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What's Driving Older Affluent Investors to Blend Online Resources and Paid Financial Professionals?

New Research Reveals What's Worth Paying For as Both Live and Digital Use Grows

(Rye, NY) – As affluent older Americans increase use of both digital and live resources, their need to blend is driven by a lack of confidence in any single source, but they do find certain financial services offerings worth paying for, according to new research by **Hearts & Wallets**, the source for retail investor data and insights.

Explore Pre/Post-Retirees 2016 **Digital Habits Revealed***: How Older Affluent Investors Blend Live and On-line Advice & Reactions to BIC and Concepts for Aging* analyzes why and how older affluent consumers blend online resources with paid financial professionals and their visions of future needs. The study also probes how to best communicate the pending Fiduciary Rule, two concept tests to help investors and their families cope with aging, and how aware older investors are of new entrant "robos."

The national focus groups, conducted last month with investors ages 53 to 74 with assets of $500,000 or more, digs deeper to illuminate trends revealed this fall in the 2016 Investors Quantitative Database™ (IQBD). The quantitative research shows 1 in 4 older affluent investors use both digital resources and a paid financial professional. Digital use is growing for all older investors. In particular, digital use jumped 8 percentage points in one year for Late Career investors (ages 53 to 64), as identified in the *Advice & Technology* report last month. At the same time, use of paid financial professionals also increased over last year.

Blending for High-Impact Decisions

"Older investors have a growing appetite for both digital and live advice," Laura Varas, Hearts & Wallets founder and CEO, said. "Blending behavior spikes for emotionally charged, high-impact decisions like optimizing Social Security when no one source provides confidence. As financial services providers build solutions for older investors that incorporate some aspect of technology, they should understand the different types of older investors, the widely varying ways they use digital and live advice, and what they're willing to pay for."

Out of 59 million older[1] U.S. households with $32 trillion in investable assets, the study focuses on affluent consumers with investable assets of $500,000 to $5 million who are most likely to blend online resources and paid financial professionals. In total, this market represents 4.5 million households with $8.5 trillion in investable assets.

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[1] Only older consumers without substantial pensions, who have more complex advice needs, were included in the focus groups. Market sizing data is drawn from the Hearts & Wallets 2016 Investor Quantitative Database. Older households include Late Career (ages 53 to 64 not planning to retire in 5 years), Pre-Retirees, Fully Employed Seniors (age 65 or older with no plans to retire within 5 years) and Retirees.

To obtain the more granular view required for smart execution for providers, the study divided the market into three behavior segments according to their advice-seeking behaviors to isolate nuances –

- *Light Digital* – nearly 2 million households with $3.5 trillion, "sometimes" digital users of online planning tools, company websites or mobile applications as sources of investment information and advice
- *Fin Pro Only* – 1.5 million households with $2.7 trillion, no use of digital
- *Heavy Digital* – 700,000 households with $1.3 trillion, digital as "primary" or "usual" source

What's Worth Paying For

As more sources of information and advice become easier to use, consumers are asking questions and becoming choosier about what's worth paying for. There's also a growing preference for flat fees for specific financial services instead of a percentage that may become harder for the financial services industry to ignore. Although attitudes to what's worth paying for vary in important ways by behavioral group, most would pay for help for at least one investment, income and tax optimization task, and often more.

"The real value is no longer investment selection," Varas emphasized. "When consumers choose to pay for help, they are buying the emotional benefits, such as peace of mind and confidence in broad and deep expertise, that come from services, not investment alpha per se." The study found consumers are also willing to pay for help avoiding pitfalls. For example, *Digita*l segments believe certain tasks are worth paying for under certain circumstances, such as settling family disputes.

The Emerging "Passive" Investor

An emerging trend is investors who use the term "passive" to describe themselves as investors. Because "passive" investing, or indexing, has received so much favorable news coverage, they use the term to describe their disengaged behavior with positive connotations.

"The investor who describes him- or herself as 'passive' is deliberately disinterested. He or she doesn't mean an affinity for index funds," explains Varas. "To connect with this group of consumers, providers need to develop positive emotional ties to being more engaged in their finances, regardless of what mix of passive or active investments is used."

Robo Who?

Most older investors have very low awareness of new entrants, such as major "robo-advisors." Ironically, the *Fin Pro Only* group is the only one with some awareness, and *Heavy Digital* express the most reluctance to trial based on cybersecurity concerns. Some older investors express openness to trial either to save money, out of curiosity or for convenience.

Best Interest Contract

The research examines several product concepts. The first provides a window into investor responses to the proposed Fiduciary Rule and the Best Interest Contract (BIC), a way of complying with the rule.

“Consumers respond positively to many aspects of a fiduciary, but both the fiduciary standard and BIC raise questions,” Varas said. “They think advisors are supposed to already be working in their best interests, and providers should make sure to address to this concern. They also have ideas for new pricing and best wording for communications.”

Help with Aging

The groups responded positively to many aspects to the “Support for Aging” concept, one of two concept tests for new ways to help aging consumers. The need is growing as more Americans live longer and the risk increases for elder financial abuse and fraud. By 2025, 19 million U.S. households will be headed by an individual over 75 years of age.

“Many participants had stories of elder financial abuse that were heartbreaking,” Varas said. “They have fascinating suggestions for how to balance third party and family to protect the finances of aging consumers. This is a big need.”

Methodology
Explore Pre/Post-Retiree 2016, Digital Habits Revealed: How Older Affluent Investors Blend Live and On-line Advice & Reactions to BIC and Concepts for Again is part of the *Explore* multi-sponsor focus group series. The qualitative study was conducted in fall 2016 in Boston, St. Louis and San Francisco with 70 participants ages 53 to 74 with investable assets of $500,000 or more. Groups were segmented based on advice preference as being either heavy or light digital users or only using paid financial professionals. The research examines trends revealed in Hearts & Wallets Investor Quantitative Database.

About Hearts & Wallets
Hearts & Wallets is a data and consulting firm focused on understanding the drivers behind retail investor decision making. Combining a consumer marketing framework with financial services operating experience, the company’s mission is to be a catalyst for consumer-driven innovation in retail investing and saving. Hearts & Wallets works with leading financial providers to improve the effectiveness of their marketing communications, solution design and service delivery aimed at retail investors. For more information visit www.heartsandwallets.com.

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