Retirement Income
JOURNAL

Getting into the Heads of RIAs

By Editor Test *Wed, Mar 14, 2012*

Data on the views and practices of RIAs are included in a recent study co-authored by Howard Schneider (left), of Practical Perspectives and Dennis Gallant of GDC Research.

Registered investment advisors, whether individual money managers or large wealth management firms, are an important market for purveyors of retirement income products. (See today's RIJ cover story, "Will RIAs Sing This ARIA?")

RIAs sit higher on the financial food chain than other intermediaries, in a sense. They tend to manage larger chunks of money and bear more fiduciary responsibility than brokers and insurance agents. And, since the financial crisis, they've become the fastest-growing financial distribution channel.

Some of the freshest data on RIA practices, especially with respect to retirement income, comes from *Trends in Advisor Delivery of Retirement Income – 2012*, a report published in February by two Massachusetts firms, Practical Perspectives and GDC Research.

Here are some the findings, based on a surveys of and interviews with all types of financial advisors, of their 150-page proprietary report:

- RIAs are the most likely to serve clients with the highest average assets, followed by wirehouse brokers. Independent and regional broker-dealer reps and insurance advisors tend to serve the mass-affluent.
- In part because they tend to have older clients, RIAs (and wirehouse brokers) tend to be more likely to support a higher proportion of retirement income clients. Over 40% of RIAs and more than one-third of wirehouse advisors are classified as fully engaged by the Retirement Income Client Quotient (A scale of created by the researchers).
- RIAs have the highest concentration of retirement income assets managed; insurance advisors have the lowest. This likely reflects the broader wealth management orientation of RIAs and the more transactional value proposition of insurance representatives.
- 57% of RIAs manage $750 million to $5 million, compared to 33% for wirehouse advisors, 24% for bank advisors, 7% for advisors at regional and independent broker-dealers, and 4% among insurance agents. Overall, most advisors (59%) manage between $250,000 and $750,000.
- Fewer than half of RIAs report growth in the number of retirement income clients served, perhaps because of the more mature nature of the RIA practices and the older clients they serve.
- RIAs by definition favor fee-based only compensation, with almost 90% solely or primarily fee-based. But 30% of RIAs say they use planning fees regularly, 10% use hourly fees, 13% use retainers.
- More than half of advisors *except* RIAs view "enhancing retirement income processes and capabilities" as a high priority. Only four in 10 RIAs describe that as a high priority.
- Independent advisors and RIAs are by far more likely than others to provide assistance with developing a retirement income strategy and with educating clients on issues related to retirement. This may reflect the more holistic orientation of these advisors.
- RIAs are the only channel to have little interest in increased use of variable annuities.

Trends in Advisor Delivery of Retirement Income – 2012 is the latest in a series of research studies on advisors and retirement income practices co-published by GDC Research and Practical Perspectives since 2008. Their work shows that advisors are gradually moving beyond the systematic withdrawal approach to decumulation.

“There’s been a gradual migration away from the total return approach, which is just a continuation of the accumulation approach into retirement,” Howard Schneider, president of Practical Perspectives, told RIJ.

“For most advisors, a 4% to 5% return is still the target, but they’re discovering that the total return approach is unpredictable. S more are using a time-segmented or, increasingly, an income-floor approach. It’s not a sea-change in attitudes; it’s not as if the numbers using total return have shrunk a lot. But the advisor market has divided into a third, a third, and a third, where in the past the percentage using just total return was in the mid- to upper-40%,” he said.

“Investment management is still the core function in client-advisor relationships. With high net worth clients, advisors are the quarterback, and will talk to them about a variety of topics. With the smaller clients, they can’t afford to do that. They tend not to be as hands-on and they focus more on investment management.”

To some extent, advisors are waiting to see what their peers do about retirement income.

“Advisors are facing a confidence dilemma,” Schneider said. “On the one hand, they say they’re confident that their clients will achieve their retirement goals. At the same time, they say, ‘I’m open to other ideas. Tell me more about what other advisors are doing.’ They want validation that they’re doing the right thing.”