RetirementWORKS
a subsidiary of Still River

Retirement Income: Moving from a Transactional to a Relationship Model

Charles S. Yanikoski
RetirementWORKS, Inc.*

May 15, 2011

> Transactional strategies are valuable, even necessary. But when they are the sole approach to retirement income, they miss many opportunities for revenue generation.

To date, the most prevalent retirement income strategies are *transaction*-oriented. Their goal is to generate specific kinds of financial transactions (such as asset reallocations, incoming rollovers, or purchases of annuities), or to prevent other transactions from happening (outgoing rollovers, and other large withdrawals).

Transactional strategies are valuable, even necessary. But when they are the sole approach to retirement income planning, they miss many opportunities to capture new revenue. These opportunities can best be identified and achieved through a *relationship* strategy.

The relationship strategy has already begun to appear in the marketplace – though mostly in quite limited form. But its potential effectiveness for bringing in more *kinds* of income makes it the winning approach for the future. All financial companies need to understand the principles of the relationship strategy, and to find an appropriate pathway to eventually adopt it.

* Charles S. Yanikoski is head of consulting services for Still River Retirement, and President of its consumer subsidiary, RetirementWORKS, Inc. He is also founder of the Association for Integrative Financial and Life Planning. He can be reached at csy@StillRiverRetire.com.

For the same reasons that the transactional strategy is relatively successful defending against withdrawals and rollovers, it is also successful for other firms defending against your attempts to capture their assets under management.

The Advantages and Limits of the Transactional Strategy

The transactional strategy depends on activating a connection with the client at the time a critical decision is being made. Typically, in retirement income planning, the triggering event is retirement, and the decision centers upon what will be done with a retirement savings account (usually in a qualified plan, but not always).

The worst outcome from the financial company's standpoint, of course, is that the funds are withdrawn and the account is terminated. In order to prevent this, various tactics are available: recommending a rollover or reallocation into an alternative product offered by the same company, creating a distribution plan that will keep most of the assets intact for a long period of time, or perhaps annuitizing all or part of the account if the company is set up to do so.

A transactional strategy can often work from a *defensive* standpoint, because the existing financial provider has key advantages: the plan provider can communicate easily with the client, may have inside information about the timing of the client's decision, may receive marketing cooperation from the account owner's employer (if the plan is a 401(k), for example), and also has inertia working on its side (making a change is harder for the customer than doing nothing at all).

But there are two significant limitations:

1. It is a weak strategy for obtaining rollovers from *external* accounts. For the same reasons that the transactional strategy helps *you* discourage withdrawals and rollovers from your company's accounts, it also enables other firms to thwart your attempts to capture *their* assets under management.

Opportunities to capture new assets abound, not only with people going through the retirement transition, but well before or after it. Only a *relationship* strategy will offer you success with such opportunities on a reasonably consistent basis.

2. It is also a weak strategy for identifying and taking advantage of *other opportunities to capture new assets*. Such opportunities abound, not only with people going through the retirement transition, but well before or after it. To mention a few examples among many:

    - You may know when a qualified plan participant retires, but you probably don't know whether that person has a working spouse, and if so, when that person is retiring. The other spouse may, in fact, be the primary breadwinner and have a much larger plan balance.

    - Cash value life insurance policies may be surrendered, because the family perceives them as no longer needed.

    - The family may decide (though not necessarily right away) to sell their house, trading down to a smaller home or an apartment, or perhaps sell a vacation home, releasing hundreds of thousands of dollars to be invested.

    - There may be a family business that is being sold or liquidated for a large amount of cash.

    - A spouse may die, which you may or may not learn about, depending on how their account with you is structured. But you are unlikely to know or learn about a big insurance policy on the life of the decedent, unless your company happens to have issued it.

    - Elderly parents or other relatives may die and leave a significant inheritance. Again, you are unlikely to learn about it, even if the heir holds some other kind of account with you.

When folks already have what they feel is a trustworthy financial partner, they naturally will turn to that partner for advice, or at least for a place to park their money. But transactional strategies tend not to establish relationships of trust.

Just as important, when any of these or similar financially beneficial events happen to older consumers who are *not* already your clients, you have even less chance of being in the picture when they are deciding what to do with their windfall.

Only a *relationship* strategy will offer you such opportunities on a consistent basis.

Defining the Relationship Strategy

A relationship strategy depends on establishing and maintaining ongoing relationships with clients, both actual and potential.

Most people in or near retirement who suddenly gain access to a large sum of cash are concerned enough about their future to want to do something wise with their funds. Most of them also know that this probably means more than depositing it into their checking account – but they also realize that they are not sure what the best answer is.

When such folks already have a financial partner they consider trustworthy, they naturally will turn to that partner for advice, or at least for a place to park their money.

Transactional strategies tend not to establish relationships of trust, however. Most households have transactional relationships with many – often a dozen or more – financial institutions. These include life, health, and property/casualty insurers; pension fund managers; banks and credit unions that hold their savings and checking accounts (and possibly certificates of deposit); mortgage and credit card lenders; perhaps also mutual fund companies, brokerages, or other securities firms, and various local agencies that represent them. Consumers today can also form new relationships very easily by checking out interest rates or getting annuity or other product quotes online.

Trust is earned when you do good things for your clients that do not have a conspicuous pay-off for you, especially if you do them well, do them cheerfully, and do them frequently.

The fact that you helped them make a specific financial decision at the time of their retirement does not bind them to you. It does not make them loyal to you. It does not make them think of you when they sell their house or receive an inheritance. They are just as likely to think of the company whose glitzy commercial they saw during the evening news, to whom they also feel no particular connection.

Selling someone a product, the sale of which is in your own interest, does not impress people. Even being very friendly about it does not impress them – you're making a good buck out of it, why *shouldn't* you be friendly?

Trust is earned when you do good things for your clients that do not have a conspicuous pay-off for you, especially if you do them well, do them cheerfully, and do them frequently.

When you build such a relationship with your older clients, you almost guarantee that they will come to you when they have a financial need or opportunity. Not only will they *trust* you, because you have shown that you are willing to be helpful even when you didn't need to be, but they will be *loyal* to you, and *want* to return the favor.

Implementing the Relationship Strategy

Adopting a relationship strategy is not a simple binary choice – rather, electing this approach puts you on a spectrum from minimal effort to total engagement.

Even transactional events can have a relationship angle to them, of course: as simple a thing as sending a thank-you note to someone who has bought a new product, or taken your advice to leave their account balance intact, is a small step in the right direction.

In the retirement market, there are innumerable specific options for pursing a relationship strategy.

But how many steps you take, how big they are, and how frequently they occur, is wide open. The question is: will you be better at it than the dozen other financial institutions serving any given customer of yours? When people have choices to make concerning financial products, will they instinctively turn to you, or to someone else?

In the retirement market, there are innumerable specific options for pursing a relationship strategy, but these normally fall into the following categories, in the order listed:

	Education	Advice
Product-related issues	2	1
Non-product financial issues	3	4
Non-financial issues	5	6

1. ***Product-related advice:*** This, the most basic offering, starts with the transactional strategy. You advise people to buy your products. This is expected, and earns you nothing in terms of long-term trust, *unless* you keep it going after the initial decision in your favor is made. On-going communication and timely advice on asset allocation or on tax issues related to the product, for example, remind the customer who you are, and begin to persuade them that you are interested in *them*, not just their account.

2. ***Product-related education:*** Although advice, which is specific to a client, generally provides *more* value in building relationships than does education, which is generic, this is not true when it comes to your own products: advice is expected, education is not. So the more you can provide objective, preferably third-party backing for your own product recommendations, the more credibility you have. You are not only more likely

As with financial education, financial advice can be more-or-less broad, detailed, integrated, and effective, depending on how much you care about your customers, and how much you want them to feel you care about them.

to make the sale, you are more likely to impress your client as a reliable financial partner.

3. ***Non-product-related financial education:*** At this stage you are moving into pure relationship-building, because you are offering education about financial decisions that don't directly lead to product sales. These could relate to financial products you don't sell (perhaps Medigap insurance, for example), but there are many other financial issues in retirement that have little or nothing to do with financial products: e.g., when to sign up for Social Security benefits, what option to take from a defined benefit plan, whether and how to lend to (or borrow from) family members, how to manage the family budget in retirement, identifying and dealing with financial fraud, and literally dozens and dozens of others. How many such issues you cover, and in what detail, is up to you. Obviously, the more, the better.

4. ***Non-product-related financial advice:*** Some of these financial decisions are amenable to financial analysis, and you could provide online tools to help people make the right decisions. As with financial education, financial advice can be more-or-less broad, detailed, integrated, and effective, depending on how much you care about your customers, and how much you want them to feel you care about them.

5. ***Non-financial education:*** Financial decisions, including those that affect your products and services, do not occur in a vacuum. Non-financial attitudes, choices, and events often have strong and far-reaching financial implications. So it is relevant, as well as smart relationship strategy, to help people understand the non-financial issues they face when they retire and as they age. There are innumerable ways to do this, and as with financial matters, you can provide whatever level of quantity and quality that you like.

At a pretty affordable cost, you can shore up relationships not merely with your own existing block of clients, but with the public at large.

6. ***Non-financial advice:*** You may be leery of entering the non-financial advice business, but you can safely offer *self-help* tools (automated or not) that are of real benefit to your older clients, and that will go the final mile toward persuading them that you really care about them, not just their money. Although very little of this is being done in the financial industry right now, bits of it are starting to appear. So if your intention is to be a winner in this market over the long haul, you need to be at least thinking about this level of relationship service, even if you are not ready to leap to it yet.

Using the Relationship Strategy to Acquire New Customers

The generation of Baby Boomers heading into retirement now is mostly very comfortable using the internet to find education and advice – and of course this is even truer of younger people, so this trend will only strengthen over time. The importance of it is that your customers can get help elsewhere, even concerning your own products.

But neither are they tied to your competitors, even when a competitor is the primary product provider. This means that by providing superior *web-based* education and advice, especially about financial issues that don't involve products, and more especially about non-financial retirement issues, you have the opportunity to stand out. This further means that at a pretty affordable cost, you can shore up relationships not merely with your own existing block of clients, but with the public at large.

We have never seen a poll asking people "What financial companies do you think have your interest at heart, even if you're not a customer of theirs?" But we're guessing that very few companies – maybe none of them – would register in such a poll. This

There is a big opportunity for those who develop a relationship strategy fastest and best, because they can create relationships of trust, respect, and loyalty not just with their own customers, but with potentially tens of millions of other people.

means there is a big opportunity for those who develop a relationship strategy fastest and best, because they can create relationships of trust, respect, and loyalty not just with their own customers, but with potentially tens of millions of other people.

And when those people do need a financial product, or realize that they have a significant sum of money to put away somewhere, who are they going to call? If it's not you, then even a solid transactional strategy may not save your existing business.