

Baby Boomers and Credit

Cashing in on generational marketing



HARLAND CLARKE®

In today's challenging economy,

businesses are reexamining their marketing efforts and taking extra steps to not only attract new customers, but also retain existing customers. Financial institutions are no exception.

According to the 2016 Banking Priorities Study from CSI, nearly one-third (29.3 percent) of all financial institution executives say the biggest challenge for their organization is driving growth and profitability. Similarly, nearly one-third (31.3 percent) of the executives say the top opportunity for their financial institution is boosting interest income and loan growth.¹

For the past decade, financial institution marketers have focused on the burgeoning Millennial population, trendsetters who have yet to establish loyalties with any institution, and who are increasingly earning and spending money.²

But while Millennials may have surpassed them in population size,³ Baby Boomers are still the foundation of bank and credit union growth, driving more financial activity and the greatest amount of banking and credit union revenues of any generation in history.⁴

Baby Boomers also have a higher growth rate in digital channel engagement, including website use, online banking and bill pay, and mobile and tablet banking. Industry forecasts suggest that the strongest future growth potential in spending lies with Baby Boomers, who will continue to drive consumer spending for the next five to ten years.⁵

"Baby Boomers are still the foundation of bank and credit union growth, driving more financial activity and the greatest amount of banking and credit union revenues of any generation in history."



¹ Executive Report: 2016 Banking Priorities Study," Computer Services, Inc. (CSI), January 2016

² "Jason Debates Millennials, Boomers, and Viagra on CNBC's Power Lunch," The Center for Generational Kinetics, April 2016

³ Fry, Richard, "Millennials Overtake Baby Boomers as America's Largest Generation," *Pew Research Center Fact Tank*, April 2016

⁴ Marous, Jim, "Banking's Forgotten Generation," *The Financial Brand*, September 2016

⁵ Best, Wayne, "Gray is the new black: Baby Boomers still outspend millennials," *VISA U.S. Perspectives*, Winter 2016

Baby Boomers: Talking About My Generation

Financial institutions have traditionally marketed to current and prospective customers based on life stages, targeting products and services based on major life events such as graduating from college, getting married, and having the first baby. But generational marketing has emerged as a strategy that can solidify a company's positioning in the mindset of prospective clients and provide a competitive advantage, increasing the long-term profitability of any business.

Research is showing that each generation has its own financial, behavioral and life-stage perceptions. Experiences like 9/11, the Great Recession and the technology boom affect the way each generation treats money, even when in the same life stage. Customers today expect their relationships with companies to be based on a deep understanding of their values and their needs. Having insight into generational attitudes, trends and behaviors can help financial institutions engage with their account holders better, enhance the customer experience, and increase profitability.

This paper will explore the relationship Baby Boomers have with credit, the drivers behind their credit use, how they use it, and the opportunities it creates for financial institutions.

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Who Are the Baby Boomers?

The Baby Boomers generation, named for an unprecedented increase in births following World War II, was the largest generation in American history up to that point.

Born between 1946 and 1964, and including people who are between 53 and 71 years old in 2017, this generation has more than 74.9 million members and makes up 26 percent of the total U.S. population.⁶

Sheer numbers alone would make this generation an attractive target for financial services marketers, but it's their share of U.S. wealth that makes them especially attractive. Baby Boomers hold the greatest wealth of any generation, and will continue to be the wealthiest generation of Americans until at least 2030.⁷

From the start, Baby Boomers have been a major force in social, political and economic change, transforming everything from politics to the economy, to the workforce, and even the make-up of the American family. More than 65 percent of Baby Boomers are married, more than 28 percent have graduated college, and approximately 75 percent own their own homes.⁸

Who Are Baby Boomers?



⁶ Fry, Richard, "Millennials Overtake Baby Boomers as America's Largest Generation," *Pew Research Center Fact Tank*, April 2016
⁷ Srinias, Val and Goradia, Urval, "The future of wealth in the United States," *Deloitte University Press*, November 2015
⁸ Grimes, Gerlinda, "How the Baby Boom Generation Works," *HowStuffWorks.com*, May 2011

Financial Strength

While the percentage of share of household wealth is expected to decline over the next 15 years, Baby Boomers will continue to hold nearly half of household wealth in the United States, and are expected to have more than \$53 trillion in financial assets by 2030, equaling 45 percent of total household wealth.⁹

But the distribution of wealth in this generation is very diverse. While the wealthiest Baby Boomers control 80 percent of all financial assets in the U.S.¹⁰ and account for more than half of all consumer spending, the least wealthy have barely enough money to retire on.¹¹

Retire? Not Likely

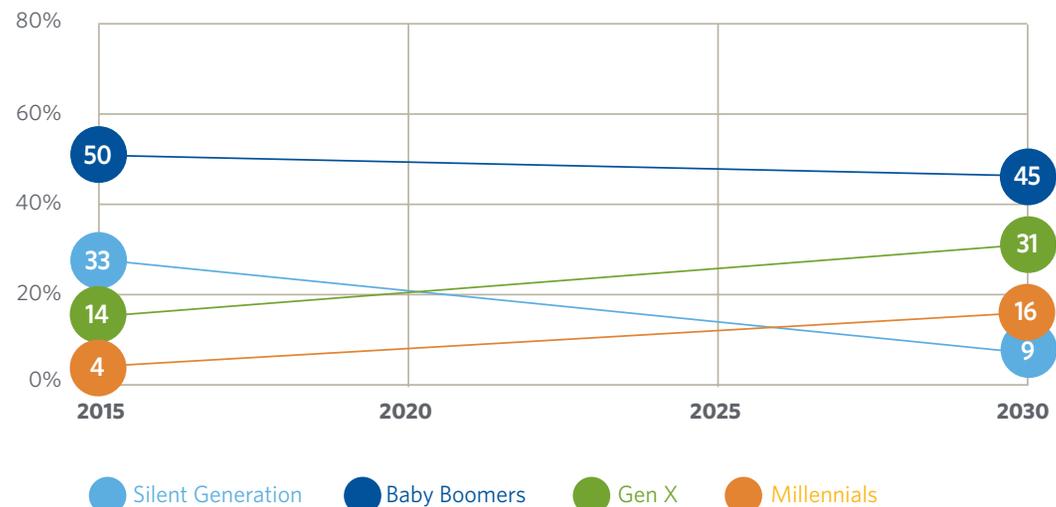
The oldest Baby Boomer turned 65 in 2011, while the youngest won't reach this age until 2029, at which time the U.S. Census Bureau projects there will still be more than 61 million Boomers — equaling about 17.2 percent of the population.¹²

But the Baby Boomer generation refuses to grow old, and will not fade quietly into retirement. The typical Baby Boomer believes “old age” begins at 72, and a full 61 percent of Baby Boomers say they feel more spry than their chronological age by as much as nine years, according to Pew Research.¹³

Many Baby Boomers are reinventing what it means to be retired, and are using their “senior years” as an opportunity to pursue lifelong passions or launch a new profession.

Generational Share of Household Wealth

2015-2030



Source: Deloitte Center for Financial Services

Younger Baby Boomers, those born between 1955 and 1964, are currently at their most productive and highest-earning period in their careers, and will continue to build significant financial assets until they retire. Thanks to a 30-year expansion in lifespans in the 20th century, Baby Boomers are expected to live longer, retire later, and fuel economic activity far longer than previous generations.¹⁴

A Transamerica survey shows that almost two-thirds of Baby Boomers plan to work past the age of 65, or don't plan to retire at all.¹⁵ And Pew Research found

that nearly 9 million people ages 65 and older report being employed full- or part-time — a total of 18.8% of Americans over the age of 65.¹⁶

A longer career lifespan means Baby Boomers can continue to earn wages, and are more likely to borrow, spend and invest. Research has shown that people over the age of 50, which includes the Baby Boomer generation, account for a majority of spending in several categories, including financial services.¹⁷

⁹ “The Longevity Economy,” AARP, September 2016

¹⁰ Halbert, Gary D., “Will Baby Boomers Wreck the Market? (The Sequel),” InvestorInsight.com, April 2012

¹¹ Ibid.

¹² Srinivas, Val and Goradia, Urval, “The future of wealth in the United States,” Deloitte University Press, November 2015

¹³ “Baby Boomers Retire,” Pew Research, December 2010

¹⁴ “The Longevity Economy,” AARP, September 2016

¹⁵ “Ready or Not: Baby Boomers Are Revolutionizing Retirement,” Transamerica Center for Retirement Studies, December 2014

¹⁶ “10 facts about American workers,” Pew Research, September 2016

¹⁷ Ibid.

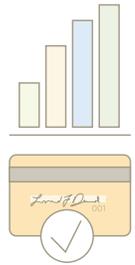
Keeping Score

When it comes to credit, Baby Boomers set a strong example for other generations to follow. They have the highest average credit score (VantageScore®), and though they have more average debt, they have lower credit utilization ratios.¹⁸ Age, length of credit history, life stage and personal experience managing credit products all have an impact on these statistics.

Credit Trends, Attitudes and Behaviors

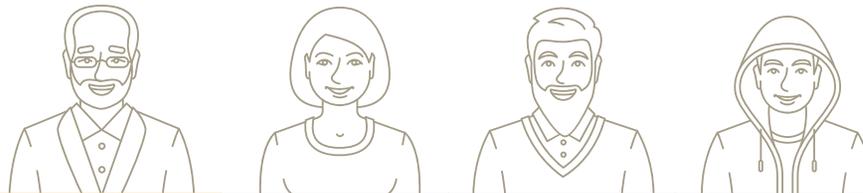
Every generation has unique experiences, differences and needs that shape their attitude surrounding credit. Unlike their parents (members of the Greatest Generation, who had a deep aversion to debt) the use of credit by Baby Boomers is expansive. In fact, the Baby Boomer generation fueled the growth in consumer lending that created the credit card industry as we know it.²⁰

The Baby Boomer generation fueled the growth in consumer lending that created the credit card industry as we know it



Today, Baby Boomers are driving even more financial activity. They are driving more revenue for banks and credit unions than any generation in history.

Here are the 2016 key indicators¹⁹ for each generation:



	Baby Boomers	Generation X	Millennials	Generation Z	National Average
VantageScore score	700	655	634	631	673 (an increase of four posts from 2015)
Number of credit cards	2.93	2.56	2.02	1.29	2.35
Average balance on credit cards	\$6,889	\$6,866	\$3,542	\$1,682	\$5,551 (\$1,081 retail)
Revolving utilization	29%	37%	36%	36%	30%
Average debt	\$42,628	\$42,412	\$32,698	\$14,446	\$39,216
Average number of retail cards	1.82	1.65	1.34	1.24	1.51

¹⁸ "2016 State of Credit — Experian's Seventh Annual Credit Report," Experian.com, 2016

¹⁹ Ibid.

²⁰ Papandrea, Dawn, "Credit use by generation: Who's doing the best job?" CreditCards.com, July 2016

Paper or Plastic?

Each generation views money and credit differently. But Baby Boomers and Generation Xers both feel that credit cards are a financial survival tool. However, while 20 percent of Generation Xers believe that using credit to handle day-to-day purchases is simply a fact of life, only 14 percent of Baby Boomers feel the same.²¹ According to the Credit Union National Association (CUNA), American consumers overall are beginning to use credit cards as personal loans, as 45 percent fail to pay off their credit card balances each month.²²

Further, credit card usage is greatest among college graduates, Baby Boomers, adults with an annual income of more than \$75,000, and those who identify as Republican.²³

In contrast to the Baby Boomers and Generation Xers, Millennials are not likely to borrow with credit cards. Sixty-three percent of Millennials don't have a credit card, and those who do account for just 27 percent of new credit card debt, compared to 46 percent of Generation Xers. In comparison, only 35 percent of adults age 30 and over don't use credit cards.²⁴

Preferences in credit card programs are just as varied across the generations. Baby Boomers, concerned about having enough retirement savings, are looking for credit cards with low or no annual fees. Their concern is so strong, in fact, that cost savings is the number one factor they consider in

their decision-making process. Baby Boomers also use cashback programs heavily, with as many as 60 percent participating, coming in second only to Millennials. Millennials are highly interested in rewards programs, and will use card accounts instead of cash simply to earn rewards.²⁵ For Generation Xers, the top considerations when choosing a credit card are security features and fraud protection, with interest rates and rewards being much less important.²⁶

Credit pride

Americans, including Baby Boomers, are showing an increased focus on credit. FICO's latest research on national FICO® Score distribution finds that U.S.

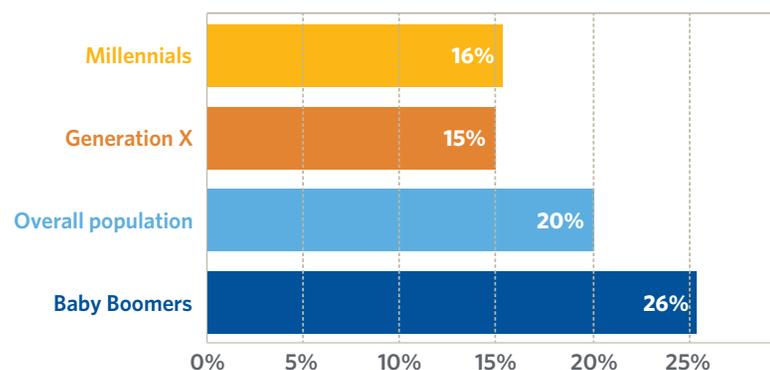
credit quality continues to trend upward, reflecting low rates of default across credit cards and other consumer loan products. Nearly 60 percent of Americans have checked their credit scores or reports in the past year.²⁷

Of all the generations, Baby Boomers have the greatest credit confidence. When asked how strongly they agreed with the statement, "I am proud of my credit," 25 percent of Baby Boomers said they strongly agreed, compared to 15 percent of Generation Xers and 16 percent of Millennials.²⁸

Interestingly, despite the sense of pride surrounding their good credit scores, nearly half of Baby Boomers don't think their credit score is important, according to a TransUnion survey.²⁹ Having paid off

Baby Boomers most proud of their credit

Percentage who said they strongly agreed with the statement "I am proud of my credit"



Source: Wells Fargo CreditCards.com

²¹ "Allianz Generations Apart Study", Allianz Life Insurance Company of North America, November 2015

²² "For Many, Credit Cards a Personal Loan Resource," CUNA Economics, February 2016

²³ "Wary Millennials Steer Clear of Credit Cards," The Center for Generational Kinetics, June 2016

²⁴ Skowronski, Jeanine, "More Millennials Say No to Credit Cards," Bankrate.com, September 2014

²⁵ Oppy, Mick, "Finding key appeals for each generation," BankingExchange.com, September 2016

²⁶ Ibid.

²⁷ "The 2016 Consumer Financial Literacy Survey," The National Foundation for Credit Counseling (NFCC) and Boeing Employees' Credit Union (BECU), April 2016

²⁸ McGrath, Kristin, and Rodriguez, Juan, "Infographic: Baby Boomers Have the Most Credit Pride," CreditCards.com, January 2014

²⁹ "Credit Confusion: TransUnion® Survey Reveals Baby Boomers Undervalue Credit in Retirement," TransUnion, March 3, 2016

their house, car loan and other debts, many Baby Boomers underestimate the value of maintaining a good credit score.

Seventy percent of those surveyed agreed that a healthy credit score is important for refinancing a mortgage, but only 61 percent considered the importance of a good credit score when co-signing on loans, and only 32 percent believed a strong credit score would be necessary to enter a nursing home or long-term care facility.

Increasing consumer debt

In spite of the Federal Reserve's decision in late 2016 to boost short-term rates, a sign of rising borrowing costs, Americans are in a mood to borrow. And, as the jobless rate continues to drop while consumer sentiment climbs, borrowers and lenders are becoming more comfortable. National consumer debt is expected to surpass \$12.4 trillion and continue rising in 2017, according to predictions by Money Management International. The firm predicts that credit card debt will exceed pre-financial crisis levels by 2019, but says the biggest debt drivers will be mortgages and student loans.³⁰

Baby Boomers' Credit Needs Mean Big Opportunities

Baby Boomers continue to be a viable and potentially lucrative target for financial institutions. Many are reinventing retirement, and are viewing



this phase of life as an opportunity to pursue the dreams they did not have the time or resources to do when they were younger, whether it's traveling, moving closer to the grandchildren, or starting new businesses. But many Baby Boomers aren't financially prepared for retirement, and are challenged with not enough money and too much debt.

Baby Boomers need financial institutions to guide them on financial products and strategies that help them launch new ventures, improve their financial standing and prepare for the future. Financial institutions that are willing to provide creative solutions to Baby Boomers' credit needs can attract new customers, strengthen engagement with existing customers, and gain greater wallet share.

³⁰ Wiles, Russ, "These trends could affect your money in 2017," The Arizona Republic, January 2017

Encore Entrepreneurs

Many Baby Boomers are using their retirement years to transition from employees to small business owners. According to the U.S. Small Business Administration, Baby Boomers make up nearly 50 percent of small business owners,³¹ and are one of the fastest growing groups of business



owners.³² And an overwhelming majority — 83 percent — say the main reason for launching a new business is a lifestyle choice or to increase income. But when it comes to financing their new venture, only nine percent agree or strongly agree that it's easy to obtain a loan.³³

Financial institutions should look to this burgeoning group of “encore entrepreneurs” as a golden opportunity to meet the needs of a new marketplace of customers. With higher overall education levels and practical experience at business, Baby Boomers have a better chance of success and growth potential,³⁴ and are a safer credit risk than other generations.³⁵

Many Boomers, however, may look for alternative funding sources, such as crowdfunding and microloans as a way to avoid the traditionally lengthy loan application process. Financial institutions can overcome these concerns by creating small business offerings with a simplified lending process, including reduced traditional document requirements and time needed for manual underwriting review. And, they can consider the untapped and potentially profitable area of microloans, which can be a gateway for a long-term financial partnership with customers launching small business ventures.³⁶

At the same time, financial institutions can create business planning programs to educate Boomers (and others) on how to start and run a profitable business, including how to identify where business opportunities exist, what pitfalls to avoid, etc. Partnering with the Small Business Association (SBA) to educate and train would-be business owners on the financial side of ownership would also help identify credit worthy loan candidates and weed out unrealistic ones.



³¹ “Demographic Characteristics of Business Owners and Employees: 2013,” *SBA Issue Brief Number 6*, April 2015

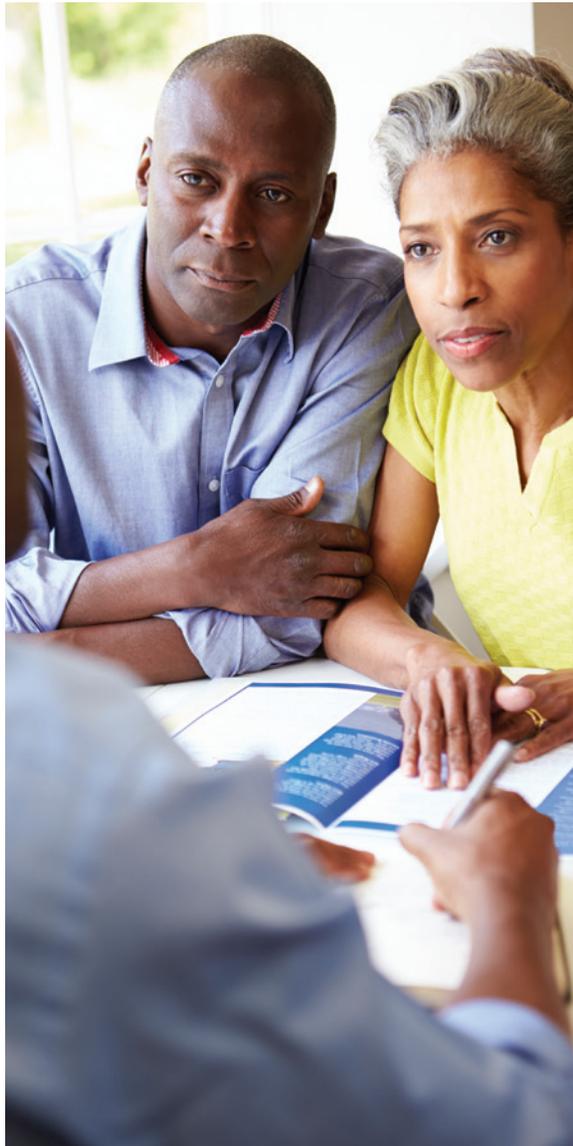
³² Stefanick, Michael, “Baby Boomers As Small Business Catalyst,” BAI Bank Administration Institute and BAI Center, Dec 2013

³³ Badal, Sangeeta Bharadwaj, and Ott Bryan, “A Very Fast-Growing Group of Entrepreneurs: People Over 50,” Gallup.com, January 2015

³⁴ Child, Dennis, “Look to Boomers for MBL opportunities,” *CU Insight*, December 2016

³⁵ Stefanick, Michael, “Baby Boomers As Small Business Catalyst,” BAI Bank Administration Institute and BAI Center, Dec 2013

³⁶ Grace, Dave, “Microloan Feasibility Study: Can Small Business Lending Become Big Business for Credit Unions?” File.org, September 2013



Answering Baby Boomers' credit needs

Baby Boomers are at a unique crossroads. They are ready to spend money and use credit, but many are saddled with expensive debt from student loans, high interest credit cards, and more. They need financial institutions more than ever to help them find answers to their financial challenges.

Student Loans

Student loan debt in the U.S. has grown by 886 percent since 2013 — and that is not a typo!³⁷ According to a new study, student loans are surging among older Americans. Borrowers over the age of 60 have nearly \$57 billion in student loan debt, much of which resulted from loans taken to fund a child or grandchild's education. Baby Boomers have the smallest number of student loans, but have the highest average balance, more than doubling in the last decade, from approximately \$12,000 in 2005 to nearly \$23,000 in 2015.³⁸

This massive debt is taking a heavy toll on Baby Boomers. Many are spending money earmarked for retirement to make the loan payments. As many enter retirement and begin to draw Social Security, the Federal government is garnishing benefit checks to recover student loan debt.³⁹ Financial institutions can help their Baby Boomer customers dig their way out of this debt burden through loan consolidation or refinancing these loans at a lower interest rate, providing substantial savings.

Research has shown that the explosion in student loan debt impacts individual borrowing. People

with active student loans are far less likely to have mortgages, and those with higher student loan debt are less likely to use revolving credit, including credit cards.⁴⁰ Financial institutions that can find cost-saving solutions to this issue could open the door for future borrowing with these customers.

Mortgage Loans

Baby Boomers are creating a huge niche in the real estate market and creating a huge opportunity for financial institutions. As many as 19 million Baby Boomers plan to buy a home, and nearly 8 million plan to move within the next four years.⁴¹ Nearly 40 percent of all Baby Boomer homeowners, approximately 27 million, say they would like to move at least once more in their lifetime. And of potential buyers, only 20 percent plan to downsize.⁴² This real estate surge means that potentially millions of Baby Boomers will be looking for affordable financing options.

Another potentially profitable market for financial institutions is the “boomerang” homebuyer. Approximately 2.5 million consumers will see a foreclosure, short sale or bankruptcy fall off their credit report between June 2016 and June 2017, and as many as 68 percent of these consumers will score in the near-prime or high credit segments. Delinquencies for this group of potential borrowers are below the national average for bankcard and auto loan payments. This potential re-entry of millions of borrowers into the housing market creates massive opportunity for financial institutions that offer competitive mortgage products.⁴³

³⁷ Campbell, Jesse, “Americans on pace for historic levels of debt in 2017,” MoneyManagement.org, December 2016

³⁸ “Snapshot of older consumers and student loan debt,” Consumer Financial Protection Bureau, January 2017

³⁹ Mitchell, Josh, “Social Security Checks Are Being Reduced for Unpaid Student Debt,” Wall Street Journal, December 2016

⁴⁰ Dornhelm, Ethan, “FICO Research: Student Loan Explosion Hurts Other Borrowing,” FICO Risk & Compliance Blog, October 2016

⁴¹ Beckett, Sean, “Are Baby Boomers the Key to the Single-Family Market?” FreddieMac.com, June 2016

⁴² Beckett, Sean, “Baby Boomer Myths,” Chief Economist, October 2016

⁴³ “Approximately 2.5 million consumers will have a foreclosure, short sale or bankruptcy fall off their credit report,” Experian.com, October 2017

BOOMER CREDIT NEEDS



HELOCs

Beyond the Baby Boomers who plan to buy a home, another 42 million (63 percent) don't plan to move, but would rather age in place. Nearly a quarter of these (23 percent) say they would need major renovations to keep their homes accessible in their senior years. A third of those (34 percent) would pay for those improvements by refinancing their mortgage or taking out a second loan or home equity line of credit (HELOC).⁴⁴

By 2018, 43 percent of all U.S. homeowners will be affected by a HELOC reset, and many aren't prepared. A recent survey by TD Bank found that many borrowers who currently hold a HELOC don't understand how it works. As many as 42 percent of women and Baby Boomers don't know their HELOC reset date, or even understand what a reset date is. More than a quarter of those surveyed said they would refinance their HELOC into another loan, but only 69 percent plan to approach their current lender. Nearly a quarter of those surveyed (23 percent) said they do not have a financial plan to handle the end of their draw period, and only

40 percent of those said they would seek guidance from their current lender.⁴⁵

Given this information, financial institutions should reach out to their HELOC customers who fall within their lending criteria and who have a pending reset, as well as borrowers in their market who have a HELOC with another lender.

Reverse Mortgages

Reverse mortgages are among the top 10 financial products that Baby Boomers want credit unions to offer.⁴⁶ An increasing number of older Baby Boomers are taking out reverse mortgages and using the funds to pay for home renovations, medical costs, and daily living expenses, or to pay off an existing regular mortgage and eliminate monthly mortgage payments.

But a study by the Consumer Financial Protection Bureau (CFPB) found that reverse mortgage advertisements are confusing. Consumers filed 1,200 complaints with the CFPB over a three-year period, clearly indicating that financial institutions that offer reverse mortgages need to provide greater education and clarification on the topic.⁴⁷

The CFPB findings should be a strong warning to any financial institution considering reverse mortgages. If offered, they should be part of an overall program that promotes responsible borrowing, debt consolidation and savings plans to help Boomers make smart financial decisions that are appropriate for their needs.

Auto Loans

Baby Boomers are typically more likely to lease a car rather than purchase one because of their higher credit rating. But there's one exception. The oldest Baby Boomers are now more likely to buy new cars, having replaced the 35–44 year old age group from just seven years ago.⁴⁸

Baby Boomers across the generation are going to need financial resources that meet their specific needs, whether it's competitive loans to consolidate debt, money to buy a home or start a new business, or creative solutions to take advantage of existing home equity. Financial institutions that are willing to meet these needs, particularly with small business, retirement, and home equity products and services, could see significant profit opportunities.

⁴⁴ Beckett, Sean, "Are Baby Boomers the Key to the Single-Family Market?" FreddieMac.com, June 2016

⁴⁵ Pilcher, Jeffrey, "Survey: Home Equity Borrowers Admit They Don't Know Squat," The Financial Brand, November 2016

⁴⁶ "50 Filene Findings," Filene.org

⁴⁷ Ho-Sang, Montoya, and Donelson, Baker, "Keeping reverse mortgages in compliance," BankingExchange.com, August 2015

⁴⁸ Sullivan, Joe, "How Banks Can Better Connect With Boomers," The Financial Brand, January 2014

Bottom Line

The Baby Boomer generation will continue to be an attractive customer target for years to come. They may be able to see retirement on the horizon, but they certainly aren't slowing down. Instead, they are looking for new adventures, pursuing dreams, and starting new businesses — and they are looking to their financial institution to help them finance these new ventures while helping them reduce the cost of debt and improve their financial standing.

As the generation that holds the greatest wealth — more than 80 percent of personal financial assets in the U.S. — Baby Boomers are actively borrowing, spending and investing their money, making them an attractive and potentially lucrative customer for financial institutions.

Using generational marketing strategies to understand and address the unique financial needs of Baby Boomers can help financial institutions stay relevant and competitive, increasing customer engagement and gaining greater wallet share.

Our strategic, data-driven marketing programs are designed specifically for financial institution. Contact Harland Clarke for more information.

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