Retirement Income
JOURNAL

Probing the Minds of Advisers

By Kerry Pechter *Wed, Jan 8, 2014*

Manufacturers trying to build retirement income solutions for advisers face the fact that advisers vary widely in their approaches to retirement planning, says Howard Schneider of Practical Perspectives, which has co-produced a new survey with GDC Research.

If anyone knows what financial advisers are thinking about, it's Howard Schneider, of the Practical Perspectives research firm. For years, he and collaborator Dennis Gallant of GDC Research have regularly surveyed the attitudes and practices of financial advisers.

For their newest publication, "Retirement Income Insights 2014—Using Products and Providers," they take another deep dive into the space between advisers' ears. The 155-page report is a result of surveys of a representative sample of 600 advisers across all individual distribution channels.

One quick takeaway: The percentage of advisers who combine annuities and systematic withdrawals (SWP) from risky assets has remained steady over years at about one-third. Most advisors still create retirement income the old-fashioned total-return way, with dividends and/or systematic withdrawal plans (SWP) from a diversified portfolio.

"Academically, there's this agreement some people need insured or guaranteed income—an income floor—and that they can manage the rest of the portfolio as they like. But that philosophy isn't taking hold in the field," Schneider (right) told *RIJ* this week.

"If you go back five or six years, there's been no change," he added. "About 35% of advisors use the floor-and-upside method, about 40% use systematic withdrawals from a diversified portfolio, and about a quarter use a pool or bucket approach."

More fundamentally, Schneider said, product manufacturers and their wholesalers continue to face the challenge of trying to mass-produce solutions for advisers and investors who resist one-size-fits-all solutions. That seems to be the beauty and the bane of the retirement income challenge, at least for manufacturers.

“Many firms trying to build an attractive advisor offering have been daunted by the highly individualized and nuanced approach to income support that most advisors employ and the wide variety of distinctions that exist among practitioners,” the study said.

“Although narrowly defined prescriptive approaches are inherently appealing to providers and distributors, these initiatives do not resonate with advisors. The reality is that the market for support remains highly fragmented, whether in the methods used for creating income, the products advisors rely on, and the providers and sources they associate with retirement income,” the Schneider-Gallant research showed.

That doesn’t mean they can’t be won over. “Every adviser is different,” Schneider told *RIJ*. “They all arrive at an approach by trial and error. They don’t want to change what works. And they are all confident that their clients will achieve their goals. But, while they are confident, they are looking over their shoulders and wondering if they’re doing the right thing.”

Insurance companies that issue annuities tend to be more “top of mind” than asset managers among advisers with regard to retirement income expertise, said Schneider, who is based in North Andover, Mass. But that’s to be expected, he said, because annuities are identified specifically with retirement income while mutual funds and ETFs are also used during the accumulation period.

Regarding income products, advisers continue to say that the latest products tend to be too complicated. “Advisers want their clients to be able to understand what they’re buying, but sometimes even they can’t explain the products to their clients,” Schneider said. That point is another source of frustration for manufacturers, who know that many advisers love the latest “bells and whistles.”

Instead of needing or wanting help in managing money or generating income in retirement, Schneider said, advisers want help with their blind spots, like Social Security, Medicare and long-term care insurance. That could mean that a Social Security calculator on an insurance company’s adviser web portal might attract more fee-based advisers than a pitch for annuities.

Other findings in the report, which includes 128 charts, tables and graphs, were:

- Over 70% of advisors increased the number of retirement income clients they serve in the past 12 months.
- Wariness over rising interest rates in the coming year is driving changes in how advisors expect to manage retirement income portfolios in 2014.
- Fewer than 20% advisors are highly satisfied with retirement income support available to them from asset managers or insurance companies.
- Only 10% of advisors using variable annuities for more than 50% of their retirement income clients.
- About two-thirds of advisors believe yield/income, liquidity, total return, and safety or stability are the most important factors in selecting the investment products for generating sustainable income for clients.
- Almost two-thirds advisors cite simplicity as a major challenge in using new products and solutions

for retirement income.