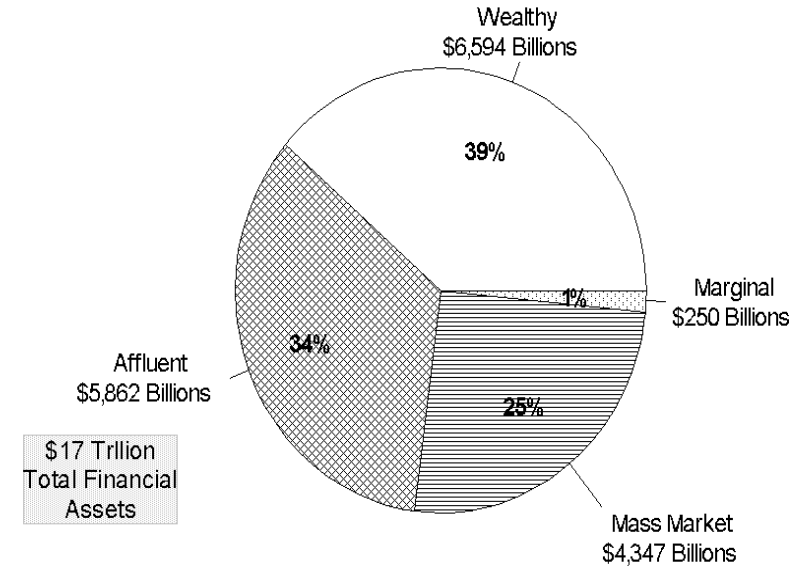
**The Affluent control over a third of the wealth...
yet are only 15% of the population.**

Population Size of The Four Markets



Source: SRIC-BI's MacroMonitor

Aggregate Financial Assets of The Four Markets

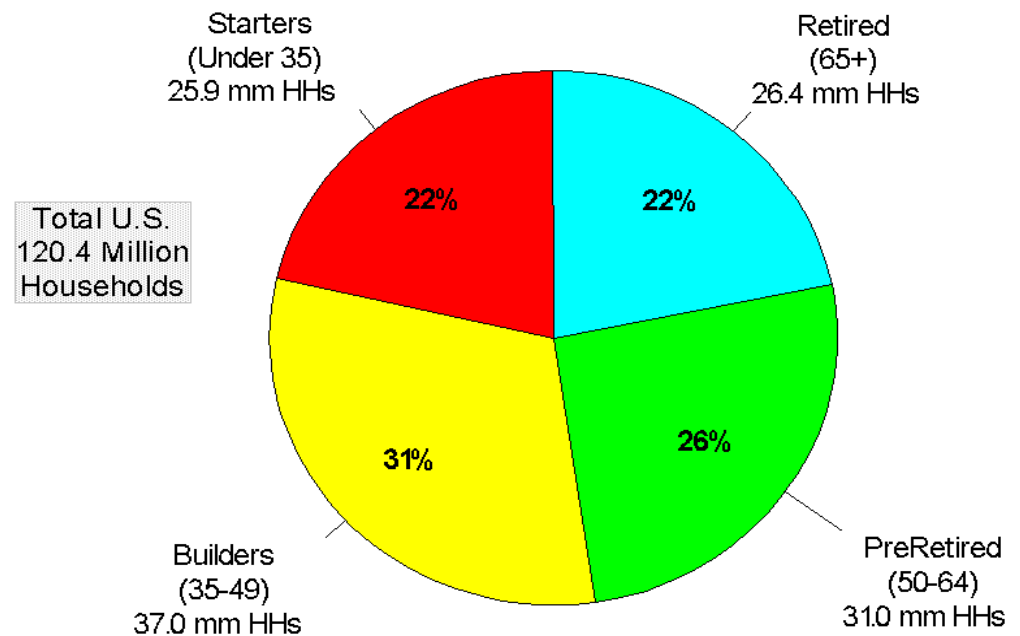


Source: SRIC-BI's MacroMonitor

Creating RIIA's Retirement Typology

The Four Life Stage Segments in the Retirement Typology

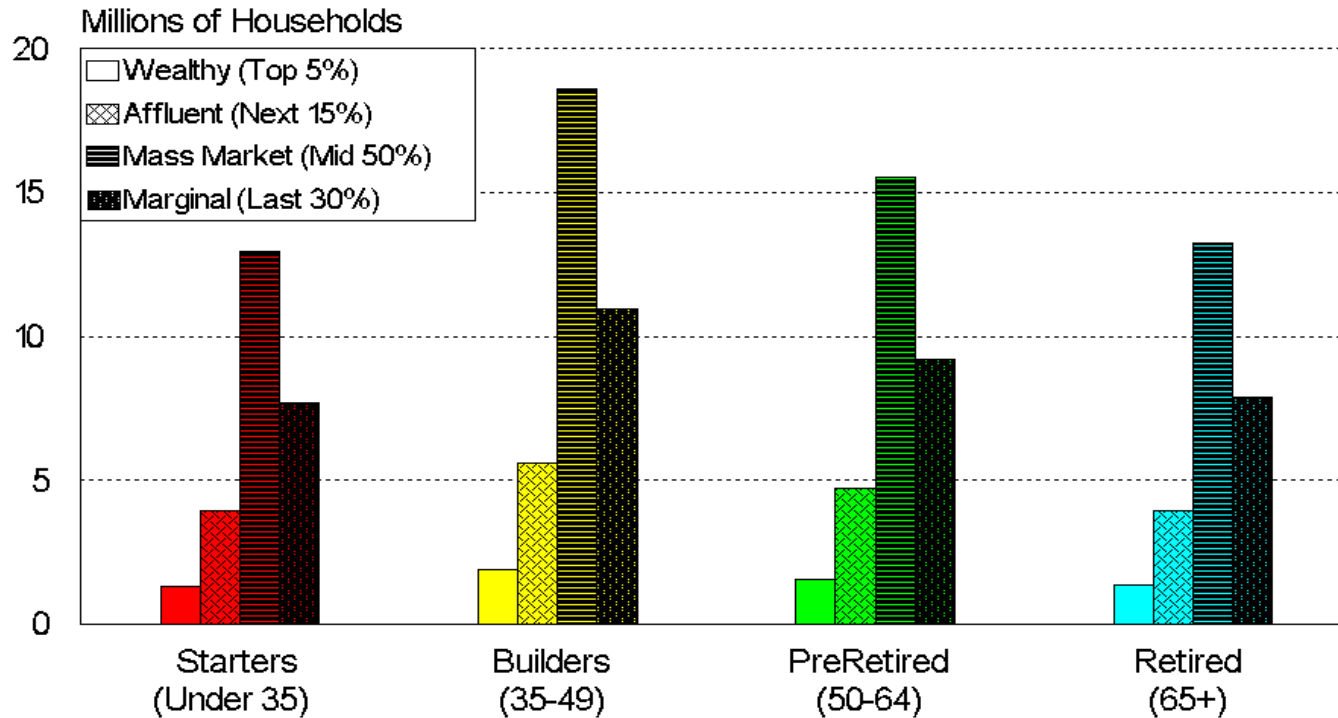
- ✓ Next we look at the household stage
- ✓ We divide all U.S. households into four stages based on age
- ✓ The household stage is critical because younger households have time to save for retirement



Source: SRIC-BI's MacroMonitor

Creating RIA's Retirement Typology

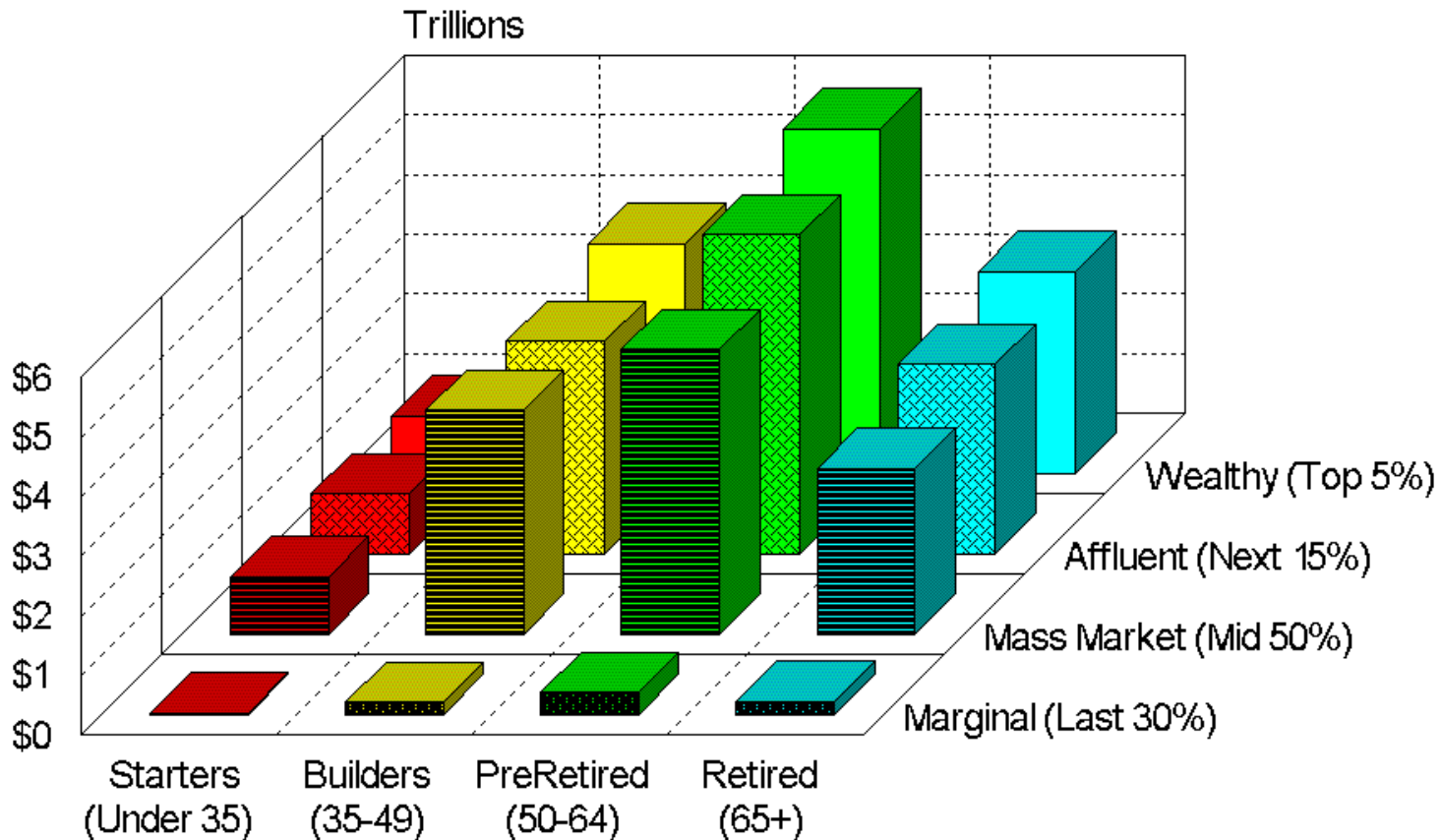
Population Sizes of the 16 Segments in RIA's Retirement Typology



Source: SRIC-BI's MacroMonitor

Creating RIIA's Retirement Typology

Aggregate Financial Assets of the 16 Segments in RIIA's Retirement Typology



Source: SRIC-BI's MacroMonitor

RIIA's 2006 Current Question

Is the market shift from asset accumulation to distribution for income generation *real*?

Accumulation to Distribution

The Answer... **Yes!**

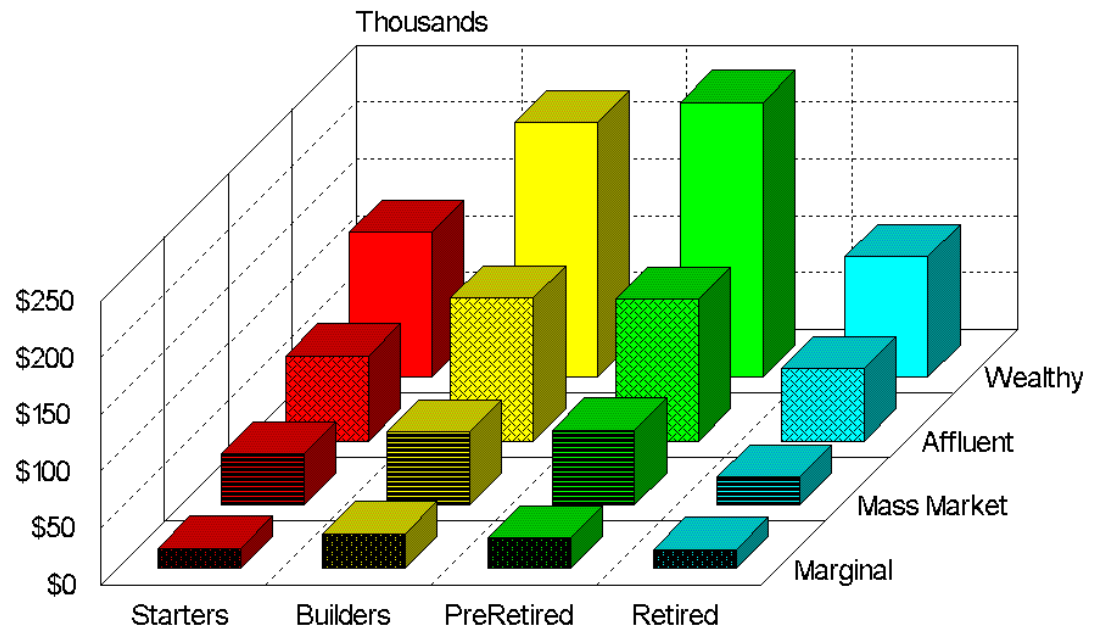
Unless they employ other strategies, many Americans will need to draw down their assets in order to live *comfortably* through their retirement years.

Accumulation to Distribution

Why Retiring Americans will draw down assets

- ✓ Mean incomes rise through pre-retirement and then drop at retirement
- ✓ Retirees' aggregate incomes drop about 45% relative to pre-retiree incomes (*even including income from pensions and social security*)
- ✓ With pensions and social security curtailed, future retirees will have even lower retirement incomes

Average Annual Incomes by Retirement Typology



Source: SRIC-BI's MacroMonitor

Amounts are Means including \$0

Accumulation to Distribution

Why Retiring Americans will draw down assets

If current experience continues, income will be lower for all segments when they retire

Average Annual Incomes For Pre-Retired and Retired Segments

<u>Markets</u>	<u>Pre-Retired</u>	<u>Retired</u>	<u>Percentage Decline</u>
Wealthy	\$242,000	\$106,000	56%
Affluent	\$125,000	\$ 64,000	49%
Mass	\$ 66,000	\$ 35,000	47%
Marginal	\$ 27,000	\$ 17,000	37%

Accumulation to Distribution

Why Retiring Americans will draw down assets

Current retirees live on nowhere close to the 80% of pre-retirement income that some advisors suggest should be the target income for retiring household

Average Annual Incomes For Pre-Retired and Retired Segments

Market	Pre-Retirement Income	Retirement Income	Retirement Income as a Percentage of Pre-Retirement income
Wealthy	\$242,000	\$106,000	44%
Affluent	\$125,000	\$ 64,000	51%
Mass	\$ 66,000	\$ 35,000	53%
Marginal	\$ 27,000	\$ 17,000	63%

Accumulation to Distribution

Pre-Retirees currently spend most of their incomes

Estimated Percentage of Pre-Retired
Segments' Gross Incomes
Currently Spent on Living Expenses

Wealthy	82%
Affluent	84%
Mass Market	88%
Marginal	89%

Across all segments,
Pre-Retired households
currently spend 82% or
more of their incomes on
their living expenses.

Accumulation to Distribution

Strategic Questions

When your customers retire, can they reduce their living expenses from 82% to 89% of their pre-retirement income to 40% to 50% of their pre-retirement income?

Will some other source of income infuse dollars into future retirees' households?

Accumulation to Distribution

Answers

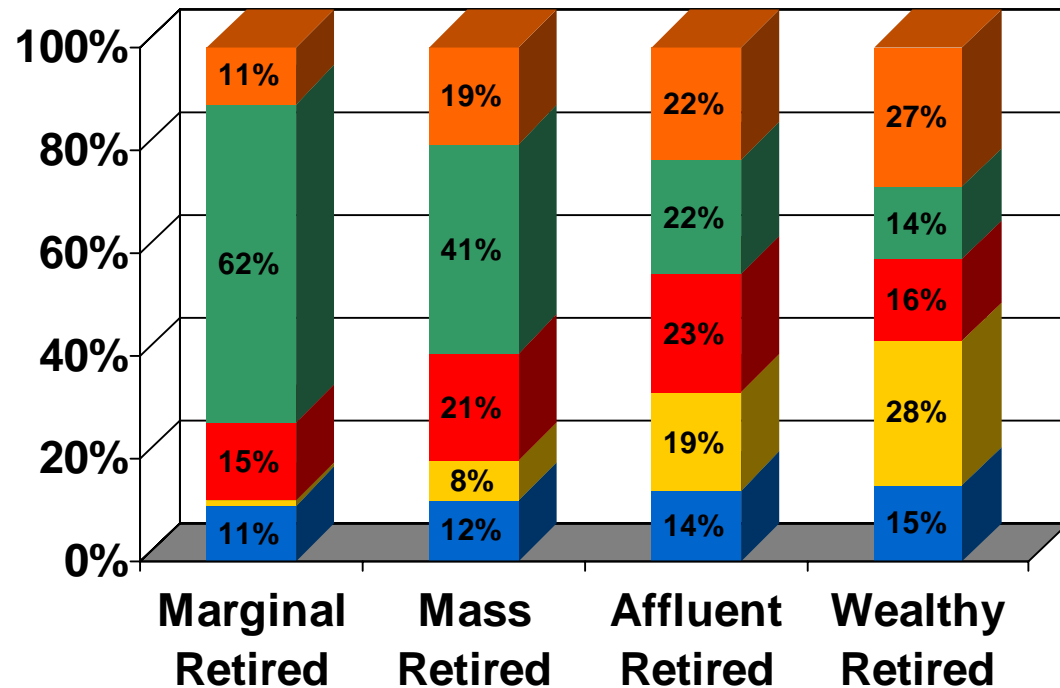
Probably not, unless households make fundamental lifestyle changes

Unless retirees work in retirement, other sources of retirement income will likely decrease as well

Accumulation to Distribution

- ✓ Pensions are a component of every segment's retirement income
- ✓ When pension incomes decline, overall retirement incomes will fall

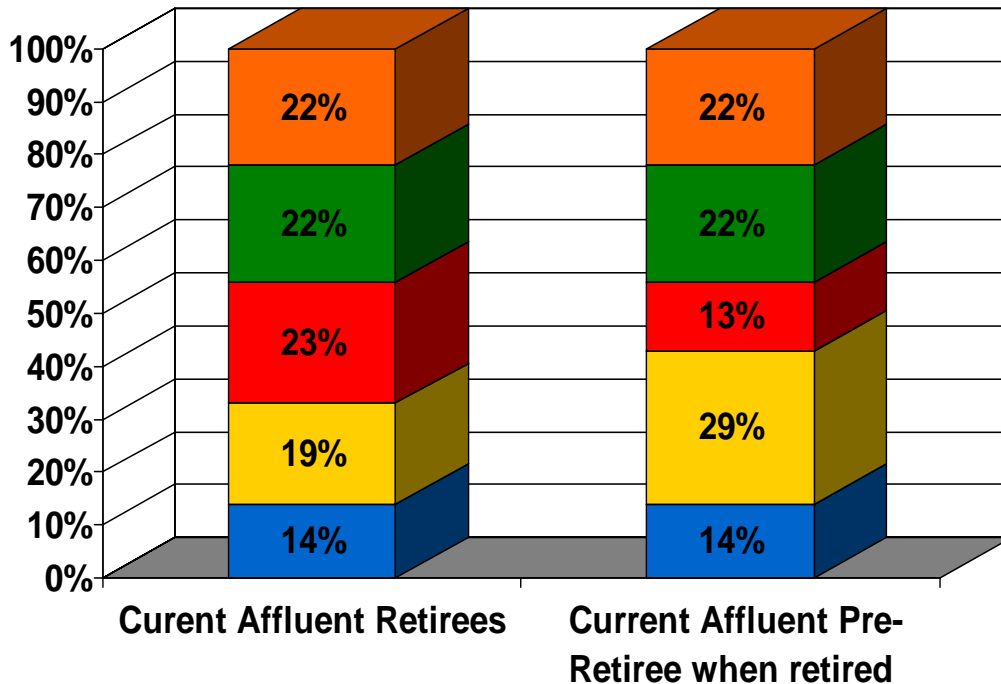
Source of Retirement Income By Percentage



- Other
- Social Security or Supplemental Security Income (SSI)
- Retirement payments or pensions from previous employment
- Investment income (Net)
- Wages, salaries, commissions, tips

Accumulation to Distribution

Source of Retirement Income For Affluent Households, Now and In the Future



- Other
- Social Security or Supplemental Security Income (SSI)
- Retirement payments or pensions from previous employment
- Investment income (Net)
- Wages, salaries, commissions, tips

- ✓ Pre-Retirees, when retired, will receive a higher percentage of their income from investments than current retirees
- ✓ But their retirement incomes will still not approach 80% of their pre-retirement incomes

Accumulation to Distribution

The Bottom Line

Most American households will have to withdraw assets in order to supplement their retirement incomes. Retirement Providers' assets will decline based on where their customers cluster in these segments.

<u>Segments</u>	<u>Total Financial Assets</u>	<u>Total Financial Assets At Risk</u>
Marginal	\$ 250 Billion	\$ 250 Billion
Mass Market	\$ 4.3 Trillion	\$ 4.3 Trillion
Affluent	\$ 5.9 Trillion	\$ 2.5 Trillion
Wealthy	<u>\$ 6.6 Trillion</u>	<u>\$ 104 Billion</u>
Total	\$ 17 Trillion	\$ 7.2 Trillion

Accumulation to Distribution

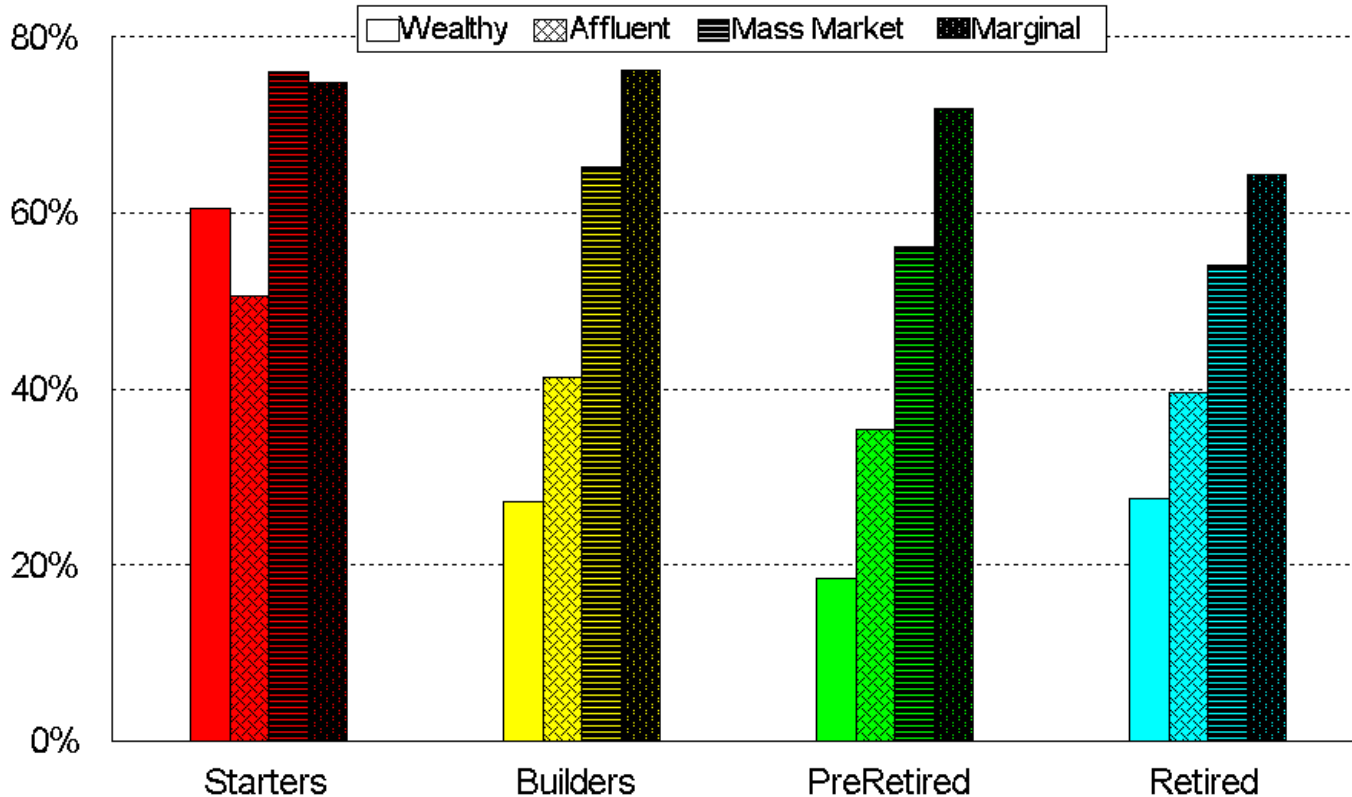
The Bottom Line

- Consumers in general and your customers in particular, unaided and uninformed, are either in denial or shock when it comes to understanding their true retirement situations.
- You can influence their retirement outcomes and ultimately your own destinies.
- Their dilemma is your opportunity.

The Emerging Industry Opportunities

Emerging Industry Opportunity

“I don’t know how much to save for retirement.”



Source: SRIC-BI's MacroMonitor

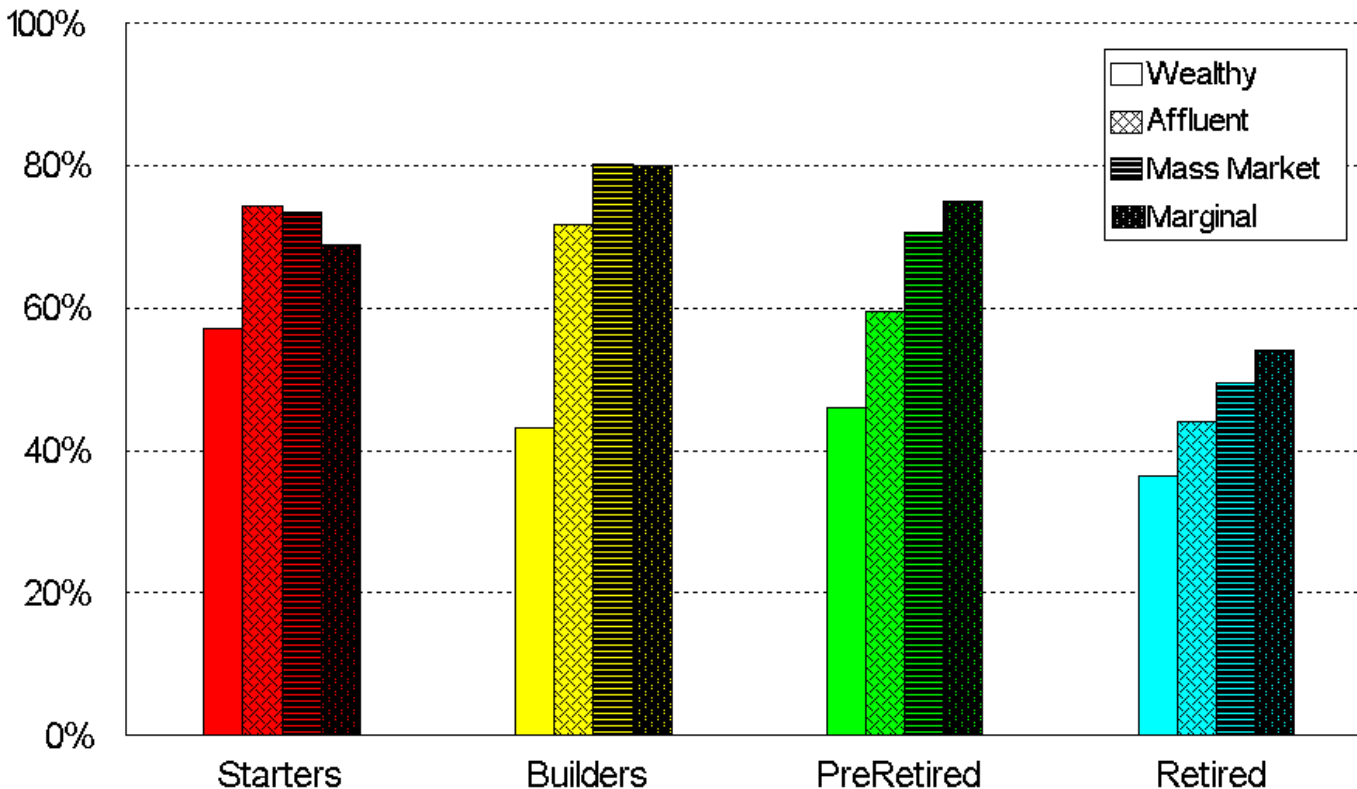
60.8% of All US Households Agrees

Americans need help with the basics

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Emerging Industry Opportunity

“I am concerned about having adequate retirement income.”



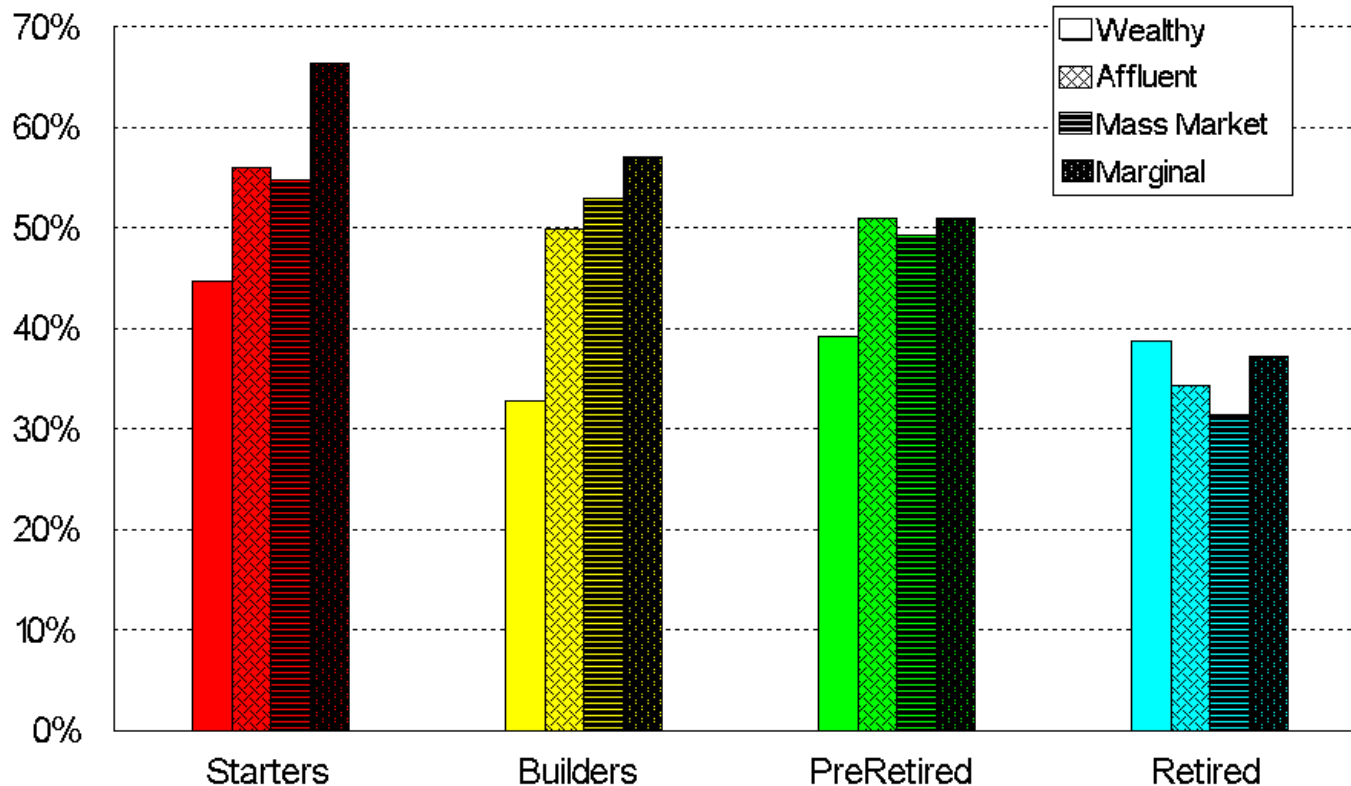
Source: SRIC-BI's MacroMonitor

71.6% of All US Households Agrees

Americans are concerned about retirement income

Emerging Industry Opportunity

“I need expert help in retirement planning.”



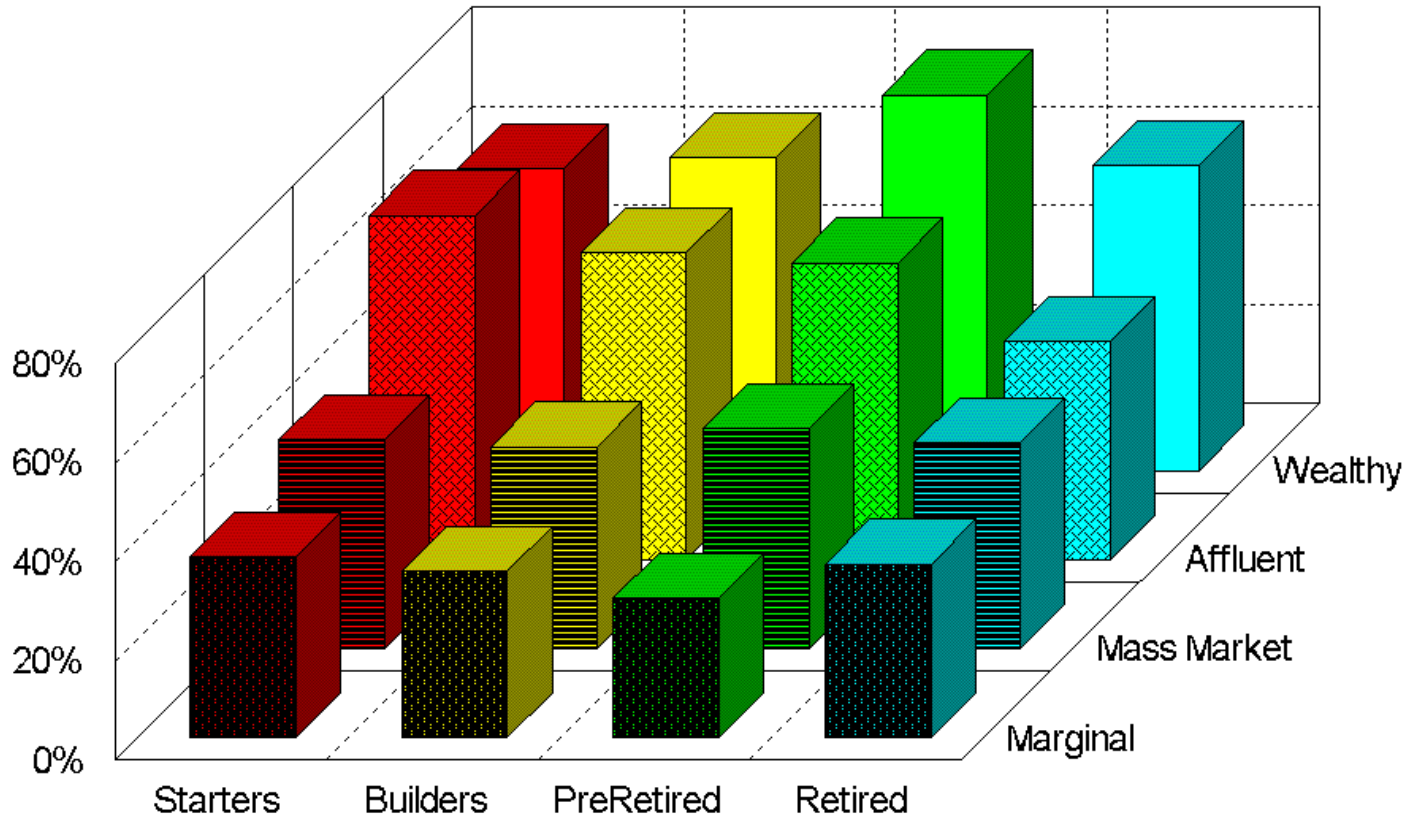
Source: SRIC-BI's MacroMonitor

49.6% of All US Households Agrees

Americans need help from experts.

Emerging Industry Opportunity

“I would be willing to pay for professional financial advice.”



Source: SRIC-BI's MacroMonitor

43.5% of All US Households Agrees

And they would be willing to pay for it.

Conclusions

- RIIA's Retirement Typology provides a key way of looking at the retirement market
- Providers need to carefully assess their risk of losing assets to mass market withdrawals and their opportunity to capture assets through consolidation for disbursement.
- Consumer are gradually becoming ready for new and different programs that meet their evolving retirement needs.



Possible Future Topics

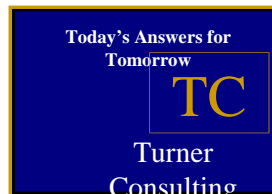


- Channel and Intermediary use of the PreRetired and Retired
- Opportunities and the Revolving Retired
- Creating Income Streams from Financial *and* Tangible Assets
- New Retirement Products that Promote Asset Gathering
- { *Your Suggestion Here!* }



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