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Stand And Deliver

Yes, you can grow income as a retirement income specialist.

By Bruce W. Fraser
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The financial setbacks of the last few years—along with investors' steep portfolio losses—have turned retirement planning on its head. Scores of baby boomers and retirees that once looked forward to a post-work life of leisure and the pursuit of new interests now face a less certain future.

Being forced to search anew for financial security for their golden years, many clients now demand from advisors emotional reassurance, and that means some guaranteed income for their retirement, much more than what their traditional IRAs, 401(k)s and Social Security offer.

MFS Investment Management recently surveyed investors with at least $100,000 to invest. Forty-three percent of respondents said their risk tolerance had decreased while only 14% said it had increased. Some 36% said their objective is to protect their principal and not lose money, up from 14% before the economic downturn. Fifty-four percent of the respondents said they were more concerned than ever about being able to retire on schedule. And 45% agreed that they've lowered their expectations about what life will be like in retirement.
Little wonder that since the meltdown, investors are seeking more help. They face rising health-care costs and have to overcome the loss of value in what is likely their major asset: their home. They don't just need someone to tackle their investment needs, but someone to help manage their risk.

Income Distribution Vs. Accumulation
The new emphasis on income distribution, as opposed to the accumulation of assets, is propelling more advisors and wealth managers to position themselves as retirement income specialists to meet these new demands.

There may be drawbacks in charting this course, at least initially. Clients in withdrawal mode may pay lower asset management fees. Secondly, some clients in that age bracket will die, passing assets from the advisor to a charity or to non-client beneficiaries. The advisors will then have to replenish their clientele with younger people.

Rewards
On the other hand, the distribution phase doesn't necessarily have to mean lower fees and revenues. William H. Kantner IV of the Chartered Advisory Group Inc. (with assets under management of $180 million) in Chadds Ford, Pa.—a 27-year veteran of the investment business—has successfully demonstrated that the distribution phase of a client relationship, if managed properly, can actually offer opportunity and be financially rewarding as well.

Kantner recently found himself in a position to offer his retirement planning services to 120 retiring telecom employees. He ended up winning business from 66 of them after demonstrating a time-segmented distribution NextPhase strategy developed by giant broker-dealer Securities America Inc. These clients represented $40 million in rollover dollars, which Kantner calculates as approximately $500,000 per year in recurring management fees to Chartered Advisor Group.

Kantner says this particular platform set him apart from other advisors bidding for the business.

"The NextPhase platform gave us a dynamic tool to be able to counsel clients who were looking at making the retirement transition, and gave us confidence that they could afford to retire with their current income need, as well as making sure that they did not run out of money in their later years," says Kantner, who is now primarily a retirement income specialist. Indeed, most of his clients—average age 56—are in the distribution phase or will enter it in a year or two, he says.

"Because the average is young, the NextPhase proposal system gives us an outlook as to whether retirement transition is feasible to the younger retiree. We also tell our clients this is a different litmus test to pass because the platform will let the client know whether retirement goals are attainable. So, in other words, we can counsel a client as to whether or not they can afford to retire."

During the last several years, Kantner's group has made use of variable annuities for their guaranteed withdrawal benefits. However, "because the variable annuity companies had significantly increased fees for these types of guarantees, we needed a method to reduce the internal fees and provide clients with more investment flexibility at a lower cost," he says. "The NextPhase program allowed us to segment clients' assets for their future income needs, which also included cost-of-living adjustments."

Securities America's ROI Program

The Reliability of Income (ROI) profile, incorporating NextPhase, was developed by Securities America to access clients' need for guaranteed income and at the same time determine their risk tolerance, or their ability to withstand volatility.

It enables clients to feel more secure in the early years and confident they'll benefit from the longer-term strategies employed for later time segments, according to Zachary Parker, director of insurance and annuities at Securities America. The process shifts clients' attention from "how much" to "how long," he says.

The program grew out of a 2007 Securities America white paper entitled "Capturing the Income Distribution Opportunity," which compared three different time distribution strategies over 25-year time periods dating back to 1927. It concluded that advisors should consider using a combination of lifetime guaranteed income products and time-segmented solutions.

In the early phase of the program, clients are given a 17-question quiz to assess their emotional and financial side. Nine questions relate to the clients' need for guaranteed income, the rest to their ability to withstand risk. A scoring key helps advisors assess how much risk the client can emotionally tolerate, and how much guaranteed income the client needs.

"One of the reasons behind ROI was because we identified that advisors would sit down in front of a client and present solutions, and then the client would make their decision based on emotion," explains Parker. "The ROI profile helps advisors better identify both financial needs and emotional needs of the client and implement the ideal product mix.

"The way we explain that to advisors is tell them to picture a set of railroad tracks. The train is essentially the client's retired income stream, and you're using two strategies. One track is our guaranteed income strategy, and the other is our time-segmented strategy, NextPhase. Both of those are used to help the client get to their retirement objective."

Parker has helped advisors implement these plans for several years. "The majority of the plans we create using this particular philosophy project that the principal balance will remain intact over the duration of the plan, and in some cases can even grow. [In that case], the compensation could be greater than if the advisor implemented a systematic withdrawal plan.

"Our tool is top of the line," according to Parker, "but we pride ourselves on providing the support required to help advisors implement the strategy in their business and in growing their business. To have a successful program, you need to deliver both a great solution and great service."

TD Ameritrade's Approach

TD Ameritrade Institutional uses a similar time-segmented approach in counseling advisors to meet the retirement income needs of clients. "We ask them to look at certain events, the birth dates of their clients, for example, and use those dates to position themselves as the retirement income specialist for that client," says George Tamer, director, institutional sales.

"Their client relationship management systems contain birth dates, phone numbers and addresses. So they'll know quickly what clients are turning 50, for example, and we suggest a phone call or sending a note along with a birthday card. That lets them know whether they're positioned for a catch-up contribution into their IRA or their qualified retirement plan. Or possibly they can suggest a birthday lunch with a friend, and get a couple of referrals out of it as well.

"If you're starting at a young age where a client isn't necessarily thinking about retirement distribution yet," Tamer adds, "you can position yourself early as the person they can go to for information on their retirement planning."

With regard to compensation, what is the best course to take for advisors entering the distribution phase? How should you manage client accounts going forward? Do you charge clients differently?

Some advisors begin the distribution phase implementing a flat-fee retainer based on the value that they're providing versus a percentage of assets under management. Others incorporate periodic raises that they build into the compensation model. Still others elect to maintain the status quo.

Veteran wealth manager Lewis J. Altfest, the principal and CEO of Altfest Personal Wealth Management in New York, cautions advisors to beware of the added risks involved in the withdrawal phase for both clients and advisors, especially given the recent market declines.

"You want to make sure your staff is paying attention to possible sharp declines in the market early in the retirement period, which could set the entire retirement planning phase back and result in a permanent lower standard of living for that person," says Altfest.

Veteran industry watcher Bob Veres, publisher of the newsletter Inside Information, says he has seen no clear-cut consensus emerge in ten years about whether to switch from AUM charges to flat-fee retainers. The case for one side mounts over the years, he says, but then an outside event intervenes to change matters.

"First the market was going up nicely, and advisors were reluctant to give up the annual increase in revenue they were receiving in the mid-2000s," says Veres. But during the 2008-2009 crisis, "it would have looked far too self-serving for advisors to suddenly switch their clients over to retainers and stop their own bleeding while their clients' retirement portfolios were diminishing.

"Now," he continues, "a significant number of clients are beginning to enter decumulation, and many advisors are once again looking at the flat-fee compensation model. The question is whether the markets will again intercede and throw the timetable backwards.

"Making the shift is not as simple as just having a conversation with the client," he adds. "One of the great things about AUM is that it tends, over time, to give advisors fee increases that more than compensate for inflation—both because of the greater upward trend of the markets, and because accumulators are putting more money in their portfolio."

Wealth manager Aaron Skloff, chief executive of Skloff Financial Group in Berkeley Heights, N.J., chooses to stand pat for this reason. "Despite equities growing faster than other investments [over the long term], when we withdraw pro rata [to keep asset allocation relatively constant], the assets under management can decline for clients in distribution mode," says Skloff. "If this happens, it reduces fees for that client. But if the appreciation and income can more than offset the amount of distribution, the overall account size can still grow, increasing the fees."

Altfest's firm manages $650 million for a clientele chiefly of retirees, the widowed and active professionals.

Altfest says, "We have changed our retirement plans, providing further cash flow analysis that we generate for clients; we are producing more helpful reports, such as how much to withdraw from retirement plans, and have more intensive follow-up planned. We have not changed the way we manage their portfolios, but we have raised our asset management fees overall to compensate for the additional work."

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