



on the future  
of retirement



# **Retirement Income and The Fiduciary Advisor**

**September 17, 2007**

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# Agenda and Executive Summary



**Financial Advisors Increasingly Shoulder Fiduciary Duty**

**Retirement Income Poses New Challenges to Fiduciary Advisors**

**These Challenges Offer Opportunities to Product Providers**

# What is a fiduciary advisor?



**A financial advisor held to a Fiduciary Standard occupies a position of special trust and confidence when working with a client. As a Fiduciary, the financial advisor is required to act with undivided loyalty to the client. This includes disclosure of how the financial advisor is to be compensated and any corresponding conflicts of interest.**

**NAPFA believes advisors must receive compensation only from their clients, must disclose any possible conflicts of interest, and must be loyal to the best interests of their clients.**

From [www.FocusonFiduciary.com](http://www.FocusonFiduciary.com)

# Fiduciary Advisors: Growing Importance

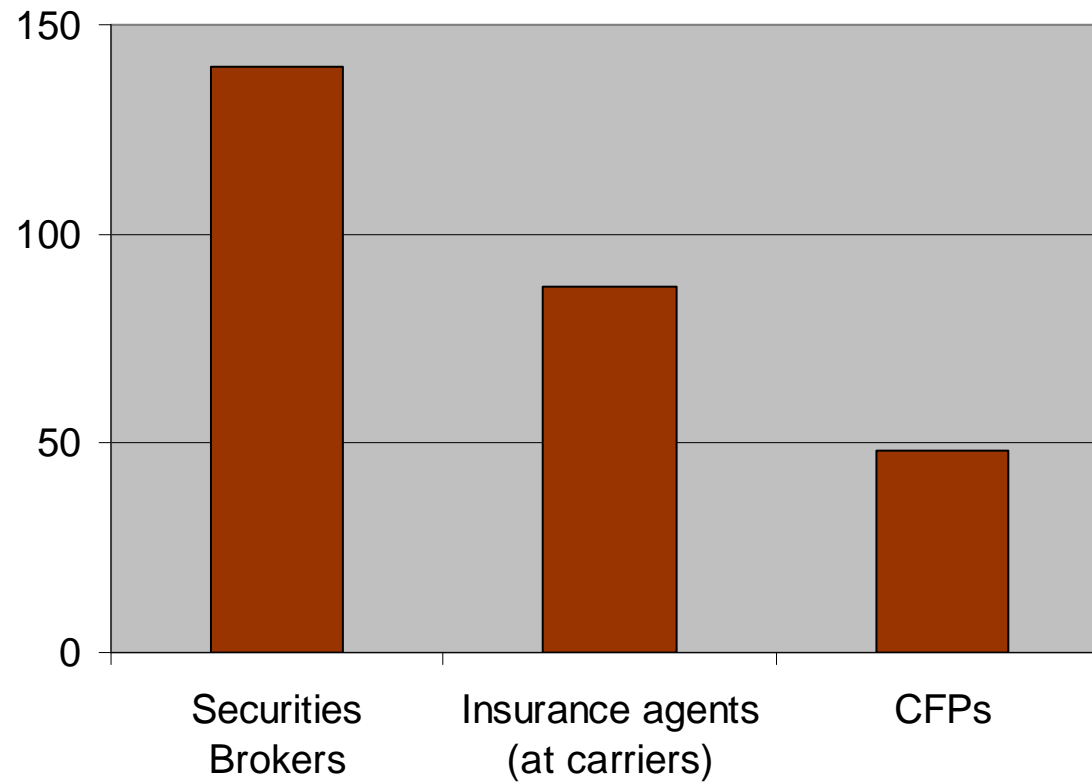


- **NAPFA – a catalyst in the growth of fiduciary advice**
- **CFP Board adopts fiduciary standard**
- **11,000 RIAs custody over \$600B in assets at Schwab, Fidelity and TD Ameritrade**

# Fiduciary advisors – a sizeable segment



Advisors (000)



Sources: BLS, 2006; CFP Board, 2005

# This Growth Due to Several Related Causes



**Some consumers prefer fiduciary advice**

**Relentlessly declining information costs...**

- Throughout the economy
- In financial markets
- In financial services

**... facilitate product comparisons, expand choice → encourage consumers to seek objective advice**

**Consumers can both afford and benefit from more advice**

- More affluence
- Longer lifespans

# Dogbert knows why



# More Consumer Involvement and Responsibility



	Demographic trend: longer life span	Declining employer paternalism → increased individual responsibility	Overextended governments → weakening commitments
Retirement income	<ul style="list-style-type: none"> <li>• Longer retirement to support</li> </ul>	<ul style="list-style-type: none"> <li>• DB/Pensions → DC/401(k)s</li> </ul>	<ul style="list-style-type: none"> <li>• Doubts about Social Security</li> </ul>
Health insurance and health care	<ul style="list-style-type: none"> <li>• Increasing odds that long term care will be required</li> </ul>	<ul style="list-style-type: none"> <li>• Growing deductibles</li> <li>• Increasing co-insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Doubts about Medicare</li> <li>• Tightening Medicaid rules</li> </ul>

# More Consumer Choice



	Specialization: Manufacturing and Distribution	Direct Distribution	Increasing Product Complexity
Investments	<ul style="list-style-type: none"> <li>• Schwab OneSource → copycat competitors</li> <li>• SMAs</li> </ul>	<ul style="list-style-type: none"> <li>• Fidelity</li> <li>• Vanguard</li> <li>• T Rowe Price</li> </ul>	<ul style="list-style-type: none"> <li>• Financial engineering</li> <li>• Hedge Funds and retail imitators</li> <li>• Leveraged ETFs</li> </ul>
Banking	<ul style="list-style-type: none"> <li>• Mortgage broking</li> <li>• Lending Tree</li> </ul>	<ul style="list-style-type: none"> <li>• ING Direct</li> <li>• Capital One, MBNA</li> </ul>	<ul style="list-style-type: none"> <li>• Interest only mortgages</li> <li>• ARMs</li> <li>• Variable ARMs</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>• InsuranceQuote.com</li> </ul>	<ul style="list-style-type: none"> <li>• Geico</li> <li>• USAA</li> </ul>	<ul style="list-style-type: none"> <li>• Whole life → Universal Life → VUL</li> <li>• VAs → EIAs</li> </ul>

# Retirement Income → New Challenges for Advisors



## Retirees face new problems

- Longevity risk
- Inability to recover from investment setbacks

## No one understands these problems well

- Academic consensus has yet to emerge
- Consumers are confused (and scared)
- Advisors are still flailing about

## Product solutions are incomplete

## (Fiduciary) advisors must adopt new

- Skills: more than performance
- Compensation: AUM / annuitization conflict
- Attitudes: how is value added?

# Market Position Openings



	Description	Examples from Investments
Generic products	<ul style="list-style-type: none"> <li>• Basic products with transparent features and pricing</li> </ul>	<ul style="list-style-type: none"> <li>• Index mutual funds</li> <li>• Money market funds</li> </ul>
Low cost product producer	<ul style="list-style-type: none"> <li>• Product provider with focus on providing excellent basic products at low prices</li> </ul>	<ul style="list-style-type: none"> <li>• Vanguard</li> <li>• Barclays Global</li> <li>• Fidelity (Spartan)</li> </ul>
“Supermarket”	<ul style="list-style-type: none"> <li>• Venue where advisors can access solutions from multiple product providers</li> </ul>	<ul style="list-style-type: none"> <li>• Schwab</li> <li>• Fidelity</li> <li>• TD Ameritrade</li> </ul>
“Warehouse”	<ul style="list-style-type: none"> <li>• Storage location for products from multiple providers with transaction support</li> </ul>	<ul style="list-style-type: none"> <li>• Schwab</li> <li>• Fidelity</li> <li>• TD Ameritrade</li> </ul>

# Opportunities for Retirement Income Product Providers



**Identify the Fiduciary Advisor as a distinct market segment**

**Design offerings to meet Fiduciary Advisor needs**

- **Directly address their clients' needs**
- **Transparency**
- **Accessibility**

**Communicate to Fiduciary Advisors**

- **Use channels they are comfortable with**
- **Clearly articulate product features and client value**
- **Emphasize**
  - **Client benefits rather than commission opportunities**
  - **Solutions vs. products**