Retirement Income
JOURNAL

How To Market to Advisors

By Kerry Pechter *Sun, Apr 10, 2011*

Here's a smarter way for retirement income product manufacturers to segment and sell into the advisor market, according to survey analysts Howard Schneider of GDC Research and Dennis Gallant of Practical Perspectives.

Are we there yet?

The years have been slipping by, the oldest Boomers are edging into retirement, and manufacturers of income products are still waiting for the so-called tipping point when they feel the tug of serious demand for their wares from retirees and their advisors.

Howard Schneider of GDC Research sees evidence that we've reached that point. While most advisors are still fence-sitting with regard to retirement income, he told RIJ, the inexorable aging of their clients is pushing more of them to act.

"It's here," Schneider said. "We're in the early stages of a marketplace that will see tremendous growth. It's not well developed yet, but retirement income is becoming part of the base of all advisors. Advisors say it's real."

Schneider and colleague Dennis Gallant of Practical Perspectives have periodically surveyed advisors in recent years on their attitudes toward retirement income planning. Their latest report, "Trends in Retirement Income Delivery: Advisor Portfolio Construction, Product Usage and Sales Support," is just out.

One big takeaway: when marketing to advisors, don't focus entirely on whether they're in the wirehouse, independent, RIA or bank channel. Focus instead on the number of retired clients they have, which of the three major types of retirement income strategies they practice, and whether they've just begun to think about income planning as distinct from accumulation-stage planning.

For instance, one way that Schneider and Gallant segment advisors is by their "Retirement Income Client Quotient," a ratio they've invented that refers to the percentage of an advisor's clients who are within three years of retirement or retired. There are five levels of RICQ:

- **Fledgling**, with a RICQ of 20% or less.
- **Emergent**, with a RICQ of 21% to 40%.
- **Transitional**, with a RICQ of 41% to 60%.
- **Committed**, with a RICQ of 60% to 80%.
- **Elite**, with a RICQ over 80%.

Schneider noted that the Fledging group has shrunk to 7% from 15% of the advisor universe in one year, while the Committed group (include Elites) has grown to 20% from 18% in a year. While the Elite group, which Schneider estimates at about 5,000 advisors across all channels, is already receptive to retirement income messages, the bigger opportunity for product marketers may lie with the transitional and emergent groups, which include some 68% of advisors.

Schneider and Gallant also divide advisors by the retirement income philosophy they follow. Advisors tend to use one of three core approaches:

- **Risk-adjusted total return approach**, with a focus on optimizing total return of the client portfolio. Also known as the systematic withdrawal method.
- **Pooled or bucket approach**, with an emphasis on managing assets across duration- based short, intermediate and long-term pools.
- **Hybrid or income floor approach**, with a goal of providing assured income for client needs while managing risky assets for ongoing growth. It often combines risky and insured products.

"[Retirement] is unlike the accumulation phase, where all the advisors do some version of Modern Portfolio Theory," Schneider said. "For retirement income, 40% to 45% of advisors do the risk-adjusted total return method. They'll use income vehicles for diversification. not income. About a quarter of the market uses either the pool or bucket approach. And about 30% use the income floor or hybrid approach, which combines the other two."

How does a marketer find out which strategy an advisor uses? "You have to know the advisor and how the advisor provides income for their client. You've got to say, "If you're trying to manage a portfolio this way, here's how you can use our solution.'"

A third way that the researchers segment advisors is by their stage of evolution toward the retirement opportunity. "If you could know only one thing about an advisor, you want to know what their management philosophy is. But you also need to know the stage they're in," Schneider said.

He and Gallant identify four stages of familiarity:

- **Unbelievers.** This group, which includes many older advisors, doesn't recognize retirement income planning as a distinct discipline.
- **Uneducated.** This group, which includes many younger advisors with younger clients, understands the retirement income challenge but isn't engaged with it.
- **Aware.** This group includes "advisors who understand the potential of the market and are in various stages of transitioning a practice to retirement income."
- **Best Practice.** Members of this group have been serving the retirement income market for many years, and have developed a "deep, well-honed" process that they aren't going to change.

The greatest opportunity for manufacturers lies among the Aware advisors, Schneider said. "Someone in the aware group may be more receptive [to wholesalers] than someone who is already got things in place, and knows what he or she is doing. The best- practice group won't be as receptive to new solutions. They've already figured out the puzzle and built a business around it."

How do manufacturers figure out which segments an advisor falls into? "It requires a lot of pick and shovel work to do that," Schneider said.

In emphasizing these other forms of advisor market segmentation, it would probably be a mistake to say that channel doesn't matter for retirement income marketers. The *Trends in Retirement Income Delivery* study show clear differences between channels in adoption of or interest in annuities.

For instance, 12% of advisors at regional broker-dealers and 11% of bank/insurance channel advisors are big users of variable annuities, while RIAs—the fastest-growing category—rarely use them. Only about 7% of wirehouse and independent advisors are frequent users of variable annuities.

Francois Gadenne, executive director of the Retirement Income Industry Association, which has been promoting its retirement management designation, the RMA, to advisors, said he was encouraged to see Schneider's estimate of 5,000 to 6,000 adherents to the retirement paradigm among advisors. "If you think of it as a plant, the growth does not take place on the old wood," he said. "The question is, where are the green tips of growth?"

The way to find retirement-oriented advisors, he said, is to look for those with "constrained" older clients who have considerable savings but not quite enough to cover all their needs and wants. "This isn't a top-down movement. What drives the advisors are the clients. So you want to look for advisors with a book of business that is tilted to older clients, and to older clients who are constrained rather than overfunded," he said.

At independent broker-dealer LPL, "We're definitely hearing more from advisors in the field that they would like help in developing retirement income solutions," said Stephen Langlois, LPL's executive vice president for strategic planning. "It's mostly anecdotal at this point. They're not looking for a product, they're looking for guidance in putting all the pieces together."

Kevin Seibert, CFP, director of InFre, which provides retirement income planning education and a related certification, says, "I'm having more conversations with advisors who have been proactively seeking information on retirement income management. With the economy turning around, the first Boomers turning 65 and clients becoming better informed and asking the right questions—partly because of all the TV commercials they're seeing related to retirement—all of a sudden there's been a renewed positive interest that enables us to tell our story to more advisors."