
'Decumulation is Like a Rubik's Cube'

By Kerry Pechter Tue, Oct 25, 2011

The Money Management Institute has identified 34 financial services firms that have created what it calls Personal Retirement Income Solution Management (PRISM) tools or programs.

Putting men on the moon was easy, a NASA scientist once said. Bringing them home safely was hard. People have drawn similar comparisons between *saving for* retirement and *spending in* retirement.

As one advisor recently commented to the Money Management Institute, "Accumulation is like a tile puzzle. It's difficult but you can figure it out. Decumulation is like a Rubik's Cube. It's very difficult to figure out."

During accumulation, a household's earning power and a long investment horizon help smooth out many economic shocks. It's much harder, however, to deal with inflation, taxes, market volatility and poor health in retirement, when you've got finite or shrinking resources.

Wealthy retirees, of course, may never face decumulation per se. That is, they may not need to dip into principal. But most Americans won't enjoy that luxury. Even for the so-called mass affluent, diligent planning will be crucial.

Some financial services companies have adapted faster than others to the changing needs of their Boomer customers. In a recent [whitepaper](#), the Money Management Institute identified firms that have embraced the decumulation challenge by creating what MMI calls Personal Retirement Income Solution Management (PRISM) tools.

Jack Sharry, chair of MMI's Retirement Solutions Committee and an executive vice president at LifeYield, which makes a tax optimization tool for the decumulation phase, said it was time to shed light on this trend.

"A lot of companies are building these tools but they don't know that other companies are building them," Sharry told RIJ recently. "We're writing about the phenomenon, which is well underway. Companies realize that retirement income is hard and that advisors won't figure it out on their own unless they have help."

Process instead of product

The acronym PRISM encompasses a new class of "products, services, and processes that... enable financial advisors to assist retail investors with the comprehensive management of drawing income over a 20- to 30-year retirement horizon from... multiple accounts and products."

One recent example would be Retirement Ready, an online "product allocation" tool that John Hancock Financial Network recently introduced to help affiliated advisors model different ways of crafting income streams from mutual funds, variable annuities and income annuities.

Another example would be Transamerica's Retirement Transition Service. Designed to help transition older plan participants into retirement, this program is marketed to record keepers, plan sponsors, unions and associations. It provides answers to participant questions like, "Can I afford to retire? When can I do it? How can I do it?"

Pioneering Builders of PRISMs <i>(Personal Retirement Income Solution Management tools)</i>		
Broker-dealers	Income services and asset mgt. providers	Technology/software firms
Bank of America /Merrill Lynch	American Funds	Albridge
Edward Jones	Cannex	CashEdge
Fidelity	Envestnet	DST
John Hancock	Financial Engines	DTCC
LPL	GuidedChoice	Ernst & Young
New York Life	New York Life/Mainstay	Fiserv Investment Services
Northwestern Mutual	Russell Investments	GuidedChoice
PNC	Wealth2K	Healthview
Securities America		Investigo
SunTrust		LifeYield
Transamerica Retirement Mgt.		Morningstar/Ibbotson
USAA		QWeMa Group
Wells Fargo		Yodelee
Source: Money Management Institute, October 2011		

Fidelity offers a "Retirement Income Planner" and "Income Strategy Evaluator." Northwestern Mutual Life has created "Retirement Schools" for its 4,500 advisors, and incorporates tools from LifeYield (for tax optimization), NaviPlan (for investment selection) and Ernst & Young (for income product allocation).

Certain trends in PRISM design are emerging, according to the MMI whitepaper. Product agnosticism, "product allocation," and open architecture typify the new tools, rather than single-product solutions. Recognizing that no two retirees are like, companies emphasize tools with flexible modeling capabilities.

The development of these so-called PRISM systems is being driven by the realization that, while investment strategies were largely product-driven, income strategies are much more process-driven, and that a critical mass has been reached: the numbers of new retirees and near-retirees now constitute a market large

enough to demand attention.

"Enough people are coming to the point where they need some help. They say, 'I don't want another product. I've got a bunch of products. I need some guidance to take out an optimal level of income,'" said Sharry. "I use myself as an example. I hope to retire within the next five years. I've got a bunch of 'stuff.' I'll want to start drawing on it. But I don't know how to pull an income out of multiple IRAs and insurance products."

Sons of TAMP

The push to create distribution planning tools actually started several years ago, but the financial crisis interrupted its progress. In the middle of the first decade of the new century, a team at MassMutual was using technology developed by Jerry Golden to create a tool that an advisor could use to move retired clients' assets gradually from risky assets to a guaranteed life annuity.

"What Jerry Golden was doing was called a Turnkey Asset Management Program," Sharry said. "Or rather, it was the next step out from a TAMP. MassMutual tried but they couldn't get it going, and they gave up on pursuing it. We had the recession. The market wasn't ready."

Interestingly, several of those involved in the MassMutual project have moved elsewhere to work on various aspects of retirement income, Sharry noted. Tom Johnson went to New York Life, Steve Deschenes moved to Sun Life and Gary Baker joined Cannex, which manages information about income annuities and other products.

Driving all of this, of course, is the broad recognition that retired Boomers will be spending trillions of dollars over the next couple of decades. Financial firms also recognize that their customers' retirement is a moment of both opportunity and danger—a juncture when many people move money from one provider to another, consolidate assets, and change advisors.

Citing Hearts & Wallets, a Boston-area research firm, the MMI whitepaper noted, "By 2020, over 25% of all U.S. investable assets will be devoted to sustaining older Americans." Quoting McKinsey & Co. research, MMI said that firms that position themselves as experts in retirement advice as opposed to investment advice stand to increase their share of clients' assets by 50%.

With the generalized uncertainty that now hangs over the national and global economy, there's arguably more anxiety than ever about retirement—anxiety that Sharry said extends even to advisors' wealthiest clients.

"Advisors realize that it would be nice to have clients who have so much money that they don't have to worry about retirement income or longevity risk," he told RIJ. "But I was with a group of advisors that had clients with \$10 million and above, and they said that for the first time, those clients are worried about running out of money."