
How to Reach the Middle Class Investor

By Editor Test *Wed, Oct 13, 2010*

The Society of Actuaries has issued two new papers, one that shows advisors how to create income plans for non-affluent retirees and one that explains why the middle-class shuns advisors.

Non-affluent or middle-market Baby Boomers tend to be underserved by financial advisors, who focus on affluent or “high net worth” clientele. But the middle class also needs retirement planning advice, and they obviously outnumber the folks-who-live-on-the-hill. So it stands to reason that opportunities exist for advisors to serve them.

Two research papers released in September by the Society of Actuaries go a long way toward helping advisors and other financial service professionals understand the situations of near-retirees in the middle-market and the reasons why they don’t often work with advisors.

“[Segmenting the Middle Market: Retirement Risks and Solutions](#),” was prepared by Milliman’s Noel Abkemeier under SOA sponsorship. It breaks out the retirement planning process into its component decisions, highlights seven principles or steps for retirement income planning, and provides four different sample client examples, with three variations of each one (single male, single female, married).

For instance, here are the six types of decisions that near-retirees or retirees need to make:

- Work (When to retire, whether to work part-time)
- Claiming (When to claim Social Security)
- Insurance (How much and what kinds to buy)
- Investment (How to invest savings in a risk-appropriate way)
- Housing (Whether to downsize, release equity, etc.)
- Tax (How to minimize them in retirement)

And here are the report’s seven essential steps of retirement planning:

- Quantify Assets and Net Worth
- Quantify Risk Coverage
- Compare Expenditure Needs Against Anticipated Income
- Compare Amount Needed for Retirement Against Total Assets
- Categorize Assets
- Relate Investments to Investing Capabilities and Portfolio Size
- Keep the Plan Current

The second paper, “[Barriers to Financial Advice for Non-Affluent Consumers](#),” was prepared by Dan Iannicola, Jr., and Jonas Parker, Ph.D., of The Financial Literacy Group for the SOA. This paper describes the individual, social and institutional barriers that prevent middle-class investors from seeking or

obtaining professional financial advice.

This study reveals that, generally, non-affluent consumers don't understand investing, don't understand the value of investment advice, and don't trust the financial services industry. At the same time, most non-affluent consumers don't occupy the same social spheres as advisors, and a variety of cultural and even language barriers may separate them.

Moreover, most financial institutions pass over the non-affluent market as unprofitable, or focus on selling them products they may not be able to afford. Recently, financial institutions face the ill will created among many investors by the events of the 2008-2009 financial crisis.

The fact that men and women take such different approaches to money also apparently affects the typical couple's use of financial advice. The researchers point out that, while women usually keep the family's books and would like to consult an advisor, men usually do the investing and long-range planning.

But, just as most men don't like to consult maps or ask for directions when driving, most of them would rather practice self-reliance than consult an advisor. "This situation is compounded by the fact that couples often avoid conversations about long-term financial issues so that the need for advice may not be addressed and a plan to seek advice may never be developed," the paper said.

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