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## The Bucketing Brigade

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By Kerry Pechter     Tue, Apr 24, 2012

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*Pershing LLC, Sovereign Bank, and Securities America have all made Income for Life Model (IFLM) software available to advisors. That represents growth for IFLM, and progress for the income paradigm. (Sculpture by Stephane Cauchy.)*

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Scott Cody became a convert to time-segmented retirement income planning in late 2010, soon after the Great Financial Crisis demonstrated that traditional risk-management techniques tend to fail when volatility and asset correlation are high.

“You can approach retirement income planning in three ways,” said the 38-year-old partner at Denver-based Latitude Financial Group. “You can use systematic withdrawal, which I did for years. You can throw everything into an annuity, but that lacks liquidity. Or you can use a time-segmented approach, which takes the best from the two other alternatives.”

Conveniently for Cody, a Certified Fund Specialist and MBA, a time-segmented income planning tool called Income for Life Model (IFLM) was already pre-loaded onto the platform provided by his broker-dealer, La Vista, Nebraska-based Securities America Inc.

Cody started using IFLM, and it soon earned him a new client, a retired couple who had heard about his new expertise. “‘We think we’re all set home, but we’re willing to listen,’ they said,” Cody said. “It turned out that no one had ever done this kind of planning for them.”

### **IFLM and Wealth2k**

When Cody started using IFLM, he knew little about the story behind the software. He wasn’t familiar with David Macchia, whose 12-person Boston-area marketing firm, Wealth2k, had incubated IFLM from a fairly simple “bucketing” tool into an web-based, open-architecture, multi-media planning-and-sales platform.

Nor did he know about the number of frequent-flier miles, conference speeches, and proposals that Macchia has logged, delivered, and pitched while patiently promoting IFLM over the past decade.

It’s a tale worth telling, not so much because of IFLM’s entrepreneurial back-story as because of the traction that IFLM has been winning lately in financial services distribution channels. Securities America was the earliest institutional adopter of IFLM, back in 2005.

In the past year, Pershing LLC has made IFLM available to advisors who use Pershing’s powerful NetX360 platform. And most recently, Sovereign Bank, a unit of Spain’s Banco Santander, has adopted IFLM for use by its bank advisors in branches in the Northeast U.S.

Taken together, these home office decisions provide evidence that the so-called decumulation mindset—which emphasizes outcomes over probabilities and integrates insurance with investments—is finally gaining momentum among advisors. Several broker-dealers have realized that support for

retirement income strategies can help them attract and retain advisors; now their affiliated advisors are learning that the same strategies can attract new clients.

Though far from the only retirement planning software tool—indeed, investment management tools like NaviPlan are still more prevalent—IFLM is distinguished by its focus on matching income-generating accounts or products to discrete time segments in a person’s retirement than most competing tools, and its sales growth serves as a kind of proxy for the progress of the new way to think about retirement finance.

### **How Pershing “gets it”**

Pershing’s NetX360 is a web-based platform that allows advisors to manage sales, trading, processing, compliance, research and reporting through one desktop portal. A unit of BNY Mellon, Pershing serves more than 1,500 institutional and retail financial organizations and independent RIAs representing more than five million investors.

IFLM first became available on Pershing LLC’s NetX360 platform for RIAs last summer and became fully functional in October 2011. Advisors can license it, along with a Wealth2k’s client-facing web portal, [RetirementTime](#), for \$35 a month—a sharp discount from the standard \$99 per month licensing fee.

“In thinking about what solutions will best solve the retirement income puzzle, three factors rise to the top,” said Rob Cirrotti, the leader of retirement income and long-term savings initiatives at Pershing. “Does it bring simplicity? Does it enhance the value of the advisor? And, how effective is it over time? In other words, it can’t be a one-time plan.

“Prior to having IFLM integrated into the Pershing platform, we offered some of the well-known planning software, such as NaviPlan and MoneyGuide Pro, which have retirement income modules,” he told RIJ. “I thought we needed something more focused and more relevant to the transition from accumulation to income. We did a survey of what was out there—and these tools continue to evolve of course—and we thought W2K met criteria I had laid out.

“I like that IFLM is a framework and not a product solution. If an advisor wants to go the insurance route, he can do that. If his client can afford to self-insure, and wants to take a more aggressive approach, IFLM allows for that possibility. One of the strengths of time-segmented planning is that it brings simplicity to a complex topic and helps the end-investors get their arms around the future,” Cirrotti added.

Aside from promoting retirement income planning through NetX360, Pershing has created a website called [Retirement Power Play](#). “For advisors who don’t leverage NetX360, Retirement Power Play is an education-based campaign that helps understand techniques [of generating retirement income], as well as a way to use it for prospecting and to solidify relationships from a defensive perspective. It’s another way for us to access providers.”

### **Spanish acquisition**

In late March, Boston-based Sovereign Bank announced that it would make IFLM its exclusive choice for

retirement income planning and provide it for free to about 200 commission-based, securities- and insurance-licensed investment advisors at some 700 branch banks from Massachusetts to Maryland.

It was a domestic deal with international overtones. In 2009, Banco Santander, the \$1.2 trillion Spanish banking giant acquired Sovereign Bank, which had been battered by the financial crisis. Aside from wanting a footprint in the U.S., Santander wanted to capitalize on the Boomer retirement wave and to position Sovereign Bank—which will become Santander Bank in 2013—as a leader.

“Our core strategy is to protect our clients’ assets,” said Jay Delaney, director of retail advice at Sovereign Bank. “We want to make sure they have enough income to live on. To the extent that they want us to manage their discretionary money, we might recommend equity exposure. But we’re not the wirehouse model. We’re much more conservative by nature.”

Being conservative is the bank’s growth model. “We’re a big believer that if we do what’s responsible for our customers, the rest of their money will follow,” he said. “We recognize that we may be only one piece of their financial picture. We need to build upon our relationships with them. We want the entire relationship, from the mortgage to the 529 Plan to the retirement strategy. And that fits with the IFLM model. Retirement income planning is not built on transactional relationships. These are long-term relationships.”

David Macchia told *RIJ*, “Sovereign Bank has a strategic objective to capitalize on the retirement income opportunity, and they want something to power that objective. They understand that the answer is a platform, not a product—that it’s a strategy that combines multiple products. Sovereign is the first bank that we’ve partnered with like this. In the past, we’ve had bank reps who have used IFLM successfully, but this is our first, top-down, enterprise-wide affiliation with a bank.”

“The dominant mindset has always been to push the communications out from the enterprise website,” he added. “Having worked on this for 10 years, I argued against that, and Sovereign has given every one of the consultants his or her own website, which they can now use individually to reach down to more customers and prospects to deliver messages around retirement income.”

IFLM is co-branded with Sovereign Bank (as opposed to being marketed as a “white-label” product, under Sovereign’s brand) and Sovereign Bank advisors can interact with customers through their own personalized, IFLM-built RetirementTime web portal.

## **Securities America**

“We started working with Wealth2k back in 2005,” said Zachary Parker, first vice president of income distribution and product strategy at Securities America Inc. in La Vista, Nebraska. Of the broker-dealer’s 1,800 or so independent RIAs, about 350 currently use IFLM. Securities America covers the licensing fee for about 80% of them, depending on their productivity levels. “IFLM is our second most widely-used program after Albridge,” Parker said, referring to the unit of Pershing whose widely-used technology allows advisors to get a consolidated view of their clients’ holdings.

About three years ago, Securities America developed Next Phase, a proprietary bucketing approach to

retirement income. It was a way to establish itself as a leader in retirement, and thereby help retain existing advisors and recruit new ones. Recently, IFLM became the engine that drives the bucketing strategy within Next Phase.

“When we created Next Phase, we worked with another partner that used a strategy similar to IFLM’s,” Parker said, “and we created videos and workshops around that.” But now Next Phase will use IFLM’s planning software and web presentation. “From an ease-of-use and an illustration perspectives, David’s front-end tool is much better.”

To provide centralized support for advisors who use IFLM, Securities America set up an “Income Distribution Desk.” It gives the broker-dealer an efficient way to answer all the “what-if” questions that advisors often have while using the plan. About 30% of advisors using IFLM rely on the IDD to complete the plan for them, while another 30% use IFLM completely independently and a final third rely on it for intermittent support.

“IFLM offers a good balance of flexibility and usability,” Parker told RIJ. “With NaviPlan or eMoneyAdvisor, you have to spend a lot of time to create a plan. Ninety-percent of the plans our advisors create are pretty simply, and with IFLM a normal plan can be done in 30 minutes to an hour. It’s easy enough that we don’t recommend that an advisor charge a fee for using it.”

To burnish the credibility of its bucketing approach, Securities America published a 15-page white paper last year called, “Capturing the Retirement Income Opportunity.” The paper showed that a time-segmented approach delivered more retirement income than either a traditional systematic withdrawal program or a lifetime income rider on a variable annuity contract, all else being equal. The white paper won an award from the Retirement Income Industry Association.

On the one hand, financial planners say that there’s nothing magical about time-segmentation. Simply locking away a specific bucket of assets for a specific number of years doesn’t immunize it from market risk or eliminate difficult decisions about the timing of sales.

But on the plus side, “bucketing” matches the sort of the mental accounting that many people practice instinctively. And if a time-segmentation tool is flexible enough, it can create a lot of possibilities while posing few limitations or restrictions.

No surprise, then, that Pershing, Sovereign Bank and Securities America have latched onto IFLM, or that advisors might see it as practice-builder. “Securities America is a big advocate of time-segmentation. And when I started speaking about time-segmented distribution strategies with clients, it resonated with them,” Scott Cody told RIJ. “I really feel that there’s a window of opportunity to become a specialist in the retirement income area.”