



Retirement Planning Software, Inc

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## Retirement Income Planning, Part 12\* : The Fallacy of the One Best Solution

**M**ost financial providers are having trouble getting a retirement income planning program off the ground. The problem may be trying to find the One Best Solution in an environment where it does not and cannot exist. A better bet may be to launch multiple initiatives on an experimental basis, and let the market decide which work best.

### Why are all the wheels just spinning?

**W**hy, more than five years after the first industry conference on retirement income planning, has so little been achieved? It surely is not for lack of internal discussion, creation of task forces, exploration of possibilities, or desire to serve the market.

Part of the problem, perhaps, is its novelty. We have known for decades, in some cases for generations, how to deal with other financial needs: saving for retirement, saving for college education, insuring one's life or health against catastrophic losses, tax planning, estate planning, investment management. But serving the needs of retirees has never been a priority, and no consensus has formed even over *a* workable approach, let alone *the* best approach. So any company that launches a major initiative takes a chance that while it invests its own time and money in a possible failure, key competitors will discover a better answer, and the reward for being a pioneer will be to end up in last place.

Companies large enough or bold enough to take on this risk have run into a related problem: lack of consensus *within* the organization. The larger the organization and the more diverse its products, distribution channels, and traditional modes of operation, the more debilitating the disagreements.

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\* Part 1 of this series discussed in general form the urgent and wide-ranging planning needs of people facing retirement. In Part 2 we further explored the follow-up question: can a comprehensive financial planning approach really work for retirees and, if so, how? Part 3 examined investment risks and strategies, and argued that most retirees should be investing conservatively rather than for asset growth. Part 4 identified serious problems with the use of Monte Carlo models in retirement income planning, and suggested an alternative approach. Part 5 discussed the optimal time to annuitize. Part 6 dealt with the question of what retirees need from the planning process, suggesting inadequacies in current approaches. Part 7 outlined what "holistic" planning should mean for retirees. Part 8 set as its goal to define what Income Planning will look like in 2010. Part 9 discussed new product developments in this area, and weighed their importance and their limitations. Part 10 explored the different ways in which calculators could deal with risk. Part 11 dealt with the special case represented by early retirement offers.

The natural desire in many firms has been to design the One Best Solution: the combination of product, marketing, consumer education, software, staff training, and service that will make everyone happy. Fidelity's partial success in doing this has perhaps exacerbated the problem by suggesting that the One Best Solution is a plausible goal. But even Fidelity found an answer that worked only for their retail operations, not their institutional ones, and Fidelity has structural and financial advantages most other companies can't match. Furthermore, while Fidelity's program has been a success, it is not clear how well it would perform against serious competition, because there isn't any.

The One Best Solution strategy can be hard to resist. It seems natural, where a near vacuum exists, to respond with something that really fills the space – something complete, ambitious, integrated, novel, and forward-looking. How rare it is in business to have a clear field on which to create something truly novel, important, and grand. For that matter, how rare in a career to have such an opportunity. Discovering and then building the One Best Solution positively screams “leadership.” Why *not* aim for that?

Unfortunately, we've seen over the past five years why not: it isn't working. While some companies have made progress in a few specialized areas (new or improved products, marketing programs, advisor or client education), in general, the more ambitious the attempt the less progress has been made.

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## The internal stew

**N**ow that we have seen so much failure, we might well ask: how could anything different have been expected? In most cases, too many people have too many legitimate and conflicting requirements for One Best Solution to exist.

Many companies have multiple lines of business, each with a different set of needs, and sometimes with competing goals. Does a money management firm really want to promote annuitization of assets, even if it owns an insurance subsidiary (different business units might have very different attitudes about it)? Some product areas may favor a more aggressive stance toward retiree investment strategies than others. Some may feel eager to offer advice, others may feel constrained by law or custom to avoid it.

Multiple distribution channels often exist as well, even in medium-size companies. Some provide service mainly by phone, or over the internet, or indirectly through broker/dealers or other affiliates. Companies that distribute through more than one kind of face-to-face advisor (certified financial advisors, stockbrokers, captive agents, multi-line agents, bank officers, etc.) are finding that what's sauce for the goose is indigestible for the gander.

Perhaps most important, and insufficiently considered, is that retirees themselves come in many flavors:

- People long retired have very different needs from those newly retired, who differ again from people preparing for imminent retirement, who in turn are unlike those still several years from retirement. In fact, almost everything about these groups

differs: their attitudes, their needs for services, the products that are suitable for them, the financial strategies that are likely to be most beneficial.

- The comfortably well-off also have needs and attitudes different from those for whom retirement will be a close call, and these both differ from others (likely a majority of Baby Boomers) who will need to make big concessions in their plans.
- In working with real retirees, we find a variety of attitudes toward the process. Some want a thorough approach and find anything else untrustworthy. Others want a speedier process, or just want to keep financial details private.

When you keep all of these differences in mind (as well as other practical matters, such as different technology platforms, for instance), it becomes clear that the One Best Solution cannot be built because it is impossible. We come to this conclusion regretfully. As a software vendor, we, too, would like to have the perfect product that works in every situation. But now it seems time, and past time, for all of us to become more realistic.

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It is time to ditch the search for the One Best Solution, and opt for:

## The practical alternative

**E**ven if the One Best Solution were possible, it would probably be easier to find it by experiment than by committee. Since it probably doesn't exist, experiment is all the more valuable, because you are almost certain to discover that some tools and methods will work better in certain environments, while others will excel in other environments. We can make good guesses about some of these combinations in advance, but only trial (and error) will give us solid information.

Of course, something has to give, and what should give in this case is the desire for an immediate overall framework, and for immediate tight integration of all of the elements. Those aspects, though ultimately valuable, can be introduced later.

In the area of consumer education, for instance, instead of creating one fabulous set of materials highlighting your company's products and services and philosophies, use some of the many sources already available, making modest changes to them, but deliberately choosing a range of items that differ widely in style, depth, content, and mode of delivery. Some will work better for certain kinds of clients, will be used by certain kinds of advisors or other intermediaries, and will better fit certain product lines. When experience has taught you which work when and why, *then* you can build highly customized, consistent, and integrated versions that better reflect the specifics of your company.

The same with analytical tools, which is our own specialty. Naturally, we would like everyone to use ours. But that is not sensible. Our approach is broad-based, integrated, and, in essence, a "financial planning" approach to this market. Yes, we believe in it and feel that it is the best overall. But it isn't best for every situation. Many practitioners

want a much simpler approach, either to save time or because they don't have the expertise yet to deal with a comprehensive range of issues. Others want a high degree of sophistication in investment analysis, because that is where their own expertise lies, and/or they work mainly with higher net worth individuals whose major needs are for investment allocation and tax planning. Still others may want a tool that focuses on a particular product area, such as annuities, IRA rollovers, or long-term care. If you pick any *one* of these tools, including ours, you are leaving people out or serving them inappropriately.

So why choose *one*? You will spend a lot on high-level committee meetings, consulting fees, and (most of all) lost opportunities by trying to design the One Best Solution, when for the same investment of time and money you could have piloted a *variety* of ideas, yielding market-based, solid information about what really works for your company, and what doesn't.

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Even if you design the One Best Solution and it succeeds, you will never know whether it could have worked better if you had tried different components. So even with an apparently good outcome, you may fall well short of your potential.

Many companies, even large ones, have been waiting for the marketplace to figure out what overall strategy works best. But of course, what works for the market as a whole may not be best for you. So instead of letting the market try different solutions, *you* should try different solutions. Chances are, you will find more than one worth keeping.

## If you change, so will we

**T**his is asking for a change in mind-set, and it isn't fair to ask other people to do what we ourselves are unwilling to do. So we promise to change if you do. If you come to us with a proposal to use our tools on a trial basis, at the same time you are trying out other applications, we'll do our best to support you by giving you pricing breaks and by working with other vendors in whatever way you need.

It is in everybody's interest – financial providers, vendors, employers, and most of all consumers – to get this business moving. Every day thousands of people retire, and right now we are failing them. That is a shame and a missed opportunity for all of us.

Instead of just talking, let's start doing something, even if it isn't perfect, and let's try doing more than one thing, even if some of them don't pan out. If we do, then in another five years, that spinning sound will not be your own wheels, but the satisfying whirr of a process moving people as smoothly as possible into a financially responsible retirement.

**Still River Retirement Planning Software, Inc., provides both web-based and desktop software offering specialized calculations related to retirement plans and retirement planning.**

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