

Success with Room to Grow

by Carly Schulaka

The success or failure of retirement income planning can be judged on some level by whether clients outlive their money or need to make significant changes to their lifestyle to accommodate retirement. Since 2008, FPA has annually surveyed financial planners in an effort to gauge the relative success of retirement income planning strategies. The 2011 study,¹ fielded in August among 595 experienced planners,² reveals a general level of success, but also room for improvement.

In the 2011 study, planners report that 76 percent of clients in retirement made no significant changes to their plans or their lifestyles in the past 12 months. Planners also report that 66 percent of their clients *near* retirement (those planning to retire in the next five years) made no significant changes. These are both increases from the 60 percent of clients in or near retirement that planners reported made no changes in the 2010 study.

“The group of advisers with the least success in 2010—only 30 percent or fewer of their clients made no significant changes—are realizing more success in 2011,” says Rebecca King, FPA’s assistant director of research and business development.

For Jack Gardner, CIMA®, president of Thornburg Securities Corporation, which sponsored the 2011 study, this year’s findings showcase many things advisers are doing right when it comes to retirement income planning, but he admits there’s still room for improvement.

“I think [the FPA] survey shows that

people are getting better, but still have a long way to go,” says Gardner. For example, most planners (65 percent) employ some sort of dynamic withdrawal policy with clients taking systematic withdrawals to adjust those withdrawal amounts in extreme financial market conditions—a move Gardner feels is in the right direction. But not all planners are taking into account taxes and payments for advisory services when determining the initial sustainable withdrawal amount they recommend, which would give a more holistic indication of the total withdrawals coming from the investment savings.

FPA’s 2011 study shows that 47 percent of planners are including the payment for their advisory services in the initial sustainable withdrawal rate they recommend, and 77 percent include the payment of federal and state income taxes.

Process vs. Product, but No Silver Bullet

Although survey respondents are overwhelmingly process-based (78 percent typically select a retirement income strategy and use products to implement that strategy), some planners seek a single process or product to accomplish successful retirement income planning.

“As an industry, we have not given advisers the tools to efficiently implement [retirement income planning] across their book,” says Gardner. “Platforms are still built for accumulation; they’re not built out yet for the distribution phase.”

Of course, there is no magic product that will guarantee a successful retirement income situation for every client, but planners have ideas on how products can be improved. The 2011 study asked: What new investment, annuity, or insurance products (or improvements to existing products) would be most helpful for

improving retirement income planning?

Here’s a snapshot of the most common answers:

- Automated products—For example, a product that implements an automated bucket approach strategy, or a product that allows clients to automatically take income out of the fixed-income portion of the portfolio
- More transparent and affordable annuities—Planners say they want more annuities with no fees, no commissions, and low expenses
- More innovative LTCI/annuity products—Planners are looking for hybrids that offer enhanced payments for terminal illnesses and tax advantages typically associated with LTCI

Several respondents indicated that no new products are needed; there are too many already.

For more insight into how planners are getting retirement income planning right, as well as areas for improvement, access the FPA Research Center white paper *2011 Financial Adviser Retirement Income Planning Experiences, Strategies, and Recommendations* at www.FPAnet.org/Journal/CurrentIssue/Supplements/SpecialReport2011Retirement.



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Endnotes

1. FPA Research Center. 2011. *2011 Financial Adviser Retirement Income Planning Experiences, Strategies, and Recommendations* study (December).
2. Forty-three percent of respondents have more than 20 years of experience in financial services; 33.5 percent have 10 to 19 years of experience.