# The Retirement Income Paradox

By Kerry Pechter *Thu, Feb 7, 2013*

*In a survey of advisors on the topic of retirement income, GDC Research and Practical Perspectives found the firm that certain "contradictions" are making it hard for firms to take advantage of the seemingly vast Boomer retirement opportunity.*

Boomer retirement may be too varied and fragmented and may contain too many "contradictions" to produce the kind of mass-market bonanza for asset managers or insurance companies that Boomer accumulation delivered to the mutual fund industry.

That's not to say that the demographic and financial trend doesn't present significant opportunities. But many advisors and product manufacturers are failing to take full advantage of them.

Those are two takeaways from a new report, "Retirement Income Insights 2013—Attracting and Retaining Retirement Income Clients," based on a survey of 600 advisors from all of the major distribution channels: wirehouse, independent broker-dealer, bank and registered investment advisor (RIA).

Prepared by Dennis Gallant of GDC Research and Howard Schneider of Practical Perspectives, the survey/report is meant to be read by retirement product manufacturers and broker-dealers for whom advisors are a target market. They should find some news in the 113-page report encouraging. Schneider and Gallant found, for instance, that:

- Over 70% of advisors increased the number of retirement income clients they serve in the past 12 months.
- 29% of advisors expect demand for retirement income support to increase significantly in the next 12 to 24 months.
- The risk-adjusted total return approach is used to generate income by 40% of advisors, with the remainder of the users split among the pooled or time-segmented approach and the income floor methodology. (See bar chart below.)
- Roughly one in three advisors expects to increase use of variable annuities, ETFs, and alternative investments in managing retirement income assets.

But Schneider and Gallant also identified "contradictions" in the retirement income space that hinder advisors and providers alike from tapping the seemingly vast opportunity presented by the movement of Boomer savings from accumulation to decumulation. For instance:

- More than anything, advisors need help attracting new retirement income prospects and converting them to clients. They feel confident in their ability to convert savings to income with existing products and processes.
- While retirement income clients are important to most advisors, many advisors don't know how to address basic retirement issues, like setting realistic expectations or educating investors on what challenges retirement will bring.
- Although most advisors are confident in their abilities to serve retirees, few know much about

essential topics such as Social Security, Medicare, or elder care.
- Value provided to retirement income clients does not relate to generating the highest return or the most income. Rather it arises from helping clients with more personal issues—a skill that many advisors lack.

The survey suggested that there is more conversation about retirement income than action. “While most advisors say they are delivering retirement income support, only a limited number, less than five percent, have actually positioned their practice to serve retirement income clients,” said Schneider, president of Practical Perspectives.

“Not a lot of advisors are promoting themselves as retirement income experts. At the same time, their potential income clients don’t know whom to turn to. The mass-affluent clients in particular are a bit lost in terms of how to find the right kind of help. It’s hard for them to find an advisor or a firm that says, ‘Come to us and you’ll find the answers you need about retirement,’” he added. “Advisors know there’s a huge retirement income opportunity out there. But they also have a lot else going on in their practices.”

Another contradiction: Despite the proliferation of consumer ads (e.g., ads for Charles Schwab, TDAmeritrade and Raymond James in the Feb. 11-18, 2013 issue of *The New Yorker*) for help with retirement, there’s apparently no perceived standard-setter in the retirement income space. “When we ask broker-dealers ‘Who does retirement well?’ there’s always a 10 to 15-second lull. Firms don’t see anyone doing it particularly well, except perhaps Fidelity, with its ‘Green Line’ campaign,” Schneider said.

At the same time, many advisors concede that they lack the “soft skills” that become even more important in the decumulation phase than during the accumulation phase.

“Advisors understand the nuts and bolts of retirement. They know how to set up income streams. Where they really struggle is with finding clients and engaging with them. Engagement means knowing how to interact with clients, how to get them to grasp longevity risk or sequence of return risk, how to get them to have a realistic vision of what day-to-day life will be like in retirement,” he said.

“Communication skills aren’t as important when dealing with an accumulation-stage client. Retirement requires a different skill set. Advisors who are used to dealing with 45-year-olds are less comfortable talking about when to take Social Security and how to figure out the Medicare puzzle.”

**What advisors say about retirement income**
(Quotes from interviews by Practical Perspectives and GDC Research)
- “The art of knowing how to replace a paycheck is very different than building a portfolio or growth. The distribution phase and the accumulation phase are two very different things.”
- “I would hope my broker-dealer would provide more assistance with product information/ support.”
- “There’s too much product-pushing to fit needs that have to be integrated with the entire portfolio and person.”
- “Distribution systems that exist now are specifically geared toward annuities, which are not the only answer for most clients. I wish I could be involved in the creation of a brand new product- neutral system that can help advisors plan for all aspects of retirement incom

The survey also suggested that product manufacturers and their wholesalers are still trying to put a round peg in a square hole, so to speak, when calling on advisors.

“Product manufacturers have defined retirement income narrowly; usually in terms of creating products that generate income. But that addresses only one aspect of what advisors are doing. The challenge for product providers is to figure out the solutions that advisors will want to use, but also to understand the nuances of how they’re delivering income,” Schneider said.

Advisors, he noted, are often disappointed to find that annuity or mutual fund wholesalers tell the same story to all advisors, ignoring the fact that some advisors use systematic withdrawal while others use bucketing methods, or income flooring products.

But advisors apparently have certain blind spots of their own.

“Two things surprised me,” Schneider commented about the study. “When we asked advisors what concerned them most about the current market environment, the potential for rising rates wasn’t a major concern. That was worrisome because it suggests that advisors think they can anticipate when rates rise, and take action to preserve their clients’ portfolios. But if history is any guide, advisors can’t predict big market moves. They’re much more concerned with inflation and taxes.

“The other big surprise was that a significant number of advisors said they converted 50% or less of their prospects to clients,” he added. “Advisors like to say that if they sit down with a prospect, they’ll convert them 95% of the time. But the dirty secret is that the ratio isn’t that high. Most advisors rely on referrals for new clients. They know there are all these people out there who need help, but they don’t know how to find them.”

Ultimately, advisors and providers alike may be underestimating the new challenges posed by the Boomer retirement wave. “The financial services industry took the problem of accumulation, of building wealth, and applied a simple, model-driven approach, mainly around the principles of Modern Portfolio Theory,” Schneider told *RIJ*.  “In fact, they may have made it seem more complex than it actually was.

“Now, with retirement income, they’re taking an inherently complex and individualized problem and trying to apply model-driven or packaged solutions. But retirement isn’t that easy.”