Process First, Not Product

By Editor Test *Tue, Aug 10, 2010*

When clients discover that products have been sold to them without the adequate use of process, some advisors will surely face a day of reckoning, says the president of The Strategic Distribution Institute, LLC.

Imagine walking into a doctor's office with a simple headache and receiving a prescription for codeine. You suspect overkill, but the doctor simply says that codeine, in his (or her) opinion, is the best treatment for headaches. Sounds like malpractice to me.

Or, even worse: Imagine that your general practitioner decides to treat you for a condition that clearly requires a specialist. You would quickly seek a new doctor.

Recently, I developed a lower back problem. A friend referred me to a doctor who specialized in back therapy. At our first appointment the doctor summarized his background and training and told me that he wanted to take the following steps:

1. Take my medical history and review the medications I was taking.
2. Discuss my symptoms in greater depth.
3. Take an x-ray of my back.

After completing these steps, he said, he would likely know if he could be of any help. He would then recommend a treatment regimen with specific procedures, a monitoring schedule and costs. In other words, his practice was based on:

1. Introduction
2. Fact Finding
3. Analysis
4. Recommendation
5. Implementation
6. Review

Why would retirement income planning not follow the same *process*? Instead, the financial services industry tends to lead with *product.*

Many (though not all) advisors are falling into the "product first" trap. Why? During the late 1980s and throughout the 1990s, many companies eliminated their training programs or turned training over to the product wholesalers. Suddenly financial planning became a war of yield, cost and product features—fueled largely by the great Bull Run of the 90's.

In this forgiving environment, all advice was good and none was bad. Monkeys throwing darts at *The Wall Street Journal* could earn double-digit RORs. Process was eclipsed and product drove the train.

Then, out of nowhere, came the "lost decade." But the most pathetic victim of the past decade wasn't yield; tragically, it was planning. As a consequence, retirements were destroyed or altered significantly. Lost are the strong training programs of the 1970s and early 1980s. Lost are the problem-solving skills of advisors. Lost are the hopes and dreams of many pre-retirees. And now we're seeing the industry desperately trying to fix the problem with *product*.

It's time to wake up. We need to back up and teach process first. Wholesalers need to bring a financial planning process to the retirement income table. Advisors need to stick to the planning path, not the riders-and-features path. Though the path may end with product implementation, it must begin with fact-finding. In many instances of observing advisors at work, the only fact-finding I've witnessed is a request for the information required to complete a product application.

So let's design a hypothetical course called Retirement Income Planning 101. Lesson One: The three most frequently asked questions by retirees are:

1. Do I have enough money?
2. Is my money in the right places?
3. Which assets do I draw down first during retirement?

Addressing these questions will lead to investment, tax and risk strategies. The first question, "Do I have enough money?" requires a basic understanding of the mathematical relationship between the amount of income needed, the duration of the need, the likely inflation rate and the assumed ROR of the retirement portfolio.

Consider, for example, Alan, age 62. An introductory meeting and fact-finding reveals that he has $700,000 of available assets and wants $3,000 per month for the next 28 years, with a 3% annual increase for inflation. After assessing his risk tolerance, we believe that he can achieve an overall ROR of 7%.

My HP12c calculates that Alan needs $608,000 to achieve his goal. That's great news, because Alan has $92,000 more than that. (Note that no product has been discussed.) Pleased with the HP12c's answer, Alan tells me that a previous advisor recommended that he put his entire $700,000 an annuity that would guarantee him $35,000 per year for the rest of his life—which happened to be very close to his goal of $3,000 per month. (Imagine that your dentist pulled the tooth that was "very close" to the one that needed pulling.)

Second question: Is Alan's money in the "right place"? In other words, does he have the right asset allocation and product mix to deliver a reliable income stream?

Our discussion now turns toward the creation of a strategy that will combine guarantees and market opportunities in a way that provides an inflation-adjusted income for the next 28 years.

We do not discuss specific investments or insurance products, however. Instead, we discuss guarantees and opportunities generically. I explain that if the client wants a growing income, we have to put some of his money in growth (market opportunity) accounts. At the same time, I explain that, during the early years of retirement, he needs to draw his income from money placed in guaranteed accounts. Rarely, at this point would we talk about a particular guaranteed or growth product. We're discussing the strategy required to reach the goal.

Finally, question three arises. Alan is curious whether to use qualified or non-qualified assets first. A simple determination of his tax bracket, using his tax return, will help answer this question.

Still, no product talk, just a lot of time spent on process—just what a competent doctor would do. Issues that Alan didn't bring up, but which will require future discussions, are his strategies for dealing with risks associated with longevity and long-term care expenses.

Needless to say, the Alans of the world not only appreciate but also deserve a process similar to the one I've just described. They need a process that results in multiple strategies, multiple products and regular reviews and adjustments along the way.

When retirees, their children, and their attorneys all discover that products have been sold to them without the adequate use of process, some advisors will surely face a day of reckoning.

Philip G. Lubinski is president of The Strategic Distribution Institute, LLC.