



The Off the Shelf ... Advisor

Are retirement-income funds the magic bullet for retirees—or are they just a product in search of a market?

One of the hottest topics around these days is retirement income. Most of the discussion seems to center on fulfilling this important need with a new and different product. In my line of work—product marketing—I’m all for developing and launching new products, of course, but this time I do have to stop and ask, How is “retirement income” different from “regular” income—income provided by, say, an annuity or an income-oriented mutual fund?

Haven’t advisors been satisfying this need for years? Advisors routinely assemble personalized portfolios. Will investors be able to use these new products effectively without the benefit of investment advice? I think not.

Over the past couple of years, bond funds have swollen with new assets. According to Strategic Insight, 2005 net flows to taxable bond funds hit \$34 billion, and grew to \$50 billion in 2006. Tax-exempt funds saw a similar increase (to nearly \$13.5 billion) in 2006. These are not your father’s bond funds, either. Today’s offerings include a variety of income-oriented funds (think core-plus, or multistrat-

egy), foreign bond funds and TIPS funds. This level of flows indicates a product lineup that is generally meeting client needs. Annuities, too, are seeing a resurgence.

Bottom line, the idea of a “retirement-income product” is a marketing gimmick designed to capitalize on the large baby boomer migration to retirement. The trouble is that re-labeling income funds or annuities (or a new product that combines features of both of these offerings) as retirement-income funds will not suddenly grant us the ability to solve the retirement-income problem differently than we could before. Again, I’m all for sales opportunity, but I want to be sure we sell what we can actually deliver.

And that’s why I wave a cautionary flag: We may be raising expectations that we can’t possibly meet. The reality is that there is no retirement-income product that can solve the problem of an underfunded retirement account. The 2006 Pension Protection Act recognizes this important point and addresses it for pension plans by requiring more stringent and conservative actuarial and investment-return

We’ve been talking for a while about a “dream” retirement income product that preserves capital, offers flexibility, delivers tax efficiency, provides equity exposure and provides predictable or guaranteed income. The **reality** is that we do in fact have this product, and it is called a financial advisor.

To **effectively** capture the retirement-income market, advisors need to deploy multiple, simultaneous strategies. Focus on creating income portfolios for those closest to retirement, and push younger clients hard to save and invest early and often.

assumptions. This is not an easy message to deliver to your retail investor, of course. Perhaps, that's why advisors prefer a product-oriented approach, which seems like a more palatable way to open this conversation.

Not Just About the Sale

It is critical to remember that the primary objective of product development is to sell products. By definition this exercise is aimed at creating revenue for the product manufacturer. The best products also serve a real investor need effectively, efficiently and at a reasonable price.

For retirement income, financial advisors and investors have long used laddered bond portfolios, income funds, dividend-paying stocks, closed-end funds trading at discounts and annuities to structure income-oriented portfolios. This approach is not particularly glamorous, and it may be incongruent with the flashy objective of beating an equity-oriented benchmark. But nothing has happened to make this approach a bad idea.

Product manufacturers have been talking up their "dream" retirement-income product that preserves capital, delivers tax efficiency, provides equity exposure and guarantees income. The reality is that we already do, in fact, have this "product"—it is called a financial advisor. A financial advisor already has the tools available to assemble a portfolio with all of these components, and, in fact, that's a financial advisor's job. So, what does a "retirement-income fund" have on an advisor who builds a portfolio comprised of Vanguard's 52-basis-point income annuity that delivers guaranteed income, some large-cap value ETF exposure for efficient growth and maybe

some insured munis for income and capital preservation?

Creating a single *uber*-retirement-income product for the end of a client's capital accumulation phase would be very expensive and complex. Expense and complexity are not typically bestselling features, of course. And one product can't possibly fit everyone's needs. Some people will want only income, others capital appreciation, some only guarantee of principal and so on.

I have to wonder, too, if some of the discussion about retirement-income products taking place in industry publications and at conferences is a way to signal that we don't know how to make this "retirement-income thing" different enough from what we already do to create a tangible value proposition for doing more business. In the world of financial solutions, it is perfectly appropriate to frame a need as a problem and to deploy a set of services to solve that problem. It's even better to frame a need as an opportunity and sell it positively. It may be easier to wait for the manufacturers to create something new, but, in the meantime, the macro trends of product commoditization and decreasing fees are creating a real opportunity for advisors to provide advice and positive direction.

To effectively capture the retirement-income market, advisors need to deploy multiple, simultaneous strategies. Focus on creating income portfolios for those closest to retirement, and push younger clients hard to save and invest early and often. While new products may offer tools to preserve capital more affordably or to create opportunity for market growth in an income portfolio, ultimately, the most critical driver of retirement income is asset accumulation. ●