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Advisors may need to drop clients to meet boomer needs

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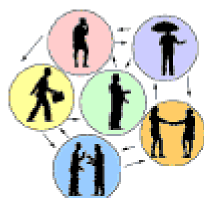

Advisors of the future will likely have to reduce the number of clients they serve or work longer hours, as the need for more extensive financial planning grows. The only other solution would involve dramatic improvements in product development or an equally drastic improvement in investor education, a U.S. study suggests.

The report, entitled *Building & Positioning Retirement Income Solutions*, was conducted by Boston-based Financial Research Corporation. The FRC conducted interviews with more than 30 financial service firms with approximately $15 trillion collectively in assets. Overwhelmingly, the companies identified income draw-downs as a defining feature of the industry once the boomers retire.

Boomers currently account for 53% of the U.S.'s invested assets, so when the tail end of the boomers are retiring, FRC estimates that the proportion of total U.S. wealth in draw-down mode will grow to 30% from its current 6%. That's $7.3 trillion in assets that will be in the payout phase.

With pension membership in decline and many employee benefits expiring, gone are the days when retirees could just wait for a cheque from a pension. Gone also are the days when an advisor could just place his or her client's assets in a suite of fixed income products.

"With retirement planning, and particularly income planning, you're accounting for a lot of different issues," says Luis Fleites, vice-president and director of retirement markets at FRC.

In 2005, when the FRC conducted a similar study, the industry felt it was up to the task. Half of the respondents in the 2005 study identified providing income planning services as the most important priority.

Two years later, less than a third believe this. The number one strategic priority in 2007 was product innovation: 33% of respondents want products that address boomer income needs but are simple to use and save them time.

The demand for innovative products stems from the need for comprehensive income planning for the mass-affluent and clients with lower asset levels.

The report found that only a minority of firms expect much growth with clients who have more than $2 million in invested assets because these clients already receive intensive financial planning.

Advisors were able to run a profitable book of down-market clients in the accumulation phase because the available product shelf — mutual funds being the most obvious — made it cost-effective to service these clients.

Advisors want a similar solution for retirement income so they can afford to keep these clients on book. Otherwise, they'll have to look at reducing their client base to free up time for their top clients.

The fiercest competition will be for the mass-affluent investors, the report says. Firms are allocating resources to attract clients with assets between $500,000 and $2 million dollars. These investors will have a greater need for retirement income programs, and can be valuable enough for advisors to spend time developing an extensive plan. Even still, if there are too many of them, the advisor will have to prioritize their client book.

Firms have actually eased off of promoting their retirement products, the FRC notes, not

so much because of a lack of demand for them but because of a growing belief in the industry that the ideal product solutions have not been created yet.

Of the products that are in development, 44% of the firms interviewed plan to develop income-equity offerings, although only 14% expect to invent something new. Fifty-five per cent of respondents expect further development of fixed income product, of whom 44% will tweak their existing product line and 7% will try to create something new.

Insurers have been the income product sales leaders, particularly with variable annuities that offer principal protection, investment growth and guaranteed income flow. These are also more expensive than traditional investment funds. Fleites says the biggest product development since 2005 has been the non-insured income products entering the market.

"Advisors are looking for non-insured [products] to find guaranteed income, even more as you start at the lower end of affluence, because the advisor can't spend as much time with these clients," he says. "We're seeing asset managers coming out with managed payouts such as recent payout products launched by Fidelity and the Vanguard [neither of which is available in Canada yet]. They are still looking for more products with guaranteed minimum withdrawal benefits and long-term care [premiums included] with annuity payments."

Toronto-based CFP, Scott Plaskett, CEO of IRONSHIELD Financial Planning, says that in Canada, product innovations like T-series funds are making planning for boomer income needs a little easier.

"From an income planning standpoint, the thing that really slows the whole planning process down is taxation," he says. "It's not just a matter of saying 'okay I can find you a certain yield investment that will pay out every year'. It's a matter of making sure the yield that's being paid out is actually tax efficient."

Plaskett uses T-series funds to create supplementary tax-efficient streams of income for his clients who use pensions or RRIFs.

"People tend to have RRIF income or pension income," he says. "So I find that the T-series option is one that allows me to deliver the cash flow to the client without negatively impacting their tax filing."

As a fee-based advisor, Plaskett emphasizes the planning aspect of his practice, rather than simple product push. Ultimately he believes all advisors will have to move in that direction to stay in business.

"The message that came from that study is financial planning is key. If you don't have that component built in your business model, you're going to drastically reduce your business in the future," he says. "One of the reasons we charge a fee is because we are much more involved in the planning process. We're not spending more time with boomer income planning, we are spending as much time as we ever had, but we have always spent more time than the average advisor on planning."

Survey respondents expect 50% of their retirement products to be moved through the advisory channel. The FRC says dealers are cognizant that not every advisor wants to move to a fee-based model to be compensated for their time, so there is a big push for educating investors to do more of their own planning.

Respondents' single biggest goal for the advisor distribution network is to offer educational tools for the advisor to use with the investors, who in turn can do more of the planning on their own, allowing advisors to streamline their time.

"People are turning to advisors because of the complexities of retirement planning. As advisors become more important, education and technology become equally important," Fleites says. "If more investors use technology to do research on income programs and use asset-allocation tools available to them, they'll come in with a more educated background and understanding of their income needs."

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