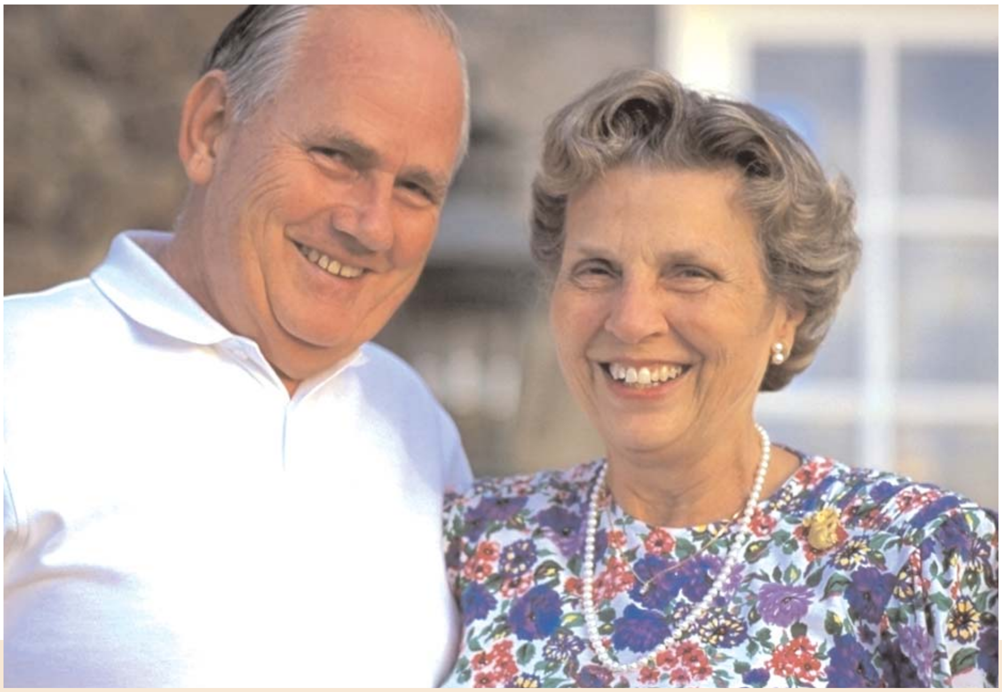
in this issue

Boomers are becoming "gray-power" brokers, presenting credit unions with a wave of opportunity

Market smarts

Volume 13
Number 1
Spring 2002

A DECISION SUPPORT SERVICE FOR BC CREDIT UNIONS



When Gray is Gold

Capturing the Growing Mature Market

By 2026, one in five British Columbians will be over 65, a remarkable 120 percent increase from today. Credit unions have traditionally appealed to older members, and credit unions, in turn, have benefited. But with people living longer and busier lives in retirement than a generation ago, the profit potential of this segment to the financial services industry will escalate — as will the competition to serve it.

Are credit unions ready to capture the gold?

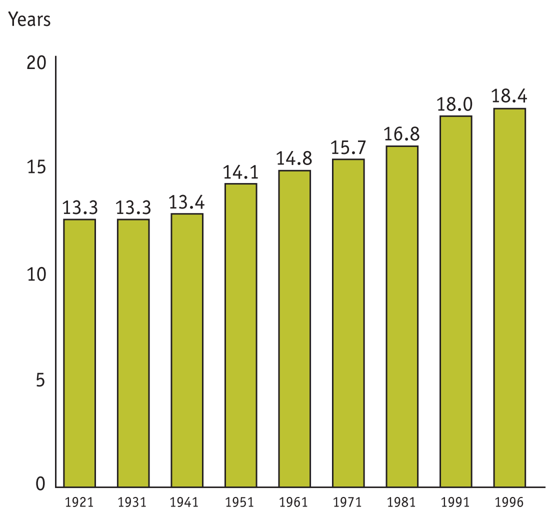
CANADA'S SENIORS: A SNAPSHOT

Who are Canada's seniors?

The seniors of yesterday are not those of today: older Canadians now live longer, have better health, indulge different and more varied habits and tastes, and, most of all, need more money.

Living longer...and longer...and longer

Life expectancy at age 65, 1921-1996



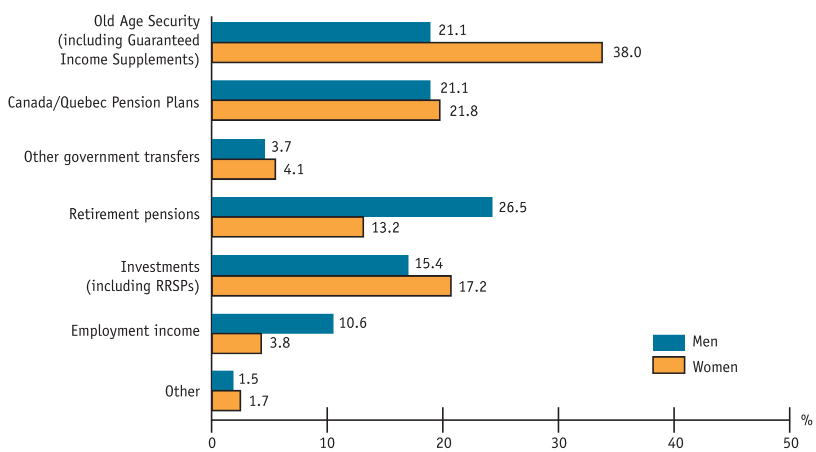
Source: Statistics Canada

Life expectancy of the average Canadian, relatively unchanged during the first half of the 20th century, has been increasing steadily since the 1950s. In 1996, the typical 65-year-old could expect to live past 80. Those younger can expect to live even longer.

Growing longevity profoundly affects people's financial lives. In the past, people expected to live only a few years after the standard retirement age, so the need to accumulate retirement savings was modest. Today, seniors can spend nearly as much time retired as working. To live well for such a long time, they need significant savings. The challenge is especially acute for women who typically outlive men. In 1997 women made up half the population of Canadians in the 15 to 64 age group, yet Statistics Canada reported that 70 percent of Canadians 85 and over were women.

Income

Sources of income of senior men and women, 1997

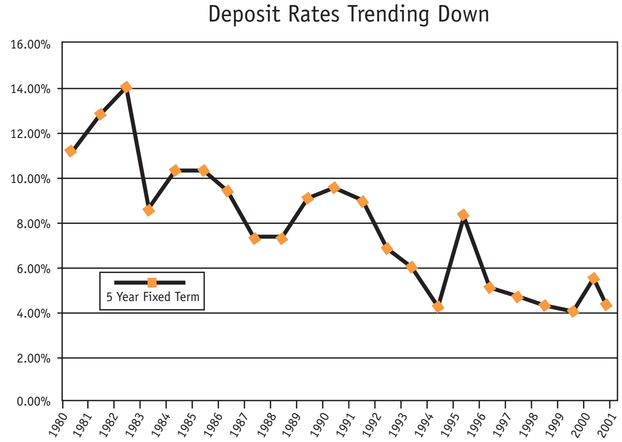


Source: Statistics Canada

Statistics Canada estimates that average seniors receive most of their retirement income from government sources: the Canada Pension Plan and Old Age Security. This is especially true for older women, who are far less likely than men to have private pension plans and must rely heavily on government transfers. The threat of reductions to government income programs will compel many retirees to accumulate greater private savings.

The downward spiral in interest rates that began in the 1980s has hurt retirees who rely on interest income to meet their living expenses. Those nearing retirement can no longer expect that fixed income investments will be enough for their future.

Deposit Rates Trending Down



Source: Bank of Canada

In response to low interest rates, many retirees look for investment alternatives. Central's *Products & Services Study 2001* reports that 45 percent of those over 65 hold mutual funds, a percentage not much less than the 50 percent found among 31 to 44 year olds. Forty-year lows in interest rates have also created a boom for higher yielding financial products, including real estate investment trusts (REITs). Home equity conversion products, or "reverse mortgages," have allowed the house-rich but cash-poor to access the equity in their homes to meet expenses.

Education

Research from Statistics Canada conducted in 1996 reveals that seniors received less formal education than that routinely achieved by today's youth. As a result, financial service companies have an opportunity to provide sound knowledgeable advice to a growing portion of their customer base. This age group is also likely to be more receptive to advice than some younger individuals who may prefer to take financial matters in their own hands as witnessed during the day trading craze of several years past.

While seniors may have received less formal education in years gone by, there is still a willingness to learn. Some 200,000 seniors were enrolled in education programs in 1996 displaying a keen interest in continuous learning. These facts provide a variety of opportunities for credit unions. First, there is a need for financial advisory services for the elderly and second, seniors are eager for information. Providing solutions for both will set credit unions apart from the competition.

Retirement & Lifestyle

Retired or retiring Canadians do not conform to one pattern. Early retirement incentives in the 1990s and generous employer pension plans (especially in the public sector) have led to "freedom 55" for many. Yet, many other Canadians continue to work past 65 and even into their mid-70s. Still others only gradually retire or return to work, especially to part-time positions and self-employment, after initially retiring. Credit unions must appreciate this diversity in retirement patterns to satisfy the financial needs of the growing senior segment. 65-year-olds may operate their own businesses, travel extensively for pleasure or work part-time to supplement their income. In each instance, distinct products, advice and service delivery may be required. Viewing this market as a monolithic entity is likely to be a mistake.

Wired Grannies

While older Canadians have traditionally preferred in-branch banking, evidence suggests that this may be gradually changing. Seniors are still less likely to own a computer or have Internet access than other age groups, but their propensity for using wired channels is developing. This is especially true among those 55 to 64. Although studies by Ipsos-Reid and Statistics Canada show only 13 percent of all Canadians over 55 use the Internet; among the younger 55 to 64 subset, a third are plugged into the Internet. To further support the theory that seniors are becoming electronically adept, the *Interac* Association reports that 85 percent of adults over 50 possess a bank card, and their willingness to use *Interac* direct payments has increased13 percent since 1998. Credit unions should consider electronic channels, including the web, as established ways of delivering service to older customers.

Turning Walls Into Cash — The Reverse Mortgage

In a conventional mortgage the amount of the outstanding loan decreases as equity in the home increases; with a reverse mortgage the amount owing grows while equity shrinks. Typically, the debt is paid off when the home is eventually sold. Reverse mortgage programs can help retirees in several ways:

- They can continue to live in their home, yet they can use the equity accumulated in the house.
- They are earning non-taxable money because the proceeds from a reverse mortgage are from a loan rather than income.
- They continue to benefit from any appreciation in the property's value.

Reverse mortgages can take several forms. The most popular is the reverse annuity mortgage that provides an income stream for life. Line of credit reverse mortgages give access to funds on demand, and fixed term reverse mortgages provide funds for short periods such as a sabbatical or return to school.

What are the risks for the consumer? By nature, a reverse mortgages uses up home equity far faster than the time it takes to create it, so a poorly designed reverse mortgage could eat up equity too fast. However, companies in Canada that offer the product are conservative in their approach, lending only a portion of the home's value to ensure a reserve. For example, the Canadian Home Income Plan (CHIP), an industry leader, will lend up to 40 percent of the equity, depending on the appraised value of the home, and the age and gender of the applicant. Since its formation in 1986, CHIP has arranged more than $275 million in reverse mortgages through its own in-house sales force and in partnership with financial institutions.

More information on CHIP can be found on the web at www.chip.ca.

Value of the Seniors Market

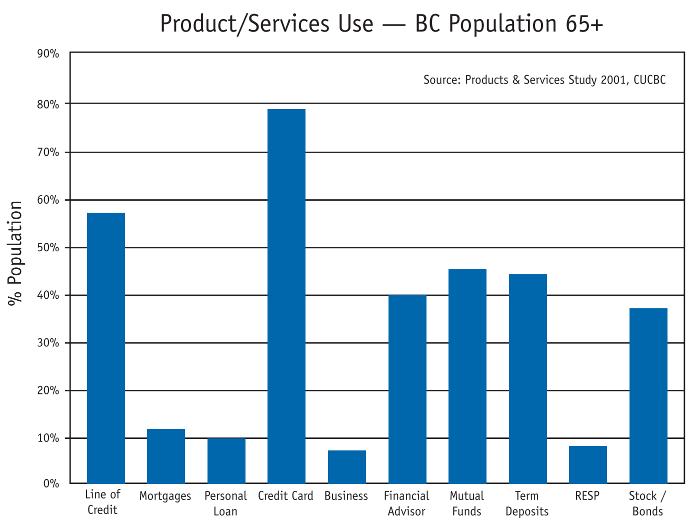
Older members significantly affect the profitability of credit unions.

Deposits

The deposits of seniors account for a disproportionate share of the average credit union's balance sheet. The *Products & Services Study* revealed that 44 percent of members over 65 hold term deposits, yet only ten percent have a mortgage and 12 percent have a loan. It is estimated that older customers hold 70 percent of retail deposits in US commercial banks. While credit unions have more ability to manage liquidity than in the past, the large deposits from seniors are still critical to supporting the financial margin.

Wide Product Use

The stereotype of the senior member as strictly a term deposit investor is far from the truth. Seniors are active mutual fund investors, and many buy stocks and bonds directly. Most own credit cards and many use lines of credit. Seniors are a dynamic segment of the market, offering credit unions opportunities for both margin spread and fee income.

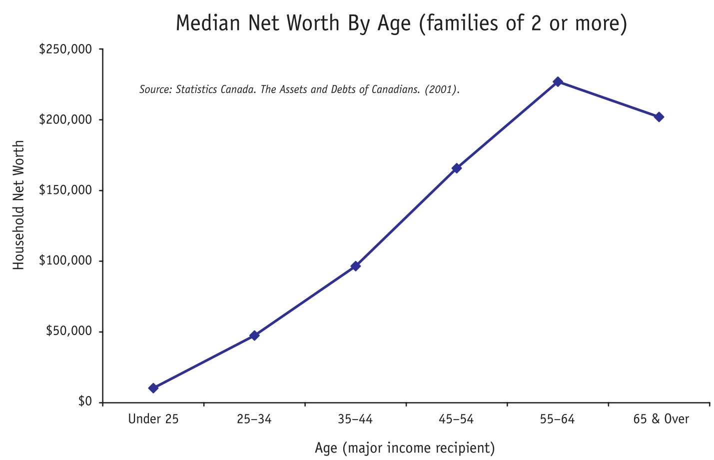


The figures suggest that older members are not very likely to hold business accounts. This may be changing. As retirement life becomes more vibrant, many retirees are choosing to start their own businesses, either to supplement part-time work or begin a new career. Helping seniors capitalize and operate their own businesses may be a new opportunity for credit unions.

Attractive Net Worth

Canadians over 55 account for a large share of the nation's wealth, according to *The Assets and Debts of Canadians*, published by Statistics Canada. Families headed by those 55 to 64 had the highest median net worth at nearly $227,000, followed closely by those 65 and older with a median net worth of $202,000. By comparison, the median net worth figure for families under 55 was less than $75,000.

The substantial net worth of older members suggests that the profit potential of this segment reaches beyond traditional bank products. It extends to a variety of fee-generating services, especially advisory services. Retirement planning, investment management, tax and estate planning and trust services can help



capture business from older customers. Older members' need for help in managing their wealth is clearly shown in the *Products & Services Study*: 40 percent of members over 65 consulted a financial adviser in the past year.

Potential Referral Power

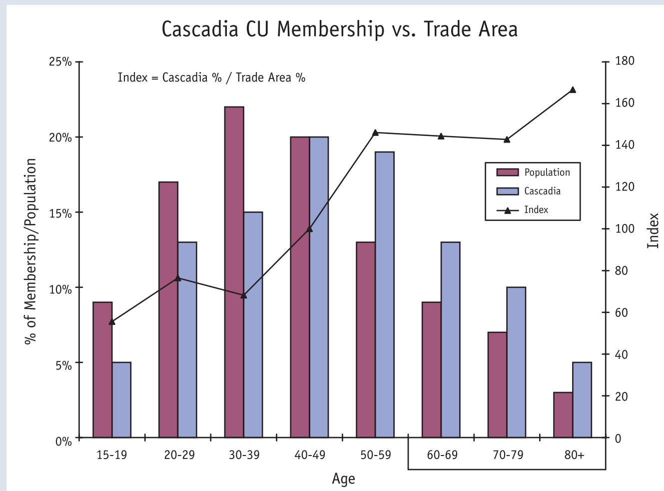
The most loyal members are seniors, if loyalty is measured by the length of time they have been with the credit union. Satisfied seniors can be very influential in referring peers and younger family members to the credit union. Family member recruitment is critical as wealth passes from generation to generation. Canadians over 50, a group that owns or controls over 75 percent of all personal wealth in Canada, will inherit an estimated $1 trillion as the new century unfolds. Credit unions, with a disproportionate share of older households, may lose those assets if family heirs are not as loyal to the credit union as their elders.

Yet older people's relationships with a credit union are not necessarily monogamous. The *Credit Union Retention and Attrition Research* study, conducted for CUCBC in May 2001, revealed that older members were the most likely group to have accounts at other institutions. Seventeen percent of those over 65 report doing business elsewhere, compared to only 12 percent of those 35 to 44 and 5 percent of those 19 to 29. Seniors may be a lucrative but fickle market for credit unions. They may keep an account at the credit union yet transfer an increasingly large share of their wallet to other financial institutions. In all age groups, 30 percent of disloyal members have transferred at least some of their accounts or money to competitors. And a whopping 88 percent have strayed outside the credit union for their new financial needs.

As the same study showed, there's an opportunity cost to not properly meeting the needs of mature members. Members who sever or pare their credit union relationship use a greater number of products at their new financial institution than they did at the credit union.

FIGURE 1
Product Use Among Lapsed Credit Union Members over 55

PRODUCT	USED AT CREDIT UNION	USED AT NEW PROVIDER
Chequing / Savings	76%	95%
Loan, Line of Credit	35%	47%
Mortgage	30%	22%
Term Deposit	18%	42%
Credit Card	7%	88%
Business Account	13%	15%
Stocks and Bonds	9%	38%
Mutual Funds	6%	48%
Internet Banking	1%	26%



Membership statistics are from a lower mainland credit union called "Cascadia" to maintain anonymity. These figures are considered representative of credit union membership patterns.

Seniors Products and Initiatives

Free Banking for Seniors: it ain't what it used to be

A decade ago, financial institutions offered daily banking free of charge to anyone over 60 and, often, to those as young as 55. But with longer life expectancy, falling financial margins (and the commensurate need for more fee revenue), freebies to older members are a problem. More and more financial institutions are re-examining their pricing policies, hoping to generate more fee revenue. And banks are not the only businesses questioning their senior discounts. From fitness clubs to auto repair shops, companies are wondering how long they can afford to reduce their prices for older customers.

Curtailing benefits to older members has been one response from financial institutions. Many companies have simply increased the age (from 55 to 59 or 60) at which customers can qualify for benefits. Most recently, HSBC did just that by changing their traditional age limit from 55 to 60. Many credit unions have also upped the age limit from 55, although a few, including VanCity and Coast Capital Savings, have retained the lower threshold.

FIGURE 2
Where Can I Bank For Less?

Age 60	Royal Bank, CIBC, Bank of Montreal, TD Canada Trust, HSBC, Westminster Savings, Kootenay Savings
Age 59	Bank of Nova Scotia, Surrey Metro Savings, Coastal Community Credit Union, Prospera Credit Union, United Civic Savings, Salmon Arm Savings
Age 57	Canadian Western Bank
Age 55	VanCity, Coast Capital Savings, North Shore Credit Union, Sherwood Credit Union

Fee discounts, fee rebates, or limiting free debits are some of the other ways in which banks try to keep their older members while reducing their costs. In December 2000, the Royal Bank attracted media attention by eliminating free banking to any new 60-plus customers. Instead, they rebate either $4 a month or 25 percent of fees incurred, whichever is more. Some believe the Royal changed its policy to encourage seniors to use electronic channels rather than their preferred, but costly, choice-branch service. But the policy change also reflected the bank's concern over the growing cost of waiving fees to older customers. As a Royal Bank spokesperson stated at the time, "providing the security and access and technology without being compensated for the value…is obviously an issue." The Bank of Montreal, the Bank of Nova Scotia and Surrey Metro Savings have also started discounting fees or capping free debits in order to control costs.

16 major banks and credit unions offer low-cost accounts. Some banks go even further, differentiating themselves through extra initiatives and services targeted to older members. In the US, 85 percent of credit unions offer free banking services; 50 percent produce a seniors' newsletter; and 25 to 35 percent offer a wide range of additional services targeted specifically to older members. Additional services can include actual financial planning, seminars, and travel discounts. Fifty-five percent of American credit unions have a formal seniors program; another 33 percent are actively pursuing new members over 50.

FIGURE 3
Sample Seniors Accounts

Three approaches to Seniors' banking are illustrated below:

APPROACH	INSTITUTIONS	BASIC DAY TO DAY TRANSACTIONS
Traditional Free Banking Approach	• TD Canada Trust	No monthly fee, unlimited transactions
	• VanCity	No monthly fee, unlimited transactions
Monthly Fee Discount / Rebate Approach	• Royal Bank	25% discount on monthly fee of account chosen
	• Bank of Montreal	Free Standard Plan or $10 discount on other Plans
	• Surrey Metro Savings	50% monthly fee discount on Prestige Account
Transaction Based Approach	• Scotia Bank	No monthly fee, up to 40 transactions
	• Coastal Community	No monthly fee, 40 debit transactions
	• North Shore	No monthly fee, 10 transactions included

For a comprehensive survey of seniors banking packages, see the Financial Products and Service Charges Market Survey, available from CUCBC's Marketing & Research Department.

Adding Benefits

Free or discounted daily banking is still the staple in seniors marketing by financial institutions. Industry Canada reports 13 of

In Canada, adjunct services are also offered to seniors. The CIBC Travel Advantage caters to seniors on the go. Benefits include discounts on traveler's cheques and emergency travel assistance, although travel insurance must be purchased. The Bank of Nova

Long-Term Care Insurance: A Waiting Opportunity?

Although seniors may be living longer and healthier lives than those in earlier eras, many will have to rely on others for care in their later years. According to the Health Insurance Association of America, the chance of needing long-term care are only one in ten at age 55, but reach six in ten by age 75. The cost of getting the needed care can be hefty. With government subsidized facilities recording long waiting lists for admission, an alternative—private nursing home care—can cost as much as $6,000 a month (source: Commercial Union). Even a modest level of care at $100 a day will require $36,000 annually or $180,000 over five years. Home care programs can cost less, but may be insufficient to meet the needs of the incapacitated or very old.

Major suppliers of long-term care insurance in Canada are Clarica and RBC Insurance. Benefits and premiums vary, but elements common to long-term care policies are:

- **Benefit period—how long benefits will be paid.** Minimizing the benefit period will keep premiums lower (the average stay in a long-term care facility is 2.5 to 3 years).
- **Daily Benefit—how much the policy will pay, either for facility care or home care.** A private facility today costs at least $100 a day.
- **Elimination period—how many days the policyholder must wait until benefits begin.** A 90-day elimination period will result in premiums 30 percent lower than if benefits begin immediately.

A potentially large market for long-term care insurance is those aged 50 to 65 who want to assist aging parents. Still others, concerned about the potential risk of depleting their savings to pay health care costs in their old age, will buy it to protect the value of their estates. Right now only eight percent of seniors are in assisted-living or long-term care programs, but this percentage is expected to increase noticeably as the population ages. The market for long-term care insurance is expected to grow concurrently with the need to meet the costs of care.

Scotia publishes a newsletter exclusively for its 'Scotia Plus' senior package customers. This semi-annual newsletter features articles on travel and leisure, investing, the economy and—of course—Scotia's own financial products.

In the US, some banks package free banking and additional services together under the auspices of a seniors 'loyalty' club. To qualify, members must meet a minimum age requirement (e.g. 50 or 55) and may also have to subscribe to a prescribed number of products or maintain a minimum deposit level. The primary objective of loyalty clubs is business retention.The qualifying criteria help defray the costs of providing the club's privileges. And the costs can be substantial. For example, one organization employs a full-time travel agent to make travel arrangements for club members.

To keep senior customers happy, many financial institutions (especially credit unions) offer interest rate bonuses on term deposits. A quarter percent bonus is a typical premium paid on standard terms, including those that pay out interest monthly. Alternatively, some institutions, including CIBC, do not apply the usual rate penalty to monthly pay terms.

SCAM ALERT!

Why the Elderly are at Risk

"Thanks to advances in health care and positive lifestyle changes, we can expect that most mature customers will be healthy, active, and independent for most of their lives. However, it is important to note that the fastest growing segment within the mature market is the 85+ population, sometimes called the 'old-old'.

Within this group, there are more individuals who experience significant physical and/or cognitive impairments that leave them less able to function independently. Normally, these individuals would depend on family and friends for assistance, yet many of them have outlived most of their supporters, including spouses, siblings, friends, and often children. These persons must depend on others, including neighbors, acquaintances, professional caregivers and even strangers for assistance with activities of daily living, including managing their financial affairs. Such dependency places the incapacitated elder at risk for abuse, neglect, and financial exploitation. The well elderly can also be targeted for financial exploitation, especially those who are recently widowed, or isolated and lonely."

— Peggy O'Neill and Elizabeth Flanagan, "Elderly Customers Are a Significant Market – but May Need Special Protection", Journal of Retail Banking Services, Spring 1998

Despite its prevalence, the financial exploitation of our aging population has not been addressed. In the US, The National Aging Resource Center on Elder Abuse estimates that only one in 14 cases is ever reported. Scams involving sweepstakes, counterfeit cheques, advanced loan fees, investments, precious metals and gems, and charitable donations are a big part of the estimated $70 million generated in illicit gains each year in the US.

Some in the financial community are fighting the problem. Last year the BC Securities Commission awarded a $45,000 grant to the Seniors Foundation of BC to teach seniors ways of avoiding investment scams. The ABCs of Fraud, an awareness program from the Scotiabank, uses volunteer speakers, interactive skits and presentations to teach seniors how to recognize fraud.

How can you spot financial exploitation of the old?
Look for the following warnings:

- The member is accompanied to the branch by a stranger or coercive relative
- The member does not speak for himself or make decisions; he appears nervous or afraid of the person accompanying him
- The member gives implausible explanations of what's happening with his money
- The member appears neglected
- The member seems confused, concerned about 'missing funds' and forgetful about financial transactions
- The member fears being evicted or institutionalized if money is not given to caregiver
- The member's banking habits change: unusual transaction volumes, sudden increases in incurred debt, bank statements mailed to an alternative address, another person handling the member's affairs

How can credit union staff protect their older members?

- If suspicious, insist on speaking with the customer alone.
- Question the reason for large cheques made out to "cash".
- Advise members about the implications of co-signing a loan.
- Suggest to older members wanting a home-renovation loan that they get the contractor's references and rating with the Better Business Bureau. Offer to help the member review the work contract.

For more information on elder fraud, contact the BC Coalition to Eliminate Abuse of Seniors at (604) 521-1235.

Challenges & Strategies

Unlike the youth market, where BC's credit unions are struggling for recognition, the system has successfully attracted and kept older members. But as the size of the market balloons, the competition is lying in wait. Dollars spent on wealth management and other potentially profitable services will be fiercely contested. The changing pattern of retirement—into no pattern at all—means credit unions must remain vigilant to the evolving needs of their older members. For credit unions to capture and keep more of the lucrative gray-haired market, there are several key challenges to recognize and strategies to consider.

Older customers—there will be a lot more of them. Canadians are living longer. Older Canadians are a big proportion of credit unions' members, and that proportion is going to get even bigger. Credit unions need to understand the diversity of this segment of the market and to develop products, services and delivery channels appropriate to the different subsets within the segment. Older people are becoming more comfortable with technology yet they are searching for more advisory services to help them manage their wealth. Repackaging products and adding benefits particular to seniors can make the credit union experience more enjoyable and satisfying.

Not all seniors are the same. Contrast the financial needs of a 50-year-old retiree planning to travel extensively with those of an 85-year-old contemplating long-term care. A "one size fits all" response will clearly miss the mark. Credit unions must make an effort to identify and understand the niches present in their mature membership or risk having competitors do it better. CIBC's Travel Advantage package is an example of a financial institution skillfully segmenting its older clientele and targeting it with a specific appeal.

Who will get and keep the money? The largest intergenerational wealth transfer in history is in its early stages and may pose a significant business risk for the credit union system. Older members, loyal to the credit union, may be leaving their assets to children with primary financial relationships elsewhere. Ultimately, the success of a credit union in capturing the seniors market may depend on its success in capturing the younger market. The challenge to retain older members' assets doesn't start at the member's death. Seniors are more likely to bank at several places than most age groups, so business retention must be an ongoing priority.

Summary

A "gray wave" is crashing onto our shores. In the next 25 years the number of British Columbians over 65 will double, a development that will significantly affect credit unions and their competitors. The relative success credit unions have had in appealing to older customers will not continue without a concerted effort. Why? Retirement patterns are becoming more diverse, creating a number of customer segments within the mature market. From the early retirees in their 50's to a rapidly growing group of people over 85, each segment needs distinct products and services. In short, a single approach to this market is unlikely to succeed.

Growing interest in electronic banking, especially among those 55 to 64, creates new service possibilities for financial institutions and the potential for better cost management. Not only the growing numbers of older people, but also the increasing length of their lives, opens up opportunities for new services. Wealth management, estate planning, insurance and related advisory services will help seniors accumulate and manage sufficient assets to fund their retirement. A retirement that may endure as long as their working lives.

While financial institutions are keen to benefit from a growing seniors market, pricing services to this group is difficult. Extended longevity makes the tradition of providing free services to seniors very expensive, for financial institutions and other industries as well.

The business of older customers is indispensable. Older members are net depositors, helping credit unions maintain their financial margin. They use a wide range of products, generating significant fee income, and they are a key source for referrals to both their peers and family. For these reasons, and because their bequests are expected to make the over-50 segment the wealthiest in history, credit unions can expect competition for older customers to intensify. It is imperative for credit unions to continue wooing younger members so that inherited wealth remains in the system.

The time to focus on seniors is now.

BIBLIOGRAPHY

The Corporate Information Centre maintains a comprehensive business library and archives of legal, periodical and newspaper collections with access to many commercial databases and subject files, including the sources of information provided within this issue. Contact: Diane Walker at (604) 737-5971 or dwalker@cucbc.com for further information regarding the services of the Centre. • All analysis and research was undertaken by the Marketing & Research Department in partnership with John Trogrlich of Clear Marketing. If you require additional information regarding the contents of this issue of Market Smarts, please contact Jim Walker at (604) 730-6445 or jwalker@cucbc.com.

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Design & Production by the Creative Services Department, Credit Union Central of British Columbia.

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