Retirement Income
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The next-gen adviser: Half person, half machine

By Kerry Pechter *Thu, May 14, 2015*

What will retirement advice look like in the future: Will advisers use the digital advisory channel, or will the digital advisory channel use them? A new report from Celent dives into this issue, and provides a map of the brave new distribution world.

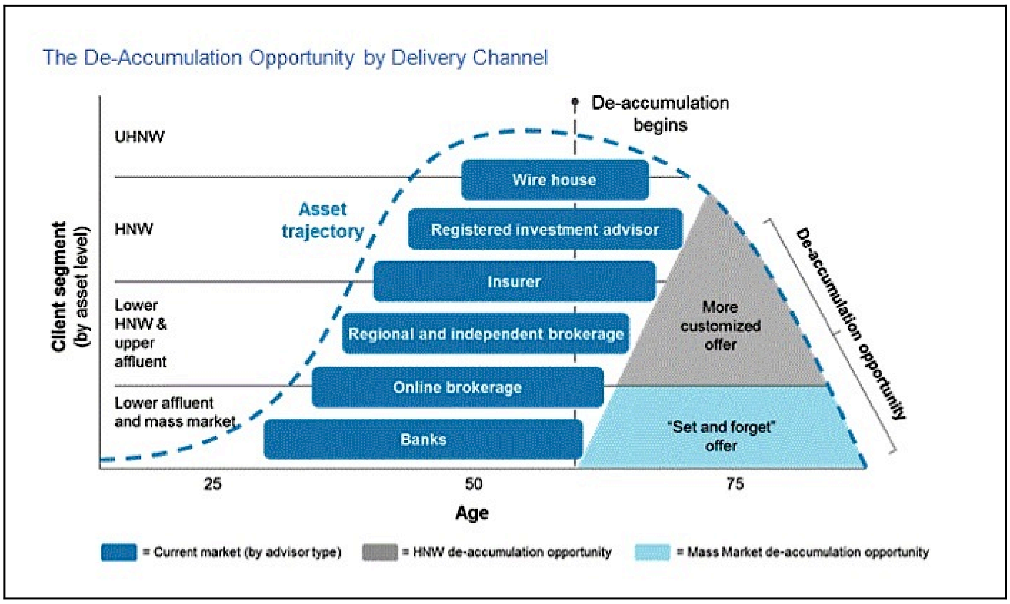
The traditional broker-dealer/adviser business model continues to come under pressure. Zealous regulators and disruptive robo-advisers are compressing fees. The old rationale for personalized fee-based advice—"the advisor makes money when you make money"—makes less sense when people are spending down assets.

Many advisors have been able to gain economies of scale and accommodate low-margin middle-income clients by outsourcing more and more chores to platforms and software. But there are clear signs that the balance is starting to tip—with advisors supporting the digital channel rather the digital channel supporting the advisors.

This is the brave new world of hybrid advice that's described in a new report, *Gold at the End of the Rainbow: Using Automation to Profitably Serve the De-Accumulating Investor,* from Celent, the Boston-based research firm. The report, according to a Celent release, "examines the degree and form to which automated forms of delivery might be used to profitably serve the de-accumulation needs of retirement investors."

The insight that the spectrum of paid financial advice will range from packaged products, algorithms and do-it-yourself online tools for the mass affluent, lavish hand-holding for the very wealthiest (and a combination of the two for people in between) was made in the middle of the past decade by a number of observers, notably Francois Gadenne at the Retirement Income Industry Association.

Celent validates that forecast, offering a map of the "The De-accumulation Opportunity by Delivery Channel (see below). It reassures advisers, arguing that, if anything, retirement income clients need custom solutions that no robo-adviser seems to be able to handle—at least not yet. But Celent points out that adviser have been slow to recognize the import of these demographic and technical trends.



"De-accumulation, which encompasses downside protection and wealth transfer as well as the drawdown of assets, is a topic advisors have tended to avoid in light of its inherent sensitivity and the challenge of monetizing advice around it," said a summary of the report, released this week.

"Today, however, considerations are evolving under the weight of demographic trends as well as economic and regulatory imperatives… Denial and resistance to automation already are ceding ground to understanding and acceptance. In fact, the scope of the de-accumulation opportunity suggests that it will not be long before the advisor becomes a flag carrier for the blended model."

"Although automated delivery is disruptive to the standard advisory model, its impact should not be measured in terms of the disintermediation of the real life advisor," the report said. "Decisions around de-accumulation are sufficiently complex (How best to transfer money to my children?) and emotionally freighted (Will I have enough to live on for the rest of my life?) as to demand face-to-face counsel, at least for the foreseeable future."

Clients, too, are increasingly preoccupied with the challenges of funding a multi-decade retirement period (with its attendant healthcare costs), especially given systemic risks to longstanding retirement programs such as Social Security, corporate pensions, and even 401(k) plans.

"Advisors and the brokerage, advisory, and insurance firms that employ them are starting to explore the automated delivery of advice as a way to rationalize their high-cost sales structures," Celent said in a release. "As such, automated delivery tools geared toward serving the post-work investor (and the investor planning for retirement) will be deployed at the service of the advisor, and not in his stead.

"Celent believes that this blending of virtual and physical distribution models increasingly will take place with the tacit support (if not the encouragement) of advisors eager to reach an expanding pool of mass affluent and Millennial clients."