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Retirement Planning: Products, Strategies, and Income

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Perhaps the most discussed industry trend in recent years has been the demographic shift of baby boomers moving toward retirement. Opportunity for investment advisors has been created as the responsibility for retirement savings has shifted from the employer, via defined benefit plans, to the employee through defined contribution plans. With investors also changing jobs more often than ever before, advisors have the opportunity to advise clients on meaningful pools of retirement assets. Not surprisingly, investors list planning for retirement as their primary financial concern. Likewise, large financial services companies have made targeting these retirement dollars an essential cog in their strategic plans.

However, these strategic plans have met two challenges. First, advisors view client retirement dollars very differently than the asset managers and broker-dealers that serve them view those same dollars. While large firms might look for strategies to provide rollovers or retirement income services, advisors view these as part of their overall client relationships, not as explicit strategies for marketing their practices. Second, investors' personal savings were decimated by the recent bear market, forcing them and their advisors to re-examine their ability to retire.

With this in mind, we looked at the attitudes of retail-focused IMCA members toward providing retirement services to their clients. As noted above, retirement planning services are a core part of nearly every advisor's practice. However, advisors across the industry place importance on client relationships first and foremost, and they provide

retirement planning and retirement income services underneath this umbrella. We see this, for example, when asking advisors about their strategies for attracting rollovers. Rather than explicitly targeting rollovers through seminars, defined contribution plans, and employer relationships, advisors rely on many of the same techniques they use for building their practices—referrals from existing clients and consolidating current clients' assets.

We see a similar trend when looking at retirement income strategies employed by advisors. Advisors have been reluctant to adopt holistic retirement income planning methods and guaranteed products, instead choosing to rely on tried-and-true methods such as individual fixed-income securities. For example, advisors are more likely to design a retirement income plan around a specific withdrawal rate rather than a comprehensive analysis of a client's budget and expenses. We also see advisor distrust of packaged products when they are asked about retirement income mutual funds. Advisors have not shown great interest in these products, instead believing that they can create similar portfolios using the tools they already have at their disposal. This issue is compounded by a general distrust of packaged products, especially since so many industry institutions have failed in recent months. Advisors need to understand how a portfolio is created and the risks that are associated with it.

Advisors who have been successful in managing and acquiring client relationships in 2008 and 2009 were those who were consistent. They did not waver in the message they delivered to clients or how they managed money. However,

Methodology: In August 2009 IMCA distributed a survey link to more than 7,300 current IMCA members providing access to a proprietary Cerulli Associates online survey instrument. The total respondent base of 219 is a sample of the investment advisor, broker-dealer, and institutional consultant membership of Investment Management Consultants Association.



this does not mean that there will be no long-lasting impacts from the market crisis. The concept of risk tolerance has been reintroduced to advisors and clients alike. While Cerulli Associates believes that investors ultimately will return to accumulation-oriented products, there likely will be a down-

shifting of risk in the industry, particularly for those investors nearest to retirement. Advisors agree with this, with two-thirds reporting that they have made client retirement income portfolios less risky as a result of the market crisis.

TABLE 1: FREQUENCY OF METHODS USED TO TARGET ROLLOVERS, 3Q 2009


Method	Always	Sometimes	Never
Referrals from existing clients	58.5%	30.8%	10.8%
Existing retail clients with rollovers held at other advisors	53.9%	30.1%	16.1%
Existing retail clients with new rollovers	53.4%	30.6%	16.1%
Referrals from outside professionals (e.g., CPAs, attorneys, ect.)	42.5%	39.4%	18.1%
Rollover from a qualified plan that you sold	27.5%	29.6%	42.9%
Other	13.6%	15.9%	70.5%
Employers	9.3%	30.8%	59.9%
Seminars	5.3%	26.5%	68.3%

Sources: Cerulli Associates, Cerulli Associates–Investment Management Consultants Association Advisor Surveys

Key Implications: Many large financial services companies have eyed the rollover market with great interest, seeking a way to capitalize on the billions of dollars projected to roll out of qualified plans in the coming years. However, many financial advisors don't necessarily see the rollover as an explicit opportunity; they see it as part of their business. The methods that advisors use to target rollovers are also the same methods they use to acquire new clients and assets. Their primary concern is the health of the

TABLE 1

- Advisors rank their existing client base as the most fruitful source of rollover dollars. Referrals from existing clients ranked as the most common source, followed by existing clients rolling money from other advisors and new rollovers from existing clients.
- Explicit methods of targeting rollovers, such as advisor-sold defined contribution plans, working with employers, and seminars all ranked lower than advisors working with the existing client base.

client relationship. However, advisors are well-served to remain in constant communication with their client base. Remaining top of mind with clients will give advisors the opportunity to address assets that are in retirement plans if a client leaves a job. One advisor coach recommends making future potential part of an advisor's client segmentation so that the advisor is the client's first stop when new rollover dollars materialize. 

The full results of the Cerulli Associates–IMCA survey are available to IMCA members as an exclusive member benefit. IMCA members receive four quarterly research reports and six issues of *Investments & Wealth Monitor* each year. For a \$395 annual membership fee, you can continue to receive cutting-edge investment consulting and wealth management content.

