WEALTH MANAGER

The Retirement Boom

When it comes to retirement, big firms want to be your partners.

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WHO KNOWS HOW MANY FORESTS have been felled to produce the never-ending flow of articles about the influx of Baby Boomers reaching retirement age—the first of whom turned 60 in 2006. By now we all know what they will want and need to get them through the 20-something retirement years statisticians predict. But what about the needs of financial advisors who serve those Boomers? Well, the news is good. The financial services industry is busily producing assistance in the form of more school—education, that is—and more online tools.

Take Fidelity Investments, for example. The Boston-based behemoth recently conducted a poll of 329 financial advisors and found many of them to be in the dark on the finer points of the Pension Protection Act of 2006. (See related cover story on page 48.) Among other things, the law affirms the fiduciary responsibility of financial advisors who counsel clients on 401(k) plans or IRAs. Fidelity found almost 90 percent of respondents planned to give investment advice to retirement plan participants, but just one-third of them said they understood the fiduciary responsibilities that business carries.

Not that Fidelity isn't trying to correct that. The largest provider of workplace retirement plans, Fidelity has conducted conference calls to educate advisors on the new law. Moreover, the company's Web site boasts a plethora of educational material, some from a report entitled "Adapting a Practice for Retirement Income Planning." The result of an online survey of 813 investors between the ages of 55 and 70 with investable assets of $250,000 or more conducted for Fidelity by NFO Research in 2006, the report identifies five key strategies advisors need to thrive in this market. One recent white paper suggests advisors looking to upgrade their retirement planning business should add expertise and products in healthcare and insurance.

"Individuals will increasingly look to their advisor to help with that. And if an advisor can't speak to healthcare issues and solutions, that client might look to another advisor," says David Liebrock, executive vice president of Fidelity Investments Institutional Services Group. He suggests advisors either get up to speed on these issues themselves, add personnel who already have the expertise, or come to referral arrangements with specialists in those fields. Even if healthcare costs do not seem to be a big concern for high-net-worth clients now, statistics indicate they probably won't be immune to healthcare sticker-shock in the future.

Dreyfus, another big player in the retirement planning field, also believes educating advisors is key, since the lion's share of the lion's business comes through intermediaries. Part of the company's "New Beginnings" campaign to educate advisors consists of a training initiative with 10 modules. Topics include: the psychology of retirement, in-retirement investing strategies, risky business, stretch strategies for IRAs, estate planning fundamentals, health and wellness and insuring the future.

"We're trying to help advisors walk their clients through the key decisions people face: How long to work, what are the client's social security benefits, pension benefits, how much risk are you willing to take into your portfolio, do you take your pension in a lump sum or do you roll it over, and so on. We want to create something actionable, not just a marketing cover for products," said Jon Baum, Dreyfus's vice chairman of distribution.

While T. Rowe Price also has put a lot of consideration into the Baby Boomer retirement problem, the Baltimore-based money manager has been urging advisors with upscale practices to focus on the needs of the less well-heeled as well as the high-net-worth. T. Rowe already offers such clients a direct program called Advisory Planning Services that enables users to see if they're on track to achieve their retirement goal. The client could start anywhere along the spectrum, whether in the saving phase, within five years of retirement, at the start of withdrawals, or well into retirement. But according to Christine Fahlund, a senior financial planner in T. Rowe's product development department, the program is designed to complement the services of advisors.

"We encourage wealth managers working with the high-end market to consider providing the type of service we are as well. We'd love to help them, encourage them, support them, to expand their business to include helping this [lower end] market, which needs it," Fahlund says.

One interesting insight to come out of the T. Rowe Price research is a change in the way an advisor helps a client look at saving for retirement. They decided to skip the anguish of telling a client how much money they need to retire. The bombshell target number often shakes the client's will. "This total shock and inertia set in, and their head goes in the sand," Fahlund says.

Instead, T. Rowe Price has decided to rephrase the question by focusing on how much of the client's current salary can be replaced by investments. Telling a client that he or she can expect to replace $20,000 per year of an annual salary of $80,000 is a very different message from: "You need to save $1 million or you won't be able to retire." The replacement number helps engage clients, giving them the option of saying they don't like the percentage and want to replace, say, half their salary.

Companies are also devising new tools to help advisors do the heavy lifting necessary to plan diversified portfolios that generate current income as well as continue to accumulate wealth for the long-term.

SunGard now offers RISE, a relatively new product whose acronym stands for Retirement Income Simulation Expert, to advisors who use their WealthStation and PlanningStation platforms. RISE lets advisors run simulations of potential cash flow generated by various investments, with a focus on annuities. Aimed largely at risk management, the product helps the advisor understand the potential benefit of converting assets into a cash flow stream during retirement.

"RISE helps advisors to understand what the risks are for retirement and helps them to meet a client's retirement goals," says Blaine Maxfield , president of SunGard's business solutions unit.

The product uses Monte Carlo simulation to project various outcomes from an array of different types of annuities—although it can be used for other investments as well. Because it runs possible outcomes of annuitizing at a variety of ages, RISE helps to answer the key question: "When should I annuitize?"

"[Advisors] can say to a client, 'This is what you need to do to meet your requirements going into retirement,'" Maxfield explains, adding that the product is mainly for clients who have not yet met their retirement goals because it helps find alternative ways to meet those goals once a client has run out of accumulation-phase time.

By late summer Pershing Advisor Solutions expects to roll out a new addition to its Net Exchange Advisor platform. The company will integrate its platform with NaviPlan software, so that positions held in client portfolios will automatically be brought over to the NaviPlan software. The new software means advisors can do more retirement planning using many different assumptions. Tools for goals-based planning are also in the works, according to John Iachello, head of Pershing's Advisor Solutions unit.

Last fall AssetMark , a unit of Genworth Financial, unveiled a new turnkey asset management product called Distribution Strategies. In a spirit similar to lifecycle funds, the AssetMark is a three-tiered investment platform designed to mirror client needs as they shift from accumulation to distribution mode.

The first tier is short-term target distribution, designed to provide two years of current cash flow by investing in short-term bonds and cash instruments. The second tier—mid-term balanced—aims to provide moderate growth over a two-to-ten-year period by investing in a balanced mix of stocks and bonds. The third, or long-term growth tier, works to provide long-term growth and inflation protection by investing in a balanced mix of stocks and bonds. It's a product that Chip Roame , managing principal of Tiburon Strategic Advisors, calls "savvy."

Another firm taking the initiative is TD Ameritrade, which is continuing to upgrade tools with vendors like Morningstar, Money Guide Pro and FundQuest . "Our specialty is developing these planning tools and allowing advisors to partner with the best of breed, and choose who they want to work with," said Matt Judge, director of the company's product management. He said the company has been working to integrate the software more closely with its Veo platform by developing ways to populate the software with client data directly from the system, saving time and eliminating keystroke errors. Judge, who says he is looking at expanding practice management initiatives this year, confirms that retirement planning is a hot topic under consideration.

Retirement is virtually the only topic for discussion at Age Wave, the marketing and consulting firm founded by "Retirement Guru" Ken Dychtwald. Recently, Age Wave introduced a new online survey called Retirement Bridge designed specifically to enable advisors to profile clients and their retirement expectations. The product is a natural for Dychtwald, a leading authority on the social, lifestyle, marketing. workforce and healthcare issues related to aging boomers. Retirement Bridge targets their dreams, fears and retirement readiness as well. It goes on to draw out the type of relationship the client wants with their advisor—whether that be as a simple educator or a motivational coach. Finally, it gives the advisor specific tactics for dealing with individual personalities and the variety of their retirement concerns.

Dan Veto, Age Wave senior vice president, says studies of Baby Boomers show they value "their own uniqueness," and want an advisor who understands them personally. But, he adds, "Getting to know someone is tough. It won't come in a one-hour visit— sometimes it takes, days, weeks, months, years."

Retirement Bridge, which works as a behavioral complement to standard financial profiling tools, starts with a 20-minute survey the advisor gives the client to take online. Results can reveal sharp differences between two clients whose traditional financial profile—age, income, retirement savings and risk tolerance—may look similar. For example, it might show that while one may be a very organized worrier and saver who is stressed out over retirement, the other may be less organized, an optimist, spender and a dreamer.

After the client takes the survey, Retirement Bridge software generates a comprehensive report for the advisor, along with a page of highlights. It also shows the client some of the report based on their responses to help them keep up their saving and investing momentum.

The advisor's version picks out important traits about the client and provides ways to deal with them. For instance, Veto says clients who describe themselves as "very well organized," should not be kept waiting. A little thing like being late to a meeting can sink a relationship. "With those clients, show up five minutes early and return calls within 24 hours, and you're the best," Veto advises. "It may not be fair; you may be the best advisor around, but that's a psych o logical trait you should know about the client. Many advisors don't realize these things until after they've learned it— maybe by losing business they feel they should have gotten."