



ACP (Advanced Client Participation™): A New Strategy for Serving Middle Market Retirees

RetirementWORKS, Inc.
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Executive summary

Middle market+ retirees and near-retirees are a desirable target for many insurance companies, for reasons we all understand already. But success has been elusive.

The problem is that, in terms of difficulty, middle market retirement is as much an advanced market+as business insurance or estate planning, yet with much smaller remuneration on a per-case basis.

The solution is a strategy we call Advanced Client Participation (ACP). While the details need to be adapted to each company's operations and culture, the strategy itself meets the essential criteria of success: (1) it can effectively address the complex needs of middle market retirees; (2) it is cost- and time-effective; and (3) it can be implemented in both simple and more robust ways.

Clients, producers, and support staff at all levels of knowledge and experience can take advantage of it. Reps and employees who want to become specialists in this area have a pathway to expertise that allows them to be successful while they are still on the path.

Who constitutes the middle market?

This group is usually defined in terms of income, net worth, invested assets, or some combination. However, such numbers fail to reliably separate clients who need middle market products, services, and marketing strategies from affluent / wealthy people who mostly need very different products, services, and marketing strategies.

So we take a *functional* approach instead:

Insight #1:

The middle market is best defined as: people who face a realistic possibility of running out of money in retirement (but also have enough financial resources so that, with the right plan, insolvency can probably be avoided).

In practice, this includes all but the poor and the very affluent. Specifically:

- Middle class households that have *not* saved enough for retirement.
- Middle class households that *have* saved enough, or that have sufficient guaranteed income, so that insolvency is not expected, but who remain at risk if their luck goes bad.
- Affluent households with high-end lifestyles that might not be supportable over long lifetimes or in the face of significant adversity.

Insight #2:

Middle market status, therefore, is not defined solely by what people have (income, assets), but by the balance or imbalance between what they have and what they will need to spend under both normal and adverse future experience.

What middle market retirees need

The insurance industry has a long history of serving the middle market well . as long as only *pre*-retirees are taken into account. The prime needs of *younger* households . for protection against loss of income, and for savings for retirement and for children's education . have been effectively addressed for decades. The tools, products, and training already exist, and they work.

This has never been the case for *older* middle market clients, however, meaning those already in or near retirement. The industry, rather than performing the same quality of needs analysis that younger clients get, has cherry-picked the issues it wants to address. Yet even doing so, they have been conspicuously ineffective, for the most part (e.g., selling income annuities or long-term care insurance).

Insight #3:

The underlying reason the insurance industry is not effective with middle market retirees is that it has failed to recognize that this is an advanced market. It has as much complexity as business insurance or estate planning. Failing to address people's actual needs neither serves nor persuades well.

Why do we say that middle market retirees comprise an advanced market? Because just like business clients and estate planning clients, middle market retirees have needs that are *multiple, complex, weakly understood, and interconnected*. The remuneration may not be on the level of other advanced markets, but the difficulty of understanding and meeting the needs is on that level.

Let's quickly take a closer look, and let's do it from the client's point of view.

Insight #4:

The problem is not figuring out a withdrawal rate, or providing guaranteed income, or obtaining long-term care insurance. These are potential solutions, but they are not the problem. The problem is maintaining solvency (with enough to leave behind at death, if desired), in the event of either normal or adverse future conditions.

This insight immediately brings into focus another one:

Insight #5:

The big financial question for middle market retirees is not "retirement income" but "retirement cash flow." And everything that affects retirement cash flow is both a potential problem and a potential solution. All of it needs to be understood and taken into account in order to serve this market.

So when we said a moment ago that middle market retiree issues are ~~multiple~~,+this was actually something of an understatement. Even listing only the most obvious issues, several relate to each main area of cash flow management:

- **Assets** (investment strategy, house downsizing, asset sales and drawdowns, qualified plan rollovers).
- **Debt** (credit card management, mortgage refinancing, reverse mortgages).
- **Income** (when to retire, working part-time after retirement, Social Security claiming, choosing a defined benefit plan option, annuitization).
- **Expenses** (determining an affordable lifestyle, covering discretionary special expenses, covering medical costs, covering long-term care

costs, determining whether legacies at death are affordable, providing for special needs family members).

And that's not all. The Society of Actuaries' Committee on Post Retirement Needs and Risks has just posted a report that underlines this problem.* It lists 28 different issues (under the categories of financial management, life risks, and life choices) that middle market retirees need to address, but notes that the prevalent models for serving such households fail to deal with most of them.

We also mentioned that these issues are complex, weakly understood and interconnected.

- They are **complex** in that figuring out most of them involves either voluminous collection and manipulation of financial data, or sophisticated calculations that even experts often don't understand, or both.
- They are **weakly understood** not only because of this complexity, but because most of these issues either do not apply to younger people or apply to older people in a new way, so that those approaching retirement are often overwhelmed by the newness of it all.
- They are **interrelated**, in that decisions made on most of these issues will affect decisions made on others . meaning that ignoring these connections and attacking each issue in isolation leads to decisions that are almost always sub-optimal and often flat-out wrong.

And in terms of consequences . the benefits of good decisions vs. the catastrophe of poor ones . helping middle market retirees is at least as important as serving the other advanced markets.

Insight #6:

Since, by definition, middle market retirees are vulnerable, and since, once they are retired, they have little ability to recover from financial mistakes, the importance of serving them well (rather than poorly, or not at all) is even greater than in other markets.

The dis-economics of serving the middle market

What makes middle market retirement the odd one out among the advanced markets is that these clients are not, individually, significant revenue producers for the industry. Quite to the contrary, their needs are extensive and difficult to fulfill (even doing it *badly* is a costly enterprise). Yet they often do not even need or cannot afford insurance or investment products, and when they do, their financial resources are

* "Middle Market Retirement: Approaches for Retirees and Near-Retirees," March 2003. Find it at: www.soa.org/Research/Research-Projects/Pension/Approaches-for-Retirees-and-Near-Retirees.aspx

modest. Furthermore, unlike younger middle market clients, older ones are unlikely to turn into better clients later . their incomes are rarely going to improve much.

Consequently, most financial professionals, whether in the field or in the home office, either avoid this market as much as they can, or else use quick-and-dirty methods (usually focusing on a specific product sale such as an IRA rollover) rather than giving these clients the kind of broad and deep analysis that is actually needed.

The predictable result: no one is satisfied.

Insight #7:

The failure of the financial industry to effectively serve middle market retirees, and the failure to earn conspicuously large revenues from this market, are two sides of the same coin. The methods now in use do not work very well, so clients are not satisfied, and companies and field reps take in only a small fraction of the funds that are potentially available.

Furthermore, these failures compound one another. Clients who are not well served are unlikely to return, or provide referrals. And financial professionals find themselves motivated to do less, not more, in this market.

This vicious cycle needs to be broken. And that can be achieved only by companies determined to do so even if it means doing business differently -- because, inevitably, it *does* mean doing business differently.

Are middle market retirees really worth the effort?

They *are* worth it, if we can change the equation. This means reducing the cost of serving them, while increasing the effectiveness. Two facts justify this effort:

- Their vast and growing numbers, as the Baby Boomers age into retirement. Even if individual sales are modest in size, *if they can be captured efficiently* there are boundless revenues to be gained.
- There is more money here than meets the eye . especially during the retirement process itself, when lives are being reconsidered, and every income stream and asset is in play. When middle market people retire, and when they consider trading down to a smaller home, assets tied up in home equity or qualified plans can get released. Many are liquidating small businesses, collecting inheritances from elderly parents, moving other assets around, or are simply feeling flush because they are no longer paying children's college expenses.

Insight #8:

These resources often remain invisible when field reps just go after a single-product sale, but they pop into view when clients get the more comprehensive analysis that they actually need.

Even so, the process is profitable only if it can be made much more efficient.

Making the process efficient but still effective: ACP vs. BAU

Establishing a process that is much more time- and cost-effective means abandoning the old BAU strategy. *Business As Usual* just doesn't work in this market. We call the new alternative ACP (Advanced Client Participation).

The goal of ACP is to fix what's not working under Business as Usual:

- Replace quick-and-dirty needs analysis with a *comprehensive, detailed, integrated* approach to retirement financial needs, and thereby:
- Satisfy clients with the service they receive, binding them to you, and turning them into a source for future business and referrals.
- Focus the typical field rep on selling products (where s/he has true expertise), and away from detailed fact-finding, needs analysis, and personal counseling (time-consuming processes where expertise is hard to develop and maintain in this advanced market).
- Connect clients *directly* to outside sources of *non-financial* information and services. This way, they can construct the *external context* of financial decisions on their own time, and also pursue the *non-financial consequences* of financial decisions in their own fashion . all while freeing reps from trying to be experts in all these areas.
- Establish a pathway for field reps to move from product sellers to specialists in serving middle market retirees, for those who want to.

The logic and flow of Advanced Client Participation™

The key to ACP is identifying the party who has the most time, the most motivation, and the most information to analyze needs and identify solutions, then putting most of the onus on that party. Leaving product information aside for the moment, that party is the client, not the field rep.

- The client who is retired or rapidly approaching retirement can afford to spend several hours, or more if necessary, on the planning proc-

ess. Most people in this market are no longer working overtime to climb the career ladder or taking care of children at home.

- The client whose entire future is in the balance, who is simultaneously feeling pressured and baffled by financial decisions, and who needs to bring the household finances into line in order to understand the resources and constraints on broader life choices, is much more motivated than the field rep who won't know until late in the process whether a sales opportunity even exists.
- The client has, or can get hold of, all the information needed to prudently determine whether a financial product or service is called for. The expertise of the field rep . identifying the specific product / features . doesn't come into play unless a product need is identified.

The client, therefore, *if empowered with suitable tools*, is the right party to analyze his/her own retirement financial needs.

In practice, the ACP process goes something like this (details, of course, have to be adapted to each company's specific needs):

1. The client responds to your marketed offer for a comprehensive, integrated plan, and for help in implementing it.
2. You (or your field rep) provides basic information about the process, along with the opportunity to create a User ID and Password (perhaps for a small fee, or perhaps for free). This step can be automated.
3. The client uses a software tool that is extremely robust in its breadth and capability, yet easily understandable. The process may take a few hours spread over a period of time, but as noted above, time, motivation, and information are the main assets clients bring to the table.
4. When all the data is input, the field rep gets a printable plan document. If no product/service sale is indicated in the plan, the rep (or a clerical staff person) thanks the client, sends the client the plan plus a link to other helpful resources, and asks the client to refer relatives and friends. This process also can be mostly automated.
5. But if an opportunity for a sale pops out, the field rep contacts the client and makes an appointment to review the plan. With almost zero effort by the rep, a highly qualified sales prospect has been identified.

Advanced Client Participation¹ benefits consumers either way, and leaves them feeling good about your company and your field people. Yet, depending upon how your company operates, the field reps have put forth either slight effort or none at all. By the time they seriously engage in the process, a sale is ready to be made.

In that case, who cares if the client's resources are modest? An agent or broker has to be doing very well indeed to turn down the commission on, say, a \$50,000 immediate annuity, if a ready purchaser has been delivered to the doorstep.

Frequently asked questions about Advanced Client Participation™

Q: *Great concept, but can we build a tool sophisticated enough to analyze all the issues you list, yet easy enough for ordinary consumers to use?*

A: Actually, that's the easy part. RetirementWORKS, Inc. has already built an application that far surpasses anything else for middle market retirees. It has been in the marketplace for a few years now, and individual consumers already pay up to \$189 to use it. And a substantial percentage of them pay to renew it annually to keep up to date . because it works.

Q: *Online tools work fine for younger people, but will older consumers really use them?*

A: Internet use by older adults is skyrocketing. According to the Pew Research Center, internet use by Americans age 65+ grew from 12% to 53% in the span of only 2 years (from April 2010 to April 2012). During that same period, use by adults age 55-64 grew from 41% to 77% . a solid majority. These percentages would be even higher if people living in or near poverty were excluded. Furthermore, whatever kind of work most people do, a computer is now part of their job. Few people *entering* retirement today (and these are the ideal clients) are computer-illiterate or computer-phobic.

Q: *Sorry, but this just isn't the way we do business in our company.*

A: Exactly. That's why you're not succeeding with middle market retirees. Remember, *this is an advanced market – it requires its own unique methods*, just as business insurance and estate planning do. ACP would not work in those markets, and it would rarely be the best strategy in traditional markets, including younger middle income families. But for middle market retirees, it is the key to success. Those who cannot adapt in order to achieve that success simply should not be targeting this market.

Q: *Will FINRA approve?*

A: FINRA doesn't need to approve, except for tools that specifically promote the sale of registered products. Our tool identifies needs that could be met with *non*-registered products. If your sales rep ends up recommending a registered product instead, that's fine, but *only at that point* does securities compliance become a concern . not during the needs analysis.

Q: *We've tried offering software for direct use by retirees or near-retirees, and they don't exactly flock to it.*

A: Yet Fidelity Investments has had consumers flocking to its retirement software for years. What's the difference between them and you? Probably two things: (1) they strenuously market their on-line retirement tool, because they knew from the beginning that it would be a prime gateway for their business; and (2) their software is complex and sophisticated, and when consumers get into it, they realize they are being given something serious, significant, and

potentially very helpful. The %Keep It Simple Stupid (KISS)+ approach that most other financial companies have used with retirees, meanwhile, consistently fails. Remember, *this is an advanced market*, and its members know that their needs are tricky. The consumers most likely to become clients are suspicious of quick, easy answers (or quick, easy tools), and rightly so.

Q: *What about clients (or field reps) who are uncomfortable with the scope of this software?*

A: For clients, we offer three levels of detail for the input process. The simplest can be wrapped up in 10 minutes or so. A more detailed option takes about an hour. The most detailed can take two or three hours, or even more. Interestingly, though, our experience is that when *financial pros* drive the process, they want to use the fastest available method. But when *clients* do it, they almost universally chose the slowest, most detailed option . another clear sign that clients, not busy field reps, should be handling this part of the process.

Q: *If you are doing a comprehensive analysis, aren't field reps going to be asked about a lot of topics other than the products they sell?*

A: They may get these questions, but in most cases, the best answer is: %an not the expert in that subject, but here's where you can go to get some answers.+ RetirementWORKS, Inc has its own set of web pages that provide such resources broken down into 124 categories (all carefully organized, indexed, and cross-referenced for ease of use). Or you can supply your own, or use other third party materials.

Q: *So how much expertise do field reps need to develop?*

A: Not much is *required*, though more is better. We offer a version of this software that uses our simplest input mode and also focuses specifically on illustrating how an *annuity* can benefit a client's retirement. This version provides a way for the non-specialist both to make a product sale when the right opportunity arises and to get accustomed to a simpler version of the software than the specialists use. So any rep can easily get a gradual introduction to the %advanced market+ that middle market retirees represent. How far they then want to go is up to them, and how much additional help and training you want to offer is up to you.

Q: *What if I have more questions?*

A: Email or call Charles S. %Chuck+Yanikoski, President of RetirementWORKS, Inc., at: csy@StillRiverRetire.com (978-456-7971).