

Consumer Knowledge and Preferences of Financial Products

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- ▶ The main objective of the research was:
 - To gain understanding of consumers' general knowledge and preferences for annuities and other financial products when investing and saving over their lifetime.

- ▶ Four types of financial products were discussed; with the major focus on annuities:
 - Savings accounts, CDs, money market funds
 - Individual stocks (and bonds to a lesser extent)
 - Retail mutual funds (outside a defined contribution plan)
 - Individual annuities

- ▶ A qualitative study with four 2-hour focus groups:
 - Two in Cincinnati, OH on August 19, 2008
 - Two in Raleigh, NC on August 21, 2008

- ▶ The focus groups were moderated by Blue Research.



Respondent Profile

- ▶ Men and women, ages 50-70 with household incomes of \$50,000 or more
- ▶ Groups were split by household incomes: \$50k-\$99k and \$100,000 or more
- ▶ At least one person primarily responsible for making household financial decisions (such as which companies to use, and where to invest household assets)
- ▶ At least one third not currently married (single, divorced, widowed)
- ▶ All with at least one investment or insurance product
- ▶ At least half of two of the four groups were annuity owners
- ▶ Fewer than half of each group were retired; if retired, not more than 10 years
- ▶ All had investable financial assets \$100,000 or more



- ▶ Consumers have varying degrees of understanding of a full suite of financial products; and, as the complexity of the financial products increases, their knowledge, comfort, and willingness to engage in the product decreases.
 - Annuity products are the least understood compared to the other products discussed and as a result, respondents are the least comfortable with them.
- ▶ The current declining stock market conditions heighten consumer uneasiness with all financial products and issues.
 - These groups were completed before the extreme market fluctuations and beliefs about some of the financial products tested could be quite different today.
- ▶ People want control over their finances; they spend their whole lives building a nest egg and don't want to relinquish control.
 - Yet, some voiced concerns about their ability to continue managing investments well into their 80s.
- ▶ Consumers have a generalized underlying fear that they will “run out of money” in retirement. Although not strong and overt, it emerges when people talk about their long-term fears and what they hope for.



- ▶ An analogy can be drawn to people's medical health and well-being: Consumers figure out, on their own, what over-the-counter medications they need if they are ill and will ask their physician to recommend certain prescriptions when necessary; they apply this same concept to their financial health and well-being by either self-prescribing or by asking someone (but not necessarily a financial professional) if a product is the right solution.
 - Many want to understand how financial products work and whether or not they are the right fit.
 - Yet, product differentiation sometimes causes confusion and the products begin to blend, leading some consumers to do nothing.

Financial Products

- ▶ Savings accounts are the tried and true financial products
 - Consumers owned the product as children, a true 'cradle-to-grave' financial product.
 - Everyone acknowledges the conservative nature of the product, yet for some that conservatism aligns with their risk tolerance.



- ▶ Owning individual stocks carries a status with a social impact, and they are easier to understand.
 - Consumers find it easier to research a stock of one company than mutual funds (which contain many companies and investment styles to choose from).
 - They pride themselves in self-education, and openly speak about stock ownership in social settings, especially in investment clubs.
 - They associate bonds with savings or treasury bonds — which carry less status; few know what fixed income funds are.

- ▶ Many own mutual funds (independent from defined contribution plans) that are an important part of the retirement picture.
 - While few feel that they are very knowledgeable about mutual funds, many understand them enough to own them.
 - The collective nature of the investments and their professional management create a safety-net effect for consumers.
 - Several people mentioned mutual funds as a way to diversify.



- ▶ Few own and understand annuities; and most have a high level of skepticism.
 - Annuities seem complicated and as noted earlier, many ‘disengage’ when faced with more complex financial products that require greater knowledge and analysis.
 - Many hear cautions from prominent financial “personalities” (i.e., Suze Orman).
 - Yet, for those who own them, the value is primarily as a safety net; when all other investments go down, this is a safe bet.

- ▶ Some have had a negative experience with annuities, which elicits extreme emotion; others are more matter of fact.
 - Some feel that annuities are not seen as a smart or good investment.
 - Most feel that they are expensive (high fees) with low return and cost more than other financial products.
 - They understand that financial reps sell annuities, and this often leads to their negative impression of the product.
 - Because consumers see annuities as complex, this adds to suspicions or concerns about their value.



Role of Financial Advisors

- ▶ Consumers have a generally low level of trust in financial advisors, especially among those without a long-term advisor relationship. Those with longer-term relationships tend to trust them more.
 - People question the commissions advisors receive versus the services they provide.
- ▶ Not everyone looks to a professional financial advisor for financial solutions and people actively search the Internet, talk to their family and friends, and listen to financial newscasts for information and guidance.
 - Many consumers prefer to buy financial products directly through the manufacturer as well.



The Understanding of Financial Products and Their Use in Retirement Savings

- ▶ As the complexity of products increases, the inclusion in one's retirement savings portfolio decreases.
- ▶ Four key emotional themes emerge about financial product understanding:
 - Frustration/confusion
 - Fear/worry
 - Overwhelmed feeling
 - Comfort/security
- ▶ Denial about running out of money is very real: some are confident that they will survive, some are praying, and others will lean on their children.

The Testing of an Annuity Concept

- ▶ When presented with a financial product description of an annuity, there is lukewarm interest, at best, in owning this product
 - People like the guarantee and the pension-feel of the concept.
 - They respond positively to the prospect of receiving regular payments.
 - Others are skeptical about fees, and the role of the insurance company.

Recommendations



- ▶ Educate and simplify – people shy away from products they don't understand
 - Many are curious about financial products and take pride in what they learn
 - The more they understand, the more they trust, and the more they will own
 - Continue to educate consumers and advisors

- ▶ Present the emotional benefits of product features, especially the ability to control assets, and focus on comfort and security
 - People spend their whole lives accumulating assets and don't want to give up control to someone they don't know or to a product they don't understand
 - They are still skeptical of products that offer a guarantee

- ▶ Emphasize the advantages to consumers, and how the different financial products complement their portfolio
 - People have an emotional tie to their financial assets
 - They also don't want to put all their eggs in one basket, and look to diversify

Recommendations



- ▶ Improve public relation efforts for annuity products. People listen to public figures who they think are knowledgeable.
 - Use testimonials — people relate to others who are like them
 - Work with the media to shift the mindset from accumulation to distribution

- ▶ Offer products with a retail offering, purchased directly from the carrier or financial company (to save fees), as these would be attractive to consumers.
 - People can purchase CDs, bonds, stocks, and mutual funds direct or online — current ads give the impression that even a child could do so. Consumers know that buying direct saves on fees and offers a sense of control.

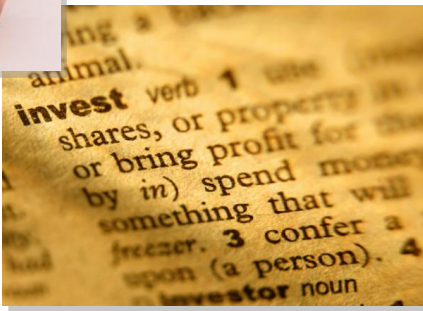
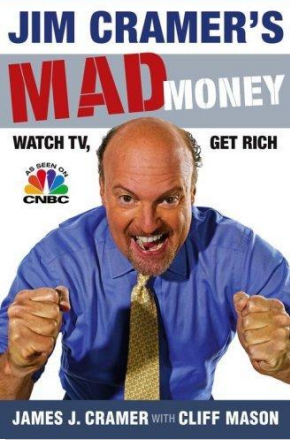
- ▶ There is an opportunity to leverage the “guaranteed income” aspect of annuities, especially for consumers who either seek stability or are ready to have someone else actively manage their money.
 - Consumers see this as the greatest benefit of annuities, and the discussion of guarantees made respondents begin to see the potential value and benefits of annuities.



- ▶ People want a trusted source for financial information and investing advice
 - Their knowledge of “where to go” for financial information varies
 - Respondents seem open to sources that are credible

- ▶ Consumers need more information to increase their comfort/favorability toward annuities.
 - Specific disclosure of costs/commissions
 - Clear communication of benefits
 - Transparency of fees, put in the context of other financial products

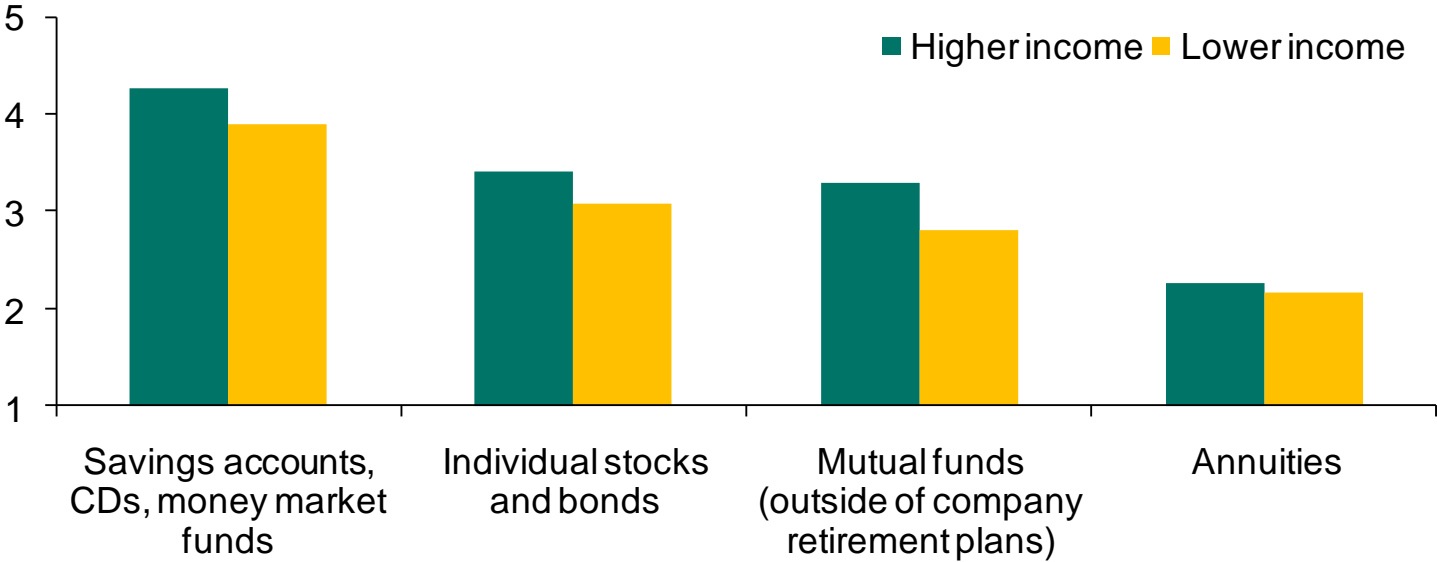
Detailed Findings



Consumer Understanding of Financial Products



► Regardless of income, consumers have moderate to low levels of understanding of financial products outside of savings accounts (CDs and money market funds are less understood than traditional savings accounts). This reflects a challenge for financial services companies trying to sell these products.



Q. How well do you understand each product – how it works, its purpose, its pros and cons?
1=Poor understanding to 5=Excellent understanding

“Higher income” = annual household income of \$100,000 or more
“Lower income” = annual household income of \$50,000 to \$99,999



Financial Products Summary

▶ When people understand the product, they can apply it to their broader financial picture.

Type of Investment	Role in Portfolio
Mutual Funds	<ul style="list-style-type: none">▶ Represent the core of most people’s portfolio▶ Provide a good balance of investment risk▶ Provide opportunity for diversification
Individual Stocks/Bonds	<ul style="list-style-type: none">▶ Opportunity for people to accept more risk for potential higher returns▶ Able to diversify by owning multiple different stocks/bonds▶ Often used as “play money” — money people hope provides a good return but that they don’t count on
Savings Accounts, CDs, Savings Bonds, Money Market Accounts	<ul style="list-style-type: none">▶ Provide short-term investment options▶ Money is easily accessible▶ Not a core part of most people’s retirement portfolio
Annuities	<ul style="list-style-type: none">▶ Provide a safety net by minimizing risk through accepting lower returns▶ Provide a “doomsday fund” if other investments don’t perform well or are lost



Individual Mutual Funds (outside DC plans)

- ▶ Many own mutual funds, especially retirees, as they allow for more diversified and sometimes aggressive returns compared to a traditional savings account.
- ▶ Respondents can buy direct or through a third party, and research is readily available

Purpose	How Acquired	Sources of Information
<p>Mutual funds are at the core of respondents' overall savings for retirement. They will depend on these for the bulk of their living expenses in the future, as well as to:</p> <ul style="list-style-type: none">▶ Grow capital▶ Allow for a diverse portfolio▶ Save for a child's college education▶ Provide for large expenses around the house▶ Buy a new car or to travel▶ Cover general living expenses▶ Comments: "Mutual funds are just one piece of the pie, but a big piece." "This is the Real McCoy for retirement."	<ul style="list-style-type: none">▶ Buy them from a broker▶ Acquire based on a friend's recommendation▶ Through a financial planner▶ Inherit mutual funds as a part of parents' estate▶ Receive as part of a divorce settlement▶ Insurance agent sells various mutual funds▶ Buy them through an online brokerage account▶ Use a traditional brokerage house account	<ul style="list-style-type: none">▶ Doing research on the Internet<ul style="list-style-type: none">• Yahoo Finance• MorningStar▶ By meeting and talking with financial advisors▶ By watching Suze Orman and other TV financial program hosts▶ Through Wall Street Journal articles and research▶ By reading the Sunday newspaper



Beliefs — Mutual Funds

- ▶ Consumer knowledge-base exists, but there is still a need for self-education.
- ▶ Mutual funds are flexible and attractive to those who want more control over their assets
 - Others find they are less risk-adverse than owning individual stocks

Positives	Negatives
<ul style="list-style-type: none">▶ Ability to provide safety and lower risk through diversification▶ Can possibly provide preferential tax treatment▶ Allow you to stay ahead of inflation▶ Comments:<ul style="list-style-type: none">“You can beat the returns of pure savings.”“There are lots of options for various needs.”“It’s easy to change from one fund to another.”“You can add a lot or a little (money).”“It allows you to get professional management without the legwork.”“They are less complicated than other investment options.”“It’s easy to do research on the Web.”“(Mutual Funds are) more resilient to stock market.”	<ul style="list-style-type: none">▶ Can be time consuming to learn about▶ Comments:<ul style="list-style-type: none">“I don’t know where to go (for information).”“I feel like I have to make decisions (without all the information).”



Individual Stocks and Bonds

- ▶ Fairly mainstreamed products that people talk about at the dinner table or in investment clubs
- ▶ Similar to mutual funds, respondents can buy direct or through a third party (or employer), and research is readily available

Purpose	How Acquired	Sources of Information
<p>Stocks and bonds generally help to diversify portfolios and seem to be used more strategically and with more specificity. They allow for:</p> <ul style="list-style-type: none">▶ Different types of tax advantages▶ Saving for special purchases like travel, cars, etc.▶ Passing on assets as part of an estate▶ Saving for a child’s college education▶ Providing retirement income <p>▶ Comments:</p> <p>“This is my Play Money”</p> <p>“It’s the Great American Dream — to own stocks”</p> <p>“You can make a lot of money (with individual stocks)”</p>	<ul style="list-style-type: none">▶ From a broker▶ From company stock purchase plan▶ From an online source▶ Through a stock club	<ul style="list-style-type: none">▶ Watching TV business channels<ul style="list-style-type: none">• “Kramer on CNBC”▶ Heard from my Father/Husband/Spouse▶ Read it in a financial magazine<ul style="list-style-type: none">• BottomLine• Kiplinger Report• Consumer Report• Personal Finance• Forbes▶ Learning from the Internet▶ Discussion with my family▶ From articles in the newspaper▶ I have friends that I trust▶ My bank has that kind of information▶ People in the stock club do research and present



Beliefs — Individual Stocks/Bonds

- ▶ Stocks have status-appeal, and people take pride in educating themselves about a particular company or business
 - There is also a pride of ownership that comes with buying stocks
- ▶ They understand the downside, but as with mutual funds, the positives outweigh the negatives.

Positives	Negatives
<ul style="list-style-type: none">▶ It can be easier to understand individual stocks/bonds than other types of investments as they just need to know about one company.▶ There is a lot of upside potential with this type of product.▶ For some it is fun to invest in stocks and follow individual companies or business categories.▶ Individual stocks/bonds can be used to help balance a portfolio.	<ul style="list-style-type: none">▶ There is higher risk and potentially greater losses along with high returns.

Savings Accounts, CDs, Savings Bonds, Money Market Accounts



- ▶ Savings accounts are the financial products these participants grew up with; and as a result, they understand them.
- ▶ Some people ladder their CDs as part of their retirement plan.
- ▶ These vehicles are liquid and are safety nets.

Purpose	How Acquired	Sources of Information
<ul style="list-style-type: none"> ▶ Savings accounts provide liquid cash that is easy to get to and readily available. ▶ They represent a “rainy day” or “emergency fund.” ▶ They hold money until it can be invested. ▶ They are a “backup” to regular checking accounts for general expenses. ▶ Comments: “It’s my where I keep my money under the mattress” “It’s like a parking lot for money I’m getting ready to invest” “This is the place to keep \$ to live on” 	<ul style="list-style-type: none"> ▶ Through banks, credit unions, or savings & loans. ▶ Comment: “I’ve had a savings account since I was a kid.” 	<ul style="list-style-type: none"> ▶ Banks, credit unions, or savings & loans ▶ “My parents told me about these kind of accounts”

Beliefs — Savings, CDs, Savings Bonds, Money Market Accounts



- ▶ People recognize that the returns on these accounts are low, but they are safe and are used for a specific purpose.
- ▶ Some say that even though the return is low, they are more likely to use these savings vehicles than others because they understand these products the best, and they seem safe.

Positives	Negatives
<ul style="list-style-type: none">▶ Provide a known amount of income with very little risk▶ Accounts are protected by the government▶ Comment: “These accounts have only a miniscule risk of default.”	<ul style="list-style-type: none">▶ Accounts provide a lower returns than many other investment choices.▶ Comment: “Your money is locked into that account (CDs).”



Annuities

- ▶ Annuities are the least-owned and least-understood product; however, annuity owners appreciate their safety as well as their guarantees.
- ▶ As in the other financial products, people are researching the information through a variety of different sources, including the State Insurance Board.

Purpose	How Acquired	Sources of Information
<ul style="list-style-type: none">▶ Annuities can provide a guaranteed income for retirement.▶ Comments: “This is like a Doomsday Fund” “It provides a Safety Net”	<ul style="list-style-type: none">▶ Through a broker or insurance agent.▶ Through an advisor who recommended them.▶ Rolled over from a company 401(k).	<ul style="list-style-type: none">▶ Research on the Internet▶ The State Insurance Board▶ Talking and meeting with financial advisors▶ Watching Suze Orman and other TV financial program hosts



Beliefs — Annuities

- ▶ This product generates the highest degree of emotional negativism, as evidenced by the large number of negative comments compared to the other three financial products.
- ▶ Yet, one person commented that annuities are good products when you don't want to actively manage your money anymore, especially as you age into your mid-80s.
- ▶ This was the only product discussed that includes a guaranteed source of income.

Positives	Negatives
<ul style="list-style-type: none">▶ They provide a guaranteed source of income.▶ They can provide a safety net when other investments don't perform well.▶ They are generally perceived as having a lower level of risk.▶ Comments: <i>"It's there (when I need it)"</i> <i>"I won't lose"</i> <i>"If everything else fails, this will come through"</i>	<ul style="list-style-type: none">▶ There is a high perceived level of expenses/cost.▶ People who sell annuities earn high commissions which limit the return on the investment.▶ There can be significant penalties for early withdrawal.▶ They can be very confusing and difficult to understand.▶ They are, generally, associated with low returns.▶ Other financial products give more control over investment options.▶ Financial experts, such as Suze Orman are not in favor of annuities in general and they do not recommend them. <p><i>"Annuities can be scary"</i></p>

Collage Exercise



- ▶ In order to gain a deeper understanding about the emotions related to financial products and decisions, we used a technique whereby consumers use pictures to tell emotional stories about the topic. This technique allows us to push below the surface answers to tap into the stronger emotions related to the topic.
- ▶ Respondents were given paper, scissors, glue sticks, and magazine pictures and asked to create a collage to answer the question:



How do you **FEEL** about your
UNDERSTANDING OF
FINANCIAL PRODUCTS and
their role in your
RETIREMENT SAVINGS?

Collage Themes



HOW YOU FEEL ABOUT YOUR UNDERSTANDING OF FINANCIAL PRODUCTS AND THEIR ROLE IN YOUR RETIREMENT SAVINGS.

I want to get to the point when I finally know what I'm doing.

The more we learn, the better we feel.

There are too many things outside of my control.

I don't understand...and I'm fine with that.

I'm just gonna pray it works out.

I don't feel confident and I don't know who I should trust.

I just don't get it!

The current stock market conditions make me concerned for my investments.

I don't understand...and I'm fine with that.

It's not worth it.

I won't do anything that confuses my brain.

It's like I'm wandering the desert as the sun is setting...it feels like gambling.

There are too many choices and...(I feel like) I need to know too much.

Some things are in my control (and some are not).

It's like I'm in a spin.

I feel like I'm drowning.

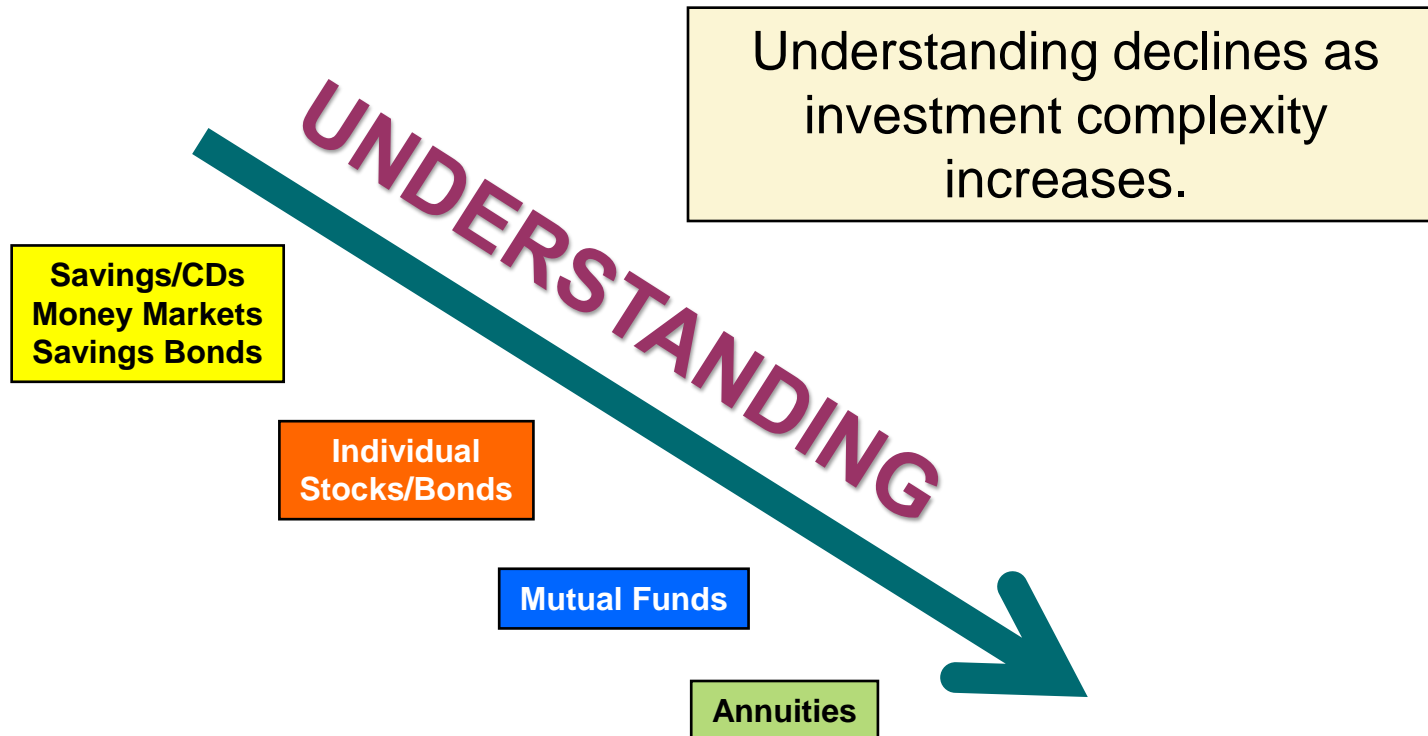
I don't want to spend time to understand it...I'd rather play tennis.



Understanding of Financial Products and Their Role in Retirement



- ▶ People are not going to have products in their retirement plan that they don't understand.
- ▶ This lack of understanding causes some to self-educate and others to completely retreat.



Collage Themes



- ▶ **Frustration/Confusion** — Respondents don't know enough to feel good about retirement.
- ▶ **Fear/Worry** — Respondents worry that their lack of knowledge or confusion will hurt their financial future.
- ▶ **Overwhelmed Feeling** — There is too much information and too many investment options for them to be comfortable.
- ▶ **Comfort/Security** — Respondents may get comfortable with finances either through obtaining knowledge or accepting ignorance.

Frustration/Confusion



Respondents are confused at the amount of offerings, the information available, and the absence of people they feel they can trust.

- ▶ “I don’t feel confident and I don’t know who I should trust.”
- ▶ “I just don’t get it.”
- ▶ “I feel like I know it, but I have self-doubt.”
- ▶ “I feel like raw meat.”
- ▶ “As I wade through things I get a headache.”
- ▶ “The more I learn, the more pitfalls I see.”
- ▶ “I want to ride into the sunset but things get in the way, like the stock market drops, and I get frustrated.”



Now What Do I Do?

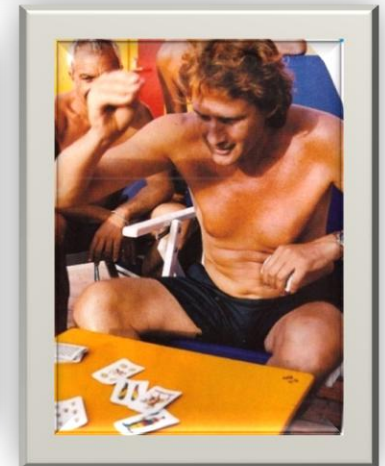
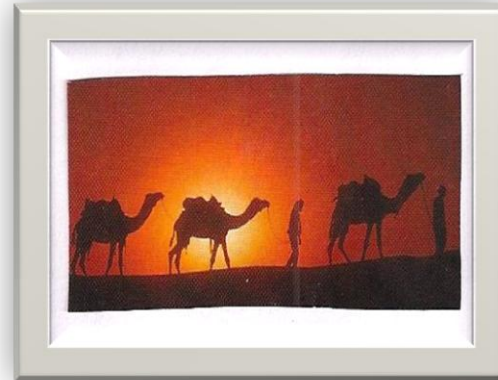
Note: Pictures are from collages



Fear/Worry

Respondents fear the effects of their lack of knowledge. They worry about outliving their assets or being able to manage their portfolio when they grow older.

- ▶ “There are too many choices and... (I feel like) I need to know too much.”
- ▶ “...too many things are outside of my control.”
- ▶ “The current stock market conditions make me concerned for my investments....”
- ▶ “It’s like I’m wandering the desert as the sun is setting...it feels like gambling.”
- ▶ “I stick to things I am more knowledgeable in, so I won’t take risks.”



Note: Pictures are from collages



Overwhelmed Feeling

With all the confusion and fear, respondents don't know where to start or they get easily overwhelmed with the amount of time and knowledge required and run the risk of giving up.

- ▶ “I’m drowning in the blah, blah, blah of it and quit listening.”
- ▶ “...it’s confusing and overwhelming to me and it’s just not worth it.”
- ▶ “I won’t do anything that confuses my brain.”
- ▶ “...don’t want to spend the time to understand it...I’d rather play tennis.”
- ▶ “I feel like I’m in a spin sometimes, especially with the market.”
- ▶ “I want to feel more relaxed but I don’t have the time...I want to get to the point that I finally know what I’m doing.”



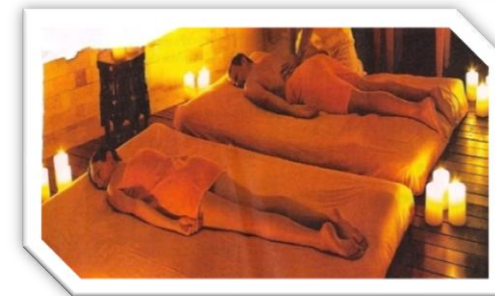
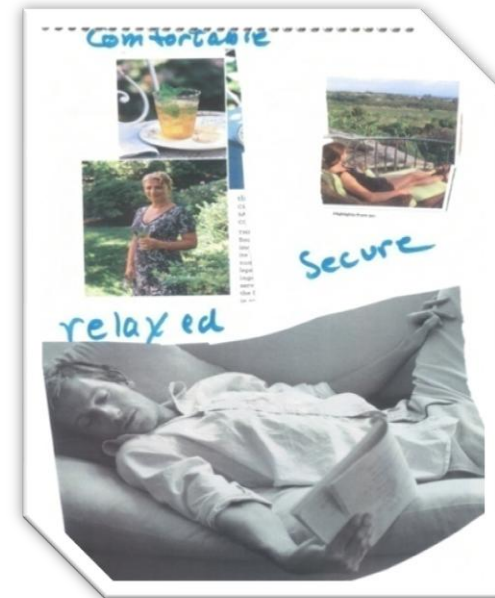
Note: Pictures are from collages

Comfort/Security



Many respondents *do* feel comfortable. This may come from the security of their knowledge and grasp of the retirement situation. Or, it may come from their ignorance of the situation, and being resigned that they can't figure it out and that's okay.

- ▶ “The more we learn, the better we feel.”
- ▶ “I don't understand... and I'm fine with that.”
- ▶ “Some things are within my control (and some are not).”
- ▶ “I'm just gonna pray it works out.”
- ▶ “I do all types of research...I talk to people.”
- ▶ “The older I get, the more disciplined I am and I'm consistent about not touching it.”



Note: Pictures are from collages

The Annuity Concept



Respondents were asked to read and comment on the following description of an unnamed financial product ... (which is an annuity).

This product is an agreement between an insurance company and an individual in which an insurance company will:

- (1) help individuals accumulate savings through tax-deferred growth of money put into the product.
This is the accumulation period where you are saving for retirement.
- (2) provide regular income payments that can be guaranteed for life. This is the payout period when you need to receive income. The payout amount will vary depending upon the premium invested and the type of payout chosen.

The investments can either be fixed or variable:

Fixed investments:

- During the accumulation period, money earns interest at a rate set by the insurance company. The company guarantees that it will pay no less than a minimum rate of interest.
- During the payout period, the amount of income payments will not change unless you choose to have them increase over time.

Variable investments:

- During the accumulation period, you decide how the insurance company will invest your premiums, depending on how much risk you want to take. The value of the money you put into the variable investments will vary depending upon the performance of the underlying investments.
- During the payout period, the amount of income payments you receive could be fixed (set at the beginning of the payout period) or variable (changes with the value of the underlying investments).

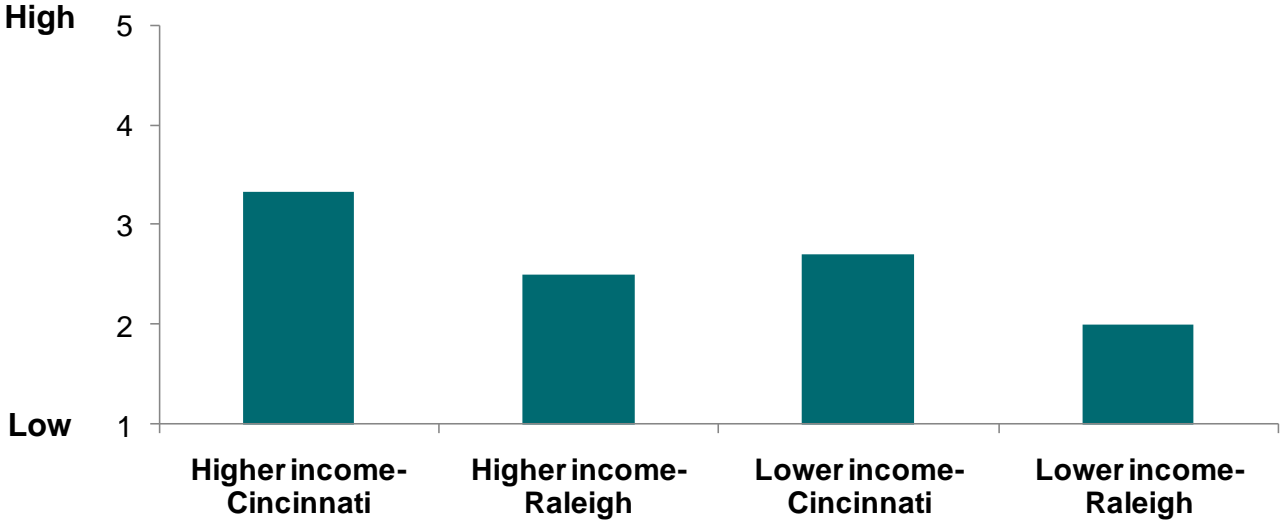
Like many financial products, there are fees and expenses associated with it, depending on which product and features you buy. You also may need to hold the contract for a certain number of years or you could pay a fee for early withdrawal. In addition, you can also purchase riders with these products. For example, with variable investments, you can pay an additional fee to add a benefit that will protect your original investment or provide you with some form of guaranteed retirement income.



Level of Interest in the (Annuity) Concept

- ▶ After reading the description, people’s interest in the concept was lukewarm, at best.
- ▶ Some current and former annuity owners recognized what it was, while others did not.

Overall, how interested would you be in this product?



1 = Not at all interested to 5 = Very interested

Note: “Higher income” = annual household incomes of \$100,000 or more;
“Lower income” = annual household incomes of \$50,000 to \$99,999.

The Annuity Concept



- ▶ People understand the key benefits, but remain skeptical about fees and insurance companies.
- ▶ Companies still need to work on simplifying products and educating consumers on the role financial products play in retirement planning.

Likes/Positives

The main positive about the concept is the perception of an income guarantee or that the annuity could be a “safety net”. Comments include:

- ▶ Fixed/Regular Income
- ▶ No change in payout
- ▶ Tax deferral
- ▶ Guaranteed rate of investment

- ▶ *“It sounds like a pension”*
- ▶ *“I like the choice of investment”*
- ▶ *“No worries”*
- ▶ *“Like to know how much I will have”*
- ▶ *“The appeal is that it’s guaranteed”*

Dislikes/Questions

People are suspicious about the costs and fees associated with these products along with the low level of return. Comments include:

- ▶ Provide real numbers for the fees and costs
- ▶ There is a skepticism about motives of insurance companies
 - *“I’ve had bad dealings with insurance companies”*

- ▶ *“What are the costs (fees)?”*
- ▶ *“Give examples of investment types”*
- ▶ *“Who backs up if the company goes out of business?”*
- ▶ *“AARP said stay away from these”*
- ▶ *“There is no big reward over (using a) bank”*



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