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

AUTHOR(S): Simone Pettigrew, Katherine Mizerski, Robert J. Donovan

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 is experiencing an ageing of its populations (WHO 1999a, 1999b, 2001). 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 (WHO 1999b). In 1982, the United Nations General Assembly endorsed the International Plan of Action on Ageing, also known as the Vienna Plan. This plan sought to draw governments' attention to the phenomenon of population ageing and to encourage planning for this inevitable occurrence.

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 (Access Economics 2001; Commonwealth Department of Health and Aged Care [CDHAC] 1999; Department of Social Security (UK) 1999; WHO 1999a). 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. In the Australian context the number of people of working age will decrease from 67% in 1999 to 59% by 2051 (Australian Bureau of Statistics [ABS] 2003). 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 the social security system (ABS 2003; CDHAC 1999).

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 (ABS 2000), and today they represent approximately 13% of the population (ABS 2002). 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 (Access Economics 2001). This combination of assets and income makes seniors the most financially powerful group of consumers in the country (Access Economics 2001).

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 (Positive Ageing Foundation of Australia 2002). 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. The findings relating to the range of issues identified for the financial planning industry have been reported elsewhere (Pettigrew, Mizerski, and Donovan 2003; Pettigrew, Mizerski, and Donovan 2004). This article examines these issues in terms of the changes that occur in service delivery preferences 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.

Catering to Mature Consumers

At what age can an individual be considered a mature consumer? There is no agreement regarding the age at which individuals make the transition from “adult” to “senior”. The selection of a specific age as the official transition point to senior-hood is recognised to be arbitrary due to the tendency for different people to age at different rates (Moschis and Mathur 1993). Seniors constitute a highly heterogenous segment because their advanced years mean they have had more opportunity to experience a wider range of life circumstances that can shape their personalities (Davis and French 1989; Moschis 1996; Moschis and Mathur 1993). Within Australia, the Australian Bureau of Statistics uses 65 years as the age at which the distinction is made, while Access Economics uses 55 years. The World Health Organisation refers to those over the age of 60, while the America National Council on the Aging describes seniors as those over the age of 65. The marketing literature that focuses on the needs of older consumers often uses 50 as the age from which individuals can be classified as mature or older consumers (Fairley, Moschis, Meyers, and Thiesfeldt 1997; Miller and Soyoung 1999; Moschis 1992; Tepper 1994). For the purposes of this article, the term seniors refers to those over the age of 50.

As a result of the growing awareness of population ageing there has been increasing attention given in the marketing literature to the specific needs of older consumers. Discussion has focused on the physical changes that occur with advanced age such as diminishing eyesight, declining hearing, reduced dexterity, and slower cognitive processing (Gruca and Schewe 1992; Spotts and Schewe 1989; Tongren 1988). Advice to marketers has emphasised: (1) the need to provide clear information slowly and in written form where possible (Spotts and Schewe 1989); (2) ensuring that product packaging is not ‘senior-proof’ (Fairley et al. 1997; Peterson 1992); and (3) taking care when selecting models for advertisements to employ appropriate models who can attract older consumers while not alienating either seniors (by making them feel old) or younger consumers (by associating the product with older segments) (Johnson 1996; Long 1998).

An increasing awareness of population ageing has also seen the implementation of various strategies in the marketplace that aim to design and/or promote senior-friendly products. For example, in the USA the Seniors Real Estate Council has been established to provide a means by which realtors wishing to specialise in sales to mature consumers can successfully target and service this segment (see www.southeasternretirement.com/sres.htm). The Council provides contact details of "senior-friendly" realtors to older consumers, although it is not clear how these realtors have attained senior-friendly status. Similarly, the Texas Seniors' Guides lists senior-friendly businesses within the Austin area (see www.seniorsguide.net/html/directory.htm). Once again, it is not clear whether any processes are undertaken to ensure that recommended businesses fulfil specific criteria to achieve senior-friendly status. Other products that have been touted in the marketplace as senior-friendly include hotels, country clubs, travel agents, tour packages, exercise equipment, and web sites.

These early efforts to align goods and services with the needs of seniors are promising and indicate a growing acceptance of the need to move towards age-friendly societies. There is, however, a long way to go in the process of encouraging organisations to make the changes necessary to ensure their offerings are age friendly. In particular, there is a need for empirical research that investigates both consumers' and businesses' understandings of what constitutes age-friendly goods and services. To date the majority of published marketing research pertaining to older consumers is North American. There remains an enormous potential to better understand the seniors market in Australia and other non-US contexts.

Ethical considerations

The ageing of the population has ethical implications for providers of goods and services. Studies by Lee and colleagues have identified a greater susceptibility of seniors to illegal marketing tactics such as fraudulent telemarketing (Lee and Geistfeld 1999; Lee and Soberon-Ferrer 1997). This is particularly important given the increased reliance that seniors can have on marketplace interactions for the social interaction they may be missing in other life areas (Kang and Ridgeway 1996) and the reluctance of some older consumers to engage in complaint behaviours when receiving poor quality goods and services (LaForge 1989). Also, older people have a greater tendency to consider information delivered via the mass media to be accurate (Tongren 1988), and may therefore be more susceptible to misleading advertising. It has been suggested that one way by which marketers can ensure they are behaving ethically towards their older consumers is by providing information relating to complaint procedures (Oumil and Williams 2000). It could benefit seniors to be aware of their greater susceptibility to unethical business practices as awareness may result in the increased vigilance necessary to prevent exploitation.

Financial Planners

Financial planners can be defined as "people who provide assistance in choosing investments to achieve particular investment goals" (Commonwealth Department of Health and Aged Care [CDHAC] 1999, p.29). Seniors are an important target market for the financial planning industry due to their financial power and their heightened need to manage their income and assets to ensure an adequate future income flow (Kennet, Moschis, and Bellenger 1995). The rapid ageing of the population has increased the reliance on self-funded retirement (ABS 2003; CDHAC 1999), and this is particularly relevant in Australia where males are more likely to retire early (i.e., before age 60) than in other developed economies (CDHAC 1999). This trend has been the result of both voluntary and involuntary separations (Rosenman 1999). With no official retirement age in Australian legislation, there exists the potential for wide discrepancies in the age at which the use of financial planners becomes more pertinent.

The National Strategy for an Ageing Australia (CDHAC 1999) 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 (FPA 2001). 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.

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. An exception is Kennet et al.'s (1995) American study that examined the strategies employed by financial planners when servicing older clients. Their major finding was that the financial planning sector is behind other sectors in the provision of senior-friendly services. As a result, Kennet et al. recommend the following strategies be adopted by planners providing financial advice to seniors: (1) ensure elements of the physical environment are conducive to a satisfactory experience (e.g., lighting levels and access); (2) provide training to staff to advise them of the particular requirements of older clients; (3) ensure documents are prepared in larger font sizes and provide assistance with completing forms. Timmerman (2002) has also published recommendations for financial planners, although these are based on anecdotal evidence rather than empirical data. Timmerman's strategies are broadly supportive of those developed by Kennet et al., although they emphasise those factors that should be considered when making a verbal presentation. Her suggestions include: (1) reducing the amount of information provided and focusing on key facts; (2) explaining information in terms of the life experiences of the client in order to increase perceived relevance and therefore comprehension; (3) delivering information at a slower pace than for younger clients; (4) encouraging older clients to ask questions during the presentation; (5) repeating important information; (6) providing information in writing and using larger font sizes; and (7) being aware of the age-related problems the client may be experiencing, such as hearing difficulties or bereavement.

Method

This purpose of this article is to examine the financial planning issues that are of relevance to mature consumers in the different age categories of the senior segment.
Given the heterogenous nature of this segment, efforts were made to obtain data from seniors across several age groupings as well as ensuring gender and geographical representation.

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 items generated from the focus groups were used to develop a questionnaire that was administered to a representative sample of Australian seniors via a telephone survey. Using a five-point scale, with 1 being very important or highly relevant to 5 being very unimportant or not at all relevant, respondents were asked to provide importance and relevance ratings for each of the ten major issues identified in the focus groups. Because the focus of this article is on the change in relevance and hence needs as people age, only the questions dealing with personal relevance were included in this analysis.

Results and Discussion

The resulting sample consisted of 505 respondents aged 50 years and older. Of this sample, 254 respondents were male and 251 were female. The sample was fairly evenly split between those aged 50 – 64 (53%) and those 65+ (47%). Approximately 9% of sample members resided in Western Australia, 36% in South Australia or Queensland, with the remainder of the sample, 55%, being drawn from New South Wales, Victoria, Tasmania, the Northern Territory, and the Australian Capital Territory.

Given the tendency for younger seniors to be self-funded and for their older counterparts to be more reliant on government pensions (CDHAC 1999), it seems likely that younger age groups might place more reliance on financial services than their older counterparts who have already retired. In addition, those still in paid employment (and thus with an income stream) may have greater scope to change the nature of their investments. In order to determine if younger age groups consider financial services to be more relevant than their older, retired counterparts, the survey data were analysed using SPSS (v. 11.0) and a series of one-way ANOVAs was employed. Respondents were grouped into five age categories to facilitate further analyses – those under 55 years of age, 55 – 59 years of age, 60 – 64 years of age, 65 – 69 years of age and 70+ years of age. Table 1 provides a breakdown by age group of those seniors still in the work force versus those retired across the five age groups.

Table 1 – Percent Employed / Not Employed by Age

Age	Employed	Not Employed
50-54	80%	20%
55-59	67%	33%
60-64	33%	67%
65-69	13%	87%
70+	5%	95%

As one might expect, the percentage of people retired increases by age group. What is of particular interest, however, is the significant increase in retirement between the 50 – 54 and 55 – 59 year old age groups ($X2 = 4.61$, df 1, $p=.032$) and the 55 - 59 and 60 – 64 year old age groups (X2 = 18.14, df 1, p=.000). The use of more traditional age breakdowns (i.e., 50 – 64, 65+) would thus mask any differences that might be found. These differences supported the use of these age groupings for further analysis.

Based on a one to five scale, with 1 = highly relevant to 5 = highly irrelevant, Table 2 provides the mean response by age group to the items 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.

Table 2 – Mean Response and Rank Order by Age Group

	50-54	55-59	60-64	65-69	70+	Overal
Develop a trusting working relationship and treat clients with dignity	2.3[3]	2.6[1]	2.5[2]	2.9[1]	3.5 abc [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 abc [3]	2.9*[2]
FP provides the amount of information the client wants in clear English, using graphs and illustrations where appropriate	2.4[4]	2.7[5]	2.6[3]	3.0[3]	3.6 abc [2]	3.00*[3
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 a [5]	3.7 abc [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 abc [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 a [7]	3.7 abc [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 abc [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 a [9]	3.9 abc [10]	3.2*[8]
FP provides a history of his/her past performance, including	2.7[10]	2.9[9]	2.9[10]	3.2[6]	3.8 abc	3.2*[9]

references					[8]	
Clients should be made aware of conflicts of interest with other parties	2.6[9]	2.9[10]	2.8[8]	3.5 a [10]	3.8 abc [8]	3.2*[1(

Difference in rankings among equal numbers is due to rounding
= .05)αa - significantly different from 50 – 54 year olds (
= .05)αa- significantly different from 55 – 59 year olds (
= .05)αb- significantly different from 60 – 64 year olds (
= .05α* - significantly different

Overall, there was little variation between mean ratings within each age group. However, as can be seen from Table 2, relevance across all measures decreased with age, and particularly at the 65-69 years and 70+ age groups. Post–hoc tests were used to reveal where the differences were significant. 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. In order to determine if work status was a moderating factor for these statements, univariate analysis of variance was carried out with the four statements serving as dependent variables and the two age groups (50 – 54 and 65 – 69) and employment status (currently employed or not) as the independent variables. In all four cases, employment status was found to be not significant. However, there may be moderating factors affecting the results that were not included in the current study.

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.

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