Retirement Planning Software, Inc

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Retirement Income Planning, Part 15*: Can the Retiree Market Be Profitable for Advisors?

Financial advisors are already having second thoughts about the retiree market, finding the effort too great and the rewards too meager. This is alarming, because it could keep financial firms from realizing the market's potential, and also leave retirees without the advice they so need. We propose, however, that a practical solution exists.

Advisors getting less for more

Marshall Eckblad's important article in *Financial Planning* captures some of the research and recent experience with older clients.** He refers to a study by AssetMark showing that planners serving retirees and near-retirees spend more time – "often substantially more time"– than they do with younger clients. Individual planners he interviewed confirm the problem. And they often aren't remunerated for the extra effort.

An internal analysis at a major securities firm reports similar results. Planning for older clients is far more complex than for younger ones. While some of the old issues go away, a slew of new ones emerge. Devising an overall income-generating strategy, redesigning asset allocations, and arranging for what should happen in the event of death or incapacity are all time-consuming. And most seniors have other issues on their minds, too: Should they consider moving out of the big house where they raised their kids?

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* Part 1 of this series discussed in general form the urgent and wide-ranging planning needs of people facing retirement. In Part 2 we further explored the follow-up question: can a comprehensive financial planning approach really work for retirees and, if so, how? Part 3 examined investment risks and strategies, and argued that most retirees should be investing conservatively rather than for asset growth. Part 4 identified serious problems with the use of Monte Carlo models in retirement income planning, and suggested an alternative approach. Part 5 discussed the optimal time to annuitize. Part 6 dealt with the question of what retirees need from the planning process, suggesting inadequacies in current approaches. Part 7 outlined what "holistic" planning should mean for retirees. Part 8 set as its goal to define what Income Planning will look like in 2010. Part 9 discussed new product developments in this area, and weighed their importance and their limitations. Part 10 explored the different ways in which calculators could deal with risk. Part 11 dealt with the special case represented by early retirement offers. Part 12 suggested that financial companies stop trying to find the One Best Solution and experiment with a variety of tools and methods in approaching this market. Part 13 was directed specifically at employers and plan sponsors, explaining why they should be interested in this topic, and what to watch out for. Part 14 analyzed issues relating to retiree expenses.

** Marshall Eckblad, "The Retirement Puzzle," *Financial Planning*, December 2006.

What should they do with their pension plans? What kind of medical coverage should they have? What do they do with stock options or other executive benefits? Should they cut back on expenses or, instead, pursue those extras they always expected to enjoy in retirement? The list of such issues could go on at length.

Time is money to most advisors. Even those who charge by the hour risk losing their clients if they suddenly have to double or triple planning fees because retirement is complicating the analysis. Those who charge asset management fees simply lose out: they either don't make money on these clients, or they increase their fees – which can drive away clients, or reduce the net return on investment which, in turn, makes it harder for the retirees to meet financial goals.

Not only does it cost more for advisors to serve retirees, their financial rewards tend to diminish.

Advisors often lose in other ways, too. Most retirees want to invest more conservatively. This means less growth potential for the advisor. It also means that assets may be moved into savings (e.g., certificates of deposit) rather than investments, or into income annuities from which advisors receiving asset management fees may make nothing. Finally, with retirees withdrawing funds rather than contributing new money, balances are likely to stagnate or decline – as will the advisor's income.

Advisors can cope with these problems to some extent by changing how they get paid, but there is still only so much income to be extracted from a declining asset base.

It's even worse than it sounds

Most of the analysis of these issues that we have seen so far deals with advisors and firms who target high-end clients . But most of the need for retirement advice is in the middle market, where there are at least as many questions to answer. For individuals and couples who have, at best, marginal chances of living a comfortable life in retirement, every financial decision they make is important. The specific questions that they ask might differ from the ones an affluent family asks, but they are just as important to the well-being of the household, or even more so, since the margin for error is smaller.

If serving affluent retirees is problematic for advisors, the prospect of serving middle market retirees is even more so.

Of course, opportunities for advisors do exist in the middle market. These families often have money scattered among several employer retirement plans, in life insurance policies, in non-qualified savings and investments, and sometimes in a vacation cottage, a farm, or a small business. Many anticipate some kind of inheritance from an elder parent. Most own substantial equity in their homes – which in many cases will be freed up because the retiree plans to move. The advisor who invests time with these clients has the opportunity to consolidate a lot of their assets into one place, and/or to sell products that might pay a commission.

Yet if it takes many hours, even days, of collecting data and performing analyses to reap these rewards, focusing on retirees could be a career-ending decision.

This situation, difficult in the high-end market, seems hopeless in the middle market.

Strategy #1: Do less

So far, many advisors are avoiding the senior market while others, it appears, are getting out after giving it a try. But most established professionals can't do that. Clients have been with them for years, even decades, and are now moving into retirement. Advisors don't feel right about just dropping them , and if they did, it would be bad for business.

Still, they can't spend days on each of them. The obvious solution is to use rules of thumb, or at most very simple analytical tools, to answer retirees' questions. In principle, advisors understand that their clients need and deserve a comprehensive, detailed, integrated analysis. They realize that simple answers are often wrong answers, and that retirees more than younger people just can't afford to get wrong answers. But when time is money, "good enough" has to be good enough.

Strategy #2: Make the retiree your partner

We believe there is a better way – better for everyone. The answer is a planning process that is comprehensive, detailed, and integrated, but that requires a minimum of effort from the planning professional and his/her staff. Obviously, such a process does require effort, though, so if the planner doesn't do it, who does? There are actually two candidates: the computer, and the client. In our vision, both are used.

The computer can do the really heavy lifting: performing extensive and complex calculations. It can also recommend decisions that take into account not merely the data that the client has provided, but also the other recommendations that are being made at the same time, so that a truly *integrated* plan is produced and not just a series of individual recommendations that may not actually work well together. Finally, the computer can produce presentable, understandable reports ready to be handed to the client.

The hitch, of course, is that to produce a comprehensive, detailed, integrated plan, the computer needs a lot of data. So even if you had or could build the kind of software we are describing, collecting and inputting the necessary information would be prohibitively time-consuming. Which is where the client comes in.

Ultimately, most if not all of the data must come from the client in the first place. Instead of having the client fill out a lengthy questionnaire on paper, why not just give the client direct access to the software? Why not take the advisor out of the data input business altogether? This approach is untraditional, but it has many advantages:

- It saves enormous time for the professional advisor and staff.
- It eliminates the possibility of the advisor and staff making transcription errors that lead to incorrect analysis and, potentially, to E&O liability.
- It is much more efficient for the client, because the process is dynamic rather than static. A computer input process can be "smart" in ways a paper form cannot be. It can adjust or skip questions based on the answers to earlier questions. It can also provide real-time explanations when clients are not sure about something.

- It is less intimidating for the client than a multi-page written questionnaire. The client doesn't know in advance how many questions will be asked, and so is not discouraged by the sheer weight of the effort. If it turns out that the process does take a long time because of the complexity of the client's family or financial situation, by the time the client realizes that, he or she is already committed to the process and is reluctant to just let it drop.

Giving the client access to the input process does *not* have to mean giving access to the analysis and reporting processes. These can be reserved for the professional, who can review and modify the results before the client sees them.

But giving the client access does mean that the input process has to be easy enough so that an untrained person can do it. This is a software design challenge, but it is not impossible.

By the time the advisor even sees the case, the data has been input, the analysis performed, the recommendations generated, and at least a preliminary version of the necessary reports is available for the advisor to review.

And imagine how cost-efficient the planning process now becomes for the advisor: the client is given an account ID and password on a web-based system, or is given a CD-ROM with software that can be installed on a home computer. By the time the advisor even sees the case, the data has been input, the analysis performed, the recommendations generated, and at least a preliminary version of the necessary reports available for the advisor to review. In the best of situations, all the advisor has to do is go over the results and then meet with the clients for a review and discussion of how to implement the recommendations.

This process is so efficient that it can work quite profitably with middle-market clients.

For that matter, it could be effective even for lower-middle class retirees. Suppose a financial company wanted to make the *analysis and reporting* capability of such software available directly to clients, so that they could complete the input and also print out a report with recommendations. How nice would it be for an advisor to have retirees walk in with a report and ask: "It says here I need some more life insurance and an immediate annuity – can you help me with that?"

With this kind of tool, it's actually more efficient working with middle class retirees than affluent ones. People who have to deal with estate plans, trusts, non-qualified benefits, or ownership of a large business, need time-consuming help. People with more standardized problems can get appropriate planning with far less customization.

No perfect answer

Advisors, and the financial companies that provide products and services to them, are likely to hesitate before adopting this model, however.

The obvious question arises: can such a software tool actually be developed? Something that complex and sophisticated, yet sufficiently user-friendly, is well beyond the scope of traditional offerings by financial firms and software developers. Fortunately, the answer to this question is simple: yes. Such software already exists. You can read about ours on our website. In time, others may follow.

Another obvious question: will clients be willing to do their own data input? Some certainly will not. But as the Baby Boomers approach retirement, the career and family issues that have made them too busy to give you the time of day, let alone a complete financial profile, are letting up. Those who are preparing for retirement, or who have already retired, have time for this process. Most of them also have the motivation: the roughly three-quarters who are not in sufficient financial shape to retire know that they need to make the most of the financial resources they do have. They know they need smart advice, and they need it badly. Our bet is that most of them are willing to put in an hour or two or three of their own time if that means they'll get what they need. And most Baby Boomers are very comfortable with computer applications.*

The more difficult question is: can (will) advisors operate in this fashion? Unfortunately, we don't have the answer to this one, but the initial response shows that they are hesitant. This is not surprising. Successful advisors have attained their success using methods that they are now very comfortable with. The approach we are suggesting is a fairly radical change. And people don't like to change.

But what are the alternatives? They boil down to: (1) serving the retiree market in less efficient ways that will end up losing money rather than making it; (2) serving retirees in efficient but inadequate ways that are likely to do clients as much harm as good and that may increase liability exposure; or (3) not serving clients at all.

We believe that all of these alternatives are much worse than adjusting the *modus operandi* for this market. But this is a decision that each advisor and each company will need to answer for itself.

* In the meantime, we are beginning to conduct our own tests with real consumers, who are paying for the privilege. We expect to have a preliminary analysis of the data sometime this summer. Feel free to contact us directly if you want us to share it with you.

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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