

BEHIND THE NUMBERS

The ABCs Of Retirees

BY MAYA IVANOVA AND DAWN KAHLER

AS THE POPULATION ages and the markets become increasingly challenging, two trends have become top of mind for advisors: the dominance of retiring baby boomer clients and the rise of alternative investments as portfolio options. In our most recent survey of 333 RIA firms, conducted online in November 2006, AdvisorBenchmarking explored both of these trends to shed more light on how advisors can turn these market challenges into business opportunities.

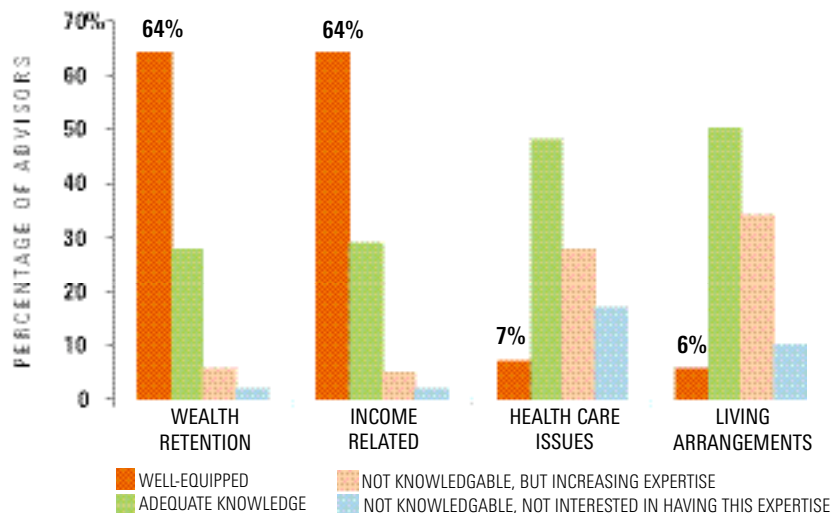
The aging of the boomer generation has been covered ad nauseam in virtually every publication and from every angle. We all know the statistics: 76 million members strong, it's the largest generation of all time and 70% of the nation's wealth is in their hands. Retaining boomer assets is a key objective for most advisors, as these wealthy clients transition into retirement and begin to transfer their wealth to their heirs. Right now, nearly half of advisors

(43%) say that 20% to 40% of their clients are retirees and that number will only increase in the coming years.

Here's how advisors are preparing for this demographic tectonic shift: About half (51%) are developing tools and

GETTING PREPARED

HOW ADVISORS RATE THEMSELVES ON THEIR ABILITY TO ADDRESS RETIREE CLIENTS' NEEDS



resources to assess clients' retirement readiness and identify areas where they need additional support. About a fourth (26%) are seeking to build strong relationships with the children of their clients, and 24% are seeking to become retirement experts by taking educational seminars and courses. Twenty-one percent are positioning themselves as "retirement coaches," and 17% are partnering with other professionals who offer services to pre-retirees.

A FOCUS ON HEALTHCARE

Preparing for retirement and retirement itself can be a complex time for boomers—they're changing every aspect of their lives. From career to lifestyle to income to living arrangements, soon-to-be retirees face a daunting list of choices and challenges. Add to that the physical changes that come with aging and it's no wonder that they're looking for help in making these life decisions.

Many advisors are looking to be retirement experts or "coaches" to their clients. But to meet the needs of retiree clients, advisors will need to beef up their knowledge not only of investment-related retirement issues, but also non-investment areas—such as healthcare and living arrangements. We asked advisors to grade themselves on their ability to address their clients' retirement-related needs in the areas of income-related investments, wealth retention, healthcare issues, and living arrangements. We discovered that while advisors feel well equipped to handle the investment side of the retirement equation, they're not so prepared in the non-investment areas.

For example, most advisors ranked themselves as well-equipped in the areas of wealth retention (64%) and income-related investments (64%). Conversely, about half of advisors say that they have adequate knowledge of retiree healthcare issues (48%), and retiree living arrangements (50%). About a third of advisors are planning to increase their expertise in these areas (28% healthcare and 34% living arrangements). Interestingly, 17% of

advisors say that they do not have familiarity with retiree healthcare issues and do not plan to enhance their understanding of this topic, while 10% of advisors felt the same way about retiree living arrangements—a big issue for retirees as 55% say they will move when they retire, according to the *2004 Del Webb Baby Boomer Survey*.

The takeaway? If advisors are planning to position themselves as retirement coaches or experts, they're going to have to develop expertise in these non-investment areas or partner with someone who already has it. Otherwise, clients will turn to someone who can offer them a complete solution and comprehensive answers on retirement issues.

Retiree clients are, of course, interested in maintaining their income stream. Advisors ranked their preferred methods for retirement income solutions, with most advisors (43%) recommending systematic withdrawal strategies. Dividend paying investments came in second (16%), while mutual funds (12%), annuities (8%), and bonds (6%) rounded out the list of top five preferences.

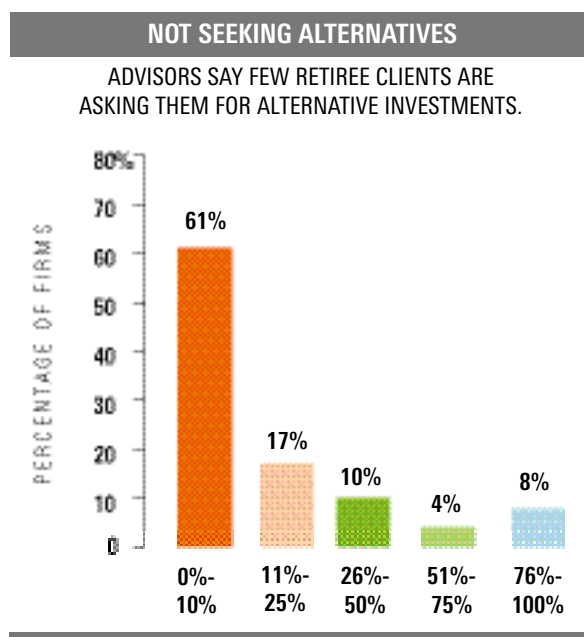
Advisors indicate that most retiree clients are not asking for alternative investments. In fact, 61% of advisors report that less than 10% of their clients are asking for this type of investment. Advisors believe that retiree clients are hesitant to invest in alternative investments mostly due to a lack of understanding (51%), but lack of liquidity (27%), and clarity in how an alternative strategy works in the overall portfolio (27%) are also issues.

This last statistic may also underscore an opportunity for advisory firms. If the advisor market believes that a lack of

understanding prevents their retiree clients from being interested in alternative investments, advisors who can educate their clients on the diversification benefits of these types of investments will stand out.

MAKE ROOM FOR ALTERNATIVES

Moving beyond the retiree client, alternative investments (such as hedge funds, real estate, commodities, currencies and managed futures) have become an increasingly important part of advi-



sors' investment choices. Most advisors have moderately increased their use of alternative investments (0 to 25% in the past five years), and 24% of advisors have increased their use of alternatives by more than 100%.

Advisors have turned to alternative investments for a variety of reasons—looking for different investment techniques (40%), seeking absolute returns (38%), filling portfolio allocations (29%), addressing portfolio correlations (28%) and seeking unique vehicle structures (25%).

Looking forward, advisors anticipate a moderate increase in their allocation to alternatives in the next five years. More than half (55%) of advisors estimate that

they will increase their use of alternatives up to 25%, while 13% believe they will increase their use of alternatives by more than 75%. In the next five years, 24% of advisors say they believe that the alternative investments with the greatest business growth potential are capital-protected and structured products, including commodities, while real estate (16%), private equity/venture capital (15%), and hedge funds (13%) also ranked as potentially rewarding to advisory practices.

About half of advisors (49%) believe that alternative investments will not

become as important as traditional investments (stocks, bonds, and cash), while 27% of advisors believe that alternatives will be just as important as traditional investments and 24% believe that alternatives will actually be more important than traditional investments.

It's not enough to just understand clients' needs—advisors need to know how to solve clients' problems. The key is educating clients on the options available to them so they can make more informed decisions. Changing client needs and the availability of a wider range of investment options provide advisors with a world of

opportunity to attract new assets from existing clients, as well as to bring in new clients. Advisors who want to position themselves for success must be indispensable, expert resources that clients simply can't do without. **IA**

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