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Segments within Segments: Younger and Older Seniors' Expectations of Financial Planning Services

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ABSTRACT

As the demographic profiles of countries change to include a larger proportion of seniors there will be a range of implications for governments, communities, and individuals. The financial planning industry will be particularly affected as individuals come to take greater responsibility for financing their own retirements and will thus require greater assistance with their financial planning. This article examines a range of issues identified by Australian seniors as being of greatest significance when selecting and assessing their financial planners. The importance of each issue is considered in terms of perceived personal relevance as seniors move into increasingly older age brackets. The objective is to provide both seniors and their financial planners with information that will enhance the outcomes of their interactions.

ARTICLE

Introduction

The World Health Organisation estimates that by 2020 there will be approximately 1,000 million people aged 60 years or older, which represents a significant increase over the 580 million people estimated to be in that category in 1999. As the demographic profiles of countries change to include a larger proportion of seniors there will be a range of implications for governments, communities, and individuals. For example, it is expected that national health care costs and pension payments will increase significantly as populations age. Also, the ratio of the number of people working to those who are out of the paid workforce will change, potentially making it difficult for economies to sustain social welfare payments in the face of reduced taxation revenues. There is thus an increasing emphasis on individuals being able to self-finance their retirements to alleviate the inevitable pressure that will be placed on social security systems.

This article explores the implications of population aging for seniors' needs for financial planning services in the Australian context. Since 1980 there has been a 67% increase in those over the age of 65 in Australia, and today they represent approximately 13% of the population. Forecasts suggest that by 2051 almost 25% of Australians will be over 65, with the 85+ segment being the fastest growing segment (ABS 1999, 2000). These changes have consequences for the distribution of wealth. Currently, those aged 55 years and older control 39% of national wealth and also earn almost 35% of disposable income. This combination of assets and income makes seniors the most financially powerful group of consumers in the country.

A pilot study conducted by the Positive Ageing Foundation of Australia (PAFA) under the sponsorship of the Western Australian Department for Community Development, Seniors Interests (SI) identified the financial planning sector as one of the industries considered by Australian seniors to be most in need of research into older consumers' needs. As a result of the findings of this pilot study, the PAFA and SI instigated a major research project to further explore the particular needs of seniors in various industries. This article examines these needs in the context of the financial planning industry. The objective is to provide both seniors and their financial planners with information that will enhance the outcomes of their interactions.

Financial Planners

The National Strategy for an Ageing Australia provides recommendations for consumers wanting to hire a financial planner. These recommendations include: (1) consulting at least three financial advisors before making a choice; (2) selecting an experienced planner; (3) ensuring that the planner is licensed and holds indemnity insurance; (4) requiring planners to specify any relevant third-party relationships; (5) requiring the provision in writing of all fees and commissions, and (6) ensuring that the pension and taxation implications of any recommended plans are clearly explained. In a similar vein, a code of conduct that specifies appropriate levels of service has been developed by the Financial Planning Association (FPA) of Australia. The articles in this code closely resemble the CDHAC recommendations outlined above, and they require financial planners to: (1) divulge any conflicts of interest; (2) explain complaint mechanisms to clients; (3) provide honest, objective, and sound advice to clients; and (4) ensure all information is provided in language that clients can understand and provide information in writing where possible.

Method

While we have these accounts of what financial planners should do, there is little in the way of published literature relating to how older consumers' feel about their experiences with their financial planners. This study sought to examine the financial planning issues that are of relevance to mature consumers in the different age categories of the senior segment.

There were two stages to the data collection process. In the first instance four focus groups were conducted in Western Australia with senior men and women to establish items for use in a subsequent survey. A criterion for participation in the focus groups was a consultation (either in person or by telephone) with a financial planner within the previous 12 months. The focus groups were used to tease out those issues of greatest perceived relevance to seniors when interacting with their financial planners. The issues generated from the focus groups were used to develop a questionnaire that was administered to a representative sample of 505 Australian seniors via a telephone survey.

Results and Discussion

Based on a one to five scale, with 1 = highly relevant to 5 = highly irrelevant, the table below provides the mean response by age group to the issues that were generated in the focus groups and subsequently tested in the telephone survey. The numbers in brackets represent the rank order of each item to each age group.

	50-54	**55-59**	**60-64**	**65-69**	**70+**	**Overall**
Develop a trusting working relationship and treat clients with dignity	2.3[3]	2.6[1]	2.5[2]	2.9[1]	3.5[1]	2.9[1]
FP ensures all fees and commissions are clear, reasonable and fully disclosed in writing	2.2[1]	2.6[1]	2.5[1]	2.9[2]	3.6[3]	2.9[2]
FP provides the amount of information the client wants in clear English, using graphs and	2.4[4]	2.7[5]	2.6[3]	3.0[3]	3.6[2]	3.00[3]

illustrations where appropriate						
FP provides the amount of information the client wants in clear English, using graphs and illustrations where appropriate	2.3[2]	2.7[3]	2.6[4]	3.2[5]	3.7[4]	3.00[4]
FP keeps up to date with changes in government regulations, market performance and gives clients any relevant advice such as legal and insurance advice	2.6[7]	2.8[6]	2.6[5]	3.2[4]	3.7[5]	3.1[5]
FP should discuss and write down expectations of both parties	2.4[5]	2.9[8]	2.7[6]	3.4[7]	3.7[5]	3.1[6]
FP obtains, maintains and displays relevant qualifications and accreditation	2.6[8]	2.7[4]	2.8[7]	3.4[8]	3.8[7]	3.1[7]
FP takes the clients total financial situation and desired lifestyle into account	2.4[6]	2.9[7]	2.9[9]	3.4[9]	3.9[10]	3.2[8]
FP provides a history of his/her past performance, including references	2.7[10]	2.9[9]	2.9[10]	3.2[6]	3.8[8]	3.2[9]
Clients should be made aware of conflicts of interest with other parties	2.6[9]	2.9[10]	2.8[8]	3.5[10]	3.8[8]	3.2[10]

Table – Mean Response and Rank Order by Age Group

Overall, there was little variation between mean ratings within each age group. However, as can be seen from the table, relevance across all measures decreased with age, and particularly at the 65-69 years and 70+ age groups. As might be expected, the older age group, 70+, was significantly different from the three youngest age groups on all measures, and there were significant differences on four statements for the 65 – 69 year old age group versus the 50 – 54 year olds. These statements related to the financial planner being up to date, appropriately qualified, providing a history of past performance, and disclosing conflicts of interest. Employment status was found to be not significant.

Implications

The outcomes of this study have implications for both financial planners and their older clients. The results show that several factors are considered relevant by seniors across the age categories explored, with the most relevant found to be the establishment of a trusting working relationship, the full upfront disclosure of fees and commissions, and the timely provision of appropriate information relating to their investments. It may be that these issues are important to all consumers of financial planning services, regardless of age, but the point of this study is to ensure that both financial planners and their older clients are aware of the aspects of service delivery that are critical to seniors. It was found that the relevance of all of these factors tended to decline after 54 years, but particularly after 65 years. It may well be that older respondents had more established financial plans than those who were younger, and hence considered all these issues less personally relevant. There may also be some differences in priorities between different age groups. This study found that younger seniors placed highest importance on being provided with information pertaining to fees and commissions while over 70 seniors ranked this third, with their highest priority being the personal relationships they have with their financial planners.

The implications for seniors relate to the standing of mature consumers in the marketplace in general as well as their relationships with their financial planners. The review of the relevant literature demonstrates the growing importance of the senior market in terms of its size and economic power. Seniors may thus benefit from appreciating their importance to many and varied suppliers of goods and services. This may encourage them to be more willing to communicate their needs and ask for better service. In particular, they may feel empowered to complain when goods and services are sub-standard. An understanding of the changes that occur in cognitive processing with age may encourage older consumers to demand information in specific formats. For example, they may request brochures to be produced with larger font sizes and for information to be repeated when presented verbally. Similarly, an appreciation of the need to self-pace information may encourage them to utilise some types of media over others when seeking product information. Finally, an awareness of their greater susceptibility to fraudulent suppliers may alert them to the need to remain vigilant when dealing with sales personnel.

In terms of implications relating specifically to their interactions with their financial planners, the results of this study could serve to reassure seniors that their concerns are shared by a large proportion of their peers and are therefore legitimate and reasonable. In particular, seniors can be confident in expecting their financial planners to go to the effort of establishing a satisfactory working relationship and to treat them respectfully at all times. In addition, seniors should feel justified in asking for clear and complete information relating to fees and commissions, as well as comprehensive and comprehensible information relating to the performance of their investments.