INCOMECONDUCTOR

MEETING RETIREES EXPECTATIONS

PROVIDING EFFECTIVE RETIREMENT INCOME ADVISORY SERVICES

EXECUTIVE SUMMARY

Baby Boomers represent the largest demographic moving into retirement in history. With unprecedented numbers of individuals entering retirement while collectively holding trillions of dollars of assets that need to be converted to income over the coming decades, the opportunity has never been bigger for the financial services industry. But this opportunity presents its own challenges as well.

Income planning is uncharted territory for the vast majority of advisors who have been primarily working with clients that are still in the accumulation phase. The needs of clients are very different than they were prior to retirement. The investment and tax strategies used to successfully accumulate their wealth cannot be successfully applied when creating a retirement income plan. Retirees will become much more dependent on their advisors as they age and begin to have diminished financial acumen. Additionally, there are several unique emotional issues that retirees face and they will need clear and objective advice to deal with these issues successfully.

To deliver that specialized advice, the financial advisor's relationship will need to expand well beyond managing retirees' finances and investments. The advisor's value proposition to their clients must transition from "asset manager" to "plan manager". A recent study by professors Finke, Huston and Howe found "financial literacy drops after age 60 by 1.5%/yr., while a person's confidence in their knowledge remains the same". Although academics have written many papers dealing with retirement income planning, there have been very few, if any, that deal with "real life" experience.

In the following paper, Phil Lubinski, CFP® brings a whole new perspective to income planning based on 35 years of experience working with hundreds of retirees. Mr. Lubinski outlines the phases that retirees go through during retirement and the issues unique to each phase that advisors must address. The reader will gain an in-depth understanding of the challenges retirees face and the level of commitment that retirees expect and deserve.

Along the way, we have included references to IncomeConductor™ functionality to highlight the power that a thoughtfully designed income planning software can put in the hands of financial advisors. You can find them in the margin as we discuss applicable topics and planning challenges denoted by the icon: TECH TIP

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Phil Lubinski, CFP® is co-founder and Head of Retirement Income Strategy for WealthConductor LLC. Phil has been the intellectual foundation to the development of several income distribution software tools spanning back to the 1990's. He currently helps drive the development of IncomeConductor™ while providing expert case consultation support to its users and creating educational material to benefit advisors focused on retirement income generation for their clients.

Having worked with retirees for the past 35 years, I've come to appreciate what their needs are during their journey through the different phases of retirement. By writing this white paper, I hope to give you insights into the issues and situations retirees encounter and guidance as to how you can best meet their expectations. Because there is such a wealth of information to share, I've found it easiest to break the life of the retiree into distinct phases that nearly all your clients will face.

The phases I will address are:

1. PLAN CREATION AND ANALYSIS
2. EARLY SPENDING
3. SLOWING DOWN
4. TOUGH DECISIONS
5. LONG-TERM CARE
6. LIVING ALONE

PHASE 1
PLAN CREATION

Photo by Marco Trinidad from Pexels

Retirees expectations during the initial plan design can best be defined by first acknowledging what retirees don't expect. Oddly enough, they do not expect extreme precision and obvious over-engineering of their plan. As advisors, we tend to get too granular in the forecasting of future expenses and tax projections, leading us to somehow feel as though that is our value proposition. I've always maintained that to predict the exact spending needs of retirees over long periods of time is an exercise in futility. When I look back on the hundreds of plans that I have created for my retired clients, the most consistent themes always ended up being the following:

1. No client's income needs completely followed the projections we made at the beginning of the plan, no matter how precise I tried to be.

2. Long term (ten years or longer) rates of return (RORs) were never exactly what we assumed, no matter how sophisticated my back-testing tools promised to be.

3. Actual tax liabilities never perfectly aligned with the projections we had calculated.

4. Inflation was never what we had projected.

5. Clients never died when we had projected they would.

At best, we are creating a blurry baseline that provides us a guideline against which we can measure future changes. As just one example of plan variability, let's consider the changes that have taken place in our tax laws over the past 25-40 years, which happens to span the length of most retirements.

- Top marginal tax brackets have varied from 70% to 37%

- Long term capital gains have ranged from 55% to 15% (and in certain situations 0%)

- Social Security has gone from 100% tax-free in 1982 to as much as 85% taxable today

- Estate tax exclusions have moved from $250,000 to $11 million

- Roth accounts were not an option until 1997

Can you imagine working with a client who retired at 55 years old in 1980 and is still alive today? (Hint: many are!) The hours you would have spent over-engineering their tax projections at the outset would have resulted in a totally inaccurate tax plan. Yet, as advisors, precision can easily dominate our thought process, driving us to produce inaccurate plans that could potentially damage our credibility when they fail to materialize and, in certain cases, expose us to increased liability or even litigation. I'm not advocating that advisors should avoid formulating sound tax strategies, but becoming obsessed with long-term tax projections and liquidation order optimization can prove very labor intensive while providing little benefit.

Jack Stilgoe, a senior lecturer in the department of Science and Technology Studies at University College London, wrote an interesting article about the dangers of being too precise. The article used the design and mapping of public utility projects as an example of the potential pitfalls of striving for excessive precision. Stilgoe explains how a geographically accurate map of the London Underground subway network confused and mislead travelers. He found that any value gained by the map's precision was lost due to its lack of clarity for the viewer. I think the crux of the article can be summed up by the following quote:

"We don't judge our maps by whether they are perfect representations. We judge them by whether they are useful."

If our clients are to treat their income plans as maps they will follow for the rest of their retirement, we must make sure that we are never sacrificing usefulness for perceived accuracy. Trust me, I spent untold hours in my early plans getting into needlessly extreme detail only to realize over time that it was all for naught.

Now that we've covered what retirees don't want, the next question is what *do* retirees want? In one sentence, "They want peace of mind". What does that mean? In short, it means they want the confidence to retire knowing they will not run out of income, as well as the permission to spend so they can enjoy the assets they worked so hard to accumulate.

Proper asset management is certainly part of the equation, but a recent study by Cerulli and Associates found that advisors who provide intangible services to their clients are increasing their average case size by 93% and retaining 30% more of the client's assets when their wealth transfers to their children. I found that the vast majority of my clients did not want me to be the "asset manager". Retirees want their advisor to focus on creating and maintaining a written plan that can act as a road map for them to follow through retirement, and they want an investment strategy that is intuitive.

Many advisors currently default to a "systematic withdrawal" strategy in which a certain percentage of portfolio assets are distributed each year for income. The withdrawal rate can vary substantially year to year based on market conditions and spending behavior. A Monte Carlo tested systematic withdrawal methodology often does not constitute a "plan" in the eyes of the investor, as the triggers for withdrawal calculation, risk assessment, and portfolio re-balancing are not typically clear. The resulting proposal is rarely intuitive and fails to provide the retiree the confidence and clarity they expect.

The segmented or "bucket" strategy that I first developed in 1984 turned out to not only be intuitive to my retiring clients, but much easier to modify along the way as their journey played out. For 30 years, I lived every day seeing my clients' actual experiences and when I sold my practice in 2014 to my transition partner, the transition brought to light the services and experiences I provided them that they came to appreciate the most. As a result, I received nearly 200 "happy retirement" cards from my clients that shared a consistent message:

1. Thank you for giving us permission to retire.

2. Thank you for giving us permission to spend.

3. Thank you for helping us think through difficult decisions.

4. Thank you for caring enough about us to bring a transition partner into your practice.

Not a single client thanked me for performing a meticulously detailed initial analysis, nor for creating a bullet-proof tax strategy, nor for my scrutiny of investment products. My value to them was not demonstrated by earning the lowest commissions or charging the lowest fees. Despite this feedback, I still see so many advisors focusing on the wrong things.

New technologies can be good at leading us to believe that precision and accuracy are paramount, and as a result we quickly develop a misguided perception of our value proposition. Technology should simply be a tool to increase efficiency, helping you to better manage and grow your practice. Don't fall victim to thinking that your "state of the art" technology will be the basis of your long-term relationship with your clients.

Next, let's dig into the phases of life the retiree will face after the plan has been created and implemented. Along the way, I'll be sharing my personal experiences with you to illustrate the real-life impact that decisions made by you and your clients can have.

TECH TIP

IncomeConductor is a cloud-based software designed for advisors seeking to build holistic time-segmented income plans for their clients.

Time-segmentation helps break the retirement time horizon in manageable chunks, or segments, which often mirror the phases outlined in this paper.

PHASE 2
EARLY SPENDING

Photo by Zack Melhus from Pexels

No matter how many sources may authoritatively claim to tell you what percentage of a retiree's pre-retirement income needs to be replaced, the actual figure will vary greatly from one client to the next. In contrast, the fact that your client is going to have a lot more free time on their hands in retirement than they had while working is much more universal. Inevitably, some percentage of that newfound free time will be filled with activities that cost money.

When structuring your client's income plan, there will always be reasons other than inflation to project varying income needs. The most common expense category to grow in the early spending phase of retirement is travel. Typically, the "out of the ordinary" travel expenditures will happen in the first five to ten years of retirement. Not to say that retirees stop traveling after ten years, but usually their "bucket list" of special trips will take place in the early years.

As their advisor, you need to have money available on short notice to send to clients as they solidify their travel plans. Ideally, this money would be liquid and of a "non-qualified" tax status so that there is little or no tax consequence or market risk. Although the income plan you create with the client may budget for their retirement travel on a monthly basis, their actual travel rarely occurs on such a rigid time frame. Clients will often plan their major trips several months in advance, but there is no certainty as to exactly how many major trips will be taken in any given year during this early spending phase. Clients usually have a mental list of the destinations to which they would like to travel, but the actual timing of the trips can get sketchy after the first year of retirement.

How do clients expect you to help facilitate their travel? Their main desire is to be assured that they have adequate assets to meet their travel goals without jeopardizing the income designated for their long-term core expenses, and they want the travel money to be easily accessible. If a client told me they want to travel the first ten years of retirement, I certainly wouldn't set aside a full ten years of travel monies in a low interest-bearing cash account, but I would probably keep at least the first three to five years' worth in cash.

This phase of your client's retirement is often the most enjoyable for you as their financial planner. Clients share their experiences with you and are thankful that you gave them "permission" to spend and explore. As such, it's no surprise that the MIT Age Lab refers to these years in retirement as "The Honeymoon Phase".

TECH TIP

IncomeConductor allows you to build your client's total monthly income need at the expense level.

Expenses can begin and end in different years, as well as grow at different rates to help you accurately incorporate fluctuating spending during retirement.

What are some of the planning challenges you can expect to face during these early years? I'll illustrate with some anecdotes about some of the most disruptive events I dealt with.

1. While meeting with clients of mine for our first annual review, they announced to me that they took the two major trips that we had discussed and planned for, but while on those trips they purchased two very costly timeshare packages. Not only had we not set aside money for time share purchases (which I would have tried to talk them out of at the onset), but we hadn't budgeted for the ongoing costs of timeshare ownership. Covering the unexpected new expenses required material modifications to their plan and ultimately took the form of a significant adjustment to their "legacy" segment.

   Thankfully, due to the clients' embrace of the time-segmented strategy, we were able to quickly and definitively decide where the impact of this decision would fall. Not only would their children's inheritance be reduced, but were they to hold the timeshare until their deaths they would have left a costly ongoing expense to their children. Later in retirement when they realized they were tired of using the timeshare, I introduced them to an individual who was able to terminate the contract with minimal expense.

2. During the fact-finding process with some new clients, I discovered that they owned two undeveloped lots at a local ski resort. Their plan was to sell their personal residence early in retirement and build their dream home on one of the lots, while holding on to the other as a long-term investment. Overall, their total net worth was heavily allocated to real estate.

   Keep in mind that I met these clients in the mid 1980's while interest rates were rising, and property values were dropping. Unfortunately, mountain property values were disproportionately impacted by this decline. Consequently, there wasn't nearly enough equity in their personal residence to build the dream home. Within 15 years, the clients were forced to sell the lots for roughly what they had originally paid for them. They are still clients of mine today and constantly say how they wished they had met me before they decided to design their own retirement plan.

What are the lessons learned by these two examples?

1. I always tell clients to keep me informed if they are considering a significant purchase or new expense so I can review it first. While clients appreciate that I gave them permission to spend when we created their plan, they also appreciate that they have an objective advisor to run decisions by before making them.

2. Facing the mountain property scenario early on in my career solidified the importance of diversification and helped me encourage clients to never fund short-term or long-term goals with a single asset class.

Keep in mind that many decisions in the early spending phase of retirement are very emotionally driven. Our job as advisors is to manage behavior as best we can. We may think that managing behavior is limited to preventing clients from jumping in and out of the stock market at the wrong time, but it goes well beyond that. I consistently share these types of stories with new clients because I want them to know the importance of having a relationship with a trusted advisor who can protect them from themselves.

TECH TIP

Behavior management goes well beyond preventing poor stock market timing decisions.

IncomeConductor's clear cash flow analysis helps clients remain confident in their financial trajectory throughout retirement.

PHASE 3
SLOWING DOWN

Photo by Mariusz Prusaczyk from Pexels

Many advisors refer to this phase as the "slow go" period of retirement. This phase usually occurs when the clients are around 75-80 years old. As I mentioned before, traveling may not stop, but it is typically more regional than international. Usually the retirees' children are in their 40's and early 50's and their grandchildren are approaching their teenage years. Additionally, some retirees in this age bracket still have aging parent issues to deal with.

Traditionally, we thought of the "sandwich" generation as the 50-year-olds trying to care for both their parents and their children. However, with today's longevity, we see some 75-year-old retirees still caring for their parents and facing new financial demands from their 50-year-old children who are going through divorces, career changes or loss of employment. Additionally, these retirees are feeling financial stress trying to help their grandchildren with educational expenses. In many cases they are "sandwiched" more than they were in their 50's.

Any of these events alone can become costly to your clients, while a combination of them could be financially devastating as your clients are stretched thin by their desire to help both their parents and their children.

Simultaneously, your client's grandchildren are often rapidly approaching their college years. This confluence of financial pressures is not necessarily typical, but I saw it occur enough that it is important to consider for planning purposes. The specific money issues are usually:

1. Helping parents with home health care or long-term care expenses.
2. Children needing money to help pay attorney's fees for divorces.
3. Children needing start-up money for new businesses, which often take the form of bank loans requiring the client as co-signer. The bank may have even turned them down and your retired client may be considering making the loans themselves.
4. Adult children moving back in with their parents because they lost their jobs.
5. Grandparents helping their grandchildren with college tuition to avoid graduating with a mountain of student loan debt.

Obviously, you can't budget for all these events or nobody would have enough money to retire. However, they should certainly be part of your initial conversations with your retiring clients. I found that by helping my clients put a cap on how much financial assistance they could afford to provide, it stabilized their plans and made handling potentially difficult future conversations much easier for them.

Using a time-segmented income strategy once again proved useful as it allowed retirees to look at their financial assistance to family as an advance on the children's inheritance. I have always referred to the final income plan segment as the "Legacy/ Longevity" segment. However, it can also be described as a "family account" for potential use long before the end of the plan.

When structuring this segment, it important to focus on two things:

1. Defining how much can be set aside in this type of segment.
2. Communicating with your client about when the assistance will exceed their means.

TECH TIP

IncomeConductor allows advisors to create plans using both the client's income goal as well as their total investable assets.

It is easy to see if a deficit exists, or whether there is a surplus that can be used for other purposes.

This pool of assets could also be treated as a non-income or "outside" segment. Unfortunately, today's "mass affluent" have not typically accumulated enough assets to have the luxury of helping family members while also leaving a significant legacy at the end.

My main concern when first sitting down with a client who clearly needed all their assets just to meet their own retirement income goals is the ensuing discussion when the analysis reveals very little, if any, available surplus. In that situation, I didn't want to tell the client that they have to work longer just so they can take care of their parents, children, and grandchildren's needs. However, I expressed some concern to them and discuss their feelings, should these types of needs arisen.

You should establish a comfort level with the client to where you can have family meetings discussing the fact that Mom and Dad's retirement plan doesn't allow for a lot of surplus wealth. This approach can help set expectations early in the process to avoid familial conflict down the road. In rare situations, I have had to communicate with the children directly that Mom and Dad are just not able to either offer additional financial help or that they will need to discontinue the assistance they have been giving.

It is important to make clear to your clients that they should never make loans to children with the expectation of earning greater returns than their current investment accounts could provide. In fact, it is rare that family loans are repaid in full. My advice has always been to gift the money to the children, grandchildren, or parents and treat repayment of the assets as a pleasant surprise.

I've also had to help my retired clients communicate to their children that as a result of this "gift" of money, the estate legal planning will be amended to reflect this sum of money. As an advisor, we can very objectively communicate these situations that are often too emotional for parents to do themselves.

A specific client case I faced comes to mind. There was a couple who began working with me when they were in their late 50's and preparing for retirement. Later into their retirement, the husband died. Shortly after his death, one of their three children approached the surviving widow with a request for money in order to start a business and quit their current job.

I sat down with my client and their other two children to explain that having known their father as well as I had after working with him for so many years, I knew this was not a loan he would have ever approved. Mom and the kids used my words to inform the third child that Mom was not going to be helping. They all knew it was a bad deal, but they just didn't know how to break the news.

The child who had requested the money set up a meeting with me and said in so many words "How dare you imply that you knew what my Dad would or would not have done". I was cast as the bad guy, but it allowed Mom a way to put the blame on me and not jeopardize her relationship with the child. It was not a pleasant situation, but one that highlighted my duty to protect my client's wellbeing.

I had another client who was sending his child $1,000 a month to help with their expenses and had been doing so for several years. After some analysis, I decided that I had to write a letter to the child and explain that their father could only afford to make this payment for another six months or his retirement would be in jeopardy. The child ended up thanking me and said they had no idea that it was such a financial strain on their father. At times, you may need to act as the "bad cop" to keep your client on track.

TECH TIP

Legacy segments can be created to with surplus assets to plan for wealth transfer to heirs and charitable giving.

It can also serve as a hedge against longevity risk if one or both of the clients outlive the plan.

To wrap up this phase, let's review the take-aways:

1. Allocate asset pools to help your retiring clients invest their money into outside and or legacy segments and be ready to quantify how much help they can provide to family members without jeopardizing their own retirement.

2. During the fact-finding meeting with your clients, you can gather important insights into your clients feeling and goals relative to this phase, so don't be afraid to ask.

3. You can deepen your relationship with your clients by being able to help them communicate difficult financial decisions with their family members.

4. When appropriate, and with your client's permission, begin including family members in discussions around some details of their parent's retirement income plan.

PHASE 4

TOUGH DECISIONS

Photo by Josh Hild from Pexels

In the previous phase, we discussed some tough decisions retirees need to sometimes make relative to their children and grandchildren. Now we'll focus on tough decisions they must make regarding their own situation. Two decisions stand out as the toughest and are very emotional, typically requiring significant changes/modifications to their retirement income plan.

One of the decisions that many retirees find most difficult to make is when to give up driving. Sometimes, this may just be limited to "night driving" due to glaucoma or cataracts. Other times it is a permanent decision and represents the first step towards a loss of independence.

Men are typically more resistant than women to making this decision and sometimes it takes family intervention to finally sway them. Other times, the need for change is made much more poignant as the result of an accident which leaves the retiree no choice.

The last thing any retiree wants is to have their resistance to giving up driving result in an injury to themselves or others. As the advisor, there's really no role for you in this decision other than to make certain that your client's personal liability and umbrella coverages are current and have adequate limits. Many advisors may defer this responsibility to the client's property and casualty agent, but my goal was to be the first source of financial information to my clients.

In the past, insurance agents stuck to insurance, financial advisors stuck to investments, and attorneys and CPAs stayed within their discipline. Today, everyone is crossing lines and suddenly they can all be perceived as your competition. Even though I was not licensed to sell certain types of insurance or provide legal and tax services, I could be the quarterback of the team of advisors and set the expectation in my client's minds that I would coordinate the work of their other advisors.

The second tough decision for the retirees is whether to stay at home or move to some type of senior living facility. A client of mine who I first met when she was in her 30's told me that the biggest favor her mother did for her was selling her home and moving into a continuous care retirement center. Yet, surveys show that over 80% of retirees believe their current home is where they will remain for the rest of their lives.

When possible, I would encourage clients to get their children involved in the decision. Their future inheritance could be impacted by this decision, but more importantly it's another opportunity for the children to see the level of service you are providing their parents and may ultimately influence their decision to work with you.

The decision to stay in place or move to an assisted living facility can lead to a major restructuring of a client's original retirement income plan.

My involvement with my clients during this difficult decision was to help them evaluate the financial impact of their housing arrangement. During the initial fact-finding process, I always found it most beneficial to have both spouses together at the meeting as I made it a point to ask what their housing plans were in retirement.

I once asked this question to a pair of my clients and the husband replied that they planned to purchase a second home in Phoenix so they could spend summers in Denver and winters in Phoenix. His wife turned to me and politely said, "that's the first I've heard of this plan".

TECH TIP

IncomeConductor is the first time-segmented retirement income planning system that allows advisors to make point-in-time re-planning decisions.

Modify income levels, segment lengths, ROR assumptions, and more while maintaining the tracking history of the original plan.

Our job is obviously not marriage counseling, but many times I found myself refereeing sensitive subjects. The key is to do very thorough fact-finding and flush out some of the sensitive decisions that will ultimately need to be made. For those who want to stay in their homes, there needs to be an evaluation of the modifications that would be necessary and the associated cost. The good news is that there are construction specialists who have professional credentials to do this assessment. They include:

- Accessible Home Improvement of America (AHIA)'s Certified Environmental Access Consultant (CEAC) credential
- National Association of Home Builders' Certified Aging in Place Specialist (CAPS) credential
- Senior Living Institute's Certified Living in Place Professional (CLIPP) certification
- The Center for Health Design's Evidence-Based Design Accreditation and Certification (EDAC)

Unfortunately, many retirees put off the renovation work until it suddenly becomes necessary. Most articles on this topic advise that the construction be done prior to retirement. Why? Typically, your clients are still working and can more easily afford a short-term expense hike. Also, living in a construction zone can be extremely stressful and hazardous to an elderly person who is already struggling with mobility.

I always told my clients that there are three categories of retirement readiness:

1. Financial (Do you have enough assets?)

2. Psychological (Are you mentally prepared for a new phase of life?)

3. Housing (Assuming the client has told me they want to stay in their home throughout retirement, is it suitable?)

When my clients begin to evaluate their decision to retire, I want them to be confident that I have covered all three of these topics with them.

The financial question is easy; there are plenty of financial planning software packages that will answer this question. However, when you start delving into the other two, your client begins to set you apart from your competition. Very few advisors have these discussions and are often only interested in the financials.

The psychological question can be much trickier. I have had many clients who had more than enough assets to retire and, yet, they chose not to. Usually this is because they are not psychologically ready. Their personal and social relationships are typically work related and their sense of "self-worth" is tied to their profession. My job as a good advisor is to do thorough fact-finding prior to retirement and learn about my clients interests outside of work.

One question I always asked a pre-retiree was "What are you going to do during your first week of retirement?". A client once responded that he was going to organize the spice cabinet in their kitchen. His wife rose up out of her chair and told him that if he ever touched her spice cabinet, she would cut his hand off. Not a day into retirement and his whole plan was already thrown into disarray!

Many of my clients told me that retirement meant they could play more golf and go fishing anytime they want. This new found freedom certainly has emotional appeal but even golfing and fishing gets old after a while. As a result, I always felt I needed to help my clients visualize their activities further into retirement. It came as a surprise to me how many of my clients often had very few outside interests.

Early in my career I ran a financial analysis for a client preparing for retirement. My assessment was positive, and I assured them that they had more than enough assets to live a long, fruitful life. On our first annual review when I asked about how retirement was going, the husband said it was the worst decision he had ever made in his life and his wife agreed.

He had nothing to do and was driving his wife crazy just sitting home and complaining that he should never have listened to me when I encouraged him to retire. That was a hard pill for me to swallow, but I immediately began asking many more questions to my pre-retirees.

And finally, we come back to the housing question. We covered options for staying in place, but what if that is not an option? When retirees realize that their current home will not work in the long term, most will move to a senior housing community. Unfortunately, they are not all structured the same.

Some communities are owned by "for profit" corporations, while others are religiously oriented and operated by non-profits. Some offer two levels of care, i.e. independent and assisted, while others offer all levels of care from independent to nursing and memory care.

Most of my clients wanted to relocate to a facility that could care for them for the rest of their lives, regardless of the level of care needed. These types of facilities are referred to as Continuous Care Retirement Centers (CCRC). Once a facility was selected, then came the decision whether to rent or purchase a unit.

Renting has the advantage of allowing the client to avoid long-term contracts, and some facilities even offer month-to-month plans. It also provides the flexibility to either keep their personal residence and use it as a source of rental income or to sell it and invest the proceeds. The downside is that the monthly rent payment is usually higher than the monthly fee in the facilities where clients purchase their unit.

When purchasing, the monthly facility fee may be less than renting, but the purchase price can range from a couple hundred thousand to over a million dollars based on location and size of unit. Most of my clients chose the purchase option which usually meant that they had to sell their personal residence to meet the purchase price.

One advantage of purchasing a unit is that some facilities offer a "benevolent" fund. This money can be available should the increasing costs of care deplete the resident's assets. For this reason, these facilities will typically do financial underwriting of the retiree to make sure they have enough assets/income sources to avoid needing to dip into the benevolent fund.

As your client's advisor, you should encourage them to have an attorney read the facilities agreement. Terms vary significantly from one facility to the next. A review of the agreement is important, as many clients initially base their decision to move to a particular facility on whether their friends have already moved there.

I once worked with a married couple where the wife was much more anxious to move than her husband. Men commonly feel that leaving the home is an admission that they can no longer keep up with the maintenance, and departure may become an issue of pride and independence. They may also feel that any future appreciation in value of their home is being left on the table.

Most facilities that offer an option to purchase a unit provide a refund of the purchase price if the client decides to leave soon after buying or passes away. It's usually between 90-100% of their original buy in amount.

One CCRC that my clients were considering had a clause in the agreement that said if one of them were to die and the survivor wanted to re-marry and stay in the facility with their new spouse, the facility would financially underwrite the new spouse and determine if that would be allowed.

Once again, an attorney should review the agreement because it will address the refund provision in detail.

With my client's permission, I would accompany them on their visit to a facility and be there to make sure we were all hearing the same sales pitch.

TECH TIP

IncomeConductor allows advisors to create outside segments to plan for a variety of goals.

An outside segment can model self-funding of long-term care, or tracking the value of a rider or insurance policy.

After several years of helping clients through this decision, I was able to give the clients specific questions to ask the person representing the facility. The advisor's main role is to be empathetic to everyone's emotions, while trying to keep track of the pros and cons that clients will base their decisions upon.

Another obstacle in making the decision to move is the labor around "downsizing". Typically, the resident furnishes their own unit (even when renting) and most retiree's homes have far more stuff than can fit into a retirement community unit. Most community's representatives provide referrals to companies that can handle the entire moving process, estate sales, and more.

A common problem with today's retirees is that they have saved a lot of family memorabilia, furniture, artwork, china, silver, etc. that they think the children or grandchildren will be happy to take. In many instances, their children and grandchildren have absolutely no interest in these items and the client ends up selling them for pennies on the dollar at an estate sale. The transference of family "heirlooms" is another reason to bring your client's children into the moving discussion.

One of my clients had kept a painting of Lyndon Johnson (their favorite president) and had planned to leave it to one of their nephews, who I happened to know very well. The joke between the nephews was that every time their uncle would be upset with one of them, he would change his will and leave the painting to the other. Each nephew's personal goal was to be the last one to anger their uncle before he died so that they would not inherit the painting.

To wrap up this section, let's review the take-aways:

1. Nearly every decision in retirement planning involves a certain amount of emotion. Your job is to remain objective, but empathetic during the process.

2. Your client may be financially prepared for retirement, but part of your value is to find out if they are psychologically prepared.

3. Discussions about future housing goals are important to have during your initial fact finding. Not only to make sure that your married clients are on the same page, but also to determine if they are financially reasonable.

4. Inheritance isn't just lump sums. Consider that one retiree's treasure may be their children's trash.

PHASE 5
LONG TERM CARE

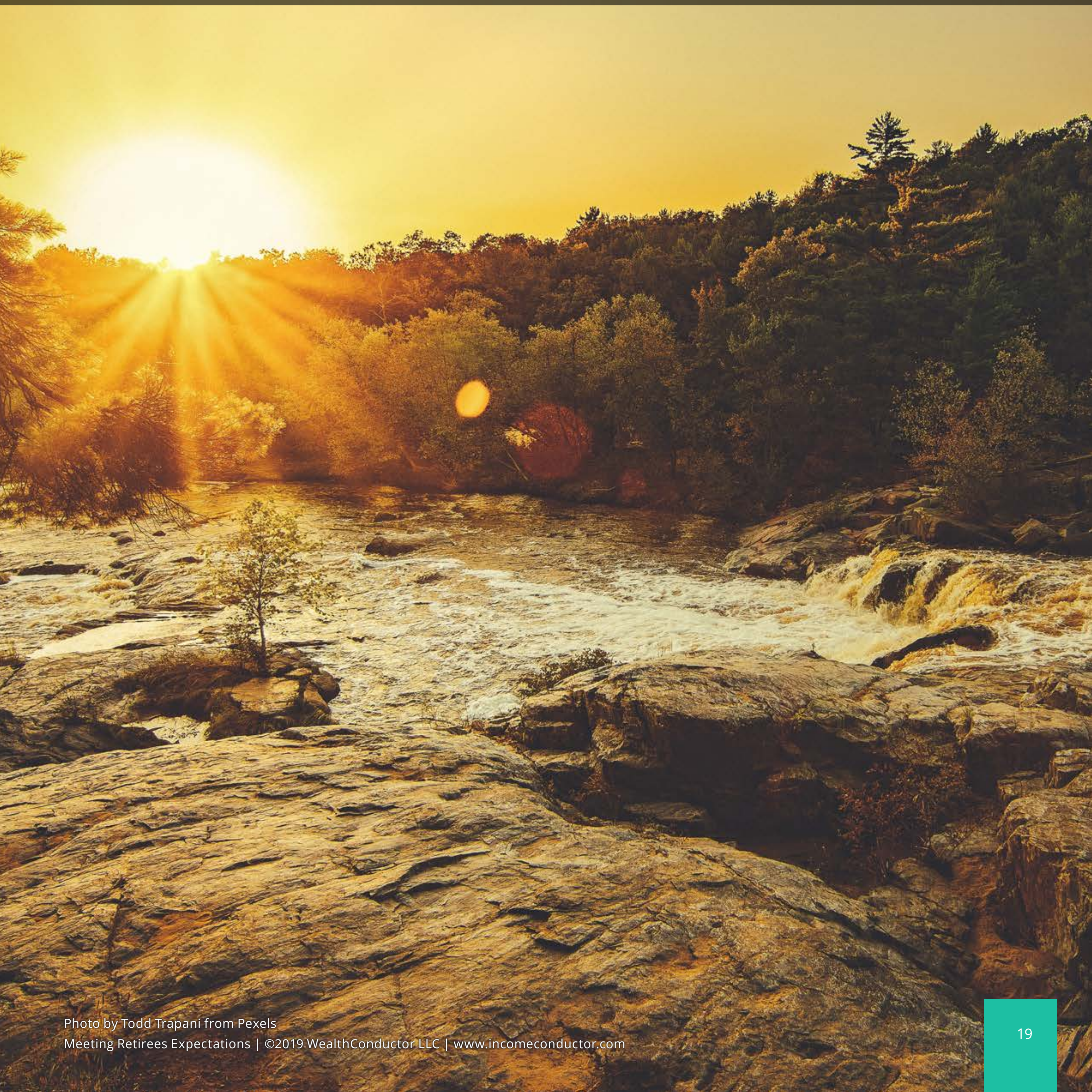

Photo by Todd Trapani from Pexels

Oddly enough, long-term care itself doesn't define the beginning of this phase, but rather the end. Typically, around 80 years old some clients will begin showing signs of early dementia or will be diagnosed with other illnesses. These issues can require expensive care that may not be covered by their Medicare plan.

One of my long-term clients once told me that they were calling this phase the "wonder years". When I asked why, they said that the golden years were over and now they wake up every day and wonder what else will go wrong with their health.

Some advisors call this the "no-go" period, and many advisors following this approach make the mistake of assuming a retiree's expenses reduce even further than they did during the transition from the "go-go" to the "slow-go" periods. In contrast, I always assumed spending levels would remain relatively stable, but would be re-directed to new purposes and vendors.

As the advisor, this is the time to make certain that all the client's legal documents are current. Even though you have likely addressed the legal planning earlier in the retiree's life, surprises will happen. Some of the experiences your client will face that necessitate a change in legal planning may include new marriages, re-marriages, death of a child, birth of their first grandchild, and the births of subsequent grandchildren.

Your client's existing wills generally do not address these issues. Even if your client has diligently made changes to their wills and trusts to reflect new circumstances along the way, I found that many clients did not think about changing their beneficiary designations. Transference of property at time of death can happen several ways, and I was always sure to educate my client as to what these were.

1. By title: A jointly owned home under Joint Tenants with Rights of Survivorship (JTWROS) will pass to the joint owner regardless of what the will states.

2. By contract: A beneficiary designation will take priority to a will. A trust will also take priority.

3. By probate: If a client dies owning any properties that they did not have in joint ownership or did not name a beneficiary for, these properties make up what is called a "probate estate". The estate must transfer ownership via the probate courts who use the will to determine who the rightful owner is. If a will is present, the probate court will use it as part of the process. Depending on which state your client lives in, probate can be an expensive drawn out process. And worse yet, if your clients own real estate in multiple states (which many do with vacation homes) those could be subject to multiple probates.

Keep in mind that the will is the last source of direction while passing property and the first two listed arrangements (title and contract) will take precedent to it.

I recall a case with two clients of mine whose will stated that when they died, their estate was to go to their two sons and if either of their sons pre-deceased them that his share would go to his spouse. However, their life insurance beneficiary designation said that the contingent beneficiaries of their policy were their two sons, equally. This meant that if one of the sons was not alive, his share would go to the surviving son, regardless what the will said. Once again, we are not attorneys, but we should be making sure that all legal documents are up to date and coordinated across all assets.

TECH TIP

IncomeConductor provides "de-risking" alerts that inform advisors when there are opportunities to take client assets out of portfolios with market risk exposure.

When life becomes unpredictable, goals-based de-risking helps protect assets for future use and increase the reliability of the retiree's income.

The same holds true for powers of attorney. Most individuals do not realize that there are separate powers of attorney for medical and financial matters. Sometimes the ultimate decision to place Mom or Dad in a long-term care facility needs to be handled by whomever has the medical power. In its absence, there could be a long, drawn out and expensive conservatorship battle in the courts.

A spouse doesn't necessarily have automatic powers of attorney unless they are the joint tenant on a property. If, as an advisor, you are not comfortable evaluating the client's legal documents, then at the very least make sure they see an attorney to have them evaluated. If you have worked with a client for many years it is likely that you are their primary advisor and family members assume you are looking at the "whole picture".

I dealt with a recent case where a friend of mine whose mother had an account at a large bank in Denver. Her mother contacted the bank advisor and asked that all the beneficiaries be updated for her brokerage account, in which she held mutual funds, an IRA and a variable annuity. When her mother died, my friend found out that all the beneficiaries had been changed except on the variable annuity, which was worth about $100,000. The beneficiary on it still read "estate".

What could have been a probate-free transfer of assets now required my friend to open a formal probate and incur about $3,000 in legal fees. When she complained to the bank advisor, his excuse was that he hadn't sold her mother the annuity despite being listed as a holding of the brokerage account. After sending several letters of complaint and filing a formal complaint with the insurance commission and FINRA, the bank was forced to reimburse all the costs and the advisor ended up with a complaint on his record.

As I stated earlier, you may be perceived as the advisor on all accounts, regardless whether you were responsible for the sale of the products within them or not. We often advise clients on assets they still hold from prior advisory relationships, so it is important to review the status of all assets as new accounts come under your purview. You could be liable for products you didn't sell.

The primary lesson during this phase of retirement is that legal documents, wills, trusts, powers of attorney (both medical and financial), HIPAA releases, etc. are going to be used at a much higher frequency than most other phases of retirement. It is not uncommon for this to become the most expensive phase of a retiree's life, particularly when you have a spouse who enters a care facility while the other spouse remains at home.

The problem with many segmented software packages is that even if you model a long term care expense when you first build your client's plan, those technologies will not allow you to assign a specific inflation rate to long term care, which has historically increased at a higher rate than the CPI. As I referred to earlier, calculating inflation at the expense level can create clarity in the income stream by avoiding attempts at blending inflation rates together. To understand the importance of this feature, see the July 9th, 2018 edition of InvestmentNews in which Mary Beth Franklin wrote an interesting article titled, "New Ways to Estimate Long-Term Care Costs".

I'd like to share one last story before we move on to discussing the final phase of retirement. At the beginning of this section I mentioned that this phase doesn't begin with long-term care, but rather ends with it. When a long-time client of mine, we'll call him John, was diagnosed with terminal cancer in his early 80's, I received a call from his wife telling me that her husband had requested a meeting at the hospital with me, his doctor and his family.

TECH TIP

IncomeConductor uses data aggregation to link client account data from wherever assets are held, allowing advisors to get a holistic picture of their client's assets.

By allocating linked assets and investments to each segment, the income sources for each time period in retirement are clear and can be reviewed during the planning process.

John was set to begin chemotherapy the next day after we all met. When I got there, he asked the doctor to explain the prognosis and treatment plan to everyone. The essence of the doctor's report was that my client had about six months to a year to live, depending on the effectiveness of the treatment program. My client then asked me to not only explain the retirement income plan to everyone in the room, but to assure his family that his wife was going to be financially fine after his death.

I can't tell you how stressful that situation was. What felt like a million checklists of all the things I had done flew through my mind, and I hoped that I wasn't leaving out something critical. I explained how much money there was, where it was located, how it was invested and the income it could generate for the years to come. I assured everyone in the hospital room that John's wife was going to be very comfortable financially. The very next day I received a call at the office that John had died during the night. It made me realize that sometimes we not only give our clients permission to spend, but sometimes, in a way, permission to die.

PHASE 6
LIVING ALONE

Sadly, this phase is generally not a long one since statistics show that a surviving spouse will typically die within a few years of the first spouse dying (assuming we're not dealing with pre-mature deaths that may occur at younger ages). This is a very challenging time for an advisor for several reasons:

1. For the most part, the surviving spouse is in their late 80's or early 90's and their financial acumen is limited.

2. It may be physically difficult or impossible for them to travel to your office.

3. Children, relatives, and close friends will become much more active in the decision-making process.

To begin, I'll share a story that sums up the value of the advisory relationship during this phase. In 1983, I met with one of my first retirement income prospects. Like many of my clients, he was an aerospace engineer and, like most engineers, very analytical. He had created extensive spread sheets on his own and would bring them to every appointment. His wife also came to virtually every meeting we had. He had done an excellent job handling his own investing during his accumulation phase. At one appointment I asked him in front of his wife why he was working with me. I told him that he did as detailed an analysis as I would do and had made sound investment decisions. He explained that he worked with me for the following reasons.

He liked to have someone that could validate his math and point out things he may not have considered. He felt that I had made some good suggestions to him on how to modify some of his assumptions.

He then said that he assumed he would predecease his wife and he didn't want her, at one of the most vulnerable times in her life, to be looking for a financial advisor.
He knew she had very little interest in trying to understand the workings of the plan. He told me, and his wife confirmed, that she was very comfortable with me. If it meant that he was going to have to pay fees for that peace of mind, then he knew they were worthwhile.

Now, fast forward to his funeral. As he predicted, he died before his wife. During the reception after the service, his wife came up to me and said she specifically remembered the day he decided to work with me and that she would be forever thankful for his decision.

During this phase it is important to once again review all the client's legal work. Most wills and beneficiary designations will have the surviving spouse as the primary beneficiary, but I've found many accounts and insurance policies that have no contingent beneficiaries listed. Remember, if the will is the only document mentioning that contingent arrangement, then probate will be the only way to get the assets distributed. Additionally, surviving spouses typically need considerable help getting through the maze of filing for survivor benefits on social security and pensions.

Most funeral homes tell the family that they will take care of social security. All they do is notify social security that the death took place, but do not help the surviving spouse file for their benefit. Social security is surprisingly efficient at stopping a benefit due to someone's death but getting the survivor's benefit set up can be a very frustrating experience for the family. The same is true with pension plans. No matter how well prepared and organized a family may feel, the paperwork following a death is agonizing and particularly stressful for the survivors.

TECH TIP

By adding another segment at the end of an IncomeConductor plan, advisors can reflect the expected lifespan of both partners individually.

Spending can be adjusted accordingly as one spouse enters the phase of living alone.

Part of my service with retirees is to meet with all family members shortly after a death occurs and help them with all the paperwork and phone calls that need to be made. Personally, I never charged an additional fee for this service, but in many cases, it became one of the most valuable things I did for them.

Family members will have many questions. If the children were not already clients prior to their parent's death, many would become clients when they saw the level of service that I provided. Many times, when we needed to make calls to different financial institutions, the first person we dealt with had little or no experience in making the account changes that were necessary or would give incorrect information. As a result, I wanted to make sure that we made the calls together.

Very frequently the banks and credit unions would encourage the surviving spouse to meet with their financial planner. I had one situation where the surviving spouse did meet with the bank advisor and a couple weeks later, she showed me the indexed annuity into which he recommended she put her savings account assets. She was 80 years old and the annuity had a 16-year surrender schedule. Fortunately, we were still in the "free look" period and I instructed her to send it back as "not taken". The rep proceeded to call this poor, grieving widow and yell at her for not taking the contract.

As always, you want to position yourself as your client's primary source of financial information. After that unfortunate bank advisor episode, I always told my clients that the first call they should make is to me. Do not meet with any representatives of any products that you own, even if I hadn't sold the product to them. Too many people make a living reading the obituaries and searching the probate court records.

Once the financial storm has passed, friends and neighbors return to their routines, and children have gone home, your surviving clients will continue to be prime targets of various scams. In our firm's quarterly newsletter that I would send out, I would usually highlight the latest scams and try to give good advice on how to recognize them. Seniors are among the heaviest users of social media and many times find themselves caught up in some attempt to defraud them.

One of my widowed clients who was a male geological engineer and WWII veteran, received a phone call from someone claiming to be his grandson. His grandson claimed he was in the Philippines on vacation and got into a bar room fight defending the U.S. military. When my client told me about it, he had already wired $72,000 to an account so his "grandson" would be released from jail.

Needless to say, his actual grandson had never been to the Philippines and didn't make the call. When my client was relaying the scam to me, he was obviously embarrassed but was amazed how much the caller new about his grandson's name, family situation, residence and his own military background. While in the office, we went to his Facebook page and everything was there for the world to see.

Another common issue your surviving client is going to face is loneliness during this phase of retirement. They may be in touch with you much more frequently than usual, so you should expect more calls or emails. Always try to be as accommodating as possible.

My transition partner who purchased my practice hosts "lady's luncheons" for all her widowed clients. Many widows/widowers need companionship and even partners to travel with. If they are not in a retirement community that can facilitate socialization for them, they are often at a loss for it. These types of services have nothing to do with the retirement income plan, nor their investments, but can be just as, if not more important to your relationship with your client.

TECH TIP

IncomeConductor features one-click client review report generation.

All reviews include a section for both advisor and client to sign.

Family members who are brought into the office can see a full history of suggested and approved plan modifications.

To help your clients avoid isolation, this is a phase when you may want to get other family members involved in any investment decisions that are being made. You're not looking for their approval, but just keeping them "in the loop" and involved with their parents or relative.

After one of my long-term clients had died, I met his wife at the attorney's office to update her legal documents. As we were leaving the appointment and walking to our cars, she said to me, "thank you". My response was that I was happy to be in the meeting with her and that I do that for all my clients. She said that was not what she was thanking me for. She proceeded to remind me that when I first met with her and her husband, he was convinced that he needed to work another five years before he could afford to retire. She said that I had convinced him with my "buckets" that he had more than enough to retire immediately and leave a substantial inheritance at the end.

He went to work the following week and gave his 30-day notice. Four years into retirement he was diagnosed with a very aggressive cancer and died shortly after. His wife proceeded to tell me that had they not met with me, he would have died at work and they never would have taken the trips they were able to during that first four years. She said that she knows she'll never have her husband back, but that my advice was able to provide her with memories that she will cherish for the rest of her life, and for that she will be forever thankful. She is still a client today, as are all their children.

Hopefully, by laying out the chronology of clients' needs during retirement, I was able to convey just how different the distribution phase of a client's life is from their accumulation phase. Clients' expectations are different, and the investment and tax strategies are different as well. Providing an exceptional retirement experience for your clients may be one of the greatest planning challenges you will face as an advisor, but serving this demographic is one of the biggest, and most rewarding opportunities our profession has ever offered.

THE STRUCTURE
BEHIND THE SERVICE

Photo by Clem Onojeghuo from Pexels

My personal experiences I've covered in this paper would have been almost impossible without the support of high-quality product, service, and technology partners. Without a sound practice-management plan it would not have been profitable either. Part of that plan was to outsource as much as I could without compromising client relationships. I was very diligent in selecting broker dealers, investment managers, and product providers while employing best-in-breed technology when and where appropriate. My HP12C calculator and spreadsheet programs, first Lotus 123 and eventually Excel, have always been integral in my practice. Maybe it was a result of having so many engineers as clients.

I also realized early on in my career that my people skills are my most valuable asset and was quick to understand that the person closest to the client controls the relationship. Don't get me wrong, I had no problem passing licensing exams or becoming a CFP®. I can even pick apart prospectuses, SAIs and insurance contracts, much to the chagrin of product managers at a couple of annuity issuers I have used. However, I enjoyed working directly with clients far more and viewed that as the most valuable part of any financial planning or retirement income planning business.

I later recognized that by owning the client relationship and having the clients understand that I was a plan manager, not the expert behind the investment management or technology stack, I could introduce a younger, qualified transition partner into the relationship without creating any doubt about the integrity of the retirement income plan we had designed and were now managing.

I also learned that by becoming the client's "retirement income specialist" I was able to displace other accumulation-oriented advisors. This led to strong, long-term relationships which supported a higher multiple when it came time to valuing my practice. My transition partner not only retained 100% of my clients but has increased her AUM by 50% during the subsequent five years.

By specializing and systematizing my practice through outsourcing and the use of technology, I was able to increase the number of client relationships, thus increasing AUM and insurance premium. I reduced key-man risk to the practice after my clients understood the plan structure and the nature of our relationship. Viewed by my broker dealer as a specialist rather than someone that would take on any type of client, I was also viewed as less of a compliance risk.

Having transitioned out of my role as an advisor, I have been fortunate to spend the past several years communicating those best practices to business analysts and developers that have built and continue to enhance the IncomeConductor® technology, while helping advisors become retirement income specialists. It has been a privilege to see their firms succeed in the retirement income business and know their clients will have successful retirement experiences.

SUMMARY

Photo by Torsten Dettlaff from Pexels

Hopefully, by laying out the chronology of clients' needs during retirement, I conveyed just how different clients' distribution phase is from their accumulation phase. Retirees' expectations and needs are not only unique, but continue to evolve throughout the aging process. Additionally, the investment and tax strategies used during accumulation may be detrimental if applied to distribution.

I'm in no way suggesting that the advisor take the place or share the duties of their clients' attorneys, tax advisors, or medical professionals, but rather assist in the coordination of their involvement. Providing an exceptional retirement experience may be one of the greatest planning challenges facing firms, but serving this demographic is also one of the largest and most rewarding opportunities our profession will ever experience.

One last story from my personal experience underscores the importance and rewards of working with retirees. After meeting with a client and her attorney following her husband's death, she turned to me and said, "Thank you". She reminded me that when I first met with her and her husband, he was convinced that he needed to work another five years before he could afford to retire. However, our discussion convinced him that through the use of my "buckets" strategy, he had more than enough to retire immediately and leave a substantial inheritance down the road.

Her husband went to work the following week and gave his 30-day notice. Four years into retirement, he was diagnosed with a very aggressive cancer and died shortly after. She told me that had they not met with me, he would have died at work and they never would have been able to take the trips they did during those first four years. She said that she knew she will never have her husband back, but that my advice gave them permission to enjoy their last years together and that she will cherish those memories for the rest of her life. She is still a client today, as are all their children.

INCOMECONDUCTOR

After co-developing four prior software platforms, building IncomeConductor™ is the culmination of my life's work and has truly become the ultimate retirement income platform. In designing it, I've relied upon my 30-plus years of actual client experiences, rather than a strictly academic model created by some "think tank".

Time-segmentation as a strategy and a business model has allowed me to give my clients what they so desperately needed and wanted: confidence, clarity and comfort. IncomeConductor™ isn't just a way to manage time-segmented plans, though. We also provide advisors the training, marketing and case consulting support that most software programs lack. Plus, it's all wrapped up in a compliance-sensitive package that prepares advisors for not only meeting the unique needs of their retiring clients but the ability to thrive in an ever-changing regulatory environment.

To learn about how you can try the IncomeConductor™ platform today, visit our website at www.IncomeConductor.com, or give us a call at 860-969-3672. We offer no-risk free trials, including complementary case consultations to make sure that you're set up for success from day one.

Click here to schedule a personalized demo today!