

# How Is Your Firm Handling Retirement Income Planning?

Software Needs Cited in New FPA Study

By Robert Powell

The vast majority of financial planners believe that the retirement income market — a market made up of at least 77 million baby boomers — will grow slowly, one client at a time, according to a new study on financial advisers' attitudes and perceptions about the retirement income distribution market.

But given that 20,000 Americans will turn 60 every day over the next 20 years, planners recognize the significance of the retirement income market and how important it is to their business, according to the first-ever benchmarking study of the retirement income distribution market by the Financial Planning Association®.

“Over the last year, I have increasingly focused on this topic,” says Robert Wander, CFP® of Wander Financial Services, LLC in New York City. And Matthew Tuttle, CFP® of Tuttle Wealth Management, LLC, in Stamford, Conn. says, “We work almost exclusively with retirees and near retirees.”

Wander and Tuttle are not alone. In fact, 80 percent of financial planners feel retirement income issues are highly important to their practices today, according to the 2006 FPA Financial Advisers' Attitudes and Perceptions about the Retirement Income Distribution Market, sponsored by OppenheimerFunds and produced by The Diversified Services Group, Inc. (DSG). (For details on the corporate version of this report, email

Robert.powell@fpanet.org. The planner version is due for release in October.)

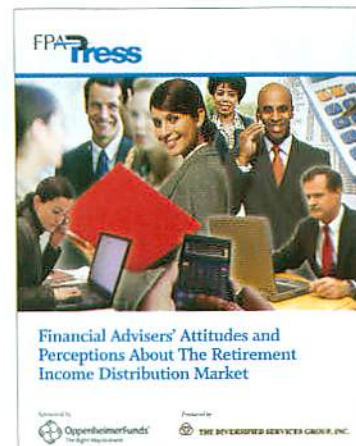
Even though the planners surveyed recognize the importance of the retirement-income market, the study notes that financial planners might need to reconsider their current business model to meet the needs of the growing and diverse aging population.

Tuttle and Wander are indicative of planners that have already revised their business model. And what's interesting is the approach being taken with clients.

“Financial planners are currently more focused on the retirement income planning process and providing advice rather than recommending and/or selling actual retirement income distribution products,” the study says.

Typically, the advice may be either comprehensive or simplistic depending on the needs of the client and their understanding retirement-income distribution solutions.

“My firm focuses on retirement income planning,” says Christopher A. Lund, CFP® of Lund Financial Group in Bedford, Mass. “We don't use one approach, but depending on the client background, investing preferences and particular needs, we use several possible strategies. Issues such as client risk tolerance, required portfolio withdrawal rate, age, retirement asset makeup all go into determining which approach is best.”



In fact, income-generating products and solutions are considered the least important need for pre-retirees and newly retired clients, according to the study. Instead, presumably due to late planning on the part of clients, conducting needs analyses and establishing retirement income distribution plans top the list of needs for clients as they near or begin their retirement.

Wander, for instance, is presently using a “process that starts with a ‘Reality Check’ to see where the client stands in relation to their retirement goal.” And Tuttle is using a five-step process that begins with an assessment of a client's retirement income goal. (See sidebar on p. 14.)

For some planners, software plays a role in supporting their analysis and creating retirement-income plans. Lund uses MoneyGuidePro to do the income planning modeling, plus software from Brentmark that evaluates the tax efficiency of retirement withdrawals, Social Security and the utilization of the Roth IRA.

Many planners, however, are recommending simple retirement income strategies and using home-grown technology solutions. For instance, systematic withdrawals and income- and dividend-paying investments are recommended much more frequently — at least twice as often —

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FPA Retirement Study

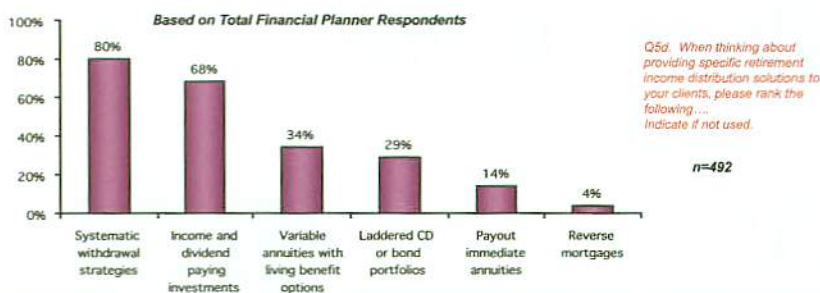
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## Assessing Client Retirement Income Goals

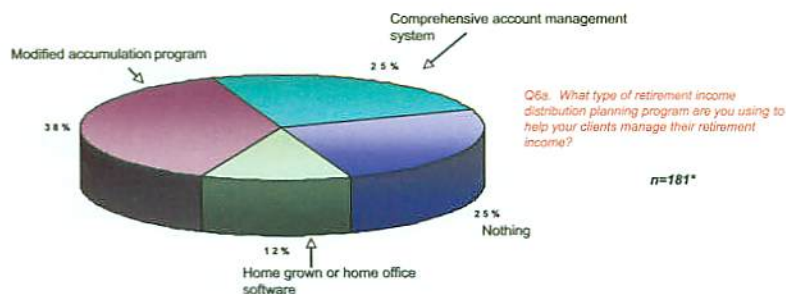
by Matthew Tuttle, CFP®

1. The first step we take is to get very clear on what a client's goal is regarding retirement income.
2. We then calculate how much assets the client will need in order to generate this income — if the goal is unreasonable we will go back to the client and re-jigger it. We do this assuming a withdrawal rate of between 4-5 percent.
3. We then develop an investment strategy that will give the client the greatest probability of achieving the desired amount of money or the greatest probability of enough growth and stability to meet the required return percentage.
4. At the same time we have the client complete a cash flow questionnaire, listing expenses now (either pre-retirement or in retirement — both discretionary and non-discretionary) and an estimate for expenses in retirement (if they are not already retired). This will help hone the goal number a little more. We will re-do these cash flow sheets whenever we think it is prudent.
5. Progress is always measured towards the goal, not against some benchmark.

## What Retirement Income Solutions Are Most Often Recommended to Clients?



## What Type of Planning Programs Do Financial Planners Use for Managing Retirement Income?



than other retirement income distribution solutions and products, the study reports.

Stephen Madeyski, CFP®, of Albuquerque, N.M., is one planner who takes this approach. "I deal with each portfolio individually," he says. "I build an income portfolio of individual corporate or municipal bonds creating a 10-year maturity ladder. This way, the client does not have to worry about the vagaries of the interest rate market, and when bonds mature they are reinvested to fill the maturity ladder.

While most planners choose the simple approach to retirement income, more than 60 percent have at some point recommended immediate payout annuities and reverse mortgages, the study says. "We have clients who utilize a systematic withdrawal program, others who will utilize income benefits available through both variable and fixed annuities, and yet others who will use a bridge strategy of income derived by fixed annuities while

longer term money is invested in equities," says Lund.

As for technology to help planners (despite what Lund is doing), there seems to be room for improvement. "Little standardization exists in the software financial planners use to manage clients' retirement income plans," says the study. "Half of the planners are using a program that has been altered for retirement income planning with another 25 percent not using any type of planning program at all. While the remaining 25 percent indicate they are using a comprehensive account management system designed for retirement income purposes."

"Financial planners feel they need tools that will allow clients to view and understand the potential results of their retirement income planning and decisions," says the study. □

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