Beating the generation gap

By **Natalie Sillar**
BT Financial Group

Natalie Sillar is the Head of Wrap Marketing at BT Financial Group. She has been with BT since 2003 in the adviser marketing team during which time her responsibilities have included providing strategic marketing programs for their Wrap platform, investment funds, insurance and margin lending. A core focus has also been in finding new ways for BT to deliver value to advisers through the provision of investor marketing and educational tools and support.

Prior to working at BT, Natalie worked in the United Kingdom as part of the founding team of a successful dotcom start up. Before this Natalie worked in agency roles for some of the UK's leading marketing agencies.

Demographic change is dramatically altering the long-term profitability of financial planners' client bases. It's not yet visible on balance sheets – but it soon will be.

Without an integrated and effective strategy, financial advisers could find themselves on the wrong side of a Generation Gap – serving the ageing, shrinking client base while competing desperately for a dramatically smaller pool of new clients.

This white paper has been developed using three toolkits that BT Financial Group created to empower financial planners who use its Wrap Platform to better understand and tap into the next generation of wealth clients, generations X and Y as well as better service the changing needs of baby boomers.

THE RISE OF GENERATION Y

Generation Y – today's under 30s – represent the next great growth market for financial planning businesses and as such they are crucial to the future of all these businesses.

Much of the growth in funds under management in the Australian financial services industry over the past 15 years was driven by demography. More people have been entering the peak income earning time in life (40 – 60) than leaving, for much of the last 30 years. This is due to the ageing of the baby boomers.

This trend is coming to an end. According to demographer Bernard Salt, in the next 15 years total growth in the wealth accumulator demographic will slow down as more baby boomers exit the peak income earning time in life at 60, than enter at 40[1].

Financial advisers need to prepare for this generational shift or face intense competition for increasingly rare clients and the potential for a dramatic drop in income.

"One of the strategic imperatives for the Funds Management industry this decade is to establish a relationship with the future accumulators of wealth…"[2]

Why Gen Y is the future and your future

Gen Y is already 20% of the Australian population – a potential client base of 4.2 million. More than 90% of them are in the workforce and they will be there for decades.

They already have significant spending power – according to Generation Y expert Peter Sheahan, the average Gen Y individual has the same disposable income as the average family. In the US, it is estimated that Gen Y commands spending power worth US$150 billion a year![3]

By contrast, the volume of people moving into middle age and therefore focused on retirement savings is dropping dramatically. Gen Y is the obvious alternative to a client base of Baby Boomers who are drawing down rather than adding to their wealth.

Gen Y is exceptionally well educated – but not about what financial services can be offered. They have high expectations – expecting to travel, enjoy work/life balance and own the latest gadgetry. They save for the short term, already carry significant debt and have never experienced high unemployment or recession. They need your help…

"Each generation imagines itself to be more intelligent than the one that went before it, and wiser than the one that comes after it..." George Orwell

Gen Y – attitudes and aspirations

Gen Y is highly mobile, seeks a wide range of experiences and is heavily focused on 'the now'. Long term thinking will not capture their attention.

They're far more likely to change jobs and careers, return to study and to work overseas than the previous generation. This lifestyle creates a 'see saw' income profile – with periods of high earnings interspersed with breaks from the workforce.

They're constantly communicating – by phone, text, email or instant messaging. So they expect the buying (or investing) experience to be quick and easy. They want freedom of choice and the ability to see what they've bought, 24-hours a day.

At the same time, they're the most marketing savvy generation in history so they crave the authentic, the personal and the trustworthy. That's why they buy via word of mouth recommendation. You only need to look at social networks like Facebook and MySpace to understand the strength and reach of a Gen Y referral.

"It doesn't take many of them to say it's a great idea to go to a financial planner to find that they club together and all agree."[4]

Gen Y – financial issues that matter most

The financial issues that dominate the daily lives of Gen Y are very different from those their parents faced at the same age.

They include:

- credit card debt
- HECS debt
- mobile phone bills
- expensive housing
- car loans/personal loans
- the cost of the latest technology, trends and fashion.

Before you can help Gen Y harness their high disposable incomes to create long term wealth you need to help them manage their debt. That debt is the result of a late entry into the workforce, high education costs and the pursuit of a comfortable lifestyle. It is also a major stumbling block for the many members of Gen Y who understand the importance of building up capital.

By investing your time in helping them ease their debt burden you will earn their trust and the chance to work with them in a long-term financial relationship that will benefit both parties.

Getting to Y

Their social nature means Gen Y can be effectively targeted through their friends and via their workplace, university or college.

You need to understand the power of Web 2.0 – websites based around user-generated content that carry product recommendations, referrals (and criticism) – to harness the power of the social networks that are so important to Gen Y buying behaviour.

You can also reach Gen Y via their parents – those in their 20s are twice as likely to live at home as their parents were at the same age. Your Baby Boomer clients are the richest possible source of Gen Y referrals.

If you can deliver easy and effective solutions that suit Gen Y, they will tell their friends!

"Companies have found that embracing the Y mindset – fast, authentic, relevant – has real material benefits. It means you will be speaking to Y in a language they not only understand, but also relate to closely. It gives you the best chance of cracking this tough group of demanding consumers."[5]

Gen Y: Building relationships

Now you've identified your next generation of clients, it's time to work on building your relationship with them.

Referrals work

Ask your Boomer clients to bring Gen Y family members to a no-obligation seminar on financial issues. The educational focus suits Gen Y, it's not a hard-sell and it may impress their Boomer parents too. Offer an educational brochure to add further value.

Other potential referral sources include; universities, places of employment and Gen Y social networks.

Getting their attention

Capture the resulting Gen Y leads via a feedback or contact piece. Use the phone, SMS and email to arrange initial discussions.

The initial one-on-one discussion should focus on clarifying Gen Y problems (particularly debt) and establishing their goals.

Get to know them

The first six months of your relationship is likely to be an education phase where you build trust by helping your Gen Y client reduce debt, and reach their short term goals.

Making it relevant

As your relationship builds you can start to introduce solutions and product offerings that meet their lifestyle needs/goals. Solutions that are flexible, accessible, visible and online will appeal.

Remember, Gen Y shy away from product detail but are attracted to personal stories and real-life experiences.

Prove that it works

It's the end of the first year. The client education process will continue but at this point, your Gen Y clients will want to see results. You don't need to focus only on returns – emphasize how far they have come in reducing debt, building a capital base etc.

Gen Y are wary consumers. Make sure results, performance and fees are all transparent. At this point your relationship should be good enough to introduce the benefits of more products – including insurance – and to increase their investment levels.

Harnessing their network

Building a relationship with Gen Y is worth it. Through building relationships with Gen Y clients you will tap into a client segment with an increasingly disposable income, a long working life and a willingness to refer you to their friends. Making Gen Y one of your biggest referral sources for years to come.

GENERATION STRESSED

Generation X has the highest average income per person. They are the biggest participants in the labour force … and carry the most debt. Generation X is the first generation in Australia's history to be raised in an era of compulsory super.

Are Generation Xers – those born between 1965 and 1980 – the unlucky generation?

They didn't enjoy the long post-war boom of the baby boomers. Nor the 16 years of uninterrupted growth that defines the early years of Gen Y in Australia.

This is a generation in desperate need of financial help. Confronted by vast social change, raised in the era of deregulation, economic rationalism and in the aftermath of the 1987 crash, they put off marriage, children and in many cases career until the last possible moment.

Now they are reaping the whirlwind, dealing with career uncertainty and the financial pressures of children and mortgage at the same time. In the background lurks the problem of retirement funding, a challenge sometimes only vaguely acknowledged by a generation deep in debt.

Perhaps paradoxically this accrual of anxiety – explains why Generation X is the next sweet spot for the financial planning profession. It won't be easy – with Generation X, it rarely is. But it will be worth it.

Why Generation X Matters

Gen X makes up 21.5% of the population, a potential client base of 4.4 million. Of all the generational cohorts they have the highest rate of labour market participation. They are also well educated – the participation rate in higher education for those aged between 20 and 29 almost doubled between 1976 and 2001.[6]

Gen X is also the first compulsory superannuation generation. Many will reach retirement age having put at least 9% of their incomes into super for decades. Almost accidentally they will have accumulated a valuable, workable nest egg by the time they retire.

Their problem – and a financial planners opportunity – is now. Generation X is moving into what demographer Bernard Salt calls life's 3rd quarter – the part of their life 'where most funds are gathered and managed'.[7] They are already the highest earning generation and will wear that mantle until 2021.

A long-term approach to super

Because of recent changes to super, Gen X's need to start their super contributions earlier. Unlike Baby Boomers they don't have the ability to catch up by throwing in large amounts as they near retirement.

So Gen X is now the part of your client base you need to understand intuitively. They need your help to ease a whole range of financial pressures so that the late years of their life are not as fraught as the middle ones. In return, you can capture funds that can grow for decades and fill the hole in your balance sheet left by the ageing Boomers.

Gen X – attitudes and aspirations

Too much choice?

Social researcher Hugh Mackay calls Gen X, "the options generation." Because they were born into a period of change their instinctive response is to, "hang loose, wait and see and keep their options open." Mr Mackay says the defining Gen X question is, "What else is there?"[8]

Too little time

Gen X is desperately time poor. Highly individualistic and expert at internet research, they're conflicted because they have canvassed all the options but have no time to sort through them. An adviser can compress that choice, saving them time by eliminating poor options. Help your Gen X clients avoid 'paralysis by analysis' by keeping it simple and focusing on the immediate results from your recommendations.

You can't have too many friends

Gen X grew up while the nuclear family broke up. They replaced the family with deep, long and wide-ranging friendships – as evidenced in the relationships in TV shows such as *Friends* and *Sex and The City*. McCrindle Research found that under 40s[9] knew surprising amounts about their friend's super. Gen X relies on word of mouth and will share stories of good service. Make them your advocates.

I want it, and I want it now

TV, radio, the internet. Gen X are used to constant stimulus and expect instant gratification. Quick wins are vital, especially if it eases the pressure.

"Generations follow observable historical patterns and thus offer a very powerful tool for predicting future trends." Neil Howe and William Strauss, authors of *Generations: the History of America's Future, 1584 to 2069.*

Gen X – financial issues that matter most

Challenging family conventions

Over the past 15 years the Australian family has undergone dramatic change. Both men and women now marry 8 years later than they did in 1982[10]. The average woman has her first child at 30.[11] The divorce rate is high, with a consequent increase in blended families.

This creates personal and financial stresses. Many couples are paying off a large mortgage while having a family.

Gen X couples confront big emotional issues such as childcare and the timing of the mother's return to work in an environment where finances are often tight.

For other Gen X couples the cost of raising a family and high house prices precludes buying. Average loan sizes for first home buyers increased by more than three times over the past 15 years. Average incomes rose at only half this rate[12].

Gen X is 'the sandwich generation'. They pay for their kids' food, clothes and education. Yet many are also helping their parents financially and/or practically. Gen Xers' taxes will pay for their parents' pensions, but will there be an age pension available for them? Current popular belief is that there won't.

Changing work patterns

Gen X saw the end of 'jobs for life' – 30% of the workforce is now part-time[13]. This increases uncertainty and makes capital accumulation via super or a property more difficult.

Between 1995 and 2004, the number of small businesses in Australia increased by more than 50%.[14] So Gen X need help with business management and finance, with super and with disciplines that help them accumulate capital from an irregular income.

High levels of debt

Gen X is Australia's most indebted generation. According to Roy Morgan Research, 30–44 year-olds make up 27% of the population but owe 46% of the credit card and loan debt. Your Gen X clients need help to manage this debt and to balance short- and long-term priorities.

Getting to X

Through communities

Gen X are networked through communities – through the childcare centres and schools that educate their children and the sports and recreation clubs that entertain them on the weekend. Join these groups to get close to Gen X.

A focus on community means local press is more powerful with Gen X. If you want their attention use PR and advertising in local media and position yourself as the local expert. Gen X absorb education – especially when it simplifies choice. Seminars and thought leadership material can generate good responses.

Through their parents

Your Baby Boomer clients can be a rich source of Gen X referrals.

Through technology and personal service

Gen X are hi-tech and hi-touch. They use the internet for price comparisons and research but want face-to-face help to make major decisions – such as where and how to invest.

"The boomers enjoyed cheap housing, free education, generous welfare benefits and plenty of job opportunities. The Gen Xers have had to battle huge increases in the cost of housing and tertiary education, job insecurity and cuts in welfare."[15]

Gen X sales strategy

Some practical tips on expanding your Gen X client base:

Step one: Identification and capture

- **Use your existing client base**: Ask your Boomer clients to bring Gen X friends or family to no-obligation seminar on financial issues. The educational focus suits Gen X who craves information, especially if it simplifies big life choices.
- **Build your profile**: Use PR and advertising in local media to carve out a niche as a local financial expert. But don't just rely on material you submit to the media. Build a relationship with editors and journalists so they turn to you for a comment.

Step two: Establish empathy and effectiveness

Prove you understand Gen X concerns and how to address them with practical solutions. Push the importance of an overall plan but balance with reference to short-term gains. You need to attack the hot-button issues that are creating Gen X stress. These include:

- mortgage vs super
- how to afford time off work to raise children
- managing debt.

Step three: Build loyalty, slowly

When preparing for a Gen X meeting, remember they are time poor and want instant gratification. Don't package cookie-cutter solutions or close off options. Do have a clear agenda and single focus. Solving a single problem – better mortgage management, income protection etc – will get them back into your office.

Make it easy: Reduce the forms they have to complete and the length of your meetings. Follow-up is crucial. Deliver as promised and seek opportunities to meet again – use a client life-calendar to help you. Consider a fee for service approach because Gen X can be wary, cynical customers. Build empathy by asking your Gen X clients what kind of contact they prefer (email, phone, in person), and meeting that request.

Step four: Make it a habit

Help Gen X 'ease the squeeze' and you earn the right to move onto longer term projects such as superannuation and gearing. Don't lose momentum by moving clients between planners – keep it personal. Use charts and real-life stories instead of text. Use technology to save you – and them – precious time.

STILL BOOMING

Baby Boomers are still the wealthiest generation and 92% of that wealth is held within couples. Sixty percent of married males are still in the workforce between the ages of 60 and 64. Baby Boomers spend more than 12% of their income on entertainment. That's more than the generation before and after them[16].

Australians about to retire can expect to enjoy around 23 years in retirement – one of the longest holidays in the world[17].

Boomers have much of their wealth tied up in property, they missed life-long compulsory super and their health costs are rising dramatically. So the quality of financial advice they receive will dramatically affect their future. What does this mean for your advice business?

- How can you help them manage the move to retirement and the impact on their overall financial planning needs, the drawdown of wealth and the health issues of their later years?
- How do you get close enough to ensure that their children are your clients too?

The Baby Boomers are the generation that 'keep on keeping on'. Growing up they survived the exasperation of their more conservative parents. Now they're intent on staying at the top as long as possible.

If you're a prosperous financial planner, it's likely they were key to that success. But your work is not done. Raised in boom times and the chief beneficiaries of a housing boom all their own, this is a generation where many are short on cash, long on property and deep in debt. Indeed the average Boomer household owes nearly $60,000.[18]

It's your job to help them beat, stretch and cajole their super and other assets into providing a comfortable living for more than the 20 years they'll spend in retirement. They trust you, the government is on your side, but maybe the markets are not. This will need all your skills. The reward? Cash in hand from a loyal client base that's still the wealthiest in the land. And an introduction to the next two generations – where your future lies.

"There are many reasons Boomers give for needing to continue to work: inadequate savings, disappearing pensions, the escalating cost of living, a reluctance to rely on the government and a desire to 'help the kids.'"[19]

Why Baby Boomers matter

The Baby Boomers dominate the Western world. Just ask Barack Obama and Australian PM, Kevin Rudd.

In Australia there are 5.3 million of them – 26% of the population – and some estimate they make up 80% of financial planners' client base. Though many are now entering the era of decumulation, starting to draw down rather than accumulate wealth, they remain the richest of Australia's demographic groups – holding half the nation's wealth. An average Baby Boomer is worth $381,000, while the average Australian is worth just $292,500. A staggering four out of five Baby Boomers own their own homes.[20]

While they are the first generation to be so exhaustively surveyed and analysed, criticised and lionised, they are not homogeneous. They don't want to be. They are the 'me generation' and stereotyping offends. More importantly, a generation that covers 20 years and five million people is going to be diverse. Consider this: the wealthiest 25% of the Baby Boomer cohort have an average wealth thirteen times that of the poorest quartile.

That's a key issue for financial planners. The Baby Boomer experience is broad and varied. For every 60 year old enjoying a 'portfolio lifestyle' of travel, study and consulting work, another is carrying a heavy debt load into retirement or struggling on an inadequate pension.

Baby Boomers need constant attention. They continue to be a source of constant cashflow while their constantly changing lifestyle mean they continue to need your help. While it's important to add Gen Y and Gen X clients to your database, you can't afford to ignore the generation who helped you build your business – the Baby Boomers.

Baby Boomers – attitudes and aspirations

Shaped by the Boom and the Bomb

Raised by parents who had survived the Depression and World War Two, Baby Boomers grew up psychologically sandwiched between the Boom and the Bomb. They witnessed an economic boom, full employment and a revolution in comfort-creating appliances. Overhead lurked the shadow of the Bomb.

The Baby Boomer response was to live for now. It still is.

Family focused

Many Baby Boomers remember their parents as too distant and too tired. They saw many work themselves into an early grave or a too-quiet retirement. By contrast your Baby Boomer clients prize the close and intense relationship with their kids. They may not have a choice because Gen Y is keen to stay at home.

The 'me' change

Retirement is not a tree change. Or a sea-change. It's a me-change, a change from a life centred on work to a life centred on choice. A HSBC Insurance study of retirees around the globe revealed that immediately after retirement 'most individuals appear to experience a boost in health status, quality of life and feelings of control and independence.'

"Boomers seem to have had great difficulty imagining what could come after themselves." Jeff Chang, *Can't Stop Won't Stop: A History of the Hip-Hop Generation.*

Baby Boomers – financial issues that matter most

Paying for a long life span

Longer life expectancy and better health allows Baby Boomers to enjoy longer, fuller lives than the generation before. Yet there comes a reckoning. In late retirement they could be hobbled by ill-health and high health costs. This needs to be planned for in early retirement. Costs need to be managed and capital-accumulation maximised. Most importantly, education is required. In the 'rush' of new retirement Baby Boomers may find prudence passé.

As figure 1 shows these trends create a U-shaped retirement.

Too much house, not enough cash?

The Baby Boomers enter retirement over-exposed to an illiquid asset class. As NATSEM'S Baby Boomers – doing it for themselves report puts it; the home is 'the major or only savings vehicle for many Baby Boomer households'. According to NATSEM's statistics, average home equity of $161,000 makes up over 40% of their wealth. Super, by contrast is just 17% of their wealth.

Your Baby Boomer clients may need help to turn this wealth into cash as their retirement lengthens, health costs rise and other capital dries up. Using equity release products and reverse mortgages may make sense in this situation but they bring with them a whole range of other considerations.

Your most important role may be ensuring these products are used wisely and chosen well. Your clients may need help dealing with debt at an advanced age. And their children may have issues with their diminishing inheritance.

Baby Boomers – how to talk to them and keep them close

Where to find them

Your client base is probably thick with Baby Boomers. So you know how to find them. That doesn't mean you can't bring more in, especially via referrals from existing clients or through seminars addressing their specific issues.

How to reach them

Baby Boomers love the stimulation and practical value of education. In his book, *Advertising to Baby Boomers*, Chuck Nyren says, "For baby boomers a great campaign should begin by returning to the basics. We respond well to simple direct messages. And facts."

Ulike their children, they have the attention span required to assess facts and figures but want clear uncomplicated messages. They grew up with the profession of marketing – they won't get fooled again.

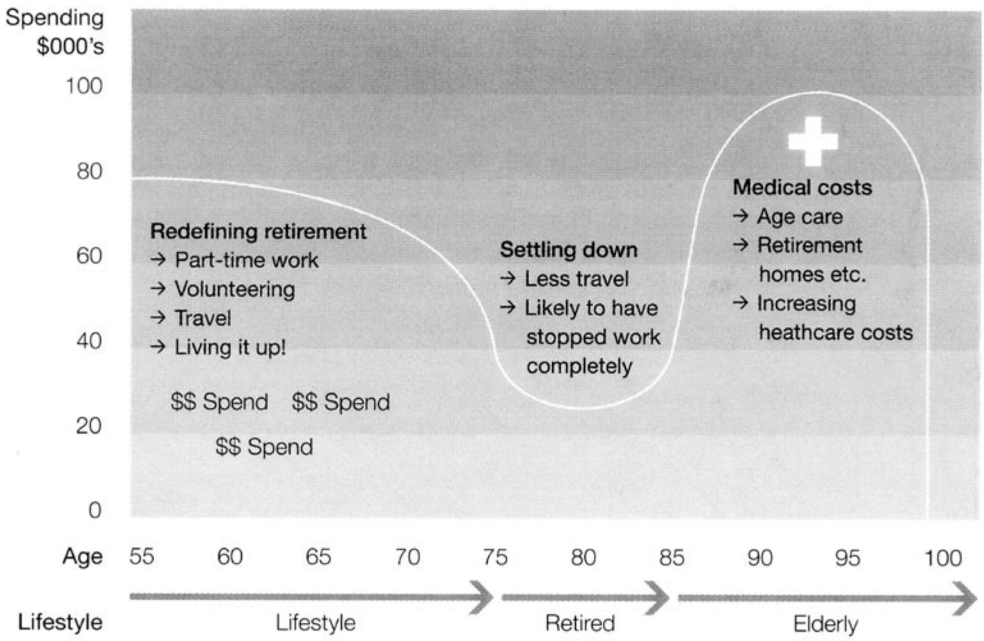
Maintaining the relationship

Whether in ads, presentations and brochures or in the way you talk to them, remember that most Baby Boomers feel young. They don't want to be pigeonholed as old, tired and predictable. Avoid clichéd golf and bowls images.

Remember that Baby Boomers have had credit cards for decades and believe instant gratification is not quick enough. Long term is five years. They may enjoy regular contact rather than wait and see. Take advantage of this by scheduling regular fee-for-service check-ups that keep you top of mind. More importantly, these meetings give you the chance to pick up any major life events – such as a change in the nature of their retirement – that may trigger the need for detailed financial advice.

"Viral marketing won't work with Baby Boomers. We see a shill coming a mile away. Don't waste your money." Chuck Nyren: *Advertising to Baby Boomers*

Figure 1. U-shaped retirement



Source: 2005 McKinsey & Company Report. Values are indicative and are for illustrative purposes only.

Baby Boomer sales strategy

Some practical tips on getting the most from your Baby Boomer clients.

Step one: Use your existing client base

Assess your Baby Boomer client base. Do your review meetings, capture fee-for-service revenue and identify triggers for more extensive – and rewarding – assistance? The BT retirement calendar and checklist may help you stay alert to these issues.

Consider running no-obligation seminars on the financial issues that matter to the Boomer Generation – new pension or super rules, Transition to Retirement strategies, Estate Planning etc. The educational focus suits their needs and may see your existing clients bring friends and colleagues into your practice.

Step two: Structure your service into Core and Value Add

Baby Boomers want to feel unique. One way to meet this emotional need is to structure your services around a core service and added value. Useful, free educational material is a good example of added value.

Step three: Work for the family to increase your revenue

Baby Boomers enjoy their relationships with their children. These relationships often involve money as many Gen Y children stay at home into their late 20s – with implications for their financial situation (good) and that of their parents (maybe not so good).

Baby Boomer parents will want their children to make better financial decisions and may welcome education that covers trans-generational finances and teaches the children better money management.

Ask your clients to bring Gen Y family members to a seminar on joint financial issues. The educational focus suits Gen Y and may strengthen your bond with their parents.

Step four: Involve both partners

Many Baby Boomer women may have had their financial affairs managed by their husband and therefore may not have the knowledge or 'ownership' of financial issues that they perhaps should.

Yet women may live longer than their men. It's imperative you encourage them to be involved in the planning process. This will add to their confidence and ability to manage financial issues if they are widowed or circumstances change. Having established a relationship with the female partner it's more likely they'll take your advice during a difficult and financially fraught period – and that their assets stay on your ledger.

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