



January 2011

marketsmarts

a decision support service for credit unions

cautious boomers delaying retirement



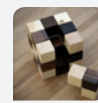
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Introduction

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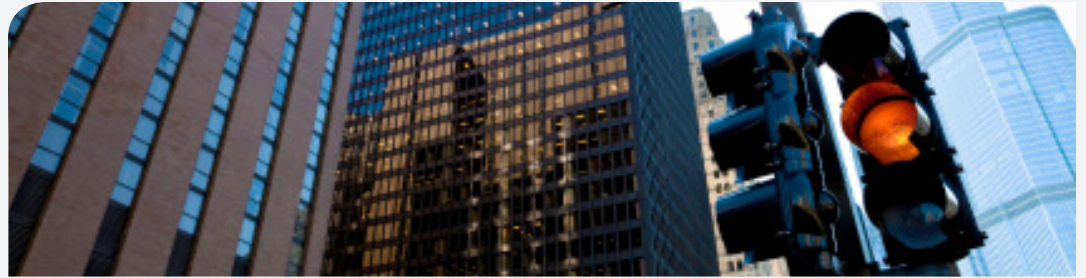
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Research and writing for this issue of marketsmarts was provided by Jim Walker.

Design and layout for this issue was provided by the Marketing & Creative Services department at Central 1 Credit Union.



WHILE MANY CREDIT UNIONS search for ways to attract youth, they are also keeping a watchful eye on another important but slightly older group of Canadians: baby boomers. In consultation with the newly established Central 1 Research Advisory Group, Central 1 commissioned Vision Critical to analyze a variety of issues surrounding the baby boomer market. Given that the financial crisis hit the boomer market especially hard, credit unions require market information that will help them assist older Canadians recover their financial freedom, maintain their standard of living, and reach their financial goals.

The executive summary of the boomer research paper describes the goal of the research: “to provide a holistic financial picture of today’s Baby Boomer, as well as their perceptions of credit unions, in order to arm credit unions with strategic insights and recommendations that can work to focus products, services and communication strategies”.

This issue of MarketSmarts will focus on key findings of the research including the impact the financial downturn has had on boomers, the opportunities which credit unions can capitalize upon, and the challenges credit union must overcome.



impact of the financial downturn

FORTY-NINE PER CENT OF BOOMERS INDICATE THEY WILL NOW RETIRE LATER THAN EXPECTED.

There is no doubt that the financial downturn affected many boomers* but two sub-groups that may have been affected the most include those already retired and those about to retire. Many boomers may be forced to retire earlier than they planned to, with the top reasons for doing so being job loss and health issues.

For those boomers still working, many will now work longer than expected. In fact, some 49 per cent of boomers still in the workforce expect to retire later than originally planned.

For the large group of boomers who believe they will be working past

their initial retirement age goal, the top five reasons are understandably financial.

Which of the following reasons best describes why you plan to retire later than expected?	
Did not save/acquire enough investments	33%
Value of investments diminished more than expected	25%
Day-to-day expenses	16%
Financially support children	7%
Lifestyle expenses more than expected	4%
Source: Central 1 Credit Union Boomer Study, 2010	

The reasons cited for retiring later than expected could be attributed to the financial crisis or to poor planning by those who did not correctly anticipate the amount of money they'd need after they stopped working. In fact, the financial downturn has had a dramatic affect on the boomer population and their expectations of when they will retire. For those who

*When this report refers to boomers within context of the Central 1 research, it refers to boomers who reside in BC and Ontario.

WHY DID YOU RETIRE EARLY?

- Job loss/downsizing: 30%
- Health issues: 28%
- Work stress: 13%

Seventy-one per cent of Boomers who retired early did so because of job loss or health related issues. Only 9% of Boomers indicated they had saved enough to retire earlier than expected.

have yet to retire only four per cent say they will retire earlier than expected, 56 per cent say they will retire when expected and 49 per cent say they will retire later than expected. In comparison, for those who have already retired only 6 per cent said they retired later than expected and 54 per cent retired earlier than expected. These findings tell us that the last two or three years have greatly affected the age in which non-retired boomers expect to leave work. For those already retired, the average retirement age was 57. For those yet to retire, the new anticipated retirement age is 65, a full eight years later.

HOW HAS THE ECONOMIC DOWNTURN IMPACTED YOU AND YOUR FINANCES?

Most boomers (73 per cent in BC and 66 per cent in Ontario), regardless of being retired or not, say they have been affected in some way by the economic downturn. The research also finds that many boomers have been affected in multiple ways. The most common effect was the reduction of savings and investments followed by a reduction in monthly spending and the inability to save.

With a reduction in assets and a decrease in monthly savings, the financial impact has also had an effect on boomer's lifestyles. An analysis of perception (non-retired) vs. reality (retired) indicates that one-half of non-retirees plan to continue to work part time, while at the same time, they are seemingly optimistic about the time (or money) they will have for travel, volunteering and hobbies.

However when you look at the lifestyle changes of those who have already retired, many will vacation less and decrease discretionary spending while one in ten will also support their children financially. The reality of those living in retirement should sound an early warning alarm for those about to retire. What pre-retired boomers think retirement will be like is vastly different from what life is really like for those already retired. We need to remember

Thinking about the last 2 years, how has the economic downturn impacted you and your finances?		
	Non-retired	Retired
Savings/investments diminished	49%	44%
Decrease monthly spending	35%	35%
Decrease onthly savings	25%	16%
Job loss, employer downsizing	15%	5%
Liquidate investment assets	14%	15%
Need to support children	12%	7%
Source: Central 1 Credit Union Boomer Study, 2010		

that many boomers will also end up retiring earlier than expected due to health issues or job loss. Looking forward, we can surmise that Boomers' current retirement perceptions will not match the reality experienced a few years into the future.

HINDSIGHT IS 20/20

As we have seen, the consequence of the financial crisis has affected many boomers' ability to retire as scheduled and has had an impact on their finances and lifestyle. These events will have many retirees wondering what they might have done differently. While hindsight can't help those looking back, its wisdom can be applied moving forward by both credit unions and younger boomers.

Once you retire, what changes or decisions are you planning to make regarding your lifestyle? Compared to your pre-retirement plan, what changes or decisions have you made regarding your retirement lifestyle?

	Non-retired	Retired
Continue working part time	50%	14%
Travel or vacation more	49%	25%
Spend time with family/friends	41%	30%
Volunteer	38%	31%
Decrease discretionary expenses	34%	42%
Pursue a hobby	33%	20%
Move into a smaller home	27%	12%
Move to a different country	14%	8%
Travel or vacation less	9%	36%
Continue working full time	5%	1%
Financially support children	5%	10%

Source: Central 1 Credit Union Boomer Study, 2010

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What would you have done differently?

Saved more	45%
Spent less	24%
Taken advantage of advice sooner	24%
Paid down debt sooner	22%
Improved my financial literacy/knowledge	22%
Not acquired as much debt	17%
Been more involved with my finances	17%
Taken advantage of more advice	16%
Other	4%
Nothing	31%

Source: Central 1 Credit Union Boomer Study, 2010

What are retirees saying they wish they had done differently given the economic condition in which they now find themselves? Most would have saved more but many would also have taken advantage of advice sooner or taken advantage of more advice.

Given that history all too commonly repeats itself, younger boomers who plan to retire in the next five, ten or 15 years could be in the same situation when the realities of retirement come to light. This is one opportunity that knocks on the door of credit unions offering wealth management and financial planning services: the ability to prepare boomers for a financially secure retirement.



credit union opportunities

FINANCIAL LITERACY REMAINS A PROBLEM IN CANADA

In the past two years, the government of Canada has been working to increase the level of financial literacy in Canada. The **Task Force** on Financial Literacy was created and assigned the task to “provide advice and recommendations to the Minister of Finance on a national strategy to strengthen the financial literacy of Canadians.” It is generally understood that the financial literacy of Canadians is far below what it should be. In a document produced by the Task Force, two areas of financial education stood out in relation to boomers: “saving and investing” and “planning for retirement”.

The section on savings and investing included the following topics:

- What motivates people to save?
- What kind of information do people need to make good saving and investment decisions for their particular circumstances?
- What else might help Canadians improve their saving and investing practices?

Planning for retirement issues included the following topics:

- What can be done to encourage Canadians to plan and prepare for retirement at an earlier age?
- What, from a financial literacy perspective, can be done to encourage Canadians to participate more fully in their workplace pension plan and/or a retirement plan (e.g., RRSPs)?

- What other initiatives or incentives related to financial literacy should the Task Force consider to help promote the retirement security of Canadians?

As the government begins to address these and many other concerns, credit unions can see some of these issues reflected in the boomer research with many retired boomers wishing they had taken advantage of financial advice before they retired. The research also found that many boomers do not have a professionally prepared financial plan and many do not intend to seek advice as they enter their retirement years, sowing the seeds for potential regret.

This lack of financial preparedness and education will force many to work beyond their desired retirement age while health issues may force many others to retire before they are financially prepared; all the more reason for individuals to take better care or become more involved with their finances and retirement planning.

BOOMERS PROVIDE CREDIT UNIONS WITH OPPORTUNITIES

If we look beyond the altruistic ideal of helping Canadians become better prepared for retirement, the business related opportunities for credit unions to approach and serve this market are too important to ignore, especially given credit union

membership demographics already skew on the older side. There are thousands of boomers who need advice and guidance investing their RRSPs and TFSAs, not to mention managing new found wealth due to inheritances. With the leading edge boomers now turning 65, other wealth management services including estate, tax and insurance will also come into play.

The opportunity for financial planning services lies in the number of boomers who have yet to seek professional advice and the long term nature of the services which they will purchase. The Central 1 research indicates that 31 per cent of the boomer population is considering a financial plan (26 per cent of boomers already have a plan and 43 per cent of boomers do not care to seek advice). In BC the 2011 projected population of those aged 45 to 64 is 1.34 million. If all goes according to plan, some 415,400 of those BC boomers will eventually be seeking someone to professionally prepare a financial plan. In Ontario the numbers are far greater with 1,125,780 residents currently aged 45 to 64 who will eventually consider obtaining a financial plan.

Boomers considering a financial plan tend to be younger. Some 39 per cent of those aged 45–54 will consider a plan, 27 per cent of those aged 55–64 will consider a plan and just 23 per cent of those aged 65–70 will consider a plan.

SUPPORTING RESEARCH

A recent poll conducted by Ipsos Reid for the Canadian Institute of Actuaries also supports the need for boomers to seek advice. The poll found that “almost half of pre-retired Canadians above the age of 45 are not fully prepared for a comfortable retirement”.

Other key findings of the poll:

- One in five say they will never fully retire.
- Just 8 per cent are “very prepared” for retirement while 42 per cent are not prepared, 13 per cent “not at all”, and 29 per cent “not very”.
- Seventy-two per cent of pre-retired Canadians are concerned about maintaining a reasonable standard of living in retirement and what impact increasing health care costs will have on their savings and overall quality of life.

Additionally, an Investors Group poll back ups the need for better retirement planning. The poll results highlighted in the November 23, 2010 issue of the Financial Post state that “55 per cent of boomers don’t think they can afford a dream retirement, with 30 per cent worried they won’t have enough money even for basic retirement living expenses. 59 per cent are concerned about

retirement finances and 52 per cent about personal health issues. If they could go back in time, 36 per cent would start saving earlier”. The Investors Group research does point to a rosier future for those who work with a financial planner, saying, “the future looks brighter to boomers who currently work with a financial advisor. Twenty-nine per cent believe they will have enough money to afford their dream retirement—nearly twice as many as those without an advisor (16 per cent).”

BOOMERS LOOK BEYOND THEIR CREDIT UNION FOR ADVICE

With so many Canadians admitting they are unprepared for a comfortable retirement and many having yet to seek the services of a financial planner, financial institutions must be proactive to inform members they offer wealth management services and have the ability to provide the advice Canadians need. Credit unions must be especially proactive because just 27 per cent of those who are

	Yes, I already have a financial plan.	I do not have a plan but I would consider a financial plan in the future?
British Columbia	23%	32%
Ontario	28%	30%
Age 45–54	22%	39%
Age 55–64	29%	27%
Age 65–70	28%	23%
Source: Central 1 Credit Union Boomer Study, 2010		

members of a credit union and are considering the services of a financial planner will seek that service at their credit union. Could some of this be due to a lack of knowledge that the service and expertise exists at their credit union? The survey found that 25 per cent of credit union members won't seek advice at their credit union because they prefer to deal with another firm and 13 per cent believe their credit union doesn't know the market or lacks expertise.


LONG TERM FINANCIAL SERVICE OWNERSHIP

Moving beyond providing advice and preparation of a financial plan, boomers will also purchase financial services that are deemed long term in nature such as RRSPs and TFSA's. The Central 1 research provides statistics on the financial service currently owned by boomers. Credit unions can use this information to benchmark their market penetration.

Service Ownership	Boomers
RRSP	80%
TFSA	34%
Life Insurance	29%
GICs	29%
Non-registered Mutual Fund	26%
Non-registered Stocks	23%
Note: Ownership is for those boomers who own investments (71% of boomers) or insurance (30% of boomers).	

Additionally 32 per cent of all boomers own a high-interest savings account and 55 per cent own a loan or line of credit. The Central 1 report also identifies the percentage of credit union members who own each financial service and if they own the service at their credit union. The above chart merely identifies the market potential.

Members – Top Reasons for Not Considering a Credit Union	
Prefer other advisor / other firm	25%
Don't know market / lack of expertise / experience	13%
Limited / bias product offering	8%
Didn't know it was offered / never thought	8%
Poor service / staff	5%
Location / inconvenient	5%



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INFORMATION CENTRE



identifying the challenges

Even though the boomer market provides tremendous potential for credit unions to grow their financial planning business and overall share of financial services, credit unions still have to overcome issues that many have been addressing for years. To begin the discussion it should be noted that non-retired boomers have, on average, 2.8 financial relationships. Those boomers who have retired have, on average, 2.9 financial relationships.

SWITCHING

Some 80 per cent of boomers agree with the statement that switching financial institutions is a hassle. On the other hand only 6 per cent of credit union boomers said moving all their savings and investments to their credit union would be a hassle. Just 3 per cent of boomers said transferring assets in order to consolidate at one financial

institution would be a hassle. If the transfer of term deposits, RRSPs and other assets is not considered a convenience issue then obviously other factors are playing a major role in a member's unwillingness to consolidate.

UNWILLINGNESS TO CONSOLIDATE

With just 15 per cent of boomers saying they are likely (17 per cent somewhat likely and 66 per cent unlikely) to consolidate their assets, financial institutions will have a difficult time increasing share of wallet with their current clients.

The survey asked boomers who dealt with more than one financial institution why they would not be willing to consolidate their business with a preferred financial institution. A variety of reasons are given for this unwillingness but

the top three reasons include the following: “I like to diversify assets” (33 per cent), “current bank does not offer everything” (16 per cent), and “satisfied the way things are” (13 per cent). Some five per cent indicated that they had safety/security concerns and only three per cent agreed that it was a hassle to move assets from one place to another. The top two reasons for credit union members not willing to consolidate are “do not want all in one account” (26 per cent) and “satisfied with the current financial institutions” (19 per cent). It should also be noted that the likelihood to consolidate decreases with age.

SATISFACTION DOES NOT LEAD TO CONSOLIDATION

The boomer report found that some 68 per cent of credit union boomers are very satisfied with their credit union while 66 per cent of boomers in general are very satisfied with their financial institution. Additionally 58 per cent of credit union boomers are also very likely to recommend their credit union.

The low level of credit union members who are willing to consolidate is very frustrating given their high level of satisfaction and willingness to recommend.

Credit union members consistently rank credit unions higher than banks for customer service attributes. For the three most important service

Percent of boomers who are extremely/very likely to consolidate their financial assets.			
British Columbia	16%	Age 45–54	19%
Ontario	15%	Age 55–64	14%
CU Member	14%	Age 65–70	12%

Source: Central 1 Credit Union Boomer Study, 2010

attributes that contribute to overall satisfaction, members rank credit unions far higher than banks. In fact members rank credit unions higher than banks for all 17 attributes tested. Credit union members also feel that their credit unions are friendly, honest, respectable and ethical—important associations during recent challenging economic times.

Why I won't consolidate	All boomers
Like to diversify assets	33%
Current bank does not offer everything	16%
Satisfied the way things are	13%
Safety/security concerns	5%
No need/not interested	4%
Better offers/rates at other places	3%
Convenience/too much hassle	3%
Not enough money/assets	2%
Don't trust	2%
Prefer to spread the risk	2%
Advice by financial advisor	2%
Accessibility to funds/liquidity	1%
No benefit/advantage	1%

Source: Central 1 Credit Union Boomer Study, 2010

IMPROVING NON-MEMBER PERCEPTIONS OF CREDIT UNION SERVICE ATTRIBUTES

When non-members are asked to rate both banks and credit unions on a variety of service attributes, credit unions rate higher than banks for four of the 17 attributes tested. It is understandable that those who do not deal with credit unions would rate them lower than banks; but surprisingly, two of the four attributes which credit unions score higher than banks (offer competitive rates and fees, make customers their first priority) are considered the top two attributes which correlate to satisfaction for non-members. This reinforces the idea that positive perception does not create a straight path to trial or switching, other attributes again come into play.

Top 3 attributes tied to satisfaction. Credit union members.	CU	Bank
Make customers their first priority	90%	35%
Provide a sense of security	90%	71%
Are there when I need them	86%	52%

Source: Central 1 Credit Union Boomer Study, 2010

When non-members are asked how much they “agree” with a particular statement about banks and credit unions, the statements that have the widest gap in favour of banks include convenience (+39), offers the best products and services (+37), and provides a sense of security (+26). Gaps exist for other attributes as well but the top two are functional in nature. The perception that credit

unions are lacking in convenience and products and services needs to be addressed.

Credit union members also score their financial institution highly and above the banks for a variety of single word associations which can be used to describe all financial institutions, such as friendly, honest, accountable, ethical and local minded. Banks score well on attributes such as ‘successful’, ‘traditional’, ‘convenient’, ‘up-to-date’ and ‘innovative’ but not necessarily above credit unions. Non-members, however, rate banks higher than credit unions on the attributes ‘successful’, ‘traditional’, ‘convenient’, ‘reliable’, ‘up-to-date’ and ‘respectable’.

Once again credit unions face negative perceptions due to a lack of knowledge and education regarding credit unions’ range of services, innovation, and accessibility. Breaking down these barriers will help credit unions increase consideration and hopefully trial.



creating the message

UNDERSTAND MEMBER NEEDS

The recent financial crisis that left many boomers with less capital and possibly a greater reliance on home equity or other forms of debt should influence the message or tone of any communications to this market. Financial planning and wealth management often focus on the future but for many the future is far less relevant than immediate financial needs such as rent, mortgage payments, groceries and monthly medical expenses, especially for those boomers who expect to retire in a year or two or who have already retired earlier than anticipated. Those boomers who are 10 or more years from retiring will have received a wake up call to start saving more and spending less. To cater to the boomer market is to service a diverse group of individuals with varying needs. One message will not fit all profiles.

STUDY AVAILABLE RESEARCH

In the US, The Corporate Executive Board Company released a report in 2009 entitled The Financial Services Practice's Survey of U.S. Baby Boomers. The study discusses the effect of the financial crisis on the US boomer market and the insights can help credit unions understand the needs of older members in Canada. The report found that the greater the impact of the financial crisis the more likely a customer was to move assets away from their primary financial institution. In one area of the report, "Urgency of Now, Serving the Mass Market", section titles include "simple living", "dealing with the here and now" and "managing day-to-day". The Central 1 boomer research supports these findings as many Canadian retirees have liquidated investment assets, reduced savings and cut spending, all actions which suggest

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that boomers are dealing with the here and now. Some may have put their long term goals and retirement on hold to deal with today's financial needs.

CONSIDER NEW PERSPECTIVES

At two recent credit union conferences, one held by the Marketing Association for Credit Union and the other by Central 1 Credit Union, Maya Bourdreau of Attune discussed new ways of looking at market perception problems faced by the credit union industry.

Maya theorizes that people think in imagery and metaphor. Using this theory, Maya explained that by understanding the real building blocks of thought, credit unions can overcome non-member's key barriers to entry into the credit union system. While the presentation focused on non-members, the principles apply

to any market a credit union wants to approach.

The boomer research found that many non-members believe that credit unions do not offer the same breadth of financial services and are not as convenient as banks. By utilizing appropriate imagery and sensory cues, credit unions can approach the problem from a new perspective. Previous research has already told us what the barriers to entry are for non-members, now marketers must create messages or concepts that will help non-members see or feel credit unions are a viable alternative at a more subconscious level. Credit unions could also consider other more broadly based issues identified by the Financial Literacy Task Force including "what initiatives might encourage people to stop procrastinating and start making, and sticking with, a financial plan" and "what can we do to counteract people's inclination to

‘live for today’ instead of planning for tomorrow?”

DEFINE YOUR MARKET

To overcome these obstacles and capitalize on the opportunities noted above, credit unions must first identify areas of potential growth and then define goals. If the demographics of credit union’s membership are already in line with the community then consolidation of assets, increasing wealth management advisory services and lowering attrition may be appropriate goals for the boomer market. If the credit union is under represented in the boomer market then attracting new members within this demographic may be an appropriate goal. Once the goals

or targets are set, the marketing and communication can begin. Identifying the goal is important because different groups will require different messages. Non-member communications may need to address identified credit union myths and misconceptions while communications to members may discuss special offers to encourage the consolidation of assets or the availability of onsite financial advisors.

Whatever goals credit unions may have regarding the boomer market, one thing is certain: credit unions provide a viable alternative to Canada’s major banks. Now if we can just get boomers to see and consider the credit union amongst a forest of alternatives.



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