Raddon Research Insights

The High-Income Market: Trends and Behaviors, 2016

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Contents

Providing the Financial Services Industry and Professionals Insight to Better Serve the High-Income Consumer Market

As financial institutions strive to understand the high-income market, many questions have emerged.

What type of institution is the primary financial provider for a high-income consumer?

What products is this portion of the market using to save and to invest?

Are they spenders?

Do they regularly exceed their monthly budget?

Are they saving for retirement, and, if so, how?

How does their generational age impact their financial behavior?

And what are their financial goals?

Raddon, a Fiserv company, analyzes the high-income consumer to provide a clearer understanding of this segment of the market and their financial behavior.

Based on findings, Raddon not only answers the prevalent questions and captures macro-level market trends, but also dives deeper and develops segments that capture unique characteristics. The high-income market is not a homogenous consumer group. Based on variables including income, asset and debt levels, as well as comfort and trust levels, four distinct segments emerge with differentiating attitudes and perceptions toward their financial providers and their financial behavior. By exploring the characteristics of each segment, financial institutions gain insight to better serve a portion of the consumer market that historically has split its business among multiple service providers.

Things That Matter

- The high-income consumer market is not identical in preferences, attitudes and financial product usage behaviors.
- The majority of high-income consumers use a major bank as their primary financial institution.
- Smaller institutions, such as community banks and credit unions, gather higher levels of satisfaction from their high-income clients, who still want their providers to make them feel known and develop a relationship of trust.
- Retirement readiness, growing emergency funds and shedding debt are important financial goals for this market, regardless of their generational age.
- The majority of high-income consumers say an institution's technology resources impact their decision to invest with the institution or use its services.
- Over half of high-income consumers who use a financial advisor want that person to work at their primary financial institution.

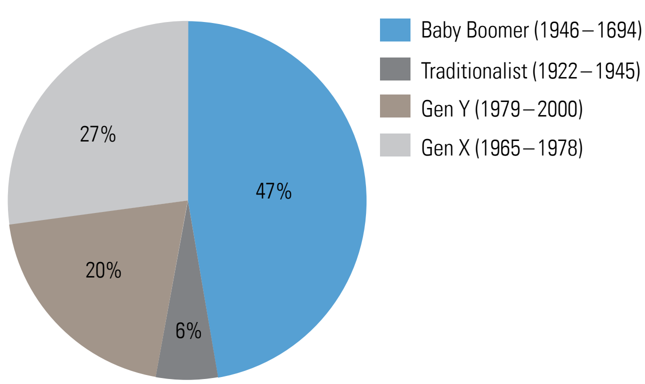
- High-income consumers paying off student loans exhibit a lower propensity to save for the future or for retirement.
- The majority of high-income consumers say they are putting minimal reliance (25 percent or less) on Social Security as an income source once in retirement.
- Top retirement concerns for the high-income market include cost of health care, protecting income levels and maintaining quality of life.

Profile of the High-Income Consumer

Demographics

From a generational composition, almost half of the study sample—47 percent—are baby boomers (born between 1946 and 1964). Approximately a quarter (27 percent) are Gen X (born between 1965 and 1978). The average respondent age in the study is 49 years old.

Figure 1: Generations

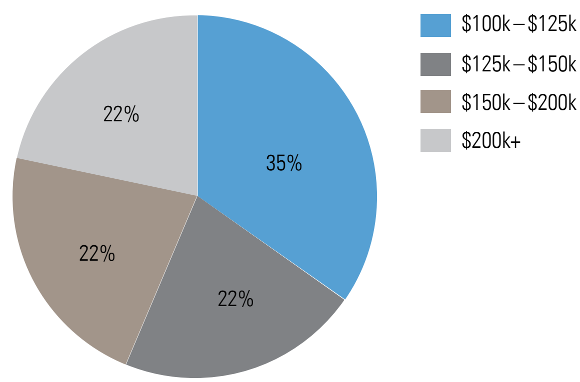


Respondent by Generation
(n=2523)

Source: Raddon Research Insights–High Income Study 2016

Among the high-income respondents who participated in the study, over half (57 percent) had an annual income ranging from $100,000 to $150,000, while nearly a quarter (22 percent) earned $200,000 or more per year. Almost two-thirds of respondents (64 percent) are salaried employees, followed by 16 percent who identified the source of their income from being business owners.

Figure 2: Annual Income



Respondent by Annual Income
(n=2523)

Source: Raddon Research Insights–High Income Study 2016

A majority of the respondents—92 percent—said they own their current homes. Approximately one-third of the sample (32 percent) estimated their home values to be $500,000 or higher, and half (49 percent) said they have lived in their homes for more than 10 years. Over half of the sample (56 percent) currently have three or more members in their households.

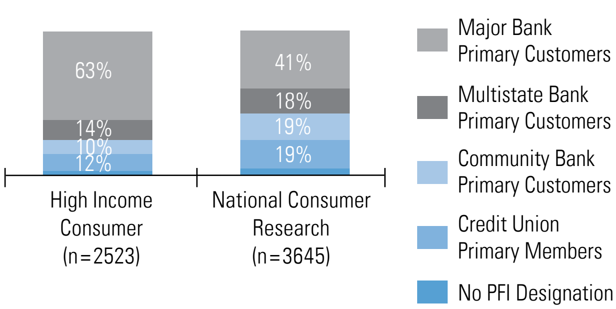
Institution Affiliation

Raddon's National Consumer Research, a semiannual study that gathers statistics on financial behavior and market insights, studies United States consumers across the full spectrum of annual income levels. According to the spring 2016 National Consumer Research study, approximately four out of 10 respondents indicated a major bank is their primary financial institution or most important financial provider. When high-income consumers were asked the same question, they are roughly 1½ times more likely to indicate they use a major bank as their primary institution. Conversely, respondents to the National Consumer Research are almost twice as likely to indicate their primary institution is a community bank or credit union.[1]

Almost two-thirds (63 percent) of participants in this study said their primary financial institution is a major bank, defined as using any of the following institutions: Bank of America (Countrywide), JP Morgan Chase (WAMU), Wells Fargo (Wachovia), Citibank, PNC (National City), and U.S. Bank.

Figure 3: Primary Financial Institution Designation

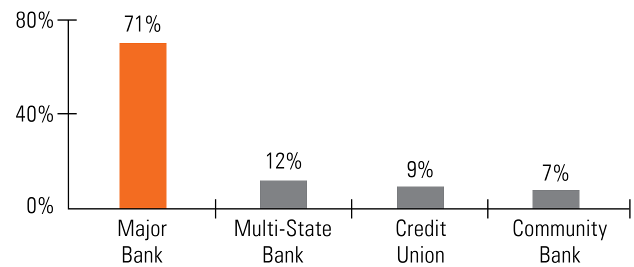
High-income consumers and national consumers who use a major bank as their primary financial institution cite Bank of America, Wells Fargo and JP Morgan Chase as the top three institutions in use.



Source: Raddon Research Insights – High Income Study 2016

Geographically, those high-income consumers who live in major metropolitan areas tend to favor major banks. Approximately three-quarters of respondents (71 percent) said they use a major bank as their primary financial institution. Only 12 percent use a multistate

Figure 4: High-Income Consumers Located in Major Metropolitan Areas and Primary Financial Institution, (n=1589)



Source: Raddon Research Insights – High Income Study 2016

bank, and 9 percent use a credit union as their primary financial institution.

Younger high-income generations in the study exhibited a far higher than average propensity to use a major bank as their primary financial institution. Of the respondents, 85 percent of high-income Gen Y use a major bank as their primary financial institution. High-income Gen X, also higher than average, shows 65 percent indicating they use a major bank.

Younger generations generally favor more flexibility and technology within their banking, so it's no surprise they may be attracted to major banks that can provide them with the features or functionality they crave. But according to an article on the ethnographic study conducted by Simon Associates Management Consultants, Gen Y and Gen X also desire a financial institution they can trust – where they can grow their wealth and their financial knowledge, and where they feel they are known and belong.[2] This poses a potential advantage for smaller, nonmajor banks when reaching out and developing what can be a lasting relationship with a segment of the population that could potentially hold the most wealth of any generation in history.

[1] Raddon, Raddon Research Insights, Spring 2016 http://www.raddon.com/products/spsg/

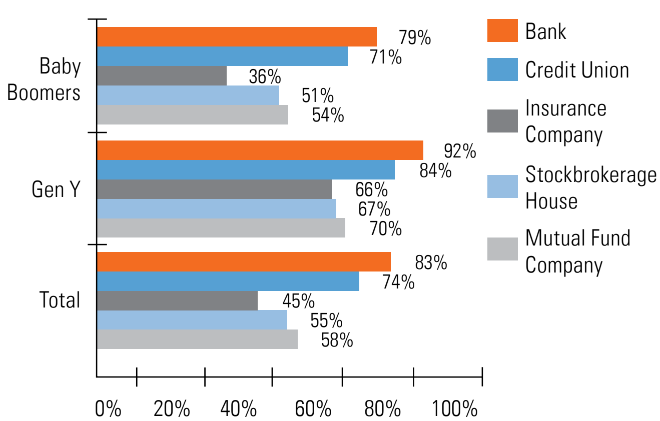
[2] The Financial Brand, What Gen-X And Gen-Y Really Think About Banks, September 2013. http://thefinancialbrand.com/33476/what-gen-x-gen-y-really think-banks/

Comfort and Satisfaction

When asked to share their comfort level with placing savings and investment funds in different financial institutions, overall, high-income consumers placed the highest levels of comfort on banks, credit unions and mutual fund companies. The concept of comfort is significant because it encompasses many areas that matter to a customer: a sense of belonging, trust and a potential indication of the depth of relationship. When looking at comfort levels by generational segments, high-income Gen Y consumers are significantly more likely to maintain higher comfort levels across all institutions, whereas high-income baby boomers notably exhibited lower levels.

Figure 5: Top 2 Summary: Totally or Very Comfortable With the Following Institutions, (n=2518)

Post-2008 financial crisis, high-income consumers have relatively healthy comfort scores. One attribute could be a result from financial institutions working to rebuild or maintain strong relationships with their customers or members post-crisis. Baby boomers have the lowest levels of comfort across all segmentations, which poses an opportunity for engagement as this group looks for services and products that meet their financial needs at this stage in their lives.

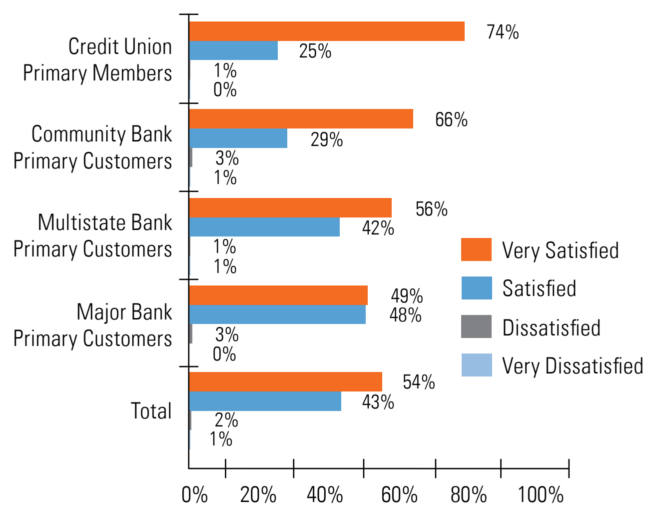


Source: Raddon Research Insights – High Income Study 2016

While the vast majority of respondents exhibited satisfaction with their primary or most important financial institution, those who are customers of major banks showed a significantly lower level of top-tier satisfaction (very satisfied). Respondents who used a community bank or credit union are far more likely to be very satisfied in their primary financial institution, which could be due to the level of understanding, trust and depth of relationship that customers or members feel they have with their primary financial institutions.

Figure 6: High-Income Consumer Level of Satisfaction, (n=2522)

Community banks and credit unions pull in the highest levels of customer satisfaction. The personalization and community-driven approach in their relationship building allows their customers to feel connected to the institution.



Source: Raddon Research Insights – High Income Study 2016

Higher degrees of satisfaction and trust closely align with the consumer's loyalty – or likelihood to remain with their current primary financial institution. Generally, younger generations tend to exhibit higher levels of satisfaction, perhaps due to engagement or ease of use with technological features. Interestingly, high-income consumers who are in the traditionalist generation