Retirement Income
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For B-Ds, Independence May Prove Confining

By David Macchia *Thu, Jul 9, 2015*

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One of my enduring regrets is not challenging the head of an independent broker-dealer several years ago when he told me that *"Retirement income is nothing new for financial advisors. They've been doing it for many years."*

From my hands-on experience in the then-emerging retirement income business I knew he was wrong. But I was reluctant to challenge the gentlemen. A mistake. I regret it. I believed then—and continue to believe—that independent broker-dealers (IBDs) will be severely challenged by the retirement income opportunity. Ironically, IBDs' core strength, not a weakness, will cause them to stumble. More on that later. First, some background.

As early as 2004, it was clear that the advice industry had moved into a quite new and different era. My firm would hear frequently from our advisor-customers about their successes at consolidating retirees' assets.

They confirmed our thesis about investors' willingness to switch the management of their retirement assets to a new advisor: Once a retiring investor's concerns shift from accumulation toward the provision of stable, monthly income, it becomes relatively easy for almost any accumulation-focused advisory relationship—no matter how long-standing and successful—to be upended by a new advisor who appears in the role of *income planning expert*.

In 2005, when the Retirement Income Industry Association was formed, I first heard the term, *asset consolidation*. Executives from the member companies talked about the urgency to unite their corporate silos with new "cross-silo" retirement income businesses. Many of them began to understand the link between income planning expertise and asset consolidation.

But, ten years later, many people still don't understand this. Most independent financial advisors are not yet experts at income planning. Therefore, their business relationships with their current clients are vulnerable. There's a lot at stake here because, as I like to say, retirement income is a zero-sum game. It will create winners and losers in the extreme.

If you'd like to hear an advisor describe a real-world example of asset consolidation through income planning, **download** this excerpt from my interview with advisor John Geenan. John's experience illustrates how, even under conditions highly favorable to the incumbent advisor, the new advisor with income planning skills can capture the retirement assets.

So, what does this portend for IBDs? Unless their advisors learn more about income planning, the future isn't bright. Most Boomer retirees will be "constrained"—that is, their retirement nest eggs won't be large relative to the amount of monthly income they want. Consequently, they'll need outcome-focused income-generation strategies that protect them against sequence-, inflation- and longevity-risk and help them avoid emotional decisions.

But, the fact is, most accumulation-focused advisors don't know how to build, illustrate and present such risk-mitigating strategies. That's where the IBD's core strength will hurt them.

Most advisors need education and guidance in order to acquire the income-planning skills necessary for success. But the IBDs' own cultures, which emphasize independence, prevent them from leading their flocks to the promised land of asset consolidation. It's just not part of their DNA.

As millions of Americans reach age 65 and begin to think about income, it will be interesting to see whether or not IBDs take a genuine leadership role in that specialty. I argue that they should try, even though it might cross their cultural grain. If the sheer scale of the retirement income opportunity doesn't motivate them, the fee-compressing impact of the DOL's fiduciary proposal certainly should. When every dollar yields less compensation, the only way to survive or grow will be to manage more dollars. Consolidation, anyone?