

■ SECURITIES AMERICA PARTNERS WITH WEALTH2K TO PROVIDE ADVISORS WITH A NEW RETIREMENT INCOME PLANNING TOOL.

BY DAVID J. DRUCKER

One BD Steps Up to the

BOOMERS HAVE COME OF AGE TO RETIRE AND THAT event, alone, has sparked an epiphany.

Until we took notice of the fact that the oldest boomers would soon be retiring, financial planning was all about asset accumulation. Just look at the inner workings of any financial planning software to verify this truth; these products are invariably geared to designing portfolios for risk-controlled wealth accumulation.

The subject of “decumulation,” as it has recently crept into the media’s and industry’s consciousness, has highlighted the fact that planning software isn’t designed for constructing spend-down portfolios. Now that that awareness is upon us, you will start seeing all manner of industry vendors providing needed solutions to advisors.

One of the first is Securities America, the Omaha, Neb.-based broker-dealer that, in collaboration with Wealth2K (www.wealth2k.com), a software and media company serving the financial services industry, is stepping up to the challenge of helping its reps do sophisticated retirement income distribution planning. What advisors need, reasoned these collaborators, is a way to measure a client’s need for guaranteed versus variable retirement income, and guidance on how to combine products and strategies to maximize retirement withdrawals. The answer? Wealth2K’s Income for Life Model, developed in conjunction with Securities America’s NextPhase income distribution solutions, which offers a retirement income risk assessment process and illustration system to help advisors custom-tailor retirement income strategies for their clients.

When Securities America started working with Wealth2K in October 2005, the Income for Life Model was still under development based upon feedback from Securities America advisors. “Wealth2K addressed the needs expressed by these advisors,” says David Macchia, president and CEO of

Wealth2K, “by incorporating an online retirement income risk assessment process that measures the client’s sensitivity to volatility [in conjunction with] the appropriateness of a guaranteed income product.”

The guaranteed income product, says Macchia, could be a period-certain fixed annuity, laddered bonds or CDs, or a variable annuity with income rider. “What’s important is how they are mixed and matched. The front-loaded investments provide predictable income, while the more aggressively invested money stays in place through the ups and downs of the market.”

The premise of portfolios designed with these tools is time segmentation, says John Barton, a Securities America-affiliated advisor with CenterPoint Wealth Management in Wichita, Kan., who provided feedback for Wealth2K’s development of the Income for Life Model. “Initially, the Model was user-friendly and easy for clients to appreciate, but very simplistic — not really modeling reality accurately.” Explains Barton, Securities America went back to Wealth2K and requested that more assumption options be built into the Model. “For example, we now have one option for clients who never want to invade principal, and another for those who want to spend it all.”

We asked Barton how, exactly, does the Model work. “Depending on how long you assume the client will live,” he explains, “the Model creates, say, five or six time frames of five years each. It then looks at the client’s income needs now and the degree by which those should increase every year. Then the Model divides the client’s total portfolio into different segments, or time frames, and you assign a different rate-of-return assumption to each segment.”

For example, because the portfolio’s first segment will be drawn on immediately for income, the return will be more



like that of a money market or single-premium annuity return. Says Barton: “The second segment’s return will be higher because we’ve given the segment five years to accumulate. And the returns assumed for segments three through six will be higher yet as we introduce equities.” Macchia adds, “This is segmented asset allocation. [Given the time value of money], a greater percentage of the portfolio will be placed in the early rather than later segments.”

Paula Dorion-Gray of Dorion-Gray Retirement Planning in Crystal Lake, Ill., has used the Income for Life Model for about a year and a half. “What I like is that it sets up and explains retirement income in a very elementary way, so it works for all clients.” Every client, says Dorion-Gray, wants to know how they’re going to get money out of their portfolio. “The Model is an eye-opener because the client can see that, for the first five years, income will come from a no-risk investment. Then he can see [exactly which investments] will provide income in each subsequent five-year segment.” Says Dorion-Gray, most clients focus primarily on the closest five years, see there’s a plan in place, and then feel at ease.

“Because the Model isn’t driven by product vendors,” adds Barton, “the advisor can satisfy his client’s income needs in each segment a number of different ways. He can use CDs or money market accounts for the first segment, fixed annuities for the second segment, and the last four segments could be variable annuities, third-party money managers... whatever.” Barton says that appeals to his personal ethics of being objective, while increasing his clients’ confidence in his objectivity.

This is by design. By starting with a risk assessment, the Income for Life Model is more compliant than just having advisors looking to variable annuity products as the sole solutions to their clients’ retirement income needs. With the Model, advisors may position a variable annuity product and rider as one component of a comprehensive income strategy.

“The Model has been one of the most powerful tools I’ve used to show clients how their portfolios will be structured and where their retirement income will come from,” says Dorion-Gray.

Because Wealth2K is both a software and a media company, the presentation tools accompanying the Income for Life Model are top-notch, too. Says Macchia, “The risk [as perceived by the client] is much greater in distribution than during accumulation, so we put lots of emphasis on communication and education tools.” Besides software development, Wealth2K has a background in developing for its advisor and institutional clients a variety of Flash-based and digital multimedia

solutions, some with Internet-based delivery options, such as “microsites” and “e-Brochures.”

“I’ve had clients or prospects view the [Income for Life] tutorial that I play on the computer and grasp the idea very quickly.”

Wealth2K’s “Traject Network” is the network that hosts the Income for Life Model and the operating system designed to be able to project forward any number of solution strategies, says Macchia. “We saw that the industry had spent enormously on advisor-backward technology, but little on advisor-forward technology,” he says, meaning the ability to present to one’s client, via Web-based streaming video, the presentations alluded to by Barton and Dorion-Gray.

Is the Income for Life Model a substitute for financial planning software? Not exactly. “It’s really a supplement to broad-based financial planning software,” says Barton. “I use it for my clients who are at the point where they need to generate systematic income from their portfolios — those who say, ‘I really want a regular check I can have a high degree of confidence in every month for the rest of my life.’”

I posited one of my own clients to Securities America’s first vice president Paul Lofties as a hypothetical planning

subject. The client is retired, has about \$3 million in marketable assets, and requires \$60,000 a year to meet his living standard — the typical “Millionaire Next Door,” in other words. “What is the Model likely to show for this client?” I asked, noting that \$60,000 represents a 2 percent withdrawal rate from this client’s portfolio — a level that students of withdrawal-rate rules of thumb would say is infinitely self-sustaining.

Answered Lofties: “This client would probably score high — using the online risk assessment tool — as having a desire for a guaranteed income stream. It would take less than \$3 million to produce the income he needs so, rather than a variable income strategy, we’d likely recommend more guaranteed investments — some fixed and some conservative — but with a reliable income stream. The rest could be invested for long-term growth or maybe philanthropic goals. When a client has enough for his own income needs, we can use the Model to segment other purposes for his money.”

Undeniably, there is a need for products like the Income for Life Model, and industry players that create and provide these solutions — as Securities America and Wealth2K have done — will gain competitive advantage as savvy advisors realize they can’t plan for a new breed of clients without these tools. **R**

“The Model is an eye-opener because the client can see that, for the first five years, income will come from a no-risk investment.”

— Paula Dorion-Gray