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Retirement Income Planning, Part 1: What People Want

As the Baby Boomers prepare to retire, we financial advisors and benefits professionals are about to let them down in a big way. This is going to cost them, and it is going to cost us, unless we all do some new thinking in this area. This is the first in a series of papers intended to address this issue.

Soon, half of this generation will be in their fifties. They have assets under their personal control far in excess of what their parents had. The financial and benefits firms are well aware of this and have been putting serious effort into new financial programs and products to exploit this new generation of wealth.

These initiatives are commendable but fall far short of providing what people who are approaching retirement really need and want: comprehensive assistance with the entire retirement process. For financial companies in particular, not meeting this need means the possible loss of untold billions of dollars in assets.

The company that gains the retirees' trust and confidence will be the company that gains the retirees' assets. And unless you can answer their questions, which extend well beyond the disposition of a Defined Contribution balance, someone else will gain that trust, and those assets. Employers looking to serve their retiring employees may have less at stake, but they should aspire to giving retirees the help they really need, not just the help that is conveniently at hand.

Retirement Income Planning from the Corporate Point of View

Over the past five years, financial companies have awakened to the opportunities presented by so many people facing retirement. They see massive Defined Contribution plan balances up for grabs.

The companies are responding with some creative products, marketing programs, educational outreach, and software. Employers, wanting to help their retiring employees (es-

pecially the higher ranking ones with large 401(k) balances), are eagerly awaiting the offerings the financial providers are creating.

Current efforts focus on the interests of the financial companies, not the retirees.

All of these developments are heartening. But their value is limited because they focus on the interests of the financial companies, not the retirees.

Retirement Income Planning from the Retiree's Point of View

Put yourself in the place of the retiree. Suddenly you have a lot of hard decisions to make. What to do with your 401(k) plan is just one of them. If you think about *all* the decisions you need to make, it can be overwhelming. You may have to worry about one or more Defined Benefit pensions and Social Security, whether you can and want to work part-time after retirement, and what to do with a family farm or business. There may also be alimony payments involved or an inheritance to consider. You need to think about your family budget, and how it will change after you retire. You have to consider, too, how long you and your spouse might live, and whether you'll face any serious illnesses. There may also be other dependents to worry about. Then there are questions about taxes, investment re-allocation, home equity, debt management, and legacies for heirs or charities.

Consider, too:

- Some retirement decisions are irrevocable. Once a roll-out has been made, or a pension option has been chosen, or a decision has been taken to start receiving Social Security, or an immediate annuity has been bought, further options are limited or non-existent.
- Even changeable decisions leave limited opportunities for correcting errors. When a family is young, opportunities are wide open. If a bad decision is made, there is time to recover. But once you retire, if you make a bad investment move and lose half your assets, it's unlikely that you'll ever get them back. Even if you are willing to go back to work, you may not be physically able, and even if you are, you won't make the kind of money you made before you retired.

People are facing many decisions they know they are not competent to make. The decision matrix is not just overwhelmingly large, it is overwhelmingly intricate, because many of the decisions affect one another. Even those who are financially savvy are over their heads.

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Whom Do You Trust?

Everyone who retires, rich or poor, needs help. Few financial professionals, and even fewer employers, can provide all the help you really need.

But suppose someone could help you with *all* of your decisions, financial and otherwise? Suppose further that the process is easy and inexpensive, so you don't have to be wealthy to get the help you need. And suppose you are given smart educational material and software that explain your options to you in as much detail as you want (but not more than you want). The challenge to the financial advisors and benefits professionals is to provide this broader expertise, and do it in a way that is feasible for both themselves and the people they are trying to help.

No such comprehensive approach exists today. The silver lining, though, is that you still have time to get into the game.

Can a Comprehensive Approach Work in Real Life?

What we're talking about is a comprehensive financial planning model for ordinary people. And yes, we are well aware that this has been tried in the past for other purposes, and it has tended not to work. But this is different...

As we all know, you can't expect ordinary people to go through complicated processes. Nor can you expect professionals (benefits officers or financial advisors) to spend hours and hours pumping data into a complex software model and analyzing alternative scenarios for the people they are trying to help. It's just not practical.

However, it is possible to develop software that enables ordinary people to deal with complex issues. In Part Two of this paper, which we will release early in 2004, we will explain how this can be done and offer specific instances.

Retirees are different. A comprehensive approach works for them, even though it usually does not work for younger people.

Once such a tool is available, the consumer, not the benefits officer or financial adviser, will do most of the work. The most time-consuming part of retirement planning is to think through what the income and expenses, assets and debts, goals and needs, currently are and should be in the future. So it makes sense to provide a tool that will help retirees organize their thoughts and information in their own way and at their own convenience. We're talking about a smart, adaptable package that people can use at home, and then can bring back to their advisor, who, with help of the software's additional features, can answer questions and produce recommendations.

Still, you say, ordinary people won't put this kind of effort into financial planning. That is usually true, but retirees are the exception. If you have ever worked with people facing retirement, you know that even those who previously had neither the time nor the interest to make financial decisions are suddenly keenly aware of the need and are highly motivated to follow through.

So, What's Next?

Still River is creating a prototype of the kind of software we believe will fit the bill. Early in 2004 we will be ready to share parts of it, showing some of the innovative techniques we are employing to make it uncommonly usable. These are techniques that you may want to consider when developing your own strategies for helping retirees.

In the meantime, we invite you to contact us if you would like to know more. We can discuss some of our ideas with you in more detail, and we are very interested in hearing your ideas.

We are also interested in partnering with financial companies interested in this market. Such partners will have the opportunity to help shape the system while receiving long-term financial considerations and gaining a solid competitive edge.

Still River Retirement Planning Software, Inc., provides both web-based and desktop software offering specialized calculations related to retirement plans and retirement planning.

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