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## A Guide for the Perplexed Participant

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By Kerry Pechter     *Wed, Feb 16, 2011*

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*GuidedChoice is the latest 401(k) advice provider to announce a platform that helps participants turn their savings into income—with or without a rollover to an IRA. (Above: CEO Sherrie Grabot.)*

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GuidedChoice, an independent provider of investment advice for employer-sponsored retirement plan participants, unveiled the second and newest version of its GuidedSpending retirement income module during a webinar.

The Los Gatos, Calif.-based company, co-founded in 1995 by Nobel Prize laureate Harry Markowitz, partners with many plan providers on the institutional side, but also offers the same planning tools to financial advisors and individual investors that it does to plan participants.

“We’re reinventing the way retirees get paid,” said Sherrie Grabot, CEO of GuidedChoice. “Every retiree is different, so each one needs a different solution and planning style. But they all want to know how to spend their money and how to reduce their risks.”

How much will in-plan income advice programs like GuidedChoice and Income+ change the dynamics of the retirement industry, where money has tended to flow out of plans at retirement and into rollover IRAs where it is managed by financial advisors or self-directed at a firm like Fidelity, Vanguard or T. Rowe Price?

Industry expert Dennis Gallant, president of GDC Research, thinks that the new programs might keep some money in the plans and out of the hands of advisors. But holders of larger 401(k) accounts will probably still seek advisors when they retire, he said.

“Will it undermine the intermediaries? Probably not. It may have an effect at the margins. We’ll see,” he said, adding that many people still won’t be able to make tough decisions on their own. “Unless someone says, ‘This is the right thing to do it,’ they might come to the edge but they won’t have the confidence to act.”

Howard Schneider, president of Practical Perspectives, another research firm, thinks it’s significant that these programs are “pushing the retirement income decision further upstream”—that is, prior to retirement. Retirees with more money will continue to seek advisors however, he believes, but people with less money may opt for a less-expense web-mediated form of income planning.

“Most decisions have been at the point of retirement: you get your rollover, you sit down with an advisor,” Schneider told RIJ. “But if someone comes up with a solution that works in the 401(k) structure, then it will become a challenge for those advisors and other organizations that want those clients or rollovers. None of those things have worked yet, but if somebody finds the right solution, it will be game-changing.”

“The jury is still out on how disruptive any of these products will be,” said Joshua Dietch, a managing

director at Chatham Partners in Waltham, Mass.

The GuidedSpending webinar, conducted last Wednesday before a small online audience, offered only a basic description of the updated tool. Like Financial Engines' Income+ program, announced two weeks ago, GuidedSpending 2.0 gives plan participants a mechanism for turning their retirement accounts into retirement paychecks.

Both of these programs are likely to help keep more assets in employer-sponsored plans. After they retire, plan participants won't have to roll their money into an IRA and search for an advisor to help them tackle the retirement income challenge. They can leave their money where it is. In that sense, both programs leverage the well-known inertia of the average plan participant.

The two programs have different market strategies, however. Income+ is aimed exclusively at Financial Engines' 401(k) managed account clients and charges them nothing besides their current managed account fee. GuidedSpending is aimed at just about anybody—inside or outside of a plan.

To use GuidedSpending, all they have to do is pay the annual fee. Access to the online tool, along with phone support, costs either \$49.95 or \$249.95, depending on whether you just want GuidedChoice to consider your defined contribution assets or if you want help creating a plan that includes all of your household's accounts.

"This is the first online tool of its kind to be offered to all participants within a plan, rather than just as an executive benefit," the company said in a release. "GuidedSpending was designed to replace the overly simplistic 4% rule approach long used by financial planners. It addresses the need for an easy way to find a personal answer about the amount of money to withdraw each year in retirement in a way that is both more flexible and more effective."

The program would also include suggestions for choosing a portfolio allocation along the "efficient frontier" between risk and return, and well as advice about drawing down various accounts in a sequence that minimizes taxes. "Our system allows them to choose their planning style," said Harry Markowitz, who originated the efficient frontier concept.

Grabot avoided specifics when talking about the adoption of GuidedChoice by plan providers and sponsors. In a release, the company said, "reactions from beta testers and early adopters, including a 13,000-participant Fortune 500 company, have been extremely positive." The new service can be started with "the flip of a switch," Grabot said, with no need for new technology.

Tom Condron, executive vice president at GuidedChoice, said annuities would be included in the modeling of retirement income strategies. So far only single-premium immediate annuities and deferred income annuities, aka longevity insurance, are being modeled, he said.

During the webinar, Grabot offered two hypothetical examples of GuidedSpending. In one example, a single, 64-year-old retiree with \$200,000 in 401(k) savings was told that he could receive a check for \$2,300 a month. A couple with multiple accounts worth about \$372,000 and a \$350-a-month pension

learned that they could receive about \$4,610 a month in retirement, according to the slides.

On the face of it, these amounts represented much larger drawdowns than those prescribed by the conventional “4% rule,” and it wasn’t clear by the end of the webinar exactly what those numbers meant or how they were arrived at. Later discussions revealed that the couple, for instance, would receive about \$2,100 of their \$4,610 monthly income from Social Security and a small pension, and the remaining amount from distributions from savings. For details, see accompanying article, “A Q&A about Guided Spending,” in this edition of RIJ.

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