

Financial Realities: Sending a Wake Up Call to Boomers

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With over 77 million people aged 44–62 living in the U.S. and controlling over U.S. \$2 billion in total consumer spending, Baby Boomers are often described as the wealthiest generation in American history. They have the highest household incomes and the most assets when compared to both younger and older generations, but are they really the wealthiest generation?

A generation of contrasts

Research carried out by Focalyst – a Millward Brown North American practice specializing in Boomer research – has shown that, based on both income and net worth, Boomers are wealthier than previous generations.

However, Focalyst found that only 9 percent of Boomers (about 6.5 million Americans) have an income of over U.S. \$150,000 if they are working or U.S. \$100,000 if they are retired and can therefore be truly considered affluent. One quarter has no investments or savings, one in three doesn't have a basic retirement savings account, and nearly four in 10 have no life insurance. Additionally, almost 40 percent consider themselves to be spenders more than savers.

The preparations made to save and prepare for retirement differ considerably according to income level – 81 percent of the most affluent Boomers have already taken steps to ensure they have a sufficient income in later years, while those with an income of \$50,000 or less are the least likely to have even the most basic retirement plan (39 percent).

Boomers are also facing debt as a result of the "buy now/pay later" mentality. They are not saving enough and many face unresolved debts later in life, for example loans taken out to pay for their children's education. They are also taking longer to pay off housing debts and rely heavily on credit cards for purchases.

It appears that despite the perceived financial power of Boomers, many may not be able to retain that power once they reach retirement age. With rising prices and the likelihood of increasing health expenses as they grow older, the reality is that many Boomers are likely to face unexpected expenses in later years. One in 10 Boomers had recently experienced an unexpected debt and 13 percent experienced a drop in income.

Triggers for good financial planning

Nothing serves better at focusing Boomers' minds on their financial health than personal experience and life changing events. The study revealed that certain events in Boomers' lives act as a trigger for financial planning. Personally knowing a friend or family member who has experienced difficulties may also prompt Boomers to address their own financial futures. Financial services companies can easily identify Boomers that have experienced these events and use appropriate messaging to reach them.

Confusion and the need for clear advice

A study from the AARP (American Association of Retired Persons) showed that Boomers are not familiar with financial and investment terminology. Among Boomers, 27 percent said they did not have enough time to manage their finances properly, 11 percent reported a lack of information and 10 percent were confused about the advice they had received.

Over the course of their lifetime, the variety and complexity of financial products and services available to Boomers has dramatically increased. Most Boomers now need help to choose a product to suit their individual needs. A good financial advisor can advise Boomers on important issues that will impact their future, such as:

Longer life expectancy and its implications

The impact of inflation

Potential issues around reliance on a spouse's pension or health benefits

Timing of Social Security and Medicare benefits

The dangers of carrying debt into retirement

But, although Boomers would clearly benefit from guidance, many are not comfortable using a professional financial advisor. Focalyst found that only 29 percent usually consult an expert before making a financial decision and this number was smaller still among those with lower incomes.

Without financial guidance, the majority of Boomers rely on their own experience or advice from friends and family. Given the confusion about the industry throughout the U.S. population in general, the advice they receive may not be accurate or appropriate.

Helping boomers wake-up

Boomers can no longer put off retirement preparations. They urgently need to realize the importance of financial planning for their future to avoid paying off debts when they should be enjoying their retirement.

Marketers that understand how life changing events affect Boomers and communicate this in a clear and accessible way may be able to send them a much-needed wake up call. By making the industry more transparent and breaking down any barriers that exist between financial advisors and Boomers, more people might be encouraged to save for their retirement.