

Retirement Study 2008

Baby Boomer Readiness and Implications for Financial Services,
Healthcare, and Insurance

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About Diamond Management & Technology Consultants

Diamond (NASDAQ: DTPI) is a management and technology consulting firm. Recognizing that information and technology shape market dynamics, Diamond's small teams of experts work across functional and organizational boundaries to improve growth and profitability. Since the greatest value in a strategy, and its highest risk, resides in its implementation, Diamond also provides proven execution capabilities. We deliver three critical elements to every project: fact-based objectivity, spirited collaboration, and sustainable results. To learn more visit www.diamondconsultants.com.

Executive Summary

Retirement isn't what it used to be. Today's retirees live longer and accomplish more in retirement than any previous generation and the trend is expected to continue. In 2010, the baby boomers—the wealthiest generation in history—will begin retiring en masse. They will control \$23 trillion in assets (growing to \$40 trillion by 2020), which they will spend on living, travel, hobbies, and increasingly, on healthcare. Some will make additional investments and will leave a windfall for their heirs. Others—the one-third of boomers who currently have little or no savings for their “golden years”—will overburden Social Security, Medicare, and other public services as they extend their lives with the aid of expensive medical intervention and care.

The central challenges facing boomers are how they will fund their retirement and how healthy they will be during those years. The optimal solution for most boomers extends beyond simply “saving more”—it is a combined approach toward saving, managing expenses (especially healthcare), and managing risk by insuring against unexpected loss of income or health.

The trouble for boomers is that many lack a strong financial acumen and a rational, long-term approach to do the right thing. These phenomena create an opportunity (some would say an obligation) for companies throughout the healthcare, financial services, and insurance sectors, to create the tools and services to help boomers do a better job of preparing themselves for retirement.

The time is right for firms to reposition themselves. The health, wealth, and risk management value chains have begun to converge and overlap, creating new business opportunities for companies that adopt a broader view of the market.

Baby Boomer Characteristics

In order to better understand the needs of the burgeoning retirement market, Diamond conducted extensive research into the attitudes and behaviors of baby boomers. Our research revealed emerging, unique requirements within different segments of the boomer population:

- In general, consumers have a poor understanding of risk. Most consumers tend to underestimate long-term risk and overestimate short-term risks—both financial and health-related—which can lead to unnecessary worry even as they under-prepare and under-insure themselves. Educating consumers about risk is the first step toward helping them help themselves.
- Consumers who score low on our “health consciousness index” neglect their health and do not trust the healthcare

system to help them. Because many smoke, are overweight or obese, and do not tend to save, these individuals will likely present a large cost to health plans, health providers, and Medicare. For providers, influencing these consumers' lifestyle choices could reduce the strain on the healthcare system—and could help save countless retirees from running out of money to maintain their health.

- Consumers who have high levels of financial confidence and positive attitudes about preserving their health are typically well-prepared for retirement. They seek more comprehensive and sophisticated financial services offerings, such as asset growth and preservation services and estate planning and income management advice.

What It Takes to Serve the Baby Boomers Successfully

As consumers' financial security in retirement becomes increasingly dependent on the combination of how well they have invested, insured themselves, and taken care of their health, companies will not be able to adopt a “one-size-fits-all” approach toward serving the market. They will need to thoroughly examine the value chain, determine where they are best positioned, and tailor their offerings to targeted sub-segments of the boomer population. There are a number of varied and new roles along this complex value chain that financial institutions, health plans, insurers, and others can play to help boomers help themselves.

For example, banks that have extremely high penetration in U.S. households through checking, savings, and credit cards might be in a unique position to assist lower- and middle-income consumers do a better job of saving toward retirement and managing their cash flow once they do retire. Companies might target services at retirees to help these individuals productively use their home equity, where most boomers have the majority of their assets.

However, our research indicates that relatively few companies are well-prepared today to take advantage of the enormous opportunities this market will offer. Few have dedicated the attention and resources to deeply understand the emerging needs of the market and the new roles companies can play.

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Retirement Is Changing

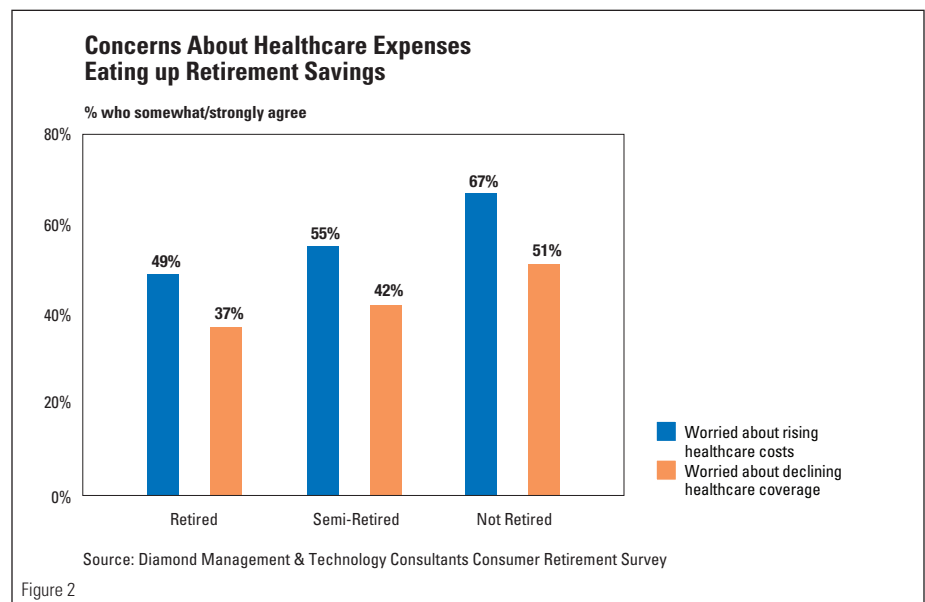
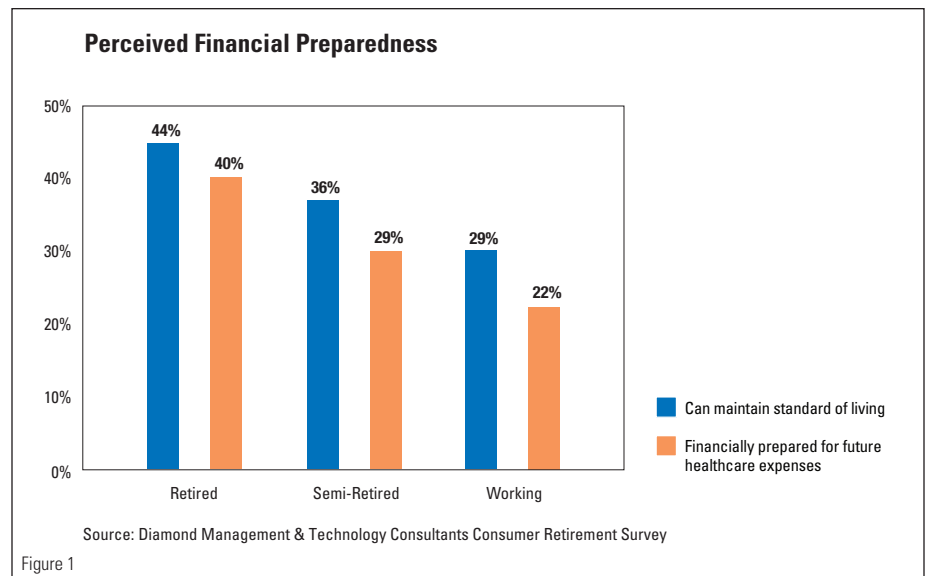
Consumers no longer see retirement as the end of their lives, but as the beginning of the next phase. “Retirees are shifting interests, reinventing careers, and changing the very definition of ‘retirement,’” according to Nancy Schlossberg, Professor (Emerita) at the University of Maryland and a retirement expert.

To understand how these changes have shaped boomers’ holistic needs as they approach and enter retirement, we surveyed 626 consumers aged 45 and older using an online survey. During the 30-minute survey, we asked questions about their health and finances, probing their attitudes, behaviors, and current situations. For example, we asked what financial products and services they use, how they feel about saving money, and how much they have saved for retirement. On the health side, we asked questions such as how confident they are about the state of their well-being, whether they eat five servings of fruits and vegetables each day, and whether they have a chronic health condition.

Changing Needs

Our survey results demonstrate the diversity of needs represented by the baby boomer generation. Some differences are correlated with gender, age, and work status, while others are associated with confidence in managing their finances, and how important it is to them to take care of their health.

For example, younger baby boomers, aged 45 to 54, are the most worried about funding their retirement and, accordingly, they are the most interested in retirement services that could help them prepare. Sixty-five percent of them would be interested in annuity-type products (described in our survey as a product that provides an income stream)—nearly twice as many as respondents aged 65 and older. Many of these younger boomers may be looking for services that help them “catch up” before they retire.



A similar relationship appears when comparing those boomers who are still working to those who have retired (independent of age). Retirees tend to experience a “confidence bump” relative to those who are still working. Working boomers expressed considerably more concern about funding their retirement. Although they still have earning power to save for their “golden years,” they are

worried about diminishing Social Security and Medicare systems, and rising medical costs. While 44 percent of retirees expressed confidence they will be able to maintain their standard of living throughout retirement, only 29 percent of boomers who are still in the workforce expressed such confidence (Figure 1). The same relationship holds for retirees who are confident they’ll be able to meet future health expenses, even

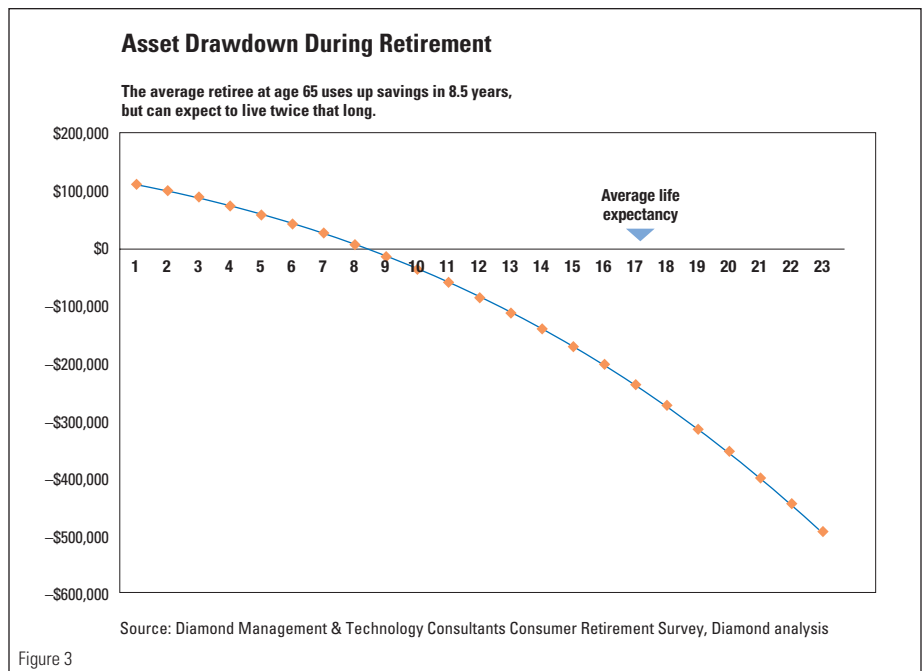
though 74 percent of them have some sort of chronic health condition. In general, retirees are more worried about losing their physical health, while working boomers believe financial issues pose the biggest risk.

We found that confidence about finances is an important indicator of how well a boomer is likely to prepare for retirement—and this relationship holds even when we control for income level. Those with the lowest level of confidence tend to use fewer financial products (average of 5.2 products) such as checking accounts, credit cards, etc., compared with the high-confidence group (average of 6.9 products). The lower-confidence boomers demonstrate a similar trend with investment products (average of 1.6 products) such as money market accounts, mutual funds, and annuities; their highly confident counterparts use an average of 3.9 investment products.

The relatively low confidence of those who have not retired indicates that it is vital to improve education and increase savings and investment rates. The funding sources retirees have traditionally relied upon are drying up. Social Security and Medicare will become stretched thin as more boomers enter retirement and live longer, and retirees can expect smaller inheritances, fewer health benefits, and decreasing pensions. This combination has boomers—especially those who are not yet retired—concerned about healthcare expenses eating up their retirement savings (Figure 2, previous page).

Our respondents generally have about two-thirds of their assets tied up in home equity, yet less than 20 percent expect to have to rely on cashing in that home equity to fund their retirement. However, our analysis shows that even when offset by Social Security payments and investment income, the median boomer can expect to run out of cash around year nine of retirement—without factoring any extraordinary medical costs, long-term nursing care, or stock market volatility (Figure 3).

To overcome these financial challenges, retirees will need a great deal of support



to effectively protect and manage their incomes before and during retirement. They will need a portfolio of products across health, wealth, and risk management to help them prepare.

Changing Company Roles

The emerging retirement predicament is delineating new roles for banks, investment firms, insurance carriers, insurance plans, and healthcare providers as consumer demand increases for holistic treatment of all of their financial and healthcare worries. The evolving needs of retirees are changing the industry structure, creating new roles for companies that choose to compete.

Traditionally, the banking, insurance, and financial advisory value chains focused on managing specific risk characteristics—banks dealt with market risk and income risk, insurance carriers with mortality risks and morbidity risk, and financial advisors with longevity risk and market risk. However, in the emerging future state, these risks, and the products that mitigate them, become integrated—taking into account how one type of risk affects another. This will lead the way for companies to offer combined services, partnering with other firms throughout the value chain to provide new, innovative services for baby boomers.

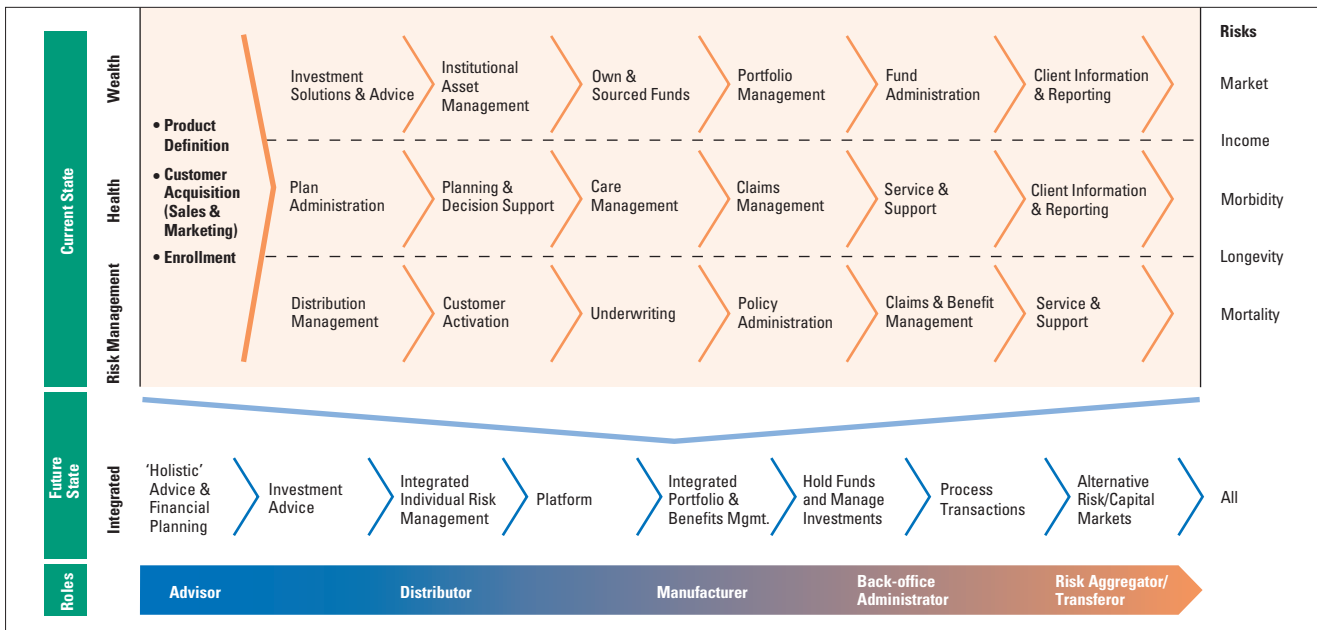
There are five roles companies can play in serving this emerging retirement market:

Customer Advisor—Investment advisors, tax advisors, estate planners, and even family physicians build customer relationships and trust as they advise consumers in areas such as managing their health, creating a standard of living, or developing an approach for accumulating, preserving, and protecting their assets. Successful advisors have deep customer relationships, a trusted brand, and have the ability to understand the nuanced needs of different customer segments and tailor their advice to the specific needs of the individual.

Distributor—Distributors provide a breadth of services, often through partnerships, to provide a range of options to their customers. In the mutual fund category, the most successful distributors play the role of “fund supermarket,” offering their own branded mutual funds in addition to those from other investment companies. Because distributors interface with many other institutions, an open architecture business model, partnership capabilities, and a strong technology platform are critical.

Manufacturer—The manufacturer has deep knowledge in selected domains

Converging Value Chains and Emerging Roles



Source: Diamond analysis

Figure 4

and specializes in developing products and product bundles that meet a specific customer or distributor requirement. Life insurance companies and asset managers have traditionally played this role by creating products and assembling financial portfolios. Successful manufacturers will continue to have deep product knowledge and will develop new products and portfolios that manage a broad spectrum of risks.

Back-Office Administrator—The back-office administrator provides back-office transactional services such as claims management, billing and payments, and funds administration to others in the value chain. Successful back-office administrators achieve scale through massive investments in technology and customer acquisition, improve cost structure and quality through process management, and have strong reputations for integrity and security in processing transactions.

Risk Aggregator/Transferor—The risk aggregator/transferor specializes in understanding the pricing, packaging, and distribution of different types of risks (e.g., market, morbidity, longevity, mortality, and other risks). These firms will pool risks from a variety of sources and then package, price, and distribute the risk in secondary markets. Companies such as insurers, reinsurers, and capital markets firms will compete in the risk aggregation and transferring domain. Successful risk aggregators/transferors will have strong balance sheets and capital at their disposal, deep actuarial knowledge, and sophisticated risk management methodologies.

Regardless of which role or roles they select, firms need to rethink their business models or beef up their offerings in market segments where their current models are still viable. For example, financial advisors that have built their businesses on helping people save and accumulate

assets may need to boost their capabilities to provide annuities and other services that help retirees carefully draw down their assets. Life insurers who have focused on managing the risk of premature death may need to explore their approach to segments that are underinsured and at greater risk. Banks may need to rethink how they can serve customers who need to grow their assets aggressively, while also minimizing risk.

Opportunities to Serve the Baby Boomers

Broader Customer Needs

Some consumer needs cut across multiple segments, such as consumer education and understanding risk. But in general, baby boomers are best served through a segmented approach. We identified five distinct segments with different needs, and we also found opportunities for firms to improve how they market to these segments.

Consumer Education

After accounting for income differences, we found market penetration rates were significantly lower for some financial and health insurance products, despite a compelling need for the products. While some products naturally have lower penetration potential (e.g., estate plans vs. checking accounts), we attribute this “clarity gap” to products with greater complexity, lower accessibility in the marketplace, and lower product awareness (Figure 5, below). For example, 38 percent of low-confidence consumers who earn between \$35,000 and \$100,000 per year express strong interest in a financial product that provides a steady stream of income, but only 16 percent of these consumers own annuities.

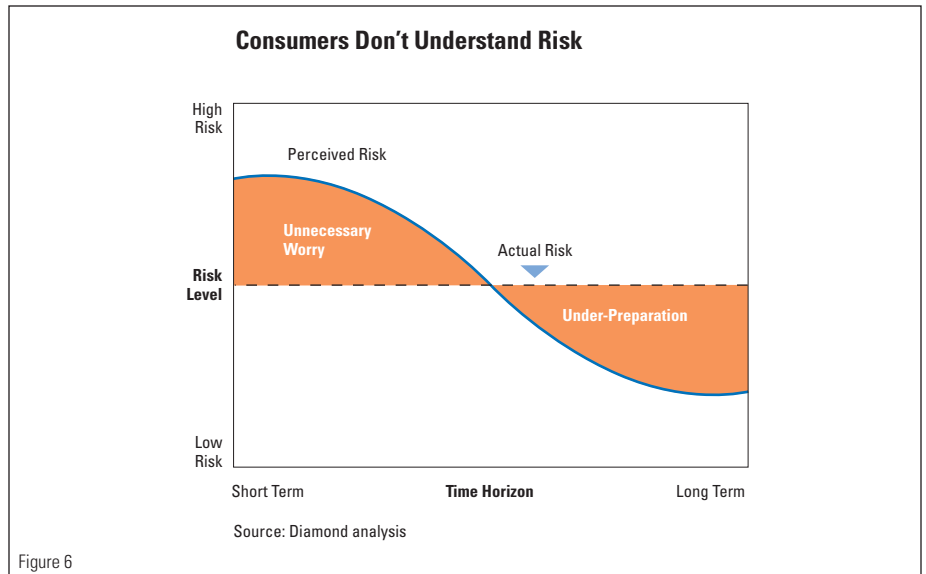


Figure 6

There is significant benefit to improving consumers' confidence and understanding of their long-term financial needs. Consumers who exhibit higher levels of financial confidence—independent of income level—purchase a greater number of financial products and services than do their less-confident, less-educated counterparts.

Similarly, there are opportunities to educate consumers about risk. Consumers tend to worry more than necessary, but under-prepare for risks at the same time (Figure 6, above). Consider the following examples:

- 59 percent of working baby boomers expect to have to rely heavily on Social

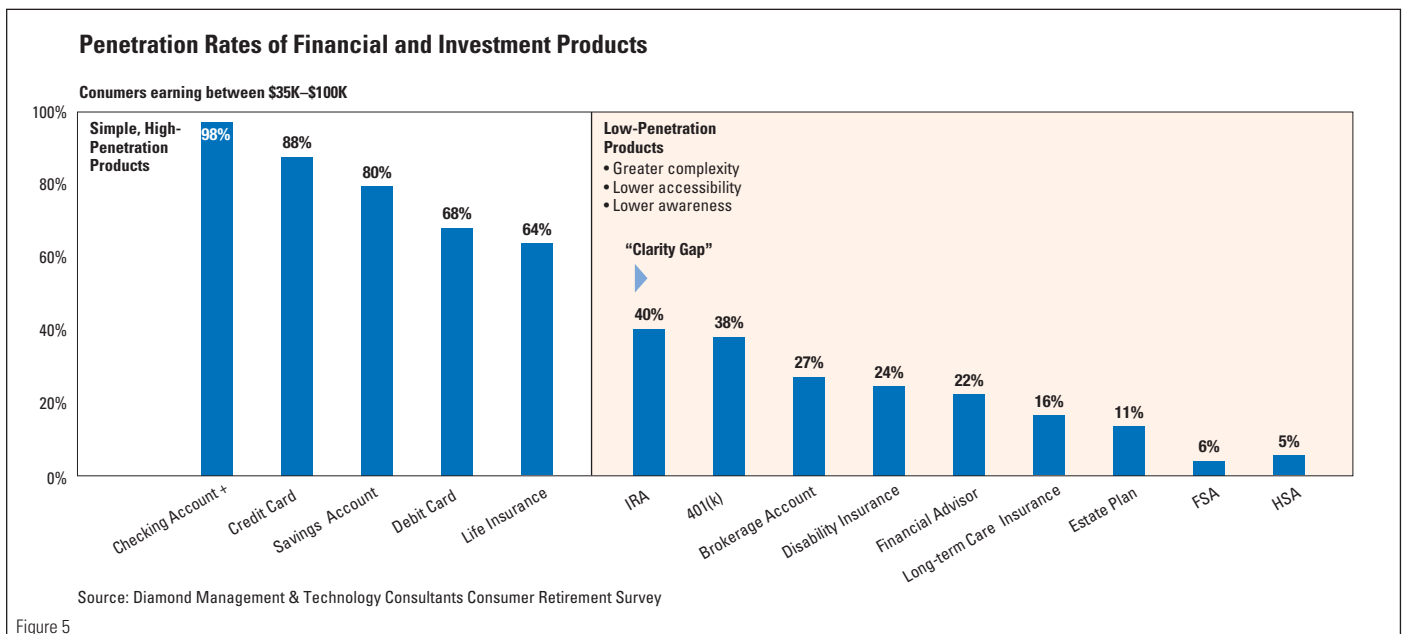


Figure 5

Security, yet 38 percent have saved less than \$10,000 for retirement.

- 61 percent of respondents say they do not have the funds to support long-term care should they require it, yet only 13 percent have long-term care insurance.
- 46 percent say they could not afford a medical emergency, yet only 21 percent have disability insurance.

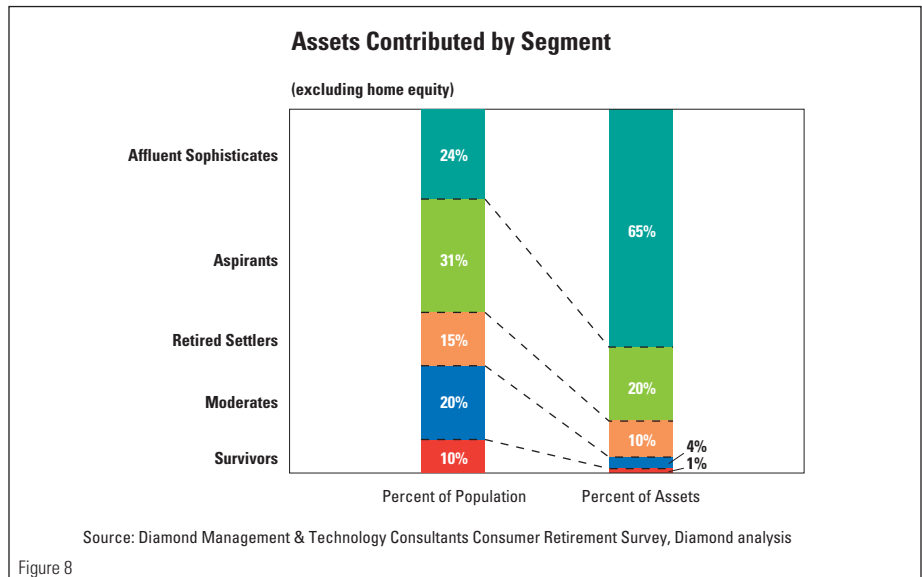
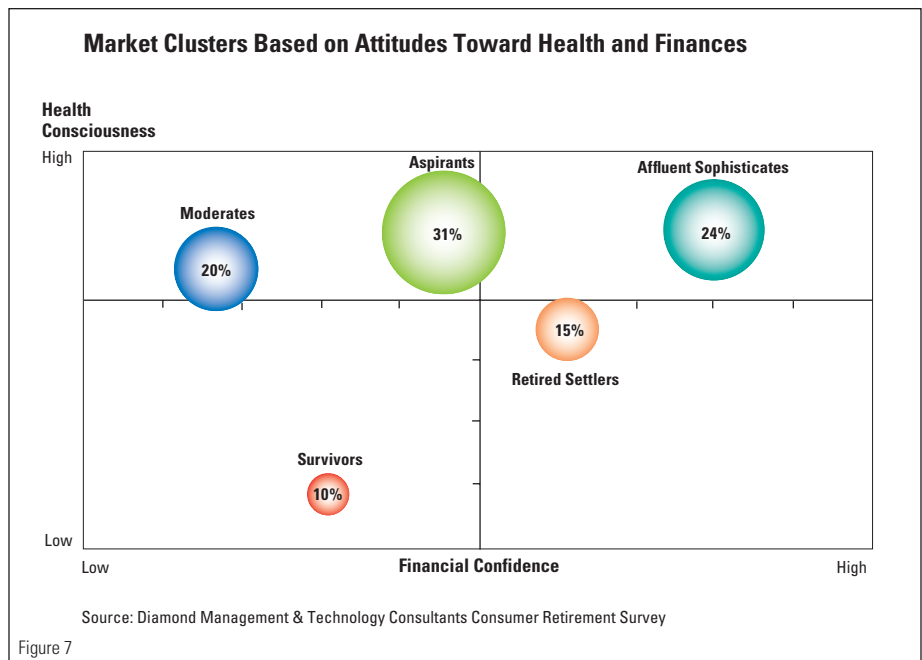
There are indications that some consumers respond well to education. In our survey, some respondents decreased their confidence about their retirement savings after learning how much money they will likely need for future healthcare. Companies that become trusted for advice in this area will become more successful at acquiring new customers and growing existing client relationships.

Taking It One Segment at a Time

The baby boomer market is not a homogeneous group, and effectively addressing this market requires going beyond traditional asset-based segmentation schemes. Companies must first acknowledge the differences among boomer market segments. Firms will then need to determine which segments of the boomer population best fit their core competencies. In some cases, segments may be satisfied with “mass-market” products and services, so long as the marketing approach to reach them is suitably targeted. Boomers’ health and wealth attitudes and behaviors indicate varied needs for different kinds of services and approaches on how to market to them.

Our research revealed five distinct baby boomer market segments that represent different combined attitudes and behaviors toward their health and their wealth (Figure 7). We named these market segments as follows:

- Affluent Sophisticates
- Aspirants
- Retired Settlers
- Moderates
- Survivors



We describe these segments in terms of their financial confidence and health consciousness:

- Boomers’ **financial confidence** is a measure of their optimism regarding their financial outlook and the amount of initiative and responsibility they take in managing their finances. Boomers with high financial confidence tend to be more comfortable investing assets and they buy more financial products and services. They are also more affluent and better educated.

- **Health consciousness** is a measure of how much value respondents place on preserving their health, the trust they place in the healthcare system (insurers and doctors), and their willingness to accept new health/wealth services that could help them. This measure indicates how important boomers’ health is to them relative to other things (such as money).

Not all firms will want to pursue all segments. Financial services companies will be particularly interested in the

percentage of assets held by each of the baby boomer segments (Figure 8, previous page). A large proportion of baby boomers' assets are concentrated in a small percentage of the overall boomer population, with Affluent Sophisticates controlling 65 percent of the assets, and Aspirants and Retired Settlers together controlling another 30 percent.

Health plans may be most concerned with the Retired Settlers and Survivors because they value their health less, lead less healthy lifestyles, and may be more likely to have high medical claims.

A profile of each baby boomer market segment follows.

Affluent Sophisticates comprise roughly a quarter of the overall respondents. They are financially well-off, with a mean annual household income of \$106,000 and a mean age of 60 years (Figure 9). They control about 65 percent of retirement assets. Among the five market segments, Affluent Sophisticates have the highest levels of both financial confidence and health consciousness, use the greatest number of financial and investment services, and have well-established relationships with a network of financial institutions and advisors (Figure 10).

Affluent Sophisticates are well-informed and they take relatively good care of their health, with the lowest rate of obesity among boomers (Figure 11, following page). Only 7 percent of Affluent Sophisticates have a "major chronic condition." In contrast to the other segments, virtually all of the Affluent Sophisticate respondents believe they can greatly influence their health by leading healthy lifestyles. The vast majority see good health as a major goal, and believe it is worth paying more on a day-to-day basis to maintain a healthy lifestyle (Figure 12, following page).

Although Affluent Sophisticates typically have a handful of working years left, 39 percent expect to retire before the age of 60, so many need help to attain their financial goals early. They need higher-end services such as estate planning and various strategies to diversify and grow their holdings. Affluent Sophisticates are likely

Demographics

	Affluent Sophisticates	Aspirants	Retired Settlers	Moderates	Survivors
Mean Age	60	55	65	55	56
Mean Income	\$106K	\$55K	\$51K	\$30K	\$25K
% Retired	48%	31%	77%	42%	50%
% of Population	24%	31%	15%	20%	10%

Source: Diamond Management & Technology Consultants Consumer Retirement Survey

Figure 9

Financial Behavior and Attitudes

	Affluent Sophisticates	Aspirants	Retired Settlers	Moderates	Survivors
Do business with <2 financial firms	48%	63%	69%	80%	84%
Do business with >4 financial firms	32%	18%	15%	6%	5%
Strongly prefer low fees to variety of investment options	5%	14%	18%	24%	33%
Mean Retirement Savings	\$1.1 M	\$104K	\$179K	\$23K	\$22K
Net Worth (excl. home equity)	\$1.4 M	\$324K	\$321K	\$64K	\$36K
Home Equity	\$554K	\$157K	\$167K	\$78K	\$48K

Source: Diamond Management & Technology Consultants Consumer Retirement Survey

Figure 10

to be most interested in trusts, life insurance, and asset protection and transfer.

Aspirants make up the largest segment and control 20 percent of baby boomer assets. These individuals have an average of 10 years remaining before they retire and they earn a mean annual income of \$55,000. But Aspirants do not have a great deal of financial confidence, in part because many in this segment have large amounts of debt.

Aspirants prefer personalized assistance with their financial decisions. This segment seems to respond to education about how much money they would need in retirement, and many can use their remaining working years to get things in order.

Because they are still earning and also highly leveraged (and therefore unable to afford catastrophic losses), this segment may be

a prime target for various types of insurance products. There is an opportunity to focus on the well-being of women in this segment, who might find themselves in financial dire straits should they become widowed or divorced at this stage in their lives. Individuals in this segment are interested in annuities and products that could help them pay for medical expenses and manage their income in retirement. They need to be educated about supplemental health insurance and long-term care coverage.

Retired Settlers tend to be optimistic—47 percent of these boomers are very confident they will be able to maintain their standard of living throughout retirement. Individuals in this segment, 77 percent of whom are already retired, seek do-it-yourself financial tools, shying away from personalized advice because they do not want to feel as if someone is selling them

Health Characteristics and Behavior

	Affluent Sophisticates	Aspirants	Retired Settlers	Moderates	Survivors
Major chronic health condition	7%	13%	13%	35%	32%
Never/Rarely exercise	22%	38%	40%	62%	62%
Obese (BMI≥30)	30%	41%	33%	48%	48%
Regular preventative screenings	69%	50%	54%	51%	31%
Annual physical	76%	60%	68%	67%	39%

Source: Diamond Management & Technology Consultants Consumer Retirement Survey

Figure 11

Moderates generally do not take good care of themselves, despite a desire to do so. Nearly half of Moderates are obese and many are smokers. Although two-thirds rarely exercise, Moderates do get regular checkups and half claim they “always” get regular preventative screenings. Seventy percent of Moderates have a chronic health condition of some kind, and 35 percent have a “major chronic condition.”

An example of a way to help these individuals save (that could work for other segments as well) is to provide an “opt-out” option, where an employee enrolls by default in an automatic payroll-deduction savings program, a 401(k) plan, or a disease-management program. Opt-out programs yield a far higher participation rate than “opt-in” programs. Half of Moderates have no retirement plan. Our research shows that annuities and products that would pay for medical expenses would be of particular interest to this segment. In healthcare, Moderates have a need for a variety of behavior-modification and disease-management services.

Health Attitudes

	Affluent Sophisticates	Aspirants	Retired Settlers	Moderates	Survivors
I try to learn everything I can about relevant health issues	75%	75%	58%	80%	51%
A healthy lifestyle is worth a higher expense	82%	65%	55%	48%	32%
I'd rather take a pill than change my lifestyle	13%	17%	28%	23%	23%

Source: Diamond Management & Technology Consultants Consumer Retirement Survey

Figure 12

something. One of the biggest marketing drawbacks of the segment is that Retired Settlers are not very interested in new products and services; the time to market to this segment is while they are still in the workforce.

Although Retired Settlers are generally in the middle of the pack on health attitudes and characteristics, they distinguish themselves through their lack of worry about health issues. Despite their age and the general decline in health that accompanies it, only 28 percent worry about contracting a life-threatening condition—the lowest of the five segments. Twenty-eight percent responded they would rather take a pill each day for the rest of their lives than adopt lifestyle change for the same effect.

Many Retired Settlers could benefit from post-retirement planning and strategies to maintain the earning power of their assets

and to manage their home equity. Fewer than 20 percent of our respondents aged 65 and older expect to have to tap into their home equity to fund their retirement—yet housing accounts for two-thirds of most boomers’ assets. Similarly, educating retirees on annuities to protect their income as they draw down their assets, and to manage against catastrophic health risks and long-term care costs, could enhance the well-being of this segment.

Moderates lack financial confidence, and 21 percent of boomers in this segment expect they will never be able to retire because they won’t be able to make ends meet. Although they still have 10 years left in the workforce, they aren’t able to save enough with their mean annual income of \$30,000. However, individuals in this market segment are fairly trusting of financial institutions and are willing to seek help from these organizations.

Survivors, low-income boomers with a mean annual income of \$25,000, comprise 10 percent of our sample. They are often single and have a mean age of 56 years old. More than one-third of Survivors expect they will have to keep working past the age of 70 to make ends meet. While individuals in this group typically find it difficult to save, they are also distrusting of institutions and advisors who could realistically offer a helping hand.

Survivors have poor health and do not take good care of themselves. Nearly half the segment is obese and 44 percent of Survivors smoke. More than two-thirds have a chronic health condition—half of these people describe their condition as “major.” Only a third of Survivors would agree that living a healthy lifestyle is worth a higher expense. Health plans and healthcare providers need to be concerned about this segment because Survivors likely drive more than their share of claims. The challenge lies in getting these individuals to participate

The Various Faces of a Boomer

Affluent Sophisticate

Robin, a 61-year-old business executive with an annual salary of \$110,000, feels she and her husband are very well prepared for retirement. They exercise at home together each morning on their elliptical machines and do some light weightlifting routines. A family friend has served as their financial advisor for many years and, through this friend, Robin and her husband have developed a network of financial and healthcare resources. Comfortable with her level of retirement savings, and with a few years left in the working world, Robin wants to develop a plan to grow assets for her daughter—and, ultimately, for her baby grandson.

Aspirant

Joseph, a 55-year-old traveling salesman for an electronics company, knows he needs to do more in terms of preparing for retirement. The lifelong bachelor makes a comfortable living, at \$57,000 per year. However, Joseph has compiled—and continues to carry—large amounts of debt. He wants to find someone who can help him adequately prepare for the expenses he'll face in retirement about a decade down the road, but between his hectic traveling schedule and his lack of financial confidence, Joseph feels like he is spinning his wheels. Maintaining his health is very important to Joseph, much more so than tracking his 401(k) investments. Joseph also has a 401(k) account from a previous employer that he has let sit stagnant for seven years rather than roll it into a traditional IRA.

Retired Settler

Edward, 65, recently retired from his longtime job as a manager with an office supply company. While he tried through the years to maintain a moderately active lifestyle, Edward has always been too busy to get any exercise other than golf on the weekends. He has been very involved in managing his household's retirement assets online and sees no need for face time with an advisor in order to grow his nest-egg. While he doesn't have any lavish vacations on the horizon, Edward and his wife are confident they'll see no change in their standard of living during their "golden years."

Moderate

Melissa is a 54-year-old executive assistant who several years ago began the thought process for financial and healthcare matters in retirement. Divorced with three adult children and earning \$32,000 a year, Melissa has been saving for retirement for several years and she has recently asked around the office for help identifying a financial planner/advisor who could meet her needs. Melissa has no idea how far her savings can take her, most notably because of costs associated with her diabetes. Melissa would like to take better care of herself, but can't seem to make the time. She might join a group in the office that goes walking at lunch time.

Survivor

Allan, a 57-year-old janitorial worker with a modest annual salary of \$24,000, has been with the same company for the past 26 years and still has several years of work ahead before he expects to retire. Until six months ago, Allan's employer contributed to a defined benefit pension fund for all of its workers. However, the company froze the pension fund and instituted a new 401(k) plan. Not knowing what to do or where to turn for advice, Allan has made no investment choices with his 401(k) account. While he does not consider himself obese, a lack of any fitness routine coupled with an entire adult life as a smoker have left Allan very much overweight and out of shape.

in behavior-modification and disease-management programs—and in seeing a doctor regularly instead of visiting the emergency room.

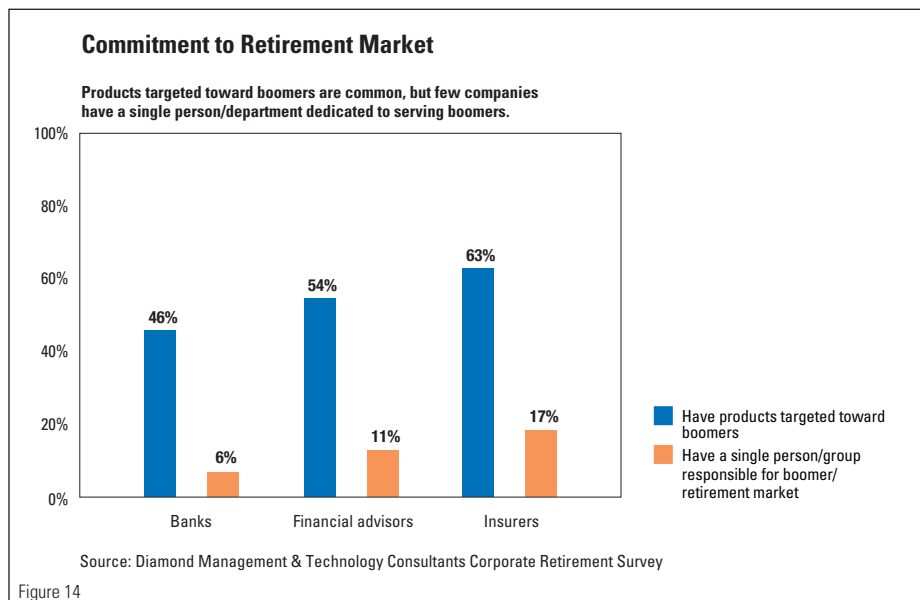
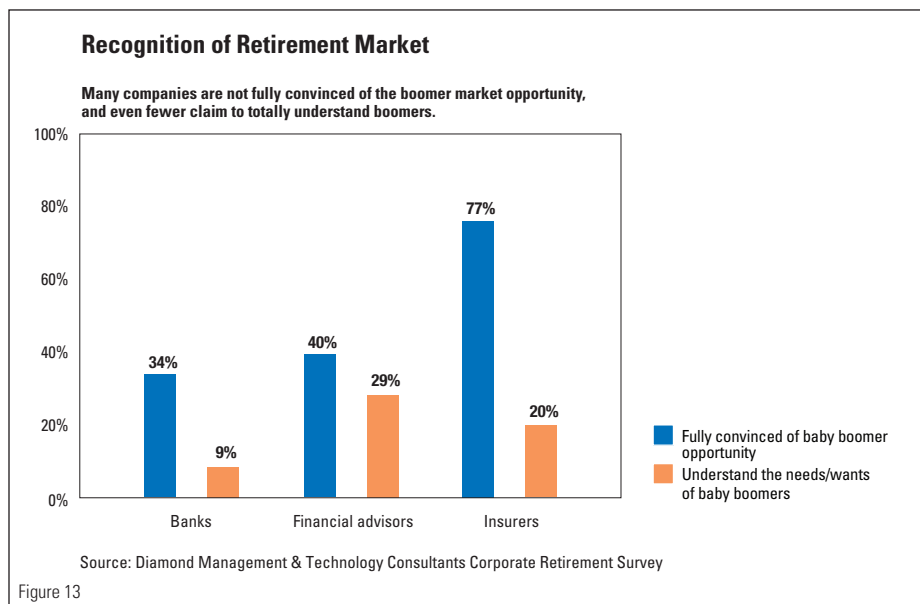
Because they earn and save little, Survivors also need help to make them save—although they may live too close to their means for this to be practical. This segment could also benefit from an “opt-out” option as previously described. Most Survivors have an established relationship with a bank, but other financial services firms (with the exception of high-risk lenders) will probably shy away from this segment as it represents only 1 percent of baby boomer assets.

Companies are Lagging

Based on our research, many companies are behind where they should be if they expect to capture a sizeable share of the soon-to-be \$40 trillion in retirement assets. In order to understand companies’ efforts to date in pursuing this market, we surveyed executives at 105 banks, investment advisors, and insurance companies, each with revenues of more than \$500 million.

There is a significant gap between companies’ recognition of the importance of the retirement market as a business opportunity and their commitment to capitalizing on it. For example, although one-third to two-thirds of executives believe that the baby boomers represent a “major new business opportunity for my company,” far fewer believe they understand the needs and wants of baby boomers (Figure 13). We found this surprising, since nearly 50 percent of the firms have products targeted toward boomers (Figure 14). However, fewer than 20 percent of these institutions have invested in a single person or group within the company to be responsible for the boomer market.

We also found gaps when we asked consumers about which companies they trust for different types of products and services (Figure 15, following page). Financial advisors and banks enjoy the greatest trust from consumers, with more than a third of respondents saying they



would be willing to consider the institutions for providing investment management and advice. In general, banks and investment advisors are considered “very or extremely trustworthy” by more than 40 percent of respondents. However, 40 percent of consumers deem life insurance agents “slightly or not at all trustworthy,” indicating that insurers will face a challenge if they seek to broaden their advisory services.

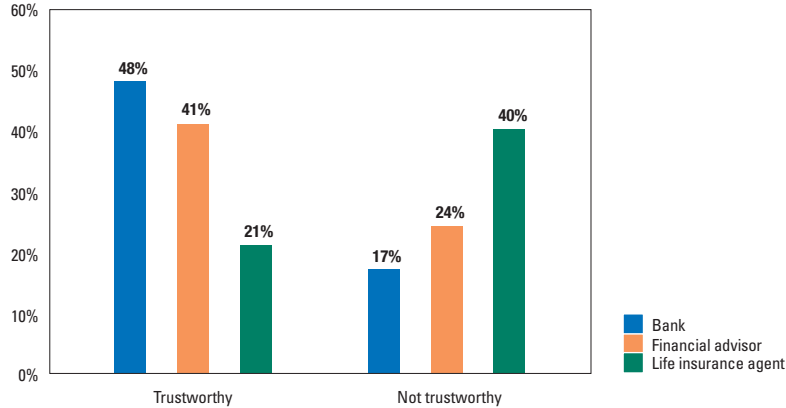
Executives report considerable shortfalls in their companies’ capabilities that they believe are essential to capturing the baby

boomer market. In banking, pricing and channel strategy account for the biggest gaps. For financial advisors, the issue is speed-to-market. Insurance companies experience the biggest gaps in speed-to-market and simplicity (consistent with our earlier findings on the “clarity gap” of many products).

Upon closer examination, investment advisors appear to better address boomers’ emerging market needs. Life insurers lag behind both banks and investment advisors.

Trustworthiness of Channels for Retirement Advice

Banks are considered far more trustworthy than insurance agents as sources of retirement advice.



Source: Diamond Management & Technology Consultants Corporate Retirement Survey

Figure 15

Strategies for Emerging Roles

A company's success within the baby boomer retirement market will hinge, in part, on how well its core competencies align with one or more of the emerging roles. Once a company determines where it fits and has defined its role, the firm's leadership should determine which of three broad strategies it will adopt.

Specialization: A financial services, healthcare, or insurance company might adopt a focused strategy that enables the firm to become a dominant, differentiated leader in a particular area. For example, consider a financial services firm that is targeting Retired Settlers; the characteristics of this market segment dictate that the consumers are in need of do-it-yourself tools that afford many choices, and they want to maintain a sense of control and privacy in terms of their investment portfolios.

Experience Integration: A company that is serving Affluent Sophisticates, on the other hand, utilizes deep technology skills and expertise in cross-platform integration. This requires that a company invest in information and service delivery platforms, while partnering with firms across industry lines, because consumers who fit this mold—high in both criteria—seek more comprehensive offerings, such as asset growth and preservation services and estate planning advice. This particular segment of the boomer population is sophisticated and well-prepared for retirement, and these consumers will demand seamlessly integrated, best-of-breed capabilities.

Adjacency Expansion: Some companies might examine the possibilities of expanding into adjacent businesses or capabilities instead of moving laterally to partner with complementary firms. This strategy can give way to a comprehensive suite of services that are closely related in the eyes of the customer, but might not have traditionally been located under the same roof. For example, several health insurance companies have chartered their own banks. Similarly, financial services organizations are expanding their involvement in healthcare, tackling business-to-business healthcare payments, reconciling medical claims and payments, and providing factoring and receivables financing services. Mergers and acquisitions constitute a significant area of activity for companies that adopt this strategy. Many large healthcare and financial services companies are adding complementary capabilities by targeting relatively young, technology-driven firms.

Are You Prepared?

For all the talk of baby boomers' lack of retirement readiness, where do companies stand in meeting the unfulfilled market needs of these consumers? Our study illustrates that companies are not fully prepared to serve the gigantic influx of new retirees with their holistic health, financing, asset accumulation, and risk management needs.

Companies must harness the ability to convert their retirement market strategies into operational reality. Many firms, however, have failed to commit ample resources toward fully understanding their target market needs and toward developing tailored products, services, and marketing approaches to capture the \$23 trillion to \$40 trillion in assets and other retirement opportunities. There are considerable opportunities to help consumers with healthcare, savings, insurance, asset accumulation, and investment planning. However, companies need to reach out to consumers more effectively in order to educate them and convince them to take action to better prepare themselves for retirement.

Successful firms will have the following distinguishing traits and will outflank their competitors:

- **Defined role in the emerging market**—As the health, wealth, and payments sectors converge, a clear definition of the role a company plans to play in the market helps focus the organization on the proper goals and it also communicates a commitment to the market. Trying to be all things to all people is unlikely to be an effective strategy.
- **Tangible commitment to be a leader in the retirement marketplace**—Firms with established, separate organizations that have dedicated resources and capital are better suited to provide tailored products, pricing, partnerships, and service. Our research found that relatively few

companies have made such dedicated investments to date.

- **Alignment across the organization**—The size and nature of the boomer retirement opportunity will likely require that organizations spread their capabilities and coordinate across multiple businesses and services. Companies that are effectively supporting retirement initiatives already have established proper alignment and cooperation throughout the organization. Such organizational alignment will help firms as they expand the breadth of their service offerings.
- **Demonstrated commitment to the well-being of target segments**—Successful organizations recognize there is no one-size-fits-all approach toward helping consumers. These companies will demonstrate this understanding through their long-term market strategies, and they will deeply grasp the attitudes, needs, and behaviors of their target market across the health/wealth spectrum.

The prevailing goal for companies should be to help targeted market segments achieve balanced portfolios of health and wealth products and services to optimize their retirement positions—products and services that encompass risk management, healthcare and healthcare cost management, and retirement savings and investments.

To assess their readiness, and guide them along the path, executives should ask themselves the following questions at key stages in the process:

Strategy

- Have we determined our unique role and positioning within the overall retirement market?
- Have we decided which consumer segment or segments to target and how we can best reach these consumers

through different types of intermediaries (e.g., captive agents, financial planning advisors, etc.)?

Organizational Alignment/Mobilization

- Do we have the right organizational structure and dedicated resources in place to capitalize on our targeted retirement market opportunity?
- How quickly can we tailor our products and services to meet the needs of different customer segments?

Execution of Strategy

- Have we adhered to our strategy and targeted the appropriate segment of the retiring boomer population?
- Are operations optimized to profitably deliver value to customers?
- Do we have the proper technology architecture and platform to deliver on the needs of our customers and integrate with other third-parties?

Companies along the converging value chains have an unprecedented opportunity to play a major role in improving the lives of an entire generation as it retires. The baby boomers are becoming increasingly interested in holistic services aimed at helping them improve their health, wealth, and financial security. Companies that successfully retool themselves to serve this market will be positioned to capture a large portion of the retirement opportunity.

About the Authors

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