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Introduction to Retirement Planning

Learning Objectives

An understanding of the material in this chapter should enable the student to

1-1. Identify the eight steps in the retirement planning process from the advisor's perspective.

1-2. Describe the five phases of the retirement planning process from the client's perspective.

1-3. Describe the critical issues that affect retirement planning.

1-4. Identify the roadblocks to saving for retirement.

1-5. Explain the advisor's role in the retirement planning process.

1-6. List the important characteristics of the silent generation, baby boom generation, generation X, and millennial generation.

1-7. Explain the main objective of prospecting.

1-8. List the four criteria that define a qualified prospect.

1-9. List and describe seven sources of retirement planning prospects.

INTRODUCTION

It may surprise you to know that retirement planning is a relatively young discipline. Consider this: In 1930, only one in 10 workers was covered by a pension program and Social Security did not exist.[2] For Americans who lived in the early 20th century, retirement meant moving from fieldwork to household chores. In the middle of the 20th century, retirement was thought of as a short and sedentary experience. Today's and tomorrow's retirement is thought of as a vibrant and significant time of life, which may last 30 years or longer. Gone are the days of the frail senior sitting in a rocking chair.

Despite its short history, retirement planning has become one of the most crucial aspects of a comprehensive financial plan. According to survey after survey, retirement planning ranks as a top consumer priority.

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2. Patricia W. Seburn, "Evolution of employer-provided defined benefit pensions," *Monthly Labor Review* (December 1991): 19.

This chapter will set the stage for your study of retirement planning by identifying the key components of the retirement planning process. It will explore the critical issues that affect retirement planning. The chapter will then examine the role of the advisor in helping clients achieve financial security in retirement. Finally, it will discuss marketing demographics and prospecting concepts and sources.

RETIREMENT PLANNING DISCIPLINE

Selling/Planning Process

The selling/planning process is based on a planning philosophy. Over the years, many authors have written about selling and planning the "right" way. In doing so, they have used various terms to describe the right way: relationship, client-centered, counselor, consultative, needs-based, values-based; the list goes on and on. We do not recommend any one method. Instead, we attempt to examine those principles and concepts involved in cultivating a long-term, mutually beneficial relationship with a client.

Because of the nature of the client-advisor relationship, it is both ethically required and financially wise for the financial advisor to thoroughly understand the client's needs and act to fulfill those needs as much as possible. There must be what is known as consultative (client-focused) planning or selling. This approach requires the advisor to gather as much information as possible from the client about the client's needs, goals, interests, and assets in order to put together an investment or insurance package that will best meet the client's needs. Consultative planning or selling is a sound approach to building good relationships with clients.

The selling/planning process is divided into eight steps. The selling process includes the (financial) planning process. Within each sale, the advisor should conduct some type of planning. The first two steps are preliminary marketing steps you must complete prior to actual planning. Steps 3 through 8 are the (financial) planning process. These next six steps involve interaction between you and your client. They will be repeated many times because they are the basis for your ongoing working relationship. Knowing what you want to accomplish and why you want to accomplish it will guide your actions in each step of the process. The nearby graphic displays the eight steps in the selling/planning process.

Retirement Planning Process: The Advisor's Perspective

Retirement planning follows the same eight steps used in the selling/planning process. Identifying and selecting prospects for individual retirement planning is the first step in a chronological procedure that you need to adhere to and understand to enhance your competency. Below is a more detailed explanation of the selling/planning process as it is adapted to the retirement planning process. Throughout this text, we will refer to these steps as we discuss their importance in retirement planning from the financial advisor's perspective.

The Eight-Step Selling/Planning Process

1. Identify the Prospect

Effective retirement planning begins with getting in front of the right prospect. Not only do you want to identify prospects who have a high probability of needing, wanting, and affording your financial products to meet their retirement planning objectives, but you also want to find people who will value you and become a source for repeat business and, more important, for referrals. A systematic approach to prospecting that utilizes various preapproach methods can help you find target markets of potential clients and enable you to market effectively.

2. Approach the Prospect

This step involves getting appointments. You can do this either on the telephone or face-to-face through seminars or other prospecting opportunities involving personal contact. If you are successfully cultivating relationships, you will generate more referral-based business. Because of the negative feelings most people have toward telemarketers, cold calling has become more difficult, and referrals are that much more critical.

3. Meet with the Prospect

Meeting with the prospect is the step during which you establish rapport, explain your business purpose, ask some thought-provoking questions, and listen, listen, and listen. The importance of listening cannot be overstated; it is essential when building any relationship. You need to gain prospects' trust and agreement to gather pertinent information about them. In this step, you should outline and discuss an overview of the common problems that people face in retirement planning. You must also let prospects know what you can do for them (in general terms) to solve these problems and help them to see your value. You must answer the prospect's question: Why should I do retirement planning with you? Your final objective in meeting with the prospect is to gain acceptance to proceed to the information-gathering step.

4. Gather Information and Establish Goals

Retirement planning requires advisors to listen to their prospects' goals and expectations for retirement. Advisors should not impose their concept of retirement on prospects or assume what they believe to be important is also important to prospects. Prospects have a variety of goals that range from never having to work again to working full-time during retirement. Clearly, advisors have their work cut out for them as they deal with a plethora of expectations and, in some cases, help frame the expectations of their prospects through the education process.

After sorting through their prospects' goals and expectations for retirement, advisors must gather a considerable amount of information about their prospects by using a retirement planning fact finder. They must focus on conducting a financial inventory of retirement assets, savings, and an assessment of the strategies that clients have available to them. For example, advisors must account for all their prospects' resources allocated to retirement, and they must note all opportunities that prospects have available to them such as being able to contribute to a Roth IRA or to participate in a 401(k) plan at their place of work.

5. Analyze the Information

In this step, the advisor looks at the prospect's current situation as well as his or her future goals in order to evaluate the appropriate strategies for that particular prospect. This includes the performance of a retirement needs analysis as well as an analysis of the prospect's financial risk tolerance, risk management strategies, and risk exposures. For example, does the prospect have adequate disability income insurance and long-term care insurance? Do the prospect's current asset allocations adequately achieve his or her financial and/or retirement goals? Is the prospect currently saving enough for retirement? What tax planning and distribution strategies are available to the prospect, and do they make sense for the situation? Advisors need to evaluate and analyze current retirement plan exposures (for example, the IRS 10 percent penalty tax for premature distributions from IRAs and qualified retirement plans), current retirement plans, Social Security benefits, and current retirement planning strategies.

6. Develop and Present the Plan

The advisor should develop and prepare a specific retirement plan tailored to meet the prospect's goals and expectations, commensurate with the prospect's values, attitudes, temperament, and financial risk tolerance. In addition to the prospect's current financial position, the plan should include his or her projected retirement status as it now stands as well as the projected status if the advisor's recommendations are followed. The advisor should also provide a current asset allocation model along with strategy recommendations. Investments should be summarized, and the advisor should recommend an investment policy. The retirement plan should also include an assessment of distribution options and tax strategies. Finally, the plan should include a list of prioritized action items and address issues such as housing and health care.

After developing and preparing the plan, the advisor should present the plan to the prospect and review it with him or her. The advisor should collaborate with the prospect to ensure that the plan meets his or her goals and expectations.

7. Implement the Plan

The advisor should assist the client in implementing the recommendations. This will most likely involve the purchase of financial products that are intended to satisfy the quantitative financial goals established in step 4 of the process. Often this requires the advisor to coordinate with other professionals such as accountants, attorneys, real estate advisors, investment advisors, stock brokers, and insurance advisors.

8. Service the Plan

After the plan is implemented, the advisor should periodically service the plan to monitor and evaluate the soundness of his or her recommendations and review the progress of the plan with the client. The advisor should also discuss and evaluate changes in the client's personal circumstances such as family births or deaths, illness, divorce, or change in job status. Any relevant changes in tax laws, benefit and pension options, and the economic environment should be reviewed and evaluated before the advisor recommends revisions to the plan to accommodate new and/or changing circumstances.

Five Phases of Retirement Planning: The Client's Perspective

Despite the fact that retirement is a moving target that defies a singular definition because it will be different for different people, retirement planning occurs throughout the client's life cycle and is typically evidenced by the following phases:

- savings
- increased preparation and visualization
- decision
- retirement transition and lifestyle
- coping with frailty

Note that the phases tend to be a continuum of experiences that may or may not be demarcated by a singular event.

savings phase

rollover

The *savings phase* starts when the client's career begins. During that time, clients will be preoccupied with other competing savings objectives such as buying a home and family-building expenses. The advisor's role in the savings phase is to motivate the client to save for retirement and to educate the client about the importance of starting early. Establishing good retirement savings habits despite the lure of more short-term goals is essential to retirement security because of the miracle of compound interest. Think of clients buying retirement on the installment plan: The sooner they pay, the less it costs. Also, during this period, clients often change jobs, and the advisor's role is to make sure that retirement savings are not cannibalized for other uses. *Rollovers,* tax-free transfers from one tax-qualified vehicle (for example, an employer plan) to another (for example, an IRA) can be a key service the advisor provides for his or her client at this stage.

increased preparation and visualization phase

The *increased preparation and visualization phase* cannot be identified with any particular age. In fact, the earlier it starts, the better for retirement security purposes. In this phase, the client kicks retirement planning into high gear. Often, the focus on retirement goals is spurred by parents' retirement. At this time, children begin to see the parents' plight and realize they want to emulate the positive and not repeat the negative. In the savings phase, the motivation to plan and save came from the advisor. In the increased preparation phase, it is the client who sees the need to increase 401(k) contributions or make paying off the house before retirement a priority. To initiate the increased preparation phase, advisors should use a retirement income and/or expenses calculator to identify the amount needed to save for retirement.

In the second part of the phase, clients become even more focused. The concept of what retirement should be begins to crystallize in their minds. Now the need to meet with an advisor becomes more important and possibly more productive. In some cases, clients begin to understand that limiting expenses can be just as important a goal as increasing savings. One strategy advisors often suggest during the visualization phase is to save all raises that are earned in the 5 or 6 years prior to retirement. By putting their salary increase into a 401(k), Roth IRA, or traditional IRA, the clients will not only save more for retirement, but they will also lock in spending habits and learn not to grow their lifestyle and budget—an important lesson for retirement.

decision phase

The *decision phase* is often characterized by the imminent event of retirement. The year before, year of, and year after retirement bring many planning choices and challenges. Clients in the decision phase have often grown tired of their current career. They need to be prepared for a nonworking environment or a phased retirement. They may look to restructure asset allocation (often unnecessary because certain retirement assets will not be used for 20 or more years in the future). Sometimes they think of moving into retirement because their children have completed college, the clients are becoming empty nesters, or they have received an inheritance. Other times, age drives the decision about when to retire. Advisors should educate clients, however, that health and money are more accurate drivers of the retirement decision. During the decision phase, advisors need to counsel clients on a variety of issues such as pension distributions, when to start receiving Social Security retirement benefits, and how to convert assets into retirement income.

retirement transition and lifestyle phase

The *retirement transition and lifestyle phase* follows immediately after retirement. It is often accompanied by a surge of increased spending on travel and other recreational pursuits and a focus on adapting to a changed environment. Travel, golf, gardening, and volunteer work often occupy the client's calendar. Communications with former coworkers take on a different character. Grandparenting joys may become part of the lifestyle. Advisors must be ready to help with the psychological and emotional needs that accompany these changes. The client-advisor relationship goes beyond financial solutions at this time. Once clients have settled into retirement, advisors must help them adjust their spending plans accordingly. Often, caregiving responsibilities will become the client's "new career." As time passes, the nature of the client's environment also changes. Friends and family may die or move away. Relationships with former coworkers may grow remote. Events with other seniors will take on more importance. By this time, advisors need to help clients decide whether or not to move near family or to a continuing care retirement community. From a financial perspective, clients become more asset rich and income poor.

frailty phase

The *frailty phase* of retirement planning does not depend on any specific age, but is evidenced by dealing with health issues, caregiving for a spouse, and the loss of mobility. Clients in this phase tend to become more lonely and dependent on others. Proximity to medical services and community services becomes more important. Issues such as forfeiting a driver's license and coping with loss dominate clients' lifestyles. At this stage, the advisor can assist clients by directing them to the appropriate social services. It is also rewarding to advisors to see that their counsel has helped clients to have sufficient resources during retirement. Financial independence can soften the loss of physical independence.

Questions That Define the Retirement Planning Discipline

The essence of retirement planning is to answer clients' diverse questions on a variety of issues. For example, with regard to Social Security, clients are concerned with the inner workings of the system. They will ask what type of benefits it provides and when they should start taking those benefits. They also want to know what lies ahead for the future of the Social Security system.

With regard to employer qualified retirement plans, clients desire to maximize the tax efficiencies inherent in these plans. To do so, they need to understand what benefits the employer plans provide. Clients also want to know how nonqualified plans and IRAs can be used to enhance retirement security.

In addition, clients want advisors to answer the question of whether or not they can afford to retire. It is important to know how to calculate the retirement income need.

Clients are concerned, too, with investment strategies they can use during the accumulation period and the liquidation period. Thus retirement planning involves investment strategies and asset allocation decisions.They are also curious about how different financial products fit into their retirement plan. Consequently, engaging in retirement planning involves understanding various types of financial products and investment and risk management concepts.

A major concern for clients entering the retirement period is how to properly plan for distributions from qualified retirement plans. The advisor needs to make clients aware of the available distribution options and to help the clients navigate the maze of choices.

Insurance products available for retirement are also vitally important. Clients wonder if they will need long-term care insurance and, if so, how much coverage they should purchase. Clients must also understand Medicare and medigap plans.

Finally, clients want to know how retirement planning and estate planning intersect because they may seem to have contradictory goals.

Throughout your study, keep in mind that retirement planning is more art than science. Be flexible, and encourage your clients to do the same. Together, you and your client can create a bright future and a successful financial solution to the problem of retirement planning.

CRITICAL ISSUES THAT AFFECT RETIREMENT PLANNING

To better understand the retirement planning discipline, let's look at some of the critical issues an advisor must consider. By laying this foundation, the advisor should be able to understand the rules and strategies discussed later in this textbook in the context of the retirement planning environment as it currently exists.

Issue One: Retirement Age

No longer is age 65 a magic number for retirement. A variety of societal, governmental, and personal factors can affect your client's decision about when to retire.

What, then, is retirement age? As a practical matter, the average retirement age (which is slightly over age 62) is irrelevant to the retirement planner. What is important is the retirement age for each individual client.

Each client has a unique set of personal factors that influence his or her retirement age. Government and employer programs and policies are important. But also important are the client's financial and personal situations, as well as his or her willingness to incur the risk of portfolio performance, inflation, and adverse changes in government and employer policies.

For most clients, specifying a retirement age is based on nonfinancial criteria. If the client indicates the desire to retire at age 64, the advisor's responsibility is to help determine whether that is a financially viable goal. At the same time, the advisor must inform the client of negative aspects of the chosen age. Often, the advisor provides information that causes the client to postpone retirement.

Issue Two: Life Expectancy

Another critical issue that affects retirement is life expectancy. According to the U.S. Census Bureau, there were over 96,000 centenarians in 2008.[3] This is about 2.6 times that of the 1990 census. Furthermore, by the year 2050, there are projections that there will be around 601,000 centenarians.[4] It is clear that people are living longer now than in prior generations and, in many cases, living longer than expected.

In accounting for life expectancy, many pre-retirees mistakenly look at life expectancy at birth (74.1 years for males and 79.5 years for females) to assess their likelihood of living to a certain age. However, life expectancy at age 65 (which is 85.1 for males and 88.3 for females, according to the Retirement Plans 2000 mortality tables) is much different and a more accurate measure for retirement planning purposes. When using life expectancy tables, remember that there is generally a 50 percent probability a client will outlive the ages in the tables. In combination, the earlier than expected retirement (issue one) and the increase in longevity (issue two) can be detrimental to retirement financial security.

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3. U.S. Census Bureau News, "Older Americans Month: May 2009," *Facts for Features*, Census.gov, www.census.gov/Press-Release/www/releases/archives/cb09ff-07.pdf (accessed July 13, 2009).
4. Ibid.

Issue Three: Financial Preparedness

There is no doubt that some clients are on the fast track to a financially independent retirement and others are swimming upstream. The advisor's job is complex because of the disparity in financial preparedness among the United States population.

Employer-Sponsored Retirement Plan Availability

According to an Issue Brief from the Employee Benefit Research Institute (EBRI), over 52 million private-sector employees age 21 to 64 did not have access to an employer-sponsored retirement plan in 2007.[5] This represented roughly 38 percent of the workforce around the time of the study (estimated by the Bureau of Labor Statistics at a little over 138 million as of December 2007[6]). The EBRI Issue Brief investigated the difference in availability based on the size of the employer. Here were the findings:

- Approximately 69 percent of workers ages 21 to 64 at employers with 100 or more employees have an employment-based plan available to them (participation is another issue).
- About 47 percent of workers ages 21 to 64 at employers with 25 to 99 employees have an employment-based plan available to them.
- Roughly 25 percent of workers ages 21 to 64 at employers with fewer than 25 employees have an employment-based plan available to them.[7]

Not surprisingly, these statistics indicate that clients who work for medium- and large-sized employers have more opportunity to prepare for retirement than their counterparts in small firms.

Issue Four: Need for Education and Advisors

According to an Urban Institute paper on retirement planning, from 1979 to 2006, the percentage of private-sector (non-government) employees participating in a defined-benefit pension plan declined from 39 percent to 20 percent. Conversely during that same period, the percentage of private-sector employees participating in a defined contribution plan increased from 15 percent to 43 percent.[8] This trend tells the story that over the past three decades

5. Craig Copeland, Employee Benefit Research Institute (EBRI), "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2007," *Issue Brief* 322 (2007): 9.
6. Bureau of Labor Statistics, Comparison of ALL Employees, Seasonally Adjusted, before and after the March 2008 Benchmark, U.S. Department of Labor, ftp.bls.gov/pub/suppl/empsit.compaes.txt (accessed October 2, 2009).
7. Copeland, *Issue Brief*, 9.
8. Gordon B.T. Mermin, Richard W. Johnson, and Dan Murphy, *Why Do Boomers Plan to Work So Long*, (Washington D.C.: The Urban Institute, 2006), 9.

employers have been transferring the investment risk associated with retirement planning to employees.

Unfortunately, this transference of responsibility has left many workers to manage their retirement portfolios with little or no education about retirement planning and investments. One of the reasons for this lack of education has been concerns surrounding the fiduciary liability under the Employee Retirement Income Security Act (ERISA) that plan sponsors felt they would incur for providing advice. This gap provided advisors with an opportunity to provide needed education as a necessary service to business clients, resulting in access to individual prospects.

Recently, the fiduciary liability issue was addressed by the Pension Protection Act of 2006, which modified ERISA "to allow for the provision of investment advice without fear of fiduciary liability,"[9] subject to certain restrictions and requirements. While this may close the door on investment education as a need, a window of opportunity may remain open if the advisor can demonstrate the benefit to employers for their employees to receive education about retirement planning strategies.

In addition, according to the Retirement Security Project, there were over 60 million wage and salary workers who worked for an employer that did not sponsor a retirement plan.[10] The majority of workers without access to an employer-sponsored retirement plan worked for a small business (fewer than 100 employees).[11] Furthermore, there are an additional 15 million non-wage-and-salary workers without access to an employer-sponsored plan, which is a reasonable proxy for the number of self-employed individuals.[12] Both groups' access to financial education remains unchanged by the new provisions of the Pension Protection Act of 2006. They still represent an opportunity for financial services professionals who can provide education about retirement planning or, on a broader perspective, financial literacy.

Issue Five: Government Concern

One encouraging fact about retirement is that it is currently receiving widespread governmental and consumer advocacy support. Tax preferences for employer pension plans are the single largest tax expenditure, exceeding subsidies for home mortgages and health benefits. Roth IRAs, SIMPLE

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9. Jon O. Shimabukuro, "Investment Advice for the Pension Protection Act of 2006," *CRS Report for Congress*, RS22514 (2008): 1.
10. The Retirement Security Project, *State by State: Workers Without Access to Employer-Sponsored Retirement Plan*, www.retirementsecurityproject.org/pubs/File/WithoutPlan-statebystate-CPS2.pdf (accessed July 22, 2009).
11. U.S. Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2006*, (2006): 4.
12. The Retirement Security Project, *State by State: Workers Without Access to Employer-Sponsored Retirement Plan*, www.retirementsecurityproject.org/pubs/File/WithoutPlan-statebystate-CPS2.pdf (accessed July 22, 2009).

pensions and age-weighted or cross-tested profit-sharing plans are just a few of the newer options in the retirement planning arsenal.

In response to the decreasing rate of saving for retirement among Americans, Congress enacted the Savings Are Vital to Everyone's Retirement (SAVER) Act of 1997 to help consumers realize the importance of retirement savings. The act required the U.S. Department of Labor (DOL) to maintain a public outreach program and convene three bipartisan national retirement savings summits.

The first National Summit on Retirement Savings was in June 1998. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) adopted many of the provisions that had been proposed in this summit.

The second summit was in Washington, DC, from February 27 through March 1, 2002. President George W. Bush and the majority and minority leaders of both houses of Congress were co-hosts. Approximately 250 statutory and appointed delegates representing a diverse group of public- and private-sector lawmakers and professionals who work in the fields of employee benefits and retirement savings attended. The common goal of the 2002 summit delegates was to help all Americans retire with security and dignity.

The final summit took place in late February and early March of 2006.

The national summits had the following objectives:

- to advance the public's knowledge and understanding of retirement savings and its critical importance to the future well-being of American workers and their families
- to facilitate the development of a broad-based, public education program to encourage and enhance individual commitment to a personal retirement savings strategy
- to develop recommendations for additional research, reforms, and actions in the field of private pensions and individual retirement savings

In total, these and other changes make it easier and more effective for clients to save for retirement. More importantly, the government has indicated it is strongly in favor of a policy that will promote retirement savings and retirement security.

Issue Six: Changing Face of Retirement

It is important for advisors to realize that retirement planning is a dynamic environment. Not only do products, services, and tax laws seem to change on a regular basis, but the very nature of retirement is also in flux. The trend of workforce participation of people aged 65 and older has been downward since 1948, when it was near 50 percent. But since the early 1990s the percentages of

Americans aged 65 and older in the labor force has increased from 12.5 percent in 1999[13] to 16.8 percent in 2008.[14]

The trend toward retirees who work is likely to continue. A McKinsey study reported that 85 percent (38 percent extremely likely or very likely) of all nonretired boomers in 2007 expected they will work after they retire. About one-third of those surveyed indicated their primary reason for rejoining the workforce would be to stay engaged. The other two-thirds felt they will need to work primarily for financial reasons.[15] Given the serious economic downturn in the first part of the 21st century, the percentages of those who anticipate needing to work for financial reasons is probably even higher. In fact, many boomers will probably be delaying retirement, if they can.

Another aspect that is changing the nature of retirement is caregiver responsibilities. The retirees of today and tomorrow are increasingly responsible for caring for parents, children, and grandchildren. Caregiving by retirees of aging parents is well documented.

Still another factor in the changing nature of retirement is that current retirees are most likely to identify Social Security as their most important source of income, but current workers are most likely to say that personal savings will be their most important source of income in retirement.

Issue Seven: The Three-Legged Stool

Financial needs during retirement are met from three primary sources, often referred to as the legs of a three-legged stool. The sources are Social Security benefits, employer-sponsored pension benefits, and personal savings. For each client, the advisor must be able to pinpoint benefits available from Social Security and private pensions and encourage the client to maintain an adequate savings program to reach his or her targeted goals. This requires a general knowledge about each of the three sources and extensive specific information about the client and his or her intentions.

Issue Eight: Baby Boomers and Retirement—Demographics Worth Considering

Retirement planning is important for *every* generation—a person is never too old or too young to plan for retirement. Special attention must be paid, however, to the needs of those born from 1946 through 1964, the baby boom

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13. U.S. Census Bureau, *Current Population Survey, March 1999, Special Populations Branch, Population Division*, 2000, table 7a. Source: www.census.gov/population/socdemo/age/p20-532/tab07a.txt (accessed July 14, 2009).
14. U.S. Census Bureau, *Current Population Survey, Annual Social and Economic Supplement, 2008*, 2009, table 16. Source: www.census.gov/population/www/socdemo/age/older_2008.html (accessed July 14, 2009).
15. Erin D. Beinhocker, Diana Farrell, and Ezra Greenberg, "Why baby boomers will need to work longer," *The McKinsey Quarterly*, November 2008, 8.

generation. This generation represents roughly 27 percent of the population and, as it has progressed through the life cycles, it has had a major impact on everything from crowding in grammar schools to the surge in the housing market. What are possible implications of this demographic tidal wave be on retirement? Consider the following findings:

- A McKinsey study estimated that about two-thirds of the leading edge baby boomers are unprepared for retirement (defined in the study as able to sustain 80 percent of their spending).[16]
- The same study reported that the saving rates for baby boomers did not peak during prime earning years as they did in previous generations.[17] Thus indicating an overall lack of savings.
- An EBRI survey reported that 68 percent of all workers between the ages of 45 and 54 have less than $100,000 in total savings and investments (not including the value of a primary residence). The same is true for 59 percent of all workers 55 years of age and older.[18]
- The same EBRI survey reported that a little over 50 percent of all workers over age 45 have calculated how much money they will need to save for retirement.[19]

Clearly, the demand for consumer products and services retirees use will increase dramatically, which could pressure prices upwards especially for products and services deemed necessary and unavoidable (medical care, long-term care, and so on). Furthermore, many baby boomers plan to downsize, turning home equity into cash. The potential for such quantity of homes on the market could pressure sales prices downward, resulting in less money for boomer retirees. Add to that the fact that many boomers have not calculated what they will need for retirement, indicating a lack of awareness and overall preparation to provide even a basic level of retirement income. Consequently, boomers need to focus acutely on retirement planning.

Issue Nine: Roadblocks to Retirement Saving

No matter what the generation, the question remains: Why don't more Americans plan for retirement? After all, the so-called golden years are part of the American dream. The answer lies in the many distractions that hinder retirement savings.

Perhaps the biggest roadblock to retirement planning is the tendency of many working people to use their full after-tax income to support their current standard of living. These people will not have any private savings to supplement

16. McKinsey Global Institute, *Talkin' 'Bout My Generation: The Economic Impact of Aging US Baby Boomers*, June 2008, McKinsey & Company, 15.
17. Ibid., 14.
18. Employee Benefit Research Institute (EBRI), "Age Comparison Among Workers," *2009 RCS Fact Sheet* (2009): 2.
19. Ibid.

Social Security and pension funds. Many of them also may have experienced adversities like unemployment that pushed them into debt. In other cases, a lifestyle that incurs debt can stem from a spendthrift attitude or from the desire to emulate or improve upon their parents' standard of living. Whatever the reason for their lack of retirement savings, clients must follow a budget that allows them to live within their means and that also provides for retirement savings.

A second roadblock to retirement saving is unexpected expenses, including uninsured medical bills; repairs to a home, auto, or major appliance; and periods of unemployment.

Planning Note: The client should create an emergency fund to handle unexpected but inevitable expenses. At least 3 to 6 months of expenses is usually set aside for this objective.

Inadequate insurance coverage is a third roadblock to retirement saving. Regardless of whether the component that is lacking is life, disability income, health, home, or auto insurance, many individuals continue to remain uninsured or underinsured. Because the client cannot always recover economically from such losses, one important element of retirement planning is protection against catastrophic financial loss that would make future saving impossible.

Planning Note: Advisors should conduct a thorough review of their clients' insurance needs to make sure they are adequately covered. Two often overlooked areas are disability income insurance and liability insurance for the professional. Confirm that your clients are adequately protected in both areas.

A fourth roadblock to saving for retirement occurs in the case of a divorced client. Divorce often leaves one or both parties with little or no accumulation of pension benefits or other private sources of retirement income. They have only a short time to accumulate any retirement income and are not able to earn significant pension or Social Security benefits. If the marriage lasted 10 years or longer, divorced persons are eligible for Social Security based on their former spouse's earnings record (if greater than benefits based on their own earnings record). A spouse may be entitled to the former spouse's retirement benefits if the divorce decree includes a qualified domestic relations order (QDRO). A QDRO is a judgment, decree, or order issued by a state court that allows a participant's retirement plan assets to be used for marital property rights, child support, or alimony payments to a former spouse or dependent.

Another common retirement planning problem is the lack of a retirement plan at the place of employment. Some workers do not have the opportunity to participate in a qualified pension plan because their employer(s) does not provide such benefits.

Workers who frequently change employers also face the problem of potentially arriving at retirement with little or no retirement savings from an employer-sponsored, tax-qualified plan. According to EBRI, roughly 60 percent of workers who took a lump sum payment when they changed employers failed to roll over the full amount into another tax-qualified plan. As would be expected, the behavior is more pronounced among younger workers. Those aged 21 to 30 were almost twice as prone to this behavior than those workers aged 61 to 64.[20]

Another problem that inhibits people from saving for retirement is a lack of financial literacy. Employees have never been properly schooled about investments and finance. For this reason, investment education in the context of retirement planning has become a top concern for employee benefit professionals and employees.

Planning Note: Advise clients who change jobs to roll over vested benefits into an IRA or their new qualified plan (if the new employer's plan permits) to preserve the tax-deferred growth on their retirement funds. Advise clients who have recently changed jobs that if they have not met the participation requirements of their new employer's plan, they can make annual tax-deductible contributions to a traditional IRA in those years, regardless of salary.

A final roadblock to the acquisition of adequate retirement savings is the tendency to direct retirement funds for other purposes. The down payment on a primary residence and/or vacation home and the education of children can consume any long-term savings that people have managed to accumulate. Because reaching these financial objectives has a greater urgency than planning for retirement, they supplant funding income for retirement as a savings priority. Although these financial objectives are certainly worthy, it is important to remind clients that savings must be carved out for retirement purposes in addition to other long-term objectives.

Roadblocks to Retirement Saving
• Tendency to spend all income
• Unexpected expenses
• Inadequate insurance coverage
• Divorce
• No employer plan available
• Frequent employment changes
• Lack of financial literacy
• Other accumulation needs

Whatever distractions face your clients, it is important to educate them about the need to plan and save for retirement. Clients must realize that saving is possible for only a limited time period during their life, but consumption occurs throughout their lives and can drastically increase at any time because of illness or inflation. This imbalance makes it essential for clients to save sufficient assets during their working years to ensure that they attain their retirement planning goals. By living below their means before retirement, clients can establish a lifestyle that they can maintain more easily in their retirement years. You can

20. EBRI, "Lump Sum Distributions at Job Change," *EBRI Notes*, vol. 30, no. 1 (January 2009): 8.

motivate clients to undertake a savings plan by helping them to identify the retirement planning objectives for which they should be striving.

Issue Ten: Retirement Planning Objectives

Clients' objectives vary significantly depending on many factors, including health, age, marital status, number and ages of children, differences in the ages of the husband and wife, and personal preferences. Also, a client's objectives vary depending on his or her personal definition of retirement. For some, retirement is the last day they *have* to work, for others it is the last day they *want* to work, and for still others it is the last day they *can* work. The nearby box entitled "Ranking of Retirement Planning Objectives in Order of Priority" indicates how a surveyed group of CLUs, ChFCs, and members of the Registry of Financial Planning Practitioners believe that their clients would generally rate their retirement planning objectives.

Ranking of Retirement Planning Objectives in Order of Priority

1. Maintaining preretirement standard of living
2. Maintaining economic self-sufficiency
3. Minimizing taxes
4. Retiring early
5. Adapting to noneconomic aspects of retirement
6. Passing on wealth to others
7. Improving lifestyle in retirement
8. Caring for dependents

Other Objectives

In addition to the general retirement planning objectives, your client may have one or more of the following specific retirement planning objectives:

- providing for secure investments—investing assets to minimize potential losses and make the client feel secure about his or her investments
- coping with health care costs—purchasing a Medicare supplement to pay for health care costs not covered under the Medicare program
- continuing the family business—special planning for clients who want to see their business successfully continue after their retirement
- obtaining reasonable value for the sale of a closely held business—maximizing the amount received upon the sale of a business if the client wishes to discontinue operations after retirement

- staying as healthy as possible—ensuring adequate funding for health clubs and other leisure activities ?

ROLE OF THE ADVISOR IN RETIREMENT PLANNING

Retirement planning is a multidimensional field. As such, it requires that the advisor be schooled in the nuances of many financial planning specialties as well as other areas. Unfortunately, many so-called advisors approach retirement planning from only one point of view (investments, for example). Such a narrow approach is too limited to deal with the diverse needs of the would-be retiree. A client is better served by a team of advisors who have specialized but complementary backgrounds or by a single advisor who is experienced in a variety of essential retirement topics.

holistic retirement planning

Whether planning involves a retirement team or a multitalented individual, the holistic approach to retirement planning is the only way to fully meet the client's needs. Under *holistic retirement planning,* the advisor is required to communicate with clients concerning such diverse topics as

- the effect of financial well-being on the quality of life
- employer-provided retirement plans
- Social Security considerations
- personal savings and investments
- income tax issues
- insurance coverage
- traditional IRAs and Roth IRAs
- Medicare choices
- tax planning for distributions and other distribution issues
- health insurance planning, including medigap insurance and long-term care insurance
- wealth accumulation for retirement
- selecting a retirement community or another living arrangement
- relocation possibilities and reverse mortgages
- asset allocation and risk tolerance
- wellness, nutrition, lifestyle choices, and other gerontological issues
- assessment of current savings needed to achieve retirement goals
- estate planning

The role of the financial advisor engaged in a retirement planning practice is complicated. This complication arises not only because of the broad-based knowledge needed for the job, but also because the advisor must be able to integrate retirement planning strategies with other financial planning needs such as tax reduction, estate planning, and investment goals.

A word of caution at this point: As stated previously, understanding how to plan for a client's retirement is much more art than science. There is no one-size-fits-all approach to retirement planning. Clients may be single, married, or widowed. They may or may not have children. They may be healthy or unhealthy, happy or miserable, active or sedentary, sophisticated or naive.

A further complication is that retirement planning does not always begin early enough in the financial life cycle. It is a difficult task to plan for a client's retirement when it is too late to influence the client's ability to retire with financial security. Conversely, although planning for relatively young clients opens up a multitude of opportunities, it presents different planning challenges.

Because each client's situation is unique, the advisor must be able to meet a variety of situations creatively and cannot rely on a formulaic approach to solve clients' problems.

Responsibilities of the Financial Advisor

A financial advisor engaged in a retirement planning practice must assume several responsibilities that may not have been a part of his or her traditional financial services practice. These aspects of a retirement planning practice include the following:

- incorporating retirement planning as a segment of comprehensive financial planning. This means the use of financial planning techniques such as fact finding, budgeting, regulating income flow, and rendering investment advice (as legally permitted).
- working with other professionals who advise the client. These professionals include the client's lawyer, accountant, banker, investment advisor, and insurance advisor. Communicating with this group offers many advantages, including cultivating a better understanding of the client's needs, providing a team approach for motivating the client to save for retirement, and generating referral sources for future business.
- dealing with relatively young clients. One common mistake is to start retirement planning only after a client has satisfied his or her other long-term responsibilities such as buying a home or educating a child. Financial success in retirement planning is best achieved if clients start saving for retirement at a relatively young age.
- monitoring and/or updating the client's plan. Whether it is part of a comprehensive or multiple-purpose financial plan or is a single-purpose plan, the client's retirement plan needs to be continually monitored and/or updated because of changes in family circumstances (such as job changes, births, deaths, divorces, and the acquisition of inheritances) and/or changes in the tax and economic environment.
- conducting seminars for employers. Many advisors ask employers for time to speak to employees during working hours. The employer sees this as an opportunity to provide a low-cost employee benefit, and the employees appreciate a retirement planning seminar offered by the employer. Advisors who are also designing the employer's qualified or nonqualified retirement plan can point out to the employer

that work-sponsored retirement planning seminars help the plan accomplish its main objective—a successful retirement for employees.

- being familiar with available resources. The advisor should be familiar with the various resources available in the retirement planning field. These resources include the National Council on Aging, the American Society on Aging, and the Financial Planning Association, all of which provide newsletters, conferences, and a chance to interact with other advisors. In addition, advisors should make their clients aware of the American Association of Retired Persons (AARP), an organization that provides information on services for the elderly and is a valuable resource for retirement information. Advisors may also want to check the numerous retirement planning Web sites on the Internet.

Internet Help for Advisors and Their Clients

Advisors and practitioners will find the following Web sites useful:

- ssa.gov—This site allows individuals to project the benefits they will receive from Social Security; it also provides a great deal of information regarding Social Security.
- EBRI.org—The home page of the Employee Benefit Research Institute presents updates, databases, and surveys that have been recently issued.
- ASEC.org—The American Savings Education Council provides the ballpark estimate calculator that enables people to calculate their savings need for retirement. It also contains links to different financial calculators.
- irs.gov—The IRS Web site offers useful publications on all sorts of retirement issues.
- benefitscheckup.org—This new service allows seniors, their families, and caregivers quickly and easily to identify what programs and services they may qualify for and how to access them.

Motivating Your Clients to Begin Planning for Retirement

Convincing individuals to take retirement planning seriously is often difficult. Sharing the following information may help to motivate your client:

- Retirement may last longer than planned, because life expectancies continue to rise. From 1981 to 2004, the average life expectancy for a 65-year-old increased by two full years from 16.7 to 18.7 years.[21]
- To be sure that funds are not depleted too early, clients need to plan on beating the odds and living beyond the average life expectancy.
- For most people today, maintaining the preretirement standard of living requires 60 to 80 percent of preretirement earnings.

21. Elizabeth Arias, "United States Life Tables, 2004," *National Vital Statistics Reports*, vol. 56, no. 9 (December 28, 2007): 3.

- Careful planning requires preparing for contingencies. Realistic possibilities include Social Security cutbacks, reductions in company pension benefits, periods of high inflation, and forced early retirement.
- As companies switch to defined-contribution-type plans, more responsibility for retirement planning falls on employees. In many cases, participants must decide how much to save, when to start saving, and how to invest the company retirement money.
- Starting to save early can mean the difference between success and failure. Assuming an 8 percent rate of return, saving $314 per month beginning at age 40 would result in an accumulation of about $300,000 by age 65. Waiting until age 50 to start saving would result in an accumulation of a little over $109,000.
- Working with a trained professional can help an individual focus on the right issues, prepare a retirement plan, and follow through with it. You as the advisor provide expertise, a fair-minded viewpoint, and motivation.

ASSESSING THE MARKET

Retirement Planning Environment

To better serve clients in the retirement planning process, advisors should be aware of the following factors that help to define the retirement planning environment as we know it today:

- graying of America
- increase in longevity
- changing nature of retirement living

Graying of America

The "graying of America" describes the concept of the population aging. Population aging occurs when the proportion of older people relative to younger generations increases. There are approximately 38 million people in the United States aged 65 or older. This currently accounts for about 13 percent of the total population.[22] This older population is projected to grow to 88.5 million by 2050 as the 78 million baby boomers start to join this segment. It is estimated that over one in five Americans will be over age 60.[23]

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22. U.S. Census Bureau News, “Older Americans Month: May 2009,” *Facts for Features*, 3 March 2009, 1.
23. Ibid.

Increase in Longevity

life span

By U.S. Census projections, one in nine baby boomers (people born from 1946 through 1964) will live to be at least 90.[24] In addition, the number of those 85 years old and older will nearly quadruple by 2050.[25] Consider the following:

- The number of centenarians in the United States is projected to increase sixfold by 2050, reaching 601,000 persons. (The U.S. Census Bureau currently estimates that over 96,000 Americans were age 100 or older in 2008.[26])
- Scientists are debating what constitutes the maximum potential *life span* (the maximum potential age of human beings). Most scientists believe it is 120 years. (Some argue even more!)

Long life is more prevalent in women. Women account for 57 percent of those over age 65, and 67 percent of those 85 or older.[27] In addition, the older population in the United States will become more ethnically and racially diverse as time goes by. Of those aged 65 or older as of this writing, about 80 percent are non-Hispanic whites. By 2050, that number will be 58 percent.[28] One final important fact: As the nearby graphic illustrates, the longer a client lives, the better his or her chances are to live to a very advanced age.

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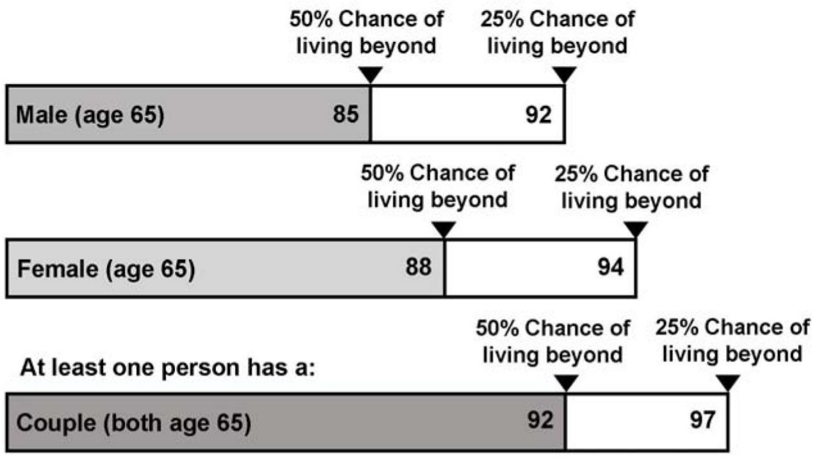
24. Government of Erie County, New York, "May is Older Americans Month," www.erie.gov/news/may.asp (accessed July 21, 2009)
25. U.S. Population Projections, "Table 2. Projections of the Population by Selected Age Groups and Sex for the United States: 2010 to 2050," Census.gov, www.census.gov/population/www/projections/files/nation/summary/np2008-t2.xls (accessed July 21, 2009).
26. U.S. Census Bureau News, *Facts for Features*, 4.
27. U.S. Population Projections, "Table 2."
28. U.S. Population Projections, "Table 12. Projections of the Population by Age and Sex for the United States: 2010 to 2050," and "Table 14 Projections of the Non-Hispanic White Alone Population by Age and Sex for the United States: 2010 to 2050," Census.gov, www.census.gov/population/www/projections/summarytables.html (accessed July 21, 2009).

The Longer You Live . . . The Longer You Live



Source: The RP-2000 Mortality Tables

Changing Nature of Retirement Living

active life expectancy

Seniors are better educated, are taking better care of themselves, and are living longer and healthier lives than previous generations. *Active life expectancy* (the number of years a person can expect to live without a disability) is increasing, as well as life expectancy. Thus retirees are more active in retirement and for a longer period of time than in previous generations.

Advisors must keep in mind that the demographic swell of over 78 million baby boomers into the retirement landscape promises to change the retirement picture. Totally new patterns of product and service consumption, wealth transfer, travel and leisure, and health management will emerge due to their sheer numbers. Consider, historically, how boomers changed the face of education, housing, and the financial markets at different stages of their life cycle. Why should retirement be any different?

Market Demographics

Demographers often divide the population into age-based segments or cohorts known as generations. Because the process is not an exact science, the dates when a generation begins and ends vary slightly from source to source.

The basis for a demographic generation is the theory that the general population's psyche and behavior are shaped by significant life experiences such as the way people are raised, national and world events, wars, the social and economic climate of the times, and so forth. Although you need to treat each prospect as an individual, generalizations alert you to the different types of attitudes you may encounter from members of each of generation so that you can recognize them quickly and react to them appropriately. Virtually all prospects for retirement planning will fall into one of the first three of the four American generations described below.

American Generations

silent generation

The Silent Generation. There are over 60 million members of the *silent generation,* the population segment born prior to 1946. The silent generation is sometimes referred to as the GI, swing, or mature generation. This generation falls into three groups: preretirees, new retirees, and long-time retirees.

Older members of this generation fought in and lived as adults during World War II. Many helped to shape the socioeconomic direction of America after the war, have been able to accumulate comfortable wealth, and may be remembered as the affluent senior generation. Younger members of this generation are called Depression era or war babies.

Generally, these people have discretionary income, and their children are grown. They often grew up as children in households with one wage earner, and they have retired or will retire as senior adults in households that have two wage earners. They tend to be

- hardworking. They equate success with hard work.
- frugal. Their parents and the Great Depression instilled frugality in them, which has translated into the unprecedented wealth that they carry into their elderly years.
- cautious. As children of the Great Depression parents, they were taught not to take risks.
- self-reliant. They want to be independent and self-reliant and do not want to trust others for their security.

As a whole, the silent generation has benefited from two decades of economic growth following World War II, large increases in Social Security benefit rates between 1968 and 1972, and the explosion in real estate and the value of housing (until the early part of the 21st century). Members of this generation have deep concerns regarding access to quality health care and asset preservation.

baby boom generation

Baby Boom Generation. Over 78 million people born from 1946 through 1964 will reach age 65 from 2011 through 2029. Because its size is so large, this generation can be divided in to two subgroups: older boomers (born from 1946 through 1954) and younger boomers (born from 1955 through 1964).

The members of the baby boom generation often married later, divorced more often, and had fewer children than the generations before them. Baby boomers have higher real incomes than their parents did, but as a group they are poor savers. Many are educating their children and taking care of aging parents. Because of this dual role, they are sometimes referred to as the sandwiched generation. They are

- spenders. Although baby boomers have more money than preceding generations in their middle years, they tend to spend it. It is not that they do not save at all but that they save less percentage-wise.
- image conscious. Cosmetic surgery, designer clothing, and luxury cars exemplify their passion for image.
- youth oriented. Health, fitness, and laser eye surgery illustrate boomers' desire to remain young forever.

Baby boomers will enter retirement with money saved from their working years and, perhaps for some, inheritances. However, they face increasing health care costs, uncertainties about the Social Security system, and fewer adequately funded pension or retirement plans to sufficiently meet their income needs.

generation X

Generation X. Born from 1965 through 1985, members of generation X are the children of baby boomers or the younger members of the silent generation. There are about 68 million of them. Sometimes referred to as the baby bust generation, they are

- risk takers. They are ambitious, and entrepreneurial opportunities appeal to them.
- self-oriented. Xers have a "what is in it for me" viewpoint.
- practical. They want something that works; they want a plan with specific steps and a well-defined result.

Because of their self-orientation and practical nature, you can expect them to encourage their silent generation and baby boomer parents to take individual responsibility for retirement, health care, and asset-preservation planning. Also, in the future, look for them to take action regarding planning for their own retirement needs.

millennial generation

Millennial Generation. There are over 75 million people (and growing) in the *millennial generation* (sometimes referred to as generation Y)—individuals born between 1986 and 2000. Although prospects for your retirement products and services will most likely come from the silent generation, the baby boom generation, or generation X, you can begin to have an impact on the generation that will follow. The older members of the millennial generation are now in college or graduate school, or they have begun their working careers.

These young people are the beneficiaries of an information explosion. Many of them were playing computer games by the time they entered kindergarten. They are more affluent teens than their parents were. They believe in short-term savings goals like saving to buy a car. They are consumption oriented and see retirement in the distant future. Nevertheless, they will still look to you for guidance and as an example. Like generations before them, they can learn from history. You may be able to influence them to begin the savings habit with their first jobs.

If you are a parent or grandparent, you can educate these young people about the importance of and the need to save as much as they can, as early as they can. As a financial advisor, you can stress that retirement planning is their responsibility.

Locating Prospects for Retirement Planning

Prospecting Overview

The objective of retirement planning prospecting is to find potential buyers. Reaching that goal requires that you establish organized and systematic procedures. It means following these procedures methodically, thoroughly, and regularly. It entails disciplining yourself well enough and long enough so that the procedures become habitual for you.

Successful prospecting is a continual process that you should integrate into all of your selling/planning and service activities. Being alert to prospecting opportunities at every phase of the selling/planning process will help you maintain a consistent inventory of retirement planning prospects.

To reach the most desirable prospects in the retirement planning marketplace requires the effort to learn facts, develop ideas, and acquire skills—plus a well-organized prospecting plan.

Qualified Prospects

qualified prospect

The process of selling any insurance or financial product begins with creating a profile of the typical person who will believe in you and buy your products and services. In other words, you need to define the characteristics of a *qualified prospect.*

Basically, qualified prospects are people who

- need and value your products and services
- can afford to pay for your products and services
- are insurable or financially suitable
- can be approached on a favorable basis

Let us apply this definition to create a profile of a qualified retirement planning prospect.

Need and Value Your Products and Services. Who needs retirement planning? Although people in their 50s and 60s have a greater probability of needing it than people in their 20s do, poor planning can seriously jeopardize the financial well-being of all individuals during their retirement years. Furthermore, if a person runs out of money during retirement due to inadequate wealth accumulation, he or she will most likely experience a deterioration in the quality of life during retirement.

However, no matter how logical the financial reason for buying products to enhance their retirement security, prospects must have a strong emotional reason to buy. They must value the future financial security and peace of mind that result from adequate retirement funding more than they value other competing needs and desires. In other words, does the prospect *feel* that it is worth the price he or she must pay for these financial products?

Emotional needs are not easily observable. However, there are some characteristics that may indicate that a prospect will value retirement planning advice. We suggest you compile your own list of characteristics, starting with these few examples. Look for people who

- are implementing a retirement plan or seriously considering one
- own other insurance products such as life, disability income, or long-term care insurance. People who own these types of insurance products demonstrate a propensity to plan.
- work for an employer that offers contributory qualified plans such as 401(k) or 403(b) plans. In general, people who work for employers who offer such plans are more familiar than the general public with the roles the plans play in retirement planning.

Can Afford to Pay for Your Products and Services. Two of the biggest obstacles to retirement planning are cost and commitment. Note that cost and value are interrelated. For example, a middle-aged couple may say that they cannot afford the financial products involved because they cost too much. You may discover, however, that they own a vacation home. What this couple is really saying is that they value a commitment to retirement funding vehicles less than they value a commitment to funding their other current needs and desires.

If you have not done so already, identify the income and net worth ranges you will target in order to avoid affordability issues. Describe any characteristics you will look for that may indicate a prospect's ability to purchase retirement funding vehicles. For example, you might look for the prospect who

- owns a home
- owns a business
- has supplemental policies in place such as a personal articles floater policy on fine jewelry
- has high liability limits on property and casualty insurance
- owns a personal liability umbrella policy

Are Insurable or Financially Suitable. There are many people who want accumulation and investment type products and can afford to pay for them but are unsuitable for one or both of the following reasons:

- They have a greater need for asset and/or income protection products.
- The particular investment product you are marketing does not match their risk tolerance and investment objectives.

For example, if you encounter a married preretired prospect who wants to purchase a deferred annuity or mutual funds but has insufficient life or disability income insurance coverage, you may be risking financial catastrophe for that prospect and his or her family. Some advisors would also argue that long-term care insurance should be in place before investments are purchased.

Of course, these higher priority needs present an opportunity to cross-sell the asset or income coverage that is lacking.

On the other hand, you may encounter a prospect who is unsuitable for a risky investment product because he or she has a low risk tolerance and very conservative investment objectives. It would be equally unsuitable to sell a risky investment to such a prospect. The best defense against making this mistake is to use the proper risk tolerance and investment objective assessment tool as part of the fact-finding process.

Can Be Approached on a Favorable Basis. Perhaps the most significant factor in deciding whether someone is a qualified prospect is whether you can meet with this person on a favorable basis.

In general terms, favorable basis means a situation where the prospect perceives the advisor as likeable, trustworthy, and professional. In other words, the prospect is at ease with the advisor, which typically results in a scheduled meeting to discuss the prospect's financial situation.

Establishing rapport with prospects is important even before your face-to-face meetings with them. For example, if you are making calls on the telephone, you need to be able to project a warm and professional image. If a good reputation precedes you in your target markets, prospects will be more responsive to your request to meet with them.

Once you have established a positive atmosphere and a comfortable working environment with mutual respect for each other's time, the stage is properly set for the initial interview.

Market Identification Techniques

After determining the profile of a qualified prospect, the next step is to find groups of qualified prospects, or market segments. We will begin our discussion with age-based market segments. Age-based segments are an appropriate place to start prospecting in the retirement planning marketplace because age currently plays a more important role in marketing and selling financial products used in retirement planning than any other demographic factor.

Identifying Market Segments

market segmentation

Market segmentation is a powerful marketing strategy that allows you to customize your approach and presentations based on the common needs and characteristics of the prospects in the segmented market. We have identified four specific demographic groups as American generations, classified primarily according to age. We have also discussed some characteristics and needs that are distinctive to each of the three generations that contain most prospects for retirement planning. Each group has varying degrees of need for your products and services, and each has a different set of planning problems for which you can provide solutions.

Once we have established the common characteristics and needs of the age-based market segments, we will then look at some other useful ways to segment the retirement planning marketplace.

Age-Based Market Segments

From the definition of a qualified prospect described previously, it is easy to conclude that an effective way to segment the retirement planning market is by age. It is only reasonable to assume that you will have greater success with prospects in the age ranges where they typically appreciate the need for retirement planning, can afford to budget for it, are suited to buy the financial products that can facilitate it, and can be approached on a favorable basis. These age ranges are similar to the American generations discussed previously: under age 45 (mostly generation Xers) ages 45 to 61 (mostly baby boomers), and ages 62 and older (mostly the silent generation).

Because the average retirement age in the United States is 62 and this coincides with the age at which workers are eligible to receive early Social Security retirement benefits (although age 65 is the traditional Social Security full retirement age and this will eventually increase to age 67), we will use this age as the line that distinguishes the mid-range age group from the oldest age group. Under our methodology, the age groups are separated into three market segments:

- prospects who see retirement as a distant goal (those under age 45)
- prospects who see retirement as a more immediate concern (those aged 45 to 61)
- prospects who are enjoying retirement or semiretirement (those aged 62 and older)

Under Age 45. As mentioned earlier, prospects in the under-age-45 market segment have traditionally been much less receptive than prospects from the other two market segments to discuss retirement planning. Probably the most universal reason for this reluctance is that people in this market segment consider other financial needs and wants to be more immediate and important. Examples include saving for a house, buying a new car, saving for a child's education, and securing auto, homeowners, life, and disability income insurance. There is only so much income to spend.

Another reason for the lack of receptivity to retirement planning is that prospects in the under-age-45 market segment perceive it to be a need for people much closer to or actually in retirement. They may believe that they still have plenty of time to plan for retirement.

This is not to say that you should not approach prospects in this market segment. Obviously, people with the discretionary income to purchase financial products may be good prospects. Their income notwithstanding, however, you should look for prospects who

- know a friend or family member who has purchased deferred annuities, mutual funds, stocks, or other investment and savings products
- are in their 40s
- are single or divorced with no dependents
- have high liability limits on their property and casualty insurance
- own a personal liability umbrella policy
- own individual life insurance

One of the major needs common to prospects in the under-age-45 market is asset protection in the context of retirement and/or estate planning. The primary goal of retirement planning is to create a nest egg that will last. One of the greatest financial risks we all face is outliving our resources. Prospects with whom you have actually done insurance planning to protect and conserve assets make logical prospects with whom to discuss retirement. Proper planning can direct the proceeds of certain financial products to be payable at the death of its owner to a named beneficiary and can provide probate-free assets directly to the heirs of the estate owner. Therefore, it would be wise to at least discuss products such as life insurance and deferred annuities in the context of retirement and/or estate planning.

Retirement Planning for the Under-Age-45 Market

The under-age-45 market may not be your target market, but you should take advantage of the opportunities for approaching this market. Specifically, educate prospects about the risks of waiting too long to start planning for retirement and the associated high costs. Stress to them the power of compound interest, tax deferral, and within qualified plan products, tax deductibility. The information can result in sales opportunities or at least plant the seed for them.

Example: "Mr. and Ms. Prospect, I understand that you feel that you cannot afford to save for retirement right now. However, I would like to give you some information about how certain financial products can help you when you are ready. Would you have any objection to my staying in touch with you from time to time so that when you are ready to take action, you might consider doing it with me?"

("No.")

"Great, I will contact you periodically to see if your financial situation changes, and when you feel that you are ready to start planning for retirement, we can arrange to get together and discuss how tax-favored products can fit into such a strategy. Does that seem fair enough to you?"

("Yes.")

Then put these prospects' names in your call-back file for future contacts.

Ages 45 to 61. This market segment will be the bread-and-butter market for retirement planning for the next several years for a variety of reasons.

First, recall that the baby boomers represent a bulge in the population. Over the next several years, the baby boomer population bulge will dominate the age 45-to-61 market segment, making it the segment with the most prospects by sheer numbers alone.

Second, people in this market segment typically are at their peak income levels. Thus, prospects in the age 45-to-61 segment usually have the means to afford the necessary financial products to facilitate the accumulation and protection of wealth within the context of retirement planning. Therefore, the chances of their qualifying to buy these products and their willingness to act are much better than at the younger ages.

Third, the public generally views annuities, mutual funds, and tax-favored plans such as IRAs as retirement planning components, and ages 45 to 61 are when planning for retirement becomes a front-burner issue. Thus, prospects in this market segment generally have a greater sense of urgency about planning for their retirement than prospects in the under-age-45 market segment.

Another important need among this group is their desire to preserve independence during retirement. When people have self-reliant attitudes, they want to avoid having to depend on government welfare programs and/or their children. You will find this independent, self-reliant attitude among the middle class, especially those who have worked hard to accrue a nest egg for retirement. They are the people who have prepared for their retirement and take great pride in having done so. Again, as we have previously indicated, the purchase of financial products should be a part of any retirement planning discussion.

Individuals in the age 45-to-61 market who might make good prospects are those who

- are saving aggressively for retirement
- are skeptical about the future solvency of Social Security
- have few or no dependent children in the household (empty nesters)

Be aware that many people in this market segment are under pressure to save both for retirement and to pay for their children's postsecondary education. In this regard, they face the same challenges as their under-age-45 counterparts. The difference is that they probably have a higher income and thus a greater ability to pay for financial products.

Age 62 and Older. Prospects in the age-62-and-older market segment generally have the same retirement planning needs as those in the age 45-to-61 market segment, except that prospects aged 62 and older are definitely more sensitive to health care issues, especially those related to Medicare and long-term care. In addition, because the majority of people in the age-62-and-older segment are no longer employed, they have a heightened fear that their monthly income and assets are not going to be sufficient to pay for everything they may want or even need. They fear that a lack of money will force them to depend on relatives, friends, or public assistance and will limit their access to quality long-term care.

Because of their age and retirement status, prospects from the age-62-and-older market are much more concerned about protecting and conserving their assets than younger prospects are. As retirees, these prospects are generally not able to add to their retirement nest egg. Consequently, they readily relate to the risks involved in protecting and outliving their assets. Therefore, as consumers, they are more inclined to purchase financial products such as fixed-interest deferred annuities, immediate annuities, and long-term care insurance.

Targeting a Market

target market

If you can find a market segment that has a communication or network system, then you have a *target market.* The communication system can be formal, such as a newsletter or regular meeting, or it can be informal, such as word-of-mouth within a tightly knit ethnic community. Either way, the communication system or network provides the means by which your reputation as a professional advisor can precede you. In other words, before you personally meet with any prospects in a target market, they will know about your abilities as a financial advisor.

Targeting Markets for Retirement Planning

An extension of age-based target marketing is targeting people in a specific but narrow age range who are also members of an association, service organization, or club. The ideal situation occurs when the majority of the membership is in the chosen age range. For example, if an advisor wants to target preretired prospects aged 45 to 61, he or she may consider targeting a service organization (such as the Rotary, Jaycees, Kiwanis, and so forth) or club (such as a VFW, Elks, or a country club) that has a large membership of people in the desired age range. Besides age range and membership, other common characteristics of the prospect group, such as income range, could help to establish a new target market. If you use this method to target a market, you will need to develop a list of desirable characteristics that you want prospects to possess to guide you in establishing the new target market.

For many advisors, retirement planning is just one of several financial services they perform, so they position the marketing of financial products in a manner consistent with their target market's view of them as advisors. If an advisor's target market is preretired teachers in a large city school district, for instance, he or she will want to position annuities and mutual funds, especially within a 403(b) plan, as part of a strategy for accumulating the teacher's retirement nest egg, and life insurance as a vehicle for safeguarding it.

Target markets enable you to focus on the unique needs of your prospects. Focusing will not only enhance your reputation within the target market as an expert in retirement planning products and services, but it will also allow you to better understand your prospects' needs. With this knowledge, you will soon discover the efficiencies of tailoring a marketing strategy for a large number of prospects with common characteristics and needs.

Prospecting Sources

Once you determine the types of prospects you seek for retirement planning, the next step is to employ useful sources for finding them.

There are many different prospecting sources. We will provide a brief overview of some of the more popular ones that successful advisors have used to locate prospects for retirement planning.

Existing Clients

Most of your existing clients who are in their late 50s and 60s are good candidates for retirement planning. Senior clients who are about to retire or have been retired for a while are good potential clients for products that serve as retirement fund distribution vehicles. If these people are your clients, you already have a professional relationship with them, so it stands to reason that most will be receptive to working with you to further explore their planning needs as they move toward or into their retirement.

Almost every outstanding advisor has a systematic procedure for contacting existing clients to find out if anything in their financial situation has changed, to follow up on previously discussed cross-selling opportunities, or to identify additional needs. Turn these periodic reviews into opportunities to explore retirement planning issues for clients who are still working—update the facts on their current retirement plans, do an analysis, and offer appropriate financial products if they address a need you uncover.

Referrals from Clients/Prospects

It is advisable to pave the way for referrals early in the selling/planning process, preferably during the initial meeting with the prospect. Create the expectation of receiving referrals if the prospect appreciates what you do for him or her. Then, when you ask for referrals, it will not surprise the prospect.

Example

"Mr. and Ms. Prospect, as we work together, if you find what we are talking about to be important and valuable, then give me the opportunity to meet with people you know and care about so that I may help them, too."

The best time to ask is when the prospect indicates an appreciation for you and/or your retirement planning expertise. The prospect's appreciation could be as simple as saying, "I'm so glad you showed me that. I always thought paying taxes on my Social Security retirement benefits was unavoidable." Obviously, if prospects purchase a financial product from you, they have demonstrated an appreciation for the product. Even if prospects do not buy anything, however, inquire about what they found valuable in the retirement planning process. If they have a favorable opinion of you and the process, ask for referrals.

Example

"Ms. Prospect, I know you have decided that you do not need any financial products at this time. May I ask what, if anything, in this process you found to be of value?"

(Wait for a response.)

"That's great. I'm glad I could help you clarify some of the income and health care issues of retirement planning. May I ask whom do you know who might also benefit from this type of advice?"

Of course, if your prospects have parents who may be in the market for asset preservation products such as long-term care insurance, or who may benefit from owning annuities to either defer their taxes or guarantee a lifetime income, you can specifically ask for their names.

As always, remember to follow up on referrals by providing an update to the referrer to let him or her know how the meeting went.

Satisfied clients can also be an excellent, yet often overlooked, source of referrals. Be sure to put a system in place to regularly ask existing clients for the names of individuals who may be interested in retirement planning.

Centers of Influence (COIs)

center of influence

By definition, a *center of influence* is an influential person who knows you, has a favorable opinion of you, and agrees to introduce or recommend you to others. A client may become an effective center for you, just as a center may become a client, but this is not necessary to the relationship you need to establish. In general, you will find that COIs are

- active in a community or sphere of influence
- sought out for advice by those within their sphere of influence
- good communicators
- givers, not takers

Good COIs know the people in your target markets, regardless of their occupation or profession. However, some occupations and professions deal directly with your target markets, and finding COIs in these occupations and professions could prove very profitable. Examples include the following:

- elder law attorneys
- CPAs
- fee-based financial advisors
- advisors who sell noncompeting lines of financial products (for example, a property and casualty advisor)
- health care providers
- clergy
- members of a volunteer organization

Also keep in mind that sometimes your best COI is simply a friend or close relative who comes into contact with a lot of people on a regular basis and is personally interested in helping you to succeed in the financial services business.

Once you have identified some possible COIs, you will need to set up meetings with them. Your meeting with a COI is as important as a sales appointment. Therefore, plan your presentation. Keep it brief and consistent with your approach. For example, if you are meeting with a community leader, the goal of your presentation is to show the COI just how he or she can help others by referring them to you. Your approach to accomplish this objective may include the following steps:

- Share the impact that poor retirement planning will have on people who need it and on society in general.
- Illustrate the impact with any personal stories.
- Demonstrate how some financial products can help prevent inadequate retirement planning by providing tax-deferred cash accumulation and guaranteed income.
- Give the COI some practical actions that he or she can take to help.

You will probably want to ask the COI for names of qualified prospects. If so, have a brief written description of how to identify qualified prospects. Although referrals are important, you may find other ways the COI can help you. For example, if the COI is a leader for a senior community service organization, you can approach him or her about doing an educational presentation for the rest of the organization. Be creative.

Networking

networking

Networking is the process of continual communication and sharing ideas and prospects with others whose work does not compete with yours. In turn, their clients might also be shared with you and become your clients.

Most networking groups have the same general rules. Membership is limited to one person from each type of sales background, whether insurance, real estate, mortgage brokerage, or some other sales profession. Each person who attends the meeting is required to bring a prescribed number of names.

Example	The real estate agent member of your networking group just sold a house located in an over-age-55 community that she represents exclusively. She gives you the name of the buyer as a prospect who may be interested in retirement planning. On the other hand, your client may have expressed a desire to live in an independent-living or retirement community and thus would be a good prospect to share with the real estate agent.

If you can find an existing networking group in your community, it might be worthwhile to investigate joining it to provide you with a steady stream of prospects.

Worksite Marketing

Almost every advisor hopes to find a method of prospecting that puts him or her in front of groups of people. Worksite marketing can accomplish this objective.

According to a LIMRA report, *Worksite Marketing of Voluntary Payroll Deduction Products*, over 5 million U.S. firms have fewer than 100 employees. According to government studies, much of future business growth will be in the small business area.

More than half of those interviewed in the LIMRA study said that they preferred purchasing financial products at the worksite. This response reflects a population of workers who lead complex lives and may not want to spend their time away from work meeting with you.

Worksite Marketing and Retirement Planning. You may be asking yourself what worksite marketing has to do with retirement planning. Although it may not be obvious, your activities in the worksite marketplace and your retirement planning activities may actually complement each other.

Retirement planning is long-range planning. To meet long-term goals, you must help your prospects address needs that could keep them from achieving these goals. For example, disability or premature death can destroy the best plans for retirement unless your prospects have a contingency plan. Life and disability income insurance products provide the necessary contingency plans to preserve financial security for individuals (and their beneficiaries) who become disabled or die prematurely.

Worksite marketing gives you access to prospects. Many of these prospects are not currently planning for retirement. By letting them know that you provide this service, you have an opportunity to build long-term client-advisor relationships.

Finally, the workplace is becoming a product distribution center. To this extent, you have the opportunity to market products that will enhance employees' retirement plans. For example, a tax-deferred annuity can be an excellent retirement savings vehicle and is often sold in the workplace.

Seminars

Seminars are a popular prospecting method for retirement planning because they appeal to the demographic age groups most interested in issues related to successful retirement planning: preretirees aged 45 to 61 and retirees aged 62 and over. Some advisors have found that seminars are an extremely effective way to prospect, especially in the seniors market.[29]

Seminars enable advisors to accomplish two key objectives. First, seminars are a means to present financial products in the context of retirement planning to several prospects at one time, resulting in less time needed to conduct one-on-one interviews. Second, seminars cast the advisor as the expert, especially if the advisor plays a significant role in the presentation.

Seminars are not only a source of prospects but also a method for prospecting and marketing financial products. Many successful advisors in the retirement planning marketplace use seminars as their main prospecting tool.

In addition, seminars offer the following advantages:

- Seminars enable you to maximize your time. They are an opportunity to educate and motivate many prospects at once. Consider seminars to be a group version of the first appointment.
- Seminars create a nonthreatening environment in which you can build rapport and credibility with prospects. What other prospecting method allows you to demonstrate your knowledge of the financial problems prospects face and the solutions that you can provide?
- Seminars help you identify qualified prospects. If you use a questionnaire or feedback form, you can pinpoint whom you should call first. In addition, answers to questions can give you insight into prospects' concerns, needs, and questions before you meet them for follow-up appointments.
- To some extent, seminars prequalify prospects. Although you initiate the seminar by inviting the prospects, they confirm their interest by attending and constitute a much better prospect pool than a cold-call list. If you can bring together the right people, ask the right probing questions, offer the right solutions, and present yourself as the professional source for a specialized area of expertise—retirement planning—your seminar will be tremendously successful.

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29. For a comprehensive discussion regarding the planning and presentation of seminars, see Johni R. Hays, *Essentials of Annuities*. Bryn Mawr, PA: The American College Press, (c) 2008, chapter 3.

Lists

Many experienced advisors use this prospecting tool with excellent results. Advisors who have had success with lists note that the key is to select lists that contain prospects who would likely have an interest in retirement planning. For example, a list of American Association of Retired Persons members would certainly contain people who are aged 50 or older. Some financial services companies provide lists to their advisors through market segmentation programs; check with your company to see if one is available. Otherwise, you will want to buy a list from a reputable list vendor.

Prospecting Sources
• Existing clients
• Referrals from clients/prospects
• Centers of influence
• Networking
• Worksite marketing
• Seminars
• Lists

When dealing with a vendor, exercise caution. Here are some points to keep in mind:

- Select lists that reflect your target markets.
- Check to see how recently the data were collected.
- Make sure that the list has current phone numbers of households that are not on the FCC's Do Not Call Registry.
- Verify the source of the leads.
- Make sure that the list has been "scrubbed." This means that any "do not call" and undeliverable names have been eliminated.
- Check to see if duplicate entries or incomplete names have been deleted.

One final thought on lists: Keep good records so you can evaluate the quality of the leads and compare different vendors until you find the one that gives you the best return on your investment.

CONCLUSION

There is a tremendous opportunity for financial advisors to have a positive impact on millions of Americans' retirement security by using the strategies and techniques presented in this book. Based on the critical issues that affect retirement planning discussed in this chapter, the need for retirement planning is unmistakable. Because of the increased longevity of the American population in general, and the baby boom generation in particular, the retirement planning marketplace will continue to grow steadily in the foreseeable future.

CHAPTER ONE REVIEW

Key Terms and Concepts are explained in the Glossary. Answers to the Review Questions and Self-Test Questions are found in the back of the book in the Answers to Questions section.

Key Terms and Concepts

savings phase
rollover
increased preparation and visualization phase
decision phase
retirement transition and lifestyle phase
frailty phase
holistic retirement planning
life span
active life expectancy
silent generation
baby boom generation
generation X
millennial generation
qualified prospect
market segmentation
target market
center of influence
networking

Review Questions

1-1. List the steps in the retirement planning process from the advisor's perspective.

1-2. Identify and briefly describe the five phases of retirement planning from the client's perspective.

1-3. Discuss the factors that influence retirement age.

1-4. List eight common roadblocks to retirement planning.

1-5. Explain the importance of the holistic approach to retirement planning.

1-6. Discuss why the retired population is increasing.

1-7. Identify the distinct characteristics of the following American generations:
a. silent generation
b. baby boom generation
c. generation X
d. millennial generation

1-8. Identify the four criteria that define a qualified prospect.

1-9. List the three age-based market segments into which most retirement prospects fall, and briefly describe each segment's retirement planning needs.

1-10. Identify seven popular sources of retirement planning prospects.

Self-Test Questions

Instructions: Read the chapter first, then answer the following questions to test your knowledge. There are 10 questions; circle the correct answer, then check your answers with the answer key in the back of the book.

11. Which of the following best describes when the savings phase of retirement planning should begin?

    (A) upon the client's reaching age 30
    (B) at the beginning of the client's career
    (C) when the client purchases his or her first home
    (D) after the client has his or her first child

12. Which of the following American generations can be described as risk takers, self-oriented, and practical?

    (A) silent generation
    (B) baby boom generation
    (C) generation X
    (D) millennial generation

13. The marketing strategy that allows the advisor to customize his or her approach and presentations based on the common needs and characteristics of prospects in a particular market is known as which of the following?

    (A) market penetration
    (B) market segmentation
    (C) market share
    (D) market promotion

14. Which of the following definitions of networking as it relates to the retirement selling/planning process is correct?

    (A) Networking is the broadcasting of retirement planning infomercials on television and radio.
    (B) Networking is the competitive relationship among financial advisors who are vying for retirement planning prospects on an ongoing basis.
    (C) Networking is the continual communication and sharing of ideas and prospects with others whose work does not compete with the financial advisor's.
    (D) Networking is the obtaining of a steady stream of referrals from clients for whom the advisor has conducted retirement planning.

15. Financial needs during retirement are met by three primary sources of income. Which of the following is (are) among those three?

    I. Social Security benefits
    II. Inheritances

    (A) I only
    (B) II only
    (C) Both I and II
    (D) Neither I nor II

16. Which of the following statements concerning active life expectancy is (are) correct?

    I. Active life expectancy is the number of years a person can anticipate living without a disability.
    II. Although life expectancy is increasing, active life expectancy is actually decreasing.

    (A) I only
    (B) II only
    (C) Both I and II
    (D) Neither I nor II

17. Which of the following statements concerning the age-62-and-older market is (are) correct?

    I. Now that prospects in the age-62-and-older market are near or in retirement, they have become less concerned about health care issues.
    II. Prospects in this market worry less than younger prospects that their monthly income and assets will be sufficient to cover their needs.

    (A) I only
    (B) II only
    (C) Both I and II
    (D) Neither I nor II

READ THE FOLLOWING DIRECTIONS BEFORE CONTINUING

The questions below differ from the preceding questions in that they all contain the word EXCEPT. So you understand fully the basis used in selecting each answer, be sure to read each question carefully.

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18. All the following are steps in the selling/planning process EXCEPT

    (A) Analyze the information.
    (B) Implement the plan.
    (C) Ask for referrals.
    (D) Meet with the prospect.

19. All the following statements regarding the changing face of retirement are correct EXCEPT

    (A) Current workers expect to work longer than current retirees did before they retired.
    (B) Current workers are most likely to say that personal savings will be their most important source of retirement income.
    (C) The trend toward retirees who work is unlikely to continue.
    (D) Retirees are increasingly responsible for caring for their parents and children.

20. All the following are advantages of seminars as a prospecting source EXCEPT

    (A) They eliminate the need for follow-up appointments.
    (B) They enable the advisor to reach several prospects at one time.
    (C) They help the advisor identify qualified prospects.
    (D) They spotlight the advisor as the expert in a specialized area.