



BABY BOOMERS ARE LOOKING FOR CONFIDENCE AND A PLAN

The long-awaited wave is starting to wash up on the shore. The wave of baby boomers, that is, people born between 1946 and 1964, with the oldest now 63, just past the minimum age for social security.

It's a big wave. The Census Bureau estimates the current U.S. population at about 308 million. Approximately 78 million of those – 25% – are part of the baby boom generation.

Although almost every American has been impacted in some way by the 2008 market drop, most boomers have been forced to face one of the most common fears: will I outlive my retirement funds? Retirements are lasting longer. In 1950, a man could expect to be retired about 13 years before he died; in 2010, he might live 19 years after starting retirement.¹

The market drop of 2008 is the most dramatic economic event of the past year, and if you walk around many neighborhoods, you'll see a forceful reminder of the challenges Americans are facing. Empty storefronts and "for sale" signs on commercial property and homes are just a few of the obvious and painful reminders of the unhealthy economy.

Consider another key example: healthcare. Even as potential healthcare legislation dominates the news, the Employee Benefit Research Institute estimates that a healthy 65-year-old couple will need \$305,000 to pay for non-covered medical costs over their lifetimes.² At the same time, it appears that pending legislation, if passed, will tap into Medicare funding to help pay for the new healthcare law. In addition, statistics show that Medicare costs are rising sharply, and it is expected that participants will be paying more in the future.³

Moreover, even if the economy and market had not plunged in 2008, changes in the nature and scope of retirement plans could give potential retirees good reason to be uneasy.

- Defined benefit plans are losing ground rapidly. In 1992, 40.0% of families had a defined benefit plan. By 2007, that number had dropped to 17.4%.⁴
- Defined contribution plans have lost value. From the end of 2007 to mid-June 2009, defined contribution plans for families with income over \$100,000 were down 22% and off 28% for those with a net worth in the top 10%.⁵
- IRAs and Keogh accounts have more than doubled since 1996.

Change and Growth in Private-Retirement Plan Assets (\$ trillions)		
	1996	2008
Defined benefit (pension)	\$ 1.59	\$1.93
Defined contribution (401(k)-type)	1.63	2.67
IRA	1.47	3.61
*EBRI, Federal Reserve data		

While macro-economic events delivered a shock to the generation that expected to retire in the near future, at the same time, the configuration of retirement plans themselves has changed. Defined benefit plans have stagnated, and individuals who can expect a reliable monthly payment from their former employer are in an increasing minority. Defined contribution plans and IRAs, which are directed by the participant, now dominate the retirement scene. Individuals are shouldering more responsibility for managing their own retirement funds, elevating stress levels.

A clear result of a 2009 retirement study was the differing attitudes among generations. Looking at retirement attitudes by generation (seniors, ages 65+; boomers, ages 43-64; Generation X, ages 27-42; and Generation Y, ages 8-26), researchers found that 47% of boomers say they “won’t be able to retire and not work.” Despite their fears, many are not taking steps to shore up their retirement; 25% did not save anything toward retirement in 2008.⁶

The bottom line is that almost 80 million Americans are in the process of retiring or getting close to it.

- After decades of a generally upward moving stock market made everyone feel like a smart investor, they learned the painful lesson that stocks can also go down. This realization changed perceptions toward risk, moving clients toward the conservative side of the charts.
- Traditional retirement vehicles are shifting away from the employer’s responsibility in a defined benefit plan to the individual’s management.
- Uncertainty about personal health and rising medical costs creates a backdrop of anxiety that underscores financial concerns, despite Medicare benefits.

In short, retirees are justifiably fearful about being able to afford the kind of life they have long expected in retirement.

Help Your Clients Assess Their Goals And Needs

How are retirement-age Americans planning to address these issues? One way to understand current Main Street financial thinking is to scan Internet sites and the top consumer financial magazines – Money, Smart Money and Kiplinger’s. Here you will see recurring themes: keep working and take a hard look at your social security choices.

By their very nature, however, these advice columns are presenting off-the-shelf ideas that can only apply to large subsets of the population.

That is no substitute for the individual attention and knowledge that you have to offer.

In fact, one of the advantages of the one-to-one advisor model is that you can understand each client as a unique set of emotional, family and financial components. With your knowledge and skill, you can address your clients as individuals, providing personally tailored recommendations that will help them meet their goals.

To do that, it is critical to acknowledge that the new economy and individual circumstances have generated changes in clients' lives that must be discussed. Even if you have been working with a client for many years, now is the time to survey their financial goals and to revisit risk tolerance.

Looking at risk tolerance, take your cue from the findings of behavioral finance. When a client's portfolio is moving up at the rate of 11 percent a year, he may be more tolerant of a slight shortfall vs. the market, which, let's say, gained 12% in the year. However, in a down market, the "loss aversion" factor kicks in. That is, people feel the emotional pain of a loss more strongly than they feel the positive emotion of a gain. So, when portfolios dive, the pain of the loss is greater than the previously positive experience of gaining 11% in a year. Even though clients have honestly expressed a level of risk tolerance in the past, they likely do not see it the same way today.

How Can You Reassure Clients About Their Plan?

When you see hesitation and inertia in your clients, a big reason just might be their lack of a plan or a path that makes sense to them. They are looking for confidence, and it is up to you to convey that confidence, both in your manner and the concrete plans that you present to them.

More than ever, your clients need to feel comfortable with both the emotional and rational sides of their plan. For example, when the concept of long term investing appeared to have failed in 2008 and early 2009, tactical, shorter-term investing emerged as a response. Used as a component in the portfolio, the close attention to near-term market shifts satisfied a need to "take action." It also offered a way to potentially capitalize on short-term market swings and aimed to help clients look at a longer time horizon with a portion of their portfolios.

Although the process of tactical investing provided some balance to the volatile market, it does not resolve issues related to meeting goals and objectives, which, depending on the asset level, might be as straightforward as maintaining a reasonable income level over a lifetime or far more complex, touching issues as philanthropy, business succession, or funding for a handicapped child.

A few years ago, it appeared that target-date funds would be a way to help put retirement on auto-pilot; however, it took a bear market to show up the weaknesses as target funds took a dive along with the rest of the market. In addition, these "one size fits all" funds do not address the individual needs of people like your clients.

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Time segmented strategy.

Now, a newer retirement-focused process, tailored to the unique needs of each individual or couple, has emerged. Goals-based investing, or time segmented strategy, addresses retirement in time sectors, aiming to match the investor's needs as his or her retirement life changes.

Shifting the emphasis away from a single deadline (or target) and emphasizing a series of goals or objectives that align with stages in retirement can make planning easier for the client to visualize. It helps people make the connection with what needs to be done in order to reach the goal. Does he or she need to save more? work longer? rethink the reality of donating a large amount of money to a charity? There is an inherently positive quality to the process as the client focuses on what life will look like at a specific time frame in the future.

While it is more important than ever to engage in personal interaction and work closely with your clients, outstanding technical resources are needed to implement a time segmented strategy. Investnet is introducing PlanHorizon which is designed to support advisors throughout the process:

- Build a plan that incorporates your client's objectives. A proposal generator will take you through the process. Six five-year segments are standard, but these can be customized.
- Implementation incorporates a range of investment choices on the Investnet platform; recommendations and guidance are available.
- PlanHorizon provides ongoing monitoring and reporting. Goals-based reports mean you can track the process throughout retirement.
- Adjustments can be made throughout the program. Events such as an underperforming segment or another segment reaching its target ahead of schedule are anticipated by PlanHorizon.

Build Confidence With A Plan

An AllianceBernstein study concluded that people who plan for retirement are happier in several aspects of their lives than those who don't. "Planners" feel healthier, more optimistic and more financially secure. Interestingly, people who had planned their retirement (vs. those without a plan) saw themselves as "organized, optimistic and analytical," felt more satisfied in their retirement and were more confident that they had done a good job in preparing for retirement.⁷

One study showed that only about 23% of boomers are actively planning with an advisor.⁸ That leaves a lot room to add new clients to your base – people who are looking for the confidence that a clear direction can provide. The youngest, those born in 1964, could be clients for the next 30 or even 40 years.

¹ "Retirement Period of Males, 1950-2050," compiled by the Center for Retirement Research at Boston College from data U.S. Bureau of Labor Statistics and U.S. Census Bureau, available at www.bc.edu/crr/FRD/shtml.

² Savings Needed for Health Expenses in Retirement: An Examination of Persons Ages 55 and 65 in 2009, p. 2, by Paul Fronstin, Dallas Salisbury, and Jack VanDerhei in Notes, June 2009 • Vol. 30, No. 6, Employee Benefit Research Institute, available at www.ebri.org.

³ Medicare Costs and Retirement Security, a brief by Alicia H. Munnell, director of the Center for Retirement Research at Boston College, October 2007, Number 7-14, available at <http://crr.bc.edu/index.php>.

⁴ Individual Account Retirement Plans: An Analysis of the 2007 Survey of Consumer Finances, With Market Adjustments to June 2009 by Craig Copeland, EBRI Issue Brief #333, August 2009, Employee Benefit Research Institute, available at www.ebri.org.

⁵ Individual Account Retirement Plans: An Analysis of the 2007 Survey of Consumer Finances, With Market Adjustments to June 2009 by Craig Copeland, EBRI Issue Brief #333, August 2009, Employee Benefit Research Institute, available at www.ebri.org.

⁶ The 2009 Scottrade American Retirement Study Key Highlights by Chris X. Moloney and Christine Mistretta, Scottrade, Inc. available at www.scottrade.com/white_papers/The_2009_Scottrade_American_Retirement_Study.pdf.

⁷ Outlook on Retirement: New Insights on Planning and Personality, a research white paper by John D. Curry and Eric Sundstrom, February 2007, Alliance Bernstein Investments, available at www.alliancebernstein.com.

⁸ The 2009 Scottrade American Retirement Study Key Highlights.



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