Retirement Planning Software, Inc

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Retirement Income Planning, Part 8*: What Income Planning Will Look Like in 2010

Everyone seems nervous. It's already a platitude that financial management for Baby Boomer retirees is the future for companies and practitioners in the financial industry. But how do you get there?

You may not want to admit it, but you're in a quandary. You want to be among the leaders in this new market, but you are also hesitant. Unlike retirement accumulation, education funding, and even estate planning, income planning is new. There is no common framework for approaching this market. What if you make a bold move, invest large sums, and then find that the rest of the industry has found a better way?

Your life would be a lot easier if you could see five years into the future, and then move ahead accordingly. You can't, but there are already signs of what lies ahead. Here's the way we read them.

That rumble you hear…

Maybe this is you – it certainly describes some of the people we're talking with:

You've been involved in product development or marketing for a long time, mostly on the accumulation side. Increasingly you've become convinced that the distribution side is going to become dominant. You've watched, maybe participated in, new product developments, but as much as you support them, you can't see them providing the full answer. You've also seen the investment models that show how much people can safely withdraw, or how they can work annuities into the investment mix. You're impressed, but still feel that there is something big missing.

You feel this way because you know real people who are retiring, or who are already retired. Maybe they are your parents or other relatives, maybe older colleagues at work,

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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.

maybe clients. When you put their problems and concerns in one hand, and the new products and investment tools in your other hand, you see a mismatch.

If you're a marketer at heart, you've probably been wondering why we can't find out first what retirees really think and what they really need, and then figure out what would work best for them.

A few of you are already doing this. Some of you wish you could, but don't yet have the means. But the point is, this is where the industry is going. If you put your ear to the ground, you can hear the rumble.

What the leaders know…

Most of you have been thinking seriously about the needs of this market for at least a year or two, some of you for several years. A few of us have been thinking about it for much longer (Still River's pedigree in this field goes back to 1991). Here's what we've found:*

- ***A sharp division between the accumulation phase and the retirement phase.*** The initial struggles of the financial industry in approaching the income planning market have involved extending what we know about accumulation planning into this new realm. Increasingly, people are realizing that this just doesn't work. Income planning is not at all like accumulation planning. In fact, apart from the obvious facts that both involve people and both involve money, they have almost nothing else in common – and in many ways are nearly 180° opposites of one another. Entirely new ways of thinking are needed.
- ***An emphasis on cash flow management instead of investment management.*** There are two reasons for this. 1) Investment is only one element that determines whether a household will run out of money or not. Other income sources, expenses, debts, other assets (especially homes), insurance, employee benefits, and general health considerations are all part of the mix. An approach that doesn't take all of these factors into account just isn't doing the job.** 2) Investment is not even one of the most important elements. Studies at T. Rowe Price (and elsewhere) show that investment strategy has only a modest impact on the ability of

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* In addition to our own work in this area, we particularly commend that of two others, who have made especially good progress in pushing their thinking forward in a coherent and productive way.

One is the **Diversified Services Group** in Wayne, Pennsylvania, which has identified four levels of response to this market, the highest one being the "Total Retirement Strategy" level, which encompasses, in a "holistic" fashion, investment, financial, risk management, lifestyle, housing, and health management strategies. To learn more about the many ideas and services DSG offers in this market, call Borden Ayers (610-989-1710, ext. 21).

The other is the **Institute of Integral Retirement Planning**, newly formed by Craig MacBean and Dick Weber. They observe that retirees crave security, but that "security" is a psychological rather than a financial concept, and that it extends to domains that we don't normally consider financial. Yet these domains are affected by finances, and *vice versa*, so that to give retirees what they really need means doing planning in all of the key domains. For more information about the Institute, call Dick Weber at 760-652-4008 or e-mail him at Dick@iirp.net.

** FYI: watch for Fidelity to continue to move in this direction.

of most retirees to remain solvent. This effect is actually understandable intuitively: in an account where balances decrease, compound interest cannot do its work – just another example of how everything changes at retirement!

- ***Going beyond cash flow management, too.*** Serious thought is going into the ways that lifestyle, attitude, health habits, recreation, family, and other elements of people's lives in retirement affect their health, longevity, and finances – and how financial stress, or the lack of it, affects their health and longevity. In five years (or sooner) these connections will be commonplace, and there will even be software that deals with them – at least as risk factors, and probably in more directly constructive ways as well. As a financial person, you may consider this a little out of your line. But if you're the retiree, it will make a lot of sense to you, and you're going to want a financial pro who understands it.

By 2010, the competition will be about service more than product. Service will earn the retiree's loyalty and assets.

- ***An emphasis on service above product.*** No one sees product development slowing down, or thinks it should. On the contrary, the developments that are occurring now are very important and long overdue. But by 2010, the great wave of new product development for retirees will have crested, and many of the new product ideas will have been discarded along the way. Instead, the competition will be about service – about reaching retirees at the right time, giving them exactly what they need, and then sticking with them. The providers who do this will earn the retiree's loyalty and assets to manage, even with inferior products. Providers who take the opposite tack will end up with an array of fine products that few people are buying, while watching their own assets under management dwindle.

New competition

The future lies in comprehensive planning strategies for retirees, because nothing less will work. If you cannot find a way to implement a comprehensive approach, others will take the business away from you.

Who are these others?

- *Your current competitors*, if you are with a large financial firm. Fidelity is already threatening to run away with this market. Can you compete? Will you?
- *Banks*. Banking institutions have not been very visible players in the retirement accumulation game. But their products are a natural for retirees: safe, easy to understand, readily available at a place people already go. Most banks are still hibernating when it comes to retirement planning. By 2010, they will have awakened, and they will be hungry and reaching for your lunch.
- *Financial planners*. Many already view this as the Next Big Thing. Increasingly you will see independent planners who specialize in this market, who are willing to spend the time to do the job right – and who have efficient enough tools and processes so that they can serve even the middle market cost-effectively.

- *Employers*. Many employers already offer some kind of counseling, or at least access to planners and/or planning tools, for their retirees and near-retirees. As these offerings become more sophisticated and less expensive, they can replace anything you might offer. Furthermore, many employers don't want to get this kind of tool or service from you, because they suspect bias, or fear that their employees will suspect bias. They would rather get support from a third party who has no financial stake in the advice that is given.
- *Customers*. By 2010, your clients will probably be able to get, at a cheap price, direct access to financial tools that are much more powerful than anything you are even dreaming of today. These tools will be easy to use, and will offer highly individualized analysis in a form that is easy to understand (we know this, because we are developing those tools today).

Some of this may not matter. If professional planners, employers, and retirees themselves do some, or even most, of the actual planning, they are still going to need products, and if you sell product, you may get your share.

Then again, you might not get your share.

What do you do now?

This will not be a battle for the faint of heart. If you have not already been thinking about these issues, you need to start now or you will end up on the sidelines. You will need to be smart, daring, hardworking, and willing to invest some serious money for your future success.

Don't think "outside the box." Forget the box – it never existed. Instead, think inside the retiree. Think about what your parents needed when they retired. Think about what you will need when you retire. Then find a way to deliver it. It's your best hope of success. Otherwise, by 2010, the one thing you can safely predict is that the world will have passed you by.

If you care to discuss these issues, contact us any time. Software costs, but talk is free!

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

Contact us at 69 Lancaster County Rd., Harvard, MA 01451
tel: (978) 456-7971 fax: (978) 456-7972 email: csy@StillRiverRetire.com