The truth about Gen X and Gen Y.

Behaviours and attitudes towards super, retirement and financial advice.

ING DIRECT
How banking can be

Executive summary

'The truth about Gen X and Gen Y' has been developed by ING DIRECT, with research prepared by Rice Warner, to examine the behaviour and attitudes of Generation X (those born between 1966 and 1980) and Gen Y (those born between 1981 and 2000) towards financial advice, superannuation and retirement.

The research highlights the significant opportunity for financial advisers, mortgage brokers and the broader wealth management industry to service Gen X and Gen Y – a cohort with roughly $1.4 trillion in net wealth.*

The $1.4 trillion opportunity.

The approximate net wealth of Gen X and Gen Y

According to 'The truth about Gen X and Gen Y', less than 5 per cent of Gen X and Gen Y have a dedicated financial planner, yet the majority recognise the value and importance of professional advice and more than half plan to engage an adviser in the future.

Only a quarter of respondents describe their money management approach as 'DIY' and 43 per cent say they would like assistance, while 32 per cent say they prefer to delegate.

Forty four per cent of Gen Y, often called Millennials, would welcome a financial adviser recommendation from family and friends.

The research shows that a key source of new clients for financial advisers will be the children of existing clients. Respondents whose parents use an adviser are significantly more likely to use an adviser if an inheritance comes their way. Those who say they are "very likely" to seek advice make up a staggering 56.1 per cent, compared to those whose parents are unadvised, who only made up 8.7 per cent.

The research challenges common assumptions that younger people don't think about their superannuation or saving for the future and prefer online robo-advice solutions over a personal relationship with a financial adviser.

Despite all the hype and publicity around the potential for automated advice models to appeal to new audiences, the research finds no clear demand by Gen X and Gen Y for robo-advice, and over half of respondents expect automated advice tools to be free.

Around 80 per cent said they want face-to-face, personal advice.

80%

Approximate number of people who want face-to-face advice

On the flipside, there's a widespread belief among younger people that advice is expensive, it's only for wealthy people and they don't need it right now.

Affordability tops the list of key considerations for appointing an adviser, followed by expertise, reputation, transparency about fees and client service.

Affordability and fees

While the research quashes many millennial stereotypes, it confirms that millennials don't clearly understand the cost of quality, professional advice.

Gen X believe that fees for comprehensive, personal face-to-face advice should range from free to $250 while Gen Y, in general, is only willing to pay between $100-$250.

The research identifies an opportunity for the advice industry to get better at articulating and demonstrating the value it delivers, particularly as Gen X and Gen Y have bold and ambitious retirement goals, which will require careful, and early, planning to make a reality.

Over 33 per cent of millennials plan to retire early at around 31-40 years while the majority plan to retire around 51-60 years. By way of comparison, over 71 per cent of Australians intend to retire at age 65 or over, according to the latest figures from the Australian Bureau of Statistics.^

Half of millennial males believe that their standard of living will improve in retirement.

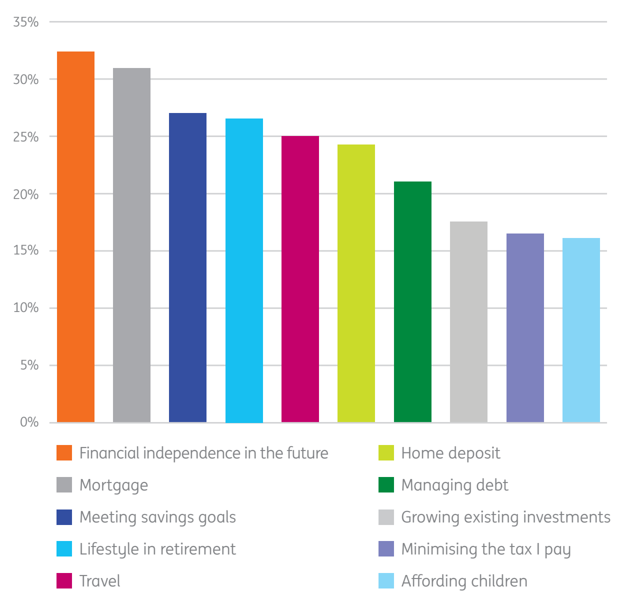
On average, respondents estimate that they need $1,086.00 per week to maintain a comfortable lifestyle in retirement - $260 more per week than the Association of Superannuation Funds of Australia (ASFA) Retirement Standard, a common industry benchmark.

It's clear that advisers can play an increasingly important role in educating younger people about the real cost of a comfortable retirement, and the importance of saving and investing for retirement.

Financial position

The top three financial priorities of Gen X and Gen Y are achieving financial independence; paying off the mortgage; and achieving savings goals.

Top 10 financial goals



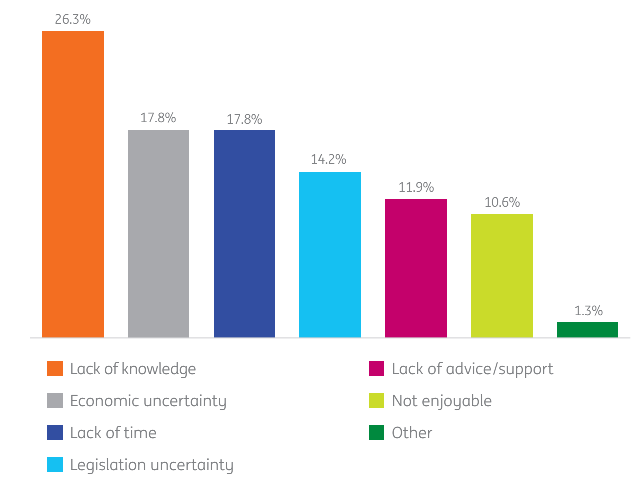
However, on a day-to-day basis, their top financial issues are: paying bills, meeting savings goals, paying off the mortgage, covering family expenses and budgeting.

Overall, Gen Y is more confident about their understanding of super and investing, with 34.6 per cent indicating a 'strong' or 'very strong' understanding, compared to only 17.7 per cent of Gen X.

Only a quarter of Gen Y and 22 per cent of Gen X describe their money management approach as 'DIY'. Over 43 per cent said they would like assistance and 32 per cent said they would prefer to delegate.

The three biggest factors holding people back from gaining greater control over their finances are a lack of knowledge, followed by economic uncertainty and a lack of time.

Greatest barriers to gaining more control over finances



While the majority of Gen Y only has a small amount in super, more than 32 per cent of Gen X has over $100,000, of which roughly half has over $200,000.

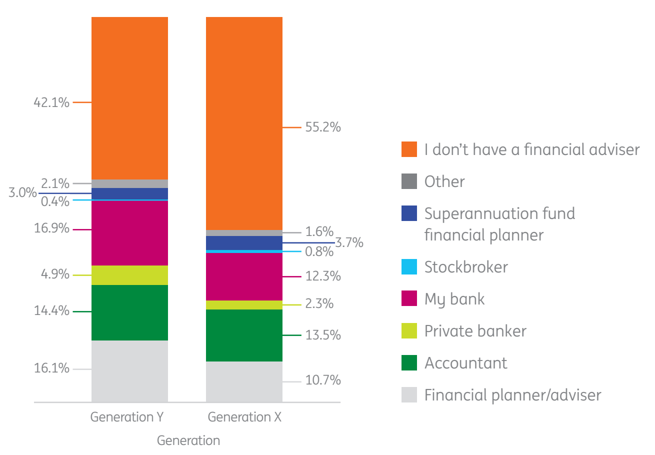
Across the board, a quarter of respondents say they don't have life insurance and a further 20 per cent don't know if they have cover. Over 64 per cent either don't have or don't know if they have income protection, and more than half don't have, or don't know if they have Total and Permanent Disability (TPD) insurance cover.

Advice interactions

The research finds high-net wealth individuals in the Gen X and Gen Y cohort are more likely to have a dedicated financial adviser, however, overall, 55 per cent of Gen X and 42 per cent of Gen Y have never used a financial adviser.

Gen X is more likely to seek advice from their accountant while Gen Y is more likely to turn to their banking institution.

Primary source of professional financial advice



Individuals are more likely to approach an existing financial services provider for advice than seek out a specialist financial planner.

Millennials are more likely to have an ongoing relationship with an adviser while Gen X typically prefers to see an adviser on an ad-hoc basis.

Those who use a financial adviser are more likely to seek professional advice in conjunction with other sources of information.

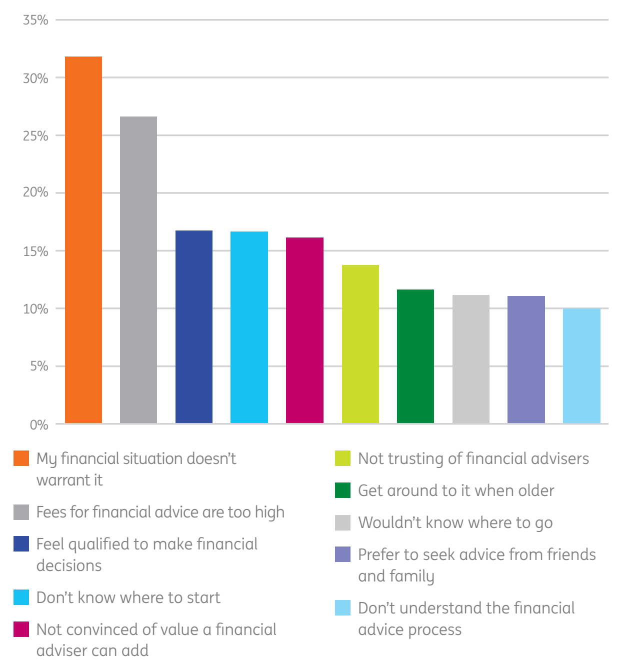
For general financial information, the most popular sources are online searches (38.1 per cent), family members (31.8 per cent), friends (23.1 per cent) and an accountant or adviser (19.3 per cent).

Perceptions of advice

The majority of respondents acknowledge that professional advice would improve their chances of achieving their goals, yet few have actually engaged an adviser. There's still a widespread belief that advice is only for wealthy people.

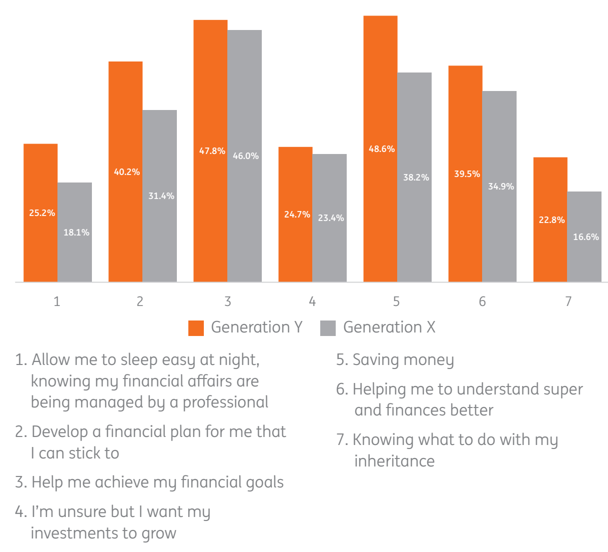
The biggest trigger for seeking professional advice is the purchase of a property. Another major reason was receiving an inheritance. The main reasons why people have not sought advice are because they don't believe they need it, high fees, they feel they can make their own decisions, and they don't know where to go.

Top 10 reasons for not seeking professional financial advice



In terms of the expected benefits of engaging an adviser, only a quarter of respondents expressed that they expect to see the value of their investment portfolio grow, while half only expect their adviser not to lose any money invested. Of those focused on growing their wealth, they expect their adviser to deliver at least 10 per cent per annum.

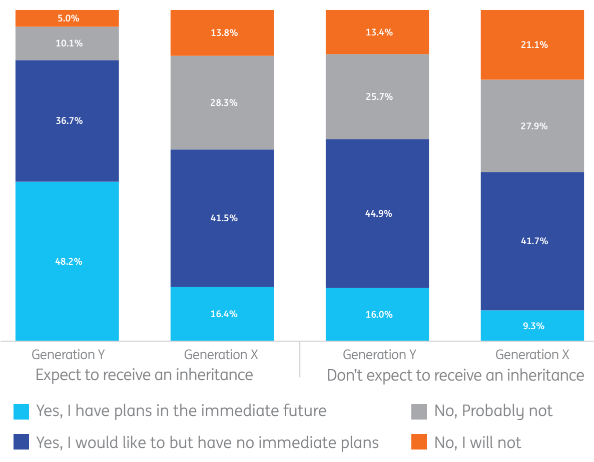
What benefits do you expect from engaging a professional financial adviser?



Almost half of Gen Y who expect to receive an inheritance plan to seek advice in the immediate future and a further 36.7 per cent plan to seek advice at some stage in the future.

Millennials who expect to receive an inheritance are three times more likely to seek professional advice in the immediate future than those who don't expect to receive an inheritance.

Plan to seek professional financial advice in the future.



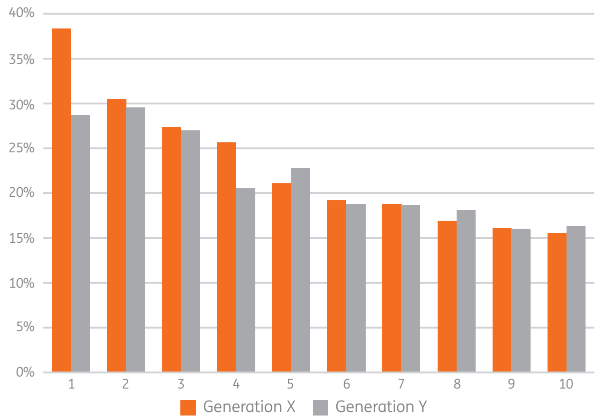
Individuals whose parents have a financial planner are more likely to consider using an adviser, with 68.7 per cent stating that advice delivers benefits.

The stage in life at which many individuals are most likely to seek advice is between the ages of 31 and 40.

While 41.7 per cent of Gen Y and 34.5 per cent of Gen X say they would go to the internet to try and find a financial adviser, their banking institution was the most likely place they'd turn to for a recommendation, followed by a referral from a friend.

When listing their key considerations for selecting an adviser, affordability tops the list followed by expertise, reputation, transparency about fees and client service.

Top 10 considerations when selecting a financial planner



1. Affordable
2. Expertise
3. Reputation
4. Transparent/open about fees
5. Easy to deal with
6. Qualifications
7. Professionalism
8. Appears trustworthy/honest
9. Demonstrate benefits of their service
10. Location/accessibility

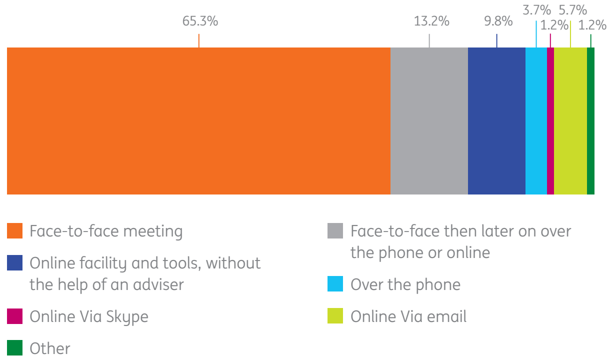
Preferred advice channels

The research quashes the assumption that Gen X and Gen Y are most likely to embrace robo-advice.

Almost 80 per cent of respondents would like at least their initial engagement with a financial planner to be face-to-face. Furthermore, they are more willing to pay for face-to-face advice than online or phone-based advice.

It is generally believed by Gen X and Gen Y that automated advice services should be free and form part of the financial services package an individual is already receiving.

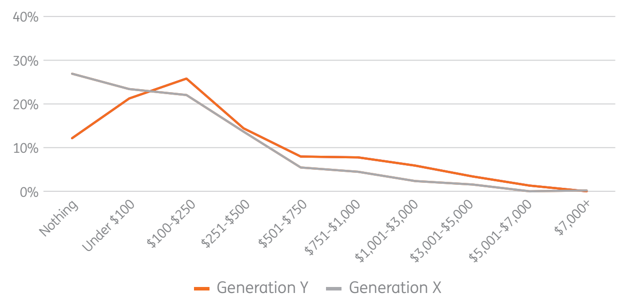
Preference for interacting with professional adviser



On aggregate, millennials are more willing to pay for advice than Gen X. The majority of Gen X believe fees for comprehensive, personal face-to-face advice should range from free to $250. On average, millennials are willing to pay $100-$250 for an annual face-to-face meeting, followed by a comprehensive, tailored financial plan.

The majority believe that online automated advice should be free.

Fee expectations – Face-to-face annual meeting and comprehensive strategic financial plan



Although the size and power of Gen X and Gen Y make this cohort a worthy target market, the research shows the majority don't understand how much quality, comprehensive and compliant advice costs to deliver.

This highlights the need for advisers to better articulate the value they deliver and clearly explain their fees.

Retirement strategy

When it comes to retirement, Gen Y is more confident and optimistic than Gen X.

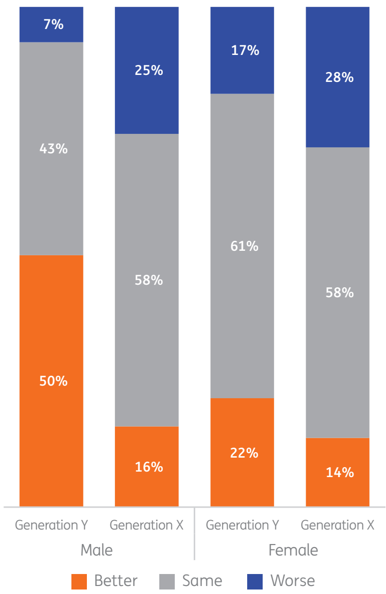
Millennials are also more certain and assured about the retirement lifestyle they want and the age they anticipate they will retire.

The majority of Gen Y plans to retire around age 51-60, although 33 per cent plan to retire early at 31-40 years.

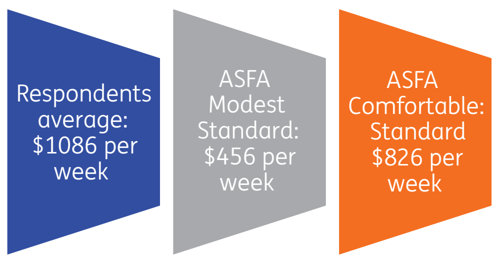
Gen X is more realistic, with the average expected retirement age being 60.9 years.

Half of millennial males believe that their living standards will increase in retirement, compared to only 16 per cent of Gen X males.

How do you expect your standard of living in retirement to be compared to your current living standards?



On average, respondents state they need $1,086.00 per week to maintain their lifestyle in retirement - $260 more per week than the Association of Superannuation Funds of Australia (ASFA) Retirement Standard, a common industry benchmark.



Those who have received financial advice are on average much more confident about reaching their retirement goals.

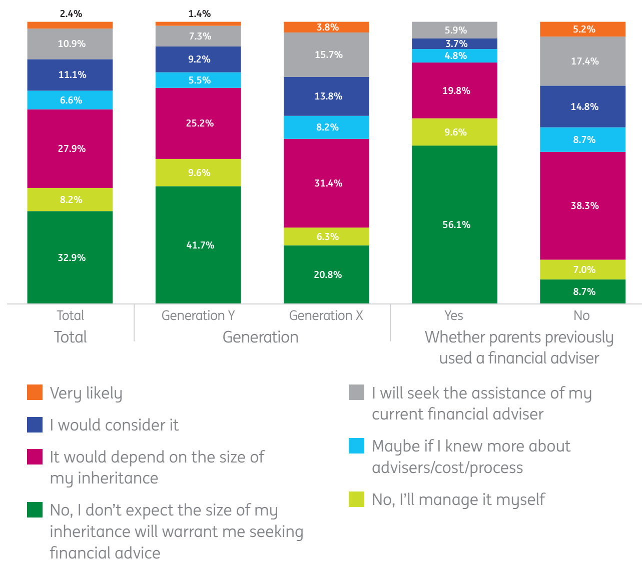
Family and inheritance

Over 56 per cent of those with parents who use an adviser are "very likely" to engage an adviser, compared to only 8.7 per cent of those whose parents are unadvised.

This is extremely promising given 47 per cent of Gen Y and 30 per cent of Gen X expect to receive an inheritance.

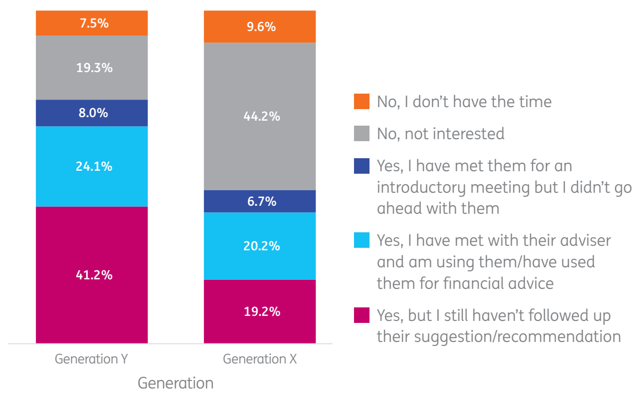
After receiving an inheritance, Gen Y is twice as likely to seek financial advice, compared to Gen X. Gen X say they prefer to manage their money themselves.

How likely are you to seek the assistance of a professional financial adviser to assist you in managing your inheritance?



Interestingly, 44.2 per cent of Gen Y is interested in receiving an adviser recommendation, compared to only 19.3 per cent of Gen X.

If your parents use a financial adviser, have they ever recommended you meet with their adviser?



Retirement incomes

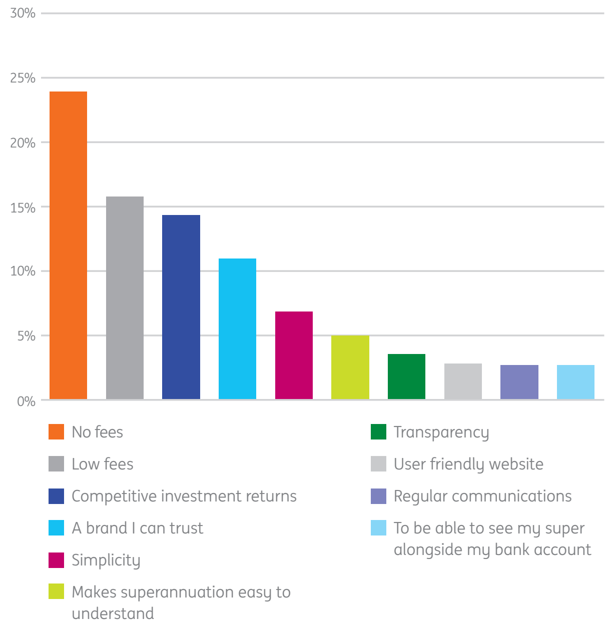
When it comes to choosing a super fund, Gen Y is more engaged and proactive than Gen X.

Over 41 per cent of Gen Y say they "specifically chose" their super fund, compared to 35.7 per cent who automatically went with their employer's fund and 13.9 per cent who consciously decided to stay in their employer's fund.

Only 35.3 per cent of Gen X “specifically chose” their super fund, while over 40 per cent automatically went with their employer’s fund and 8 per cent consciously decided to stay in their employer’s fund.

When choosing a super fund, the two most important features for both Gen X and Gen Y were no fees and low fees, followed by investment performance and then brand and simplicity.

Top 10 most attractive feature from a superannuation fund

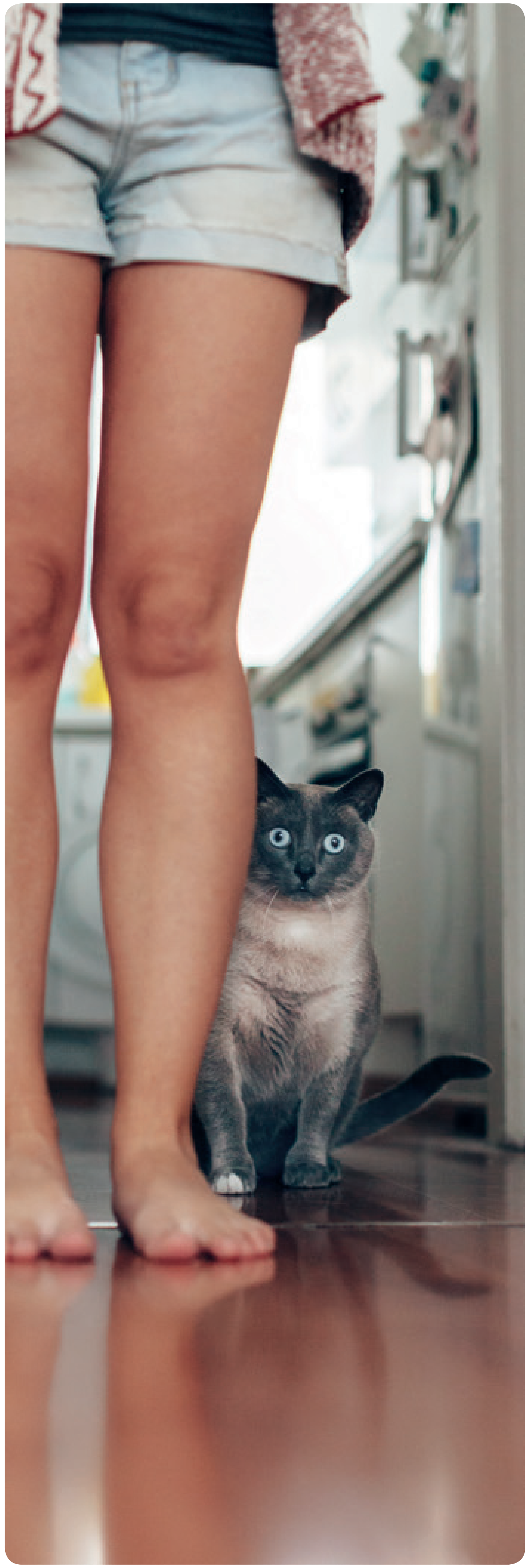


While the research shows individuals generally don’t think too much about their super, the majority of Gen X looks at their super balance at least annually and millennials check their balance more frequently.

Again, this debunks the myth that millennials aren’t interested in saving for retirement.

The average millennial has 1.5 super funds while the average Gen X has 1.3 super funds.

This demonstrates that members are still split between multiple super funds, even with the rise of consolidation services. This is an area that can be easily addressed with financial advice, leading to a reduction of fees and improved outcomes.



The opportunities

There’s a huge demand for flexible, competitively-priced financial advice propositions that cater to the unique needs of Gen X and Gen Y.

The research shows that 55 per cent of Gen X and Gen Y have never used a financial adviser although almost half of Gen X and 40 per cent of Gen Y admit they need assistance managing their financial affairs.

Over 30 per cent of all respondents indicate a willingness to delegate all financial decision-making, while only 22 per cent of Gen X and a quarter of Gen Y express a desire to manage their own financial affairs.

Unlike the baby boomers and their parents - who have traditionally been focused on maximising and protecting their wealth and building a secure retirement income stream – the research shows that younger people generally want advice on saving, goal setting, cashflow management and paying off their mortgage.

There is also a growing need for estate planning to help both benefactors and beneficiaries manage the massive intergenerational transfer of wealth that will occur over the next three decades.

It’s estimated that the baby boomers will pass down $2.4 trillion in the next three decades.^^

$2.4 trillion.

The estimated amount baby boomers will pass to the next generations.

Gen X and Gen Y will be the main beneficiaries of this massive pool of wealth, which will further bolster the personal wealth they’ve earned and amassed. Many beneficiaries will need to seek advice to ensure they maintain and increase the value of their inheritance.

Receiving an inheritance is one of the top triggers prompting an individual to seek advice, alongside buying property and retirement.

Almost half of Gen Y who expect to receive an inheritance plan to seek advice in the immediate future and a further 41.3 per cent plan to seek advice at some stage in the future.

Millennials who expect to receive an inheritance in the future are three times more likely to seek professional advice.

Individuals whose parents have a financial planner are more likely to consider using an adviser, with 68.7 per cent stating that advice delivers benefits.

68.7%

of individuals whose parents are advised recognise that advice delivers benefits.

That’s welcome news for the majority of financial advisers who work closely with retirees and pre-retirees. Their existing client-base will provide a rich pipeline of new clients, provided they’re able to adapt their advice proposition, articulate the value of advice and market themselves in a compelling way.

Not surprisingly, the internet and Google searches have emerged as the main source of financial information for Gen X and Gen Y.

Furthermore, over 41 per cent of Gen Y and almost 35 per cent of Gen X indicate they’d go to Google to find an adviser, ahead of referrals from family and friends.

Contrary to popular belief, younger people don’t rely on referrals from loose connections and anonymous sources on social media and in chat rooms. Only 14.8 per cent of Gen Y and 3.9 per cent of Gen X said they’d rely on social media to find an adviser.

The dominance of the internet as a key source of financial information highlights the opportunity for advisers to reach and communicate directly to Gen X and Gen Y by having an easy-to-find, functional website with relevant information about their services.

While affordability and expertise are the top priorities for respondents when selecting an adviser, many say they would value advisers who are open and transparent about their fees and they are also looking for evidence of suitable qualifications, professionalism and honesty.

A key finding from the research is the universal appeal and importance of home ownership across all age categories. The top trigger for seeking advice for both Gen X and Gen Y is buying a property, with over 35 per cent of respondents listing it as the single, most critical life event that would spark a need for advice.

Property

The No. 1 trigger for seeking advice.

This reinforces the strong need for advice on saving, budgeting and cashflow management, as well as asset protection, with the majority of respondents unsure about whether they have adequate life, income protection or Total and Permanent Disability (TPD) insurance cover.

It is clear that advisers can play an increasing role in helping Gen X and Gen Y set and achieve their long-term goals; secure adequate and affordable insurance protection; and consolidate and manage their superannuation in order to reduce the erosion of retirement savings due to fees.

Gen X and Gen Y are increasingly busy and time poor, and are also being held back from getting their financial 'house' in order by their lack of knowledge and fears about the state of the economy. It is clear that a large percentage of Gen X and Gen Y plan to partner with a well-qualified and trustworthy financial adviser in the future.

In summary, there are huge opportunities for advisers, brokers and other wealth professionals to build an engaging proposition, guiding these Gen X and Gen Y, with their significant anticipated financial assets, towards a healthy financial future.

About the research: ING DIRECT commissioned Rice Warner to conduct research for 'The truth about Gen X and Gen Y' in January 2016. The research was carried out between 7-12 January via an online qualitative and quantitative survey of more than 1,000 respondents between the ages of 22 and 52.

* ING DIRECT analysis based on McCrindle demographics and ABS Household Income & Wealth data

^ Retirement and retirement intentions, Australia (cat. No. 6238.0)

^^ ING DIRECT Women & Finance Report 2015

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