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Building retirement income confidence

Working with retirees will require a mix of software and softer tools

RETIREMENT WATCH

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Many of the retirement income solutions currently being developed by financial services companies involve software — most of which is designed to model financial outcomes once someone has retired.

But software, important as it is, will not solve the retirement income puzzle alone. Understanding how people think and feel about retirement income is of equal, if not greater, importance. In many cases, emotional attitudes that were long held during the accumulation phase shift when investors reach retirement.

Consider the role of confidence.

If the word is defined as having trust or belief in something, then confidence plays an important role throughout the accumulation phase. Its influence can be seen in the thousands, hundreds of thousands and even millions of dollars that investors entrust to advisers. Much of this money is invested in products and services that investors understand hazily at best.

For example, transactions are possible only because investors have confidence in their advisers.

During the accumulation phase of investing, confidence in financial advisers comes with a wide buffer zone: It often survives an investment mistake. While an adviser's error in judgment may not be easily tolerated and can lead to the loss of a client, investment mistakes at least can be mitigated over time. In fact, if an investor makes a suboptimal product selection based on an adviser's recommen-

dation, the "cost" — a somewhat smaller accumulation — may even go unnoticed.

But once an investor enters retirement and begins the income generation phase, the cost of mistakes becomes exceedingly high; time no longer can

be counted on to mitigate loss. This is when the focus of confidence shifts from advisers to products and solutions. The buffer zone vanishes, and advisers no longer can make up for mistakes.

So what, then, builds confidence during the income generation phase? In a word, it's education. Since our industry tends to cloak even the simplest concepts in jargon, educating investors on complex retirement income products and strategies can be a challenge. For that reason, I offer a deceptively simple formula aimed at instilling confidence through education: clarity + comfort + compelling = confidence.

Let's define the terms.

"Clarity" isn't a commodity. Rather, it's the result of artful communications and storytelling that help ordinary investors quickly and easily understand complex concepts. It's a quality for which we should strive in all our interactions with clients.

"Comfort," in part, is a byproduct of clarity. It is the sense that your client is being understood and accepted — and that the client understands and accepts your clearly conveyed messages.

"Compelling" is another word for "why." Investors want to understand the compelling reasons for their selection of a particular product or strategy out of a universe of many.

The sum of clarity, comfort and compelling is confidence in the particular retirement income strategy or product. Of course, understanding the

equation isn't the same as implementing it. True retirement income success is gained or lost in the execution.

Offering investors educational content that is capable of igniting true confidence requires the right content and the right delivery.

While much as been invested in technology to connect the adviser to the back office, little investment has been applied to content. Fortunately, the transformation of consumer-facing communications requires only a comparatively small investment.

Take, for instance, the issue of straight-through processing for annuities. The technology spending undertaken to build the infrastructure that makes annuity purchases easier was quite substantial. But where was the investment in communications that would induce people to want to purchase annuities? Isn't that side of the coin as important as the technology?

Technology on its own can deliver only one side. Delivering the "other side" — the emotionally driven aspects of retirement income that are shaped by content, information and education — will require a mixture of art (storytelling, imagery, graphics, video) and technology that's decidedly more difficult to achieve.

But because opportunity doesn't wait, the industry must try to blend education and technology now. After all, the first boomers have reached the age of 62. Investors will want to feel confident about their retirement income decision making. Let's provide them with the tools — both hard and soft — to make that possible.

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