Insured Retirement Institute

Retirement Income Planning and the Elder Market

Advisor Strategies to Understand and Work With Senior Clients

October 2011

About the Insured Retirement Institute: The Insured Retirement Institute (IRI) is a not-for-profit organization that for twenty years has been a mainstay of service, commitment and collaboration within the insured retirement industry. Today, IRI is considered to be the authoritative source of all things pertaining to annuities, insured retirement strategies and retirement planning. IRI proudly leads a national consumer education coalition of nearly twenty organizations and is the only association that represents the entire supply chain of insured retirement strategies: our members are the major insurers, asset managers, broker dealers and more than 75,000 financial professionals. IRI exists to vigorously promote consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors and consumers under one umbrella. IRI's mission is to: encourage industry adherence to highest ethical principles; promote better understanding of the insured retirement value proposition; develop and promote best practice standards to improve value delivery; and to advocate before public policy makers on critical issues affecting insured retirement strategies and the consumers that rely on their guarantees. Visit www.IRIonline.org today to experience the vast resources of the Insured Retirement Institute for yourself.

Overview

The topic of communicating financial planning to older clients is not new, yet is taking on increased importance as this segment of the population is growing at an unprecedented rate. One year ago, the Insured Retirement Institute (IRI) and AARP developed joint webinars on the topic of communicating financial planning advice to older clients, including the key points of understanding the attributes of this population and the challenges they face both financially and physically. These findings are just as relevant today.

In this report, we continue the discussion by examining the demographic characteristics of the elder population and ways advisors can ensure that they are fully conveying pertinent information to older clients. We conclude with considerations for seniors who are contemplating a purchase of an annuity.

Key Findings and Analysis

- The number of older investors is growing, and this group has amassed a relatively high level of wealth.
    - One-quarter (25%) of the U.S. population was at least 55 years of age in 2010, compared to 21% in 2000.
    - The number of Americans between the ages of 55-59 grew 46% since 2000; the number in the 60-64 year-old segment grew 56% during the same period.
    - There has also been notable growth among the oldest Americans, as noted by a 30% increase in the number who have attained age 85 over the past decade.
    - The highest median net worth is among individuals between ages 55 and 64. Additionally, the median net worth for families in which the head of household is at least 75 years old is nearly 20% higher than that of Boomers between ages 45 and 54.
- IRI research shows that older Boomers, defined as those who are between ages 60 and 65 in 2011, are in need of retirement income advice.
    - One half (51%) believe they will not have enough money on which to live comfortably through retirement, and more than two-thirds (70%) believe they will not have enough money to pay for long-term care expenses.
    - Despite their proximity to retirement, only 58% have determined the amount of money they will need to save for retirement.
    - Two thirds (67%) state it is important to them to leave an inheritance to their loved ones.
    - Less than half (45%) have ever consulted a financial advisor.
- Working with older clients can present a number of challenges for advisors that they have not yet seen on a wide scale in their practices.
    - Social and family issues take on greater importance for older investors, often including a variety of aspects related to lifestyle changes in retirement and the participation of family members and others in the decision-making process.

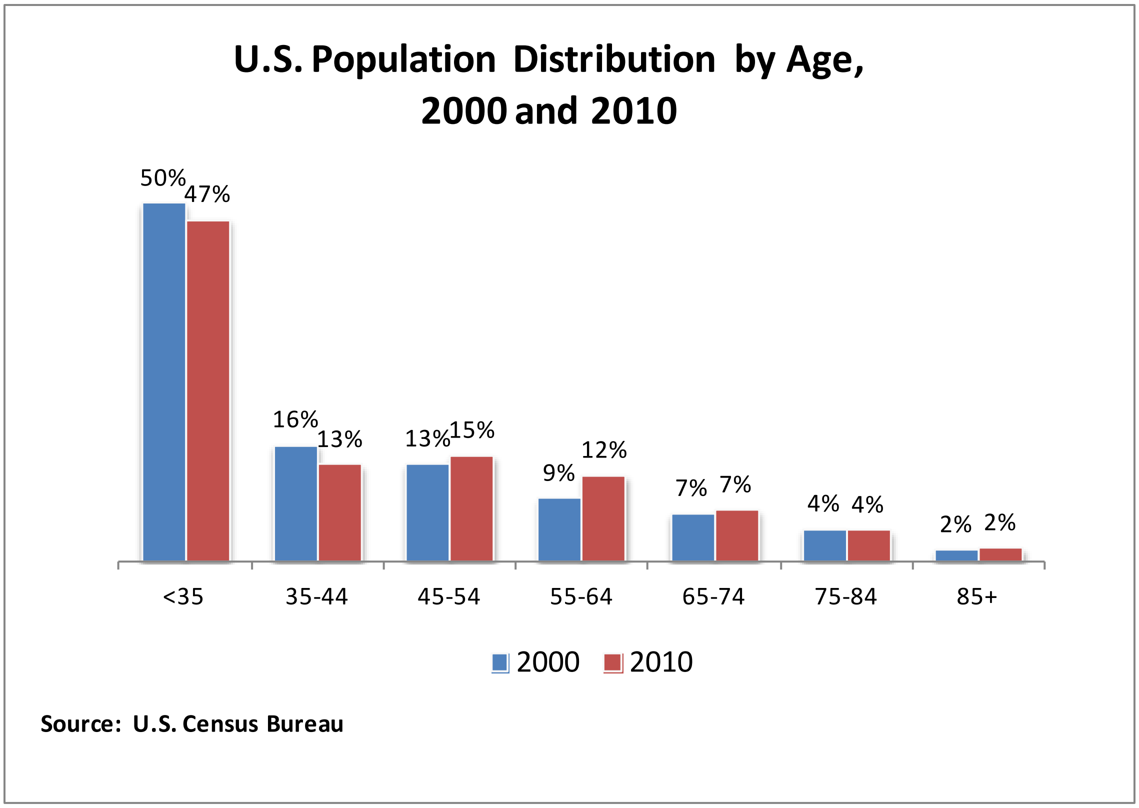
    - Beyond the usual focus on traditional investment advice, advisors will need to incorporate issues such as power of attorney, guardianship, or professional care giving.
- Health issues associated with advancing age must be considered when delivering advice.
    - Of individuals older than age 65, 60% have some degree of hearing loss and 15%-20% have vision issues.
    - Nearly half of 80-year olds are estimated to have a form of Alzheimer's.
- As consumer interest in annuities has grown, it is imperative that advisors anticipate the questions seniors will have about them—and to proactively address product specifics.
    - Two-thirds of advisors state that their clients have asked them about annuities, according to recent research conducted by IRI and Cogent Research.
    - Among the key questions that should be addressed are those regarding lifestyle goals, the differences between the various annuity types, annuity fees, clients' accessibility to money, and the advisor's qualifications.

Profile of the Elder Population

There is no particular age that defines the elder population. Boundaries range from age 40 (the age at which the Age Discrimination in Employment Act applies) to just over age 70 (the oldest age at which required minimum distributions from qualified plans must commence). Others use Social Security as the basis, ranging from age 62 (earliest availability of reduced benefits) to 65-67 (earliest availability of full benefits, depending upon year of birth).

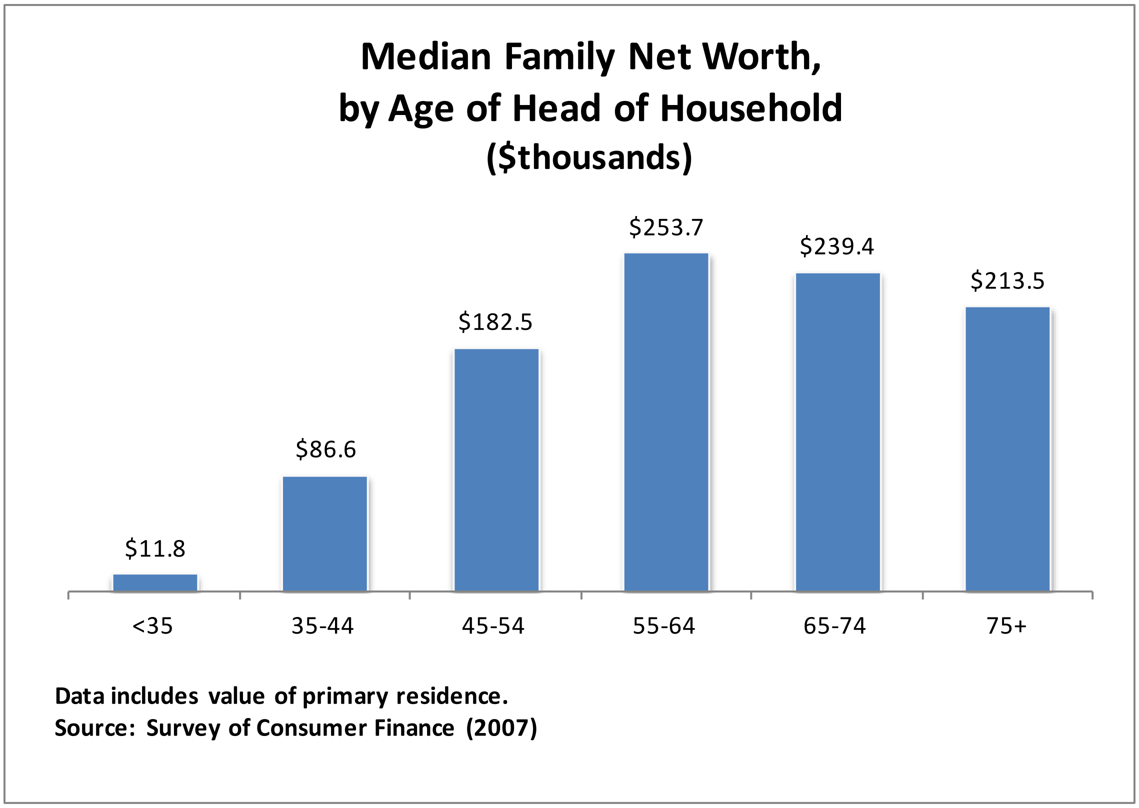
No matter how we define the parameters for older investors, two things are clear. This is a population that is growing, and one that has amassed a relatively high level of wealth. As we will explore later in this report, this also invites investor fraud—although such cases are rare in the advisor community.

Data from the U.S. Census Bureau shows a shift in the age distribution during the past decade. Although these shifts may be perceived as minor (12% of Americans were between ages 55 and 64 in 2010, compared to 9% in 2000), this is attributable primarily to the Baby Boom that began 65 years ago and ended nearly 50 years ago, and will therefore become more pronounced over time.



Examining raw data, rather than percentages, indicates that the fastest-growing age group (when viewed in five-year intervals) in the past decade were those in their early 60s. The number of Americans in the 60-64 year-old segment grew 56% since 2000, and the number in the 55-59 age range grew 46%. Also notable is the 30% increases seen in the 85-89 and 90-94 age segments. As we will examine shortly, improved longevity also comes with challenges concerning physical and mental health, which can affect the decision-making processes of the individuals and the approaches that advisors must utilize to ensure that their clients' needs are met.

Older generations also have higher levels of wealth, on average. The most recent Survey of Consumer Finance (released in 2009 with 2007 data) shows that the highest median net worth, including primary residence, is in the 55-64 age range. This is followed closely by those between ages 65 and 74. Additionally, the median net worth for families in which the head of household is at least 75 years old is nearly 20% higher than that of Boomers between ages 45 and 54.



Older Boomers are also in need of retirement income advice. Among the findings of the IRI Report *Boomers and Retirement 2011* were the following statistics for Boomers between ages 60-65:

- One half (49%) believe they will have enough money on which to live comfortably through retirement.
- One third (30%) believe they will have enough money to pay for long-term care expenses.
- Despite their proximity to retirement, only 58% have determined the amount of money they will need to save for retirement.
- Two thirds (67%) state it is important to them to leave an inheritance to their loved ones.
- Less than half (45%) have ever consulted a financial advisor.

Taken together, this data shows that as the elder population grows, many are still in need of formal financial advice. Yet, for advisors, working with older clients can bring up a number of challenges that they have not yet seen on a wide scale in their practices.

Challenges for Advisors

There are two broad challenges that advisors face in working with older clientele—those pertaining to social/family issues, and those pertaining to health issues.

Social/family issues include a variety of aspects related to lifestyle changes in retirement and the inclusion of family members and others in the decision-making process. As we concluded in our 2010 webinar:

- Baby Boomers are very different from past generations. For example, they may have children living at home, be caregivers for elderly parents, or work past the traditional retirement age.
- Advice for older clients may go beyond traditional investment advice, and may include legal matters such as power of attorney, guardianship, or professional care giving.
- Suitability of products and services is extremely important. The primary way advisors can assure suitability is by understanding their older clients and the challenges they face as a result of their particular stage in life.

Compounding these issues are the natural health impairments associated with aging. In their 2011 publication, *A Financial Professional's Guide to Working With Older Clients,* AARP and the Financial Planning Association, presented the following statistics:

- Hearing loss impacts approximately 60% of individuals older than 65 and 90% for 80-year olds.
- Vision issues affect between 15% and 20% of individuals older than 65.
- Alzheimer's affects 5% of people age 65-74, while nearly half of those older than 80 may have the disease.

A third point—although not widely seen in the financial services industry—is the prevention of elder financial abuse. According to *The MetLife Study of Elder Financial Abuse*, prepared in 2011 with the National Committee for the Prevention of Elder Abuse and Virginia Tech, the annual financial loss of victims of elder financial abuse is close to $3 billion. However, only a small amount is derived from the business sector—85% of instances involved strangers (e.g., home repairs and phone scams) or family members, according to the report.

Although abuses stemming from the legitimate financial services sector are rare, the occasional news report implies the situation is larger than it is. In most cases, news reports highlight financial advisors or agents who have been indicted on securities fraud charges—which actually exemplifies that the systems that are in place to detect such abuse are effective.

Financial advisors need to be aware of all of these issues and to have in place procedures to help ensure they are providing older investors with the tools they need to have full access to planning discussions This may be as simple as screening out background noise or as complex as including others—such as family members, elder law attorneys, geriatric care managers—in the process.

IRI researchers spoke with executives at several firms to ascertain some of the tactical means with which they are ensuring that (a) clients are receiving the information they need to make financial decisions and (b) advisors are making every effort to document their interactions. High on the list was sending written summaries of all meetings—whether in person, over the phone, or online—to clients to help ensure against miscommunication. A secondary addressee, such as a family member, is sometimes designated to receive copies of all correspondence. In some cases, the appointment of a family member as a decision-maker for the older client is utilized.

Even so, advisors need to take the initiative, particularly when it comes to helping clients understand product, as discussed below.

Seniors and Annuities

Under the right circumstances, annuities may provide a lifetime income solution for those planning for retirement. Due to changing demographics, memories of the prolonged market recession, and the lesser role that will be played by defined benefit pension plans, consumer interest in annuities has grown. Recent IRI research conducted with Cogent Research shows that two-thirds of advisors report that their clients have asked them about annuities. Therefore, IRI emphasizes that if seniors are not asking the following questions of their advisor when considering an annuity, the advisor must be sure to make them part of the discussion.

Important Questions for Seniors to Ask when Considering an Annuity Purchase

As seniors plan their retirement income strategies, it is vital to understand all the options, features, benefits, and costs of all products under consideration. The following tips are useful first steps in determining if an annuity will meet your specific needs.

1. **What are my lifestyle goals for retirement?**

Determine when you expect to retire, define your personal retirement goals, and estimate how long you expect to live in retirement. This is essential in understanding the role that an annuity can play—whether it's saving for retirement, generating lifetime guaranteed income, or both.

2. **How much retirement income will I need?**

Calculate the amount of additional income you will need to supplement your other retirement income sources, such as Social Security, a pension, and savings. Try to be specific about how much income you think you will need to fund your desired retirement lifestyle and essential living expenses. And, don't forget healthcare.

3. **What are the different types of annuities and how do they work?**

A deferred annuity allows your investment to grow tax deferred with the option of providing guaranteed income at a future date. Many deferred annuities offer optional living benefits, which provide principal protection and a variety of guaranteed options for you to access your money. An immediate (income) annuity is purchased with a single payment and provides guaranteed income payments shortly thereafter. Note that assets used to purchase an immediate annuity are often no longer accessible for use in emergencies or other needs.

Deferred and immediate annuities can be either variable or fixed. A variable annuity allows you to invest in a variety of underlying funds, and the investment performance of these funds will determine the value of the annuity. A fixed annuity offers a set rate of return for a defined period of time. Your financial professional can provide asset allocation tools and support to help you identify and manage your personal risk tolerance.

4. **What fees are associated with variable annuities?**

All financial products have fees, including all "no-load" investments. Common variable annuity fees include an investment management fee, insurance charge, and surrender charges, and fees for guaranteed benefits. As fee structures vary, it is essential that you understand what you will be charged and when, as well as any events that might trigger additional fees.

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5. When and how may I access my money?

Consider when you plan to use the money invested in the annuity. Annuities are designed to be long-term retirement investments. Cancellation of a deferred annuity in the early years may result in a surrender charge of up to 5%-8% of the annuity value, although these charges typically decline to zero after seven years. If there is a good chance that you will need to withdraw most of your money shortly after the annuity is purchased, a deferred annuity may not be the best investment for you.

6. How do I determine how much to invest in an annuity?

It is generally not advisable to invest 100% of your retirement assets in an annuity or any other single investment vehicle. Consult with a qualified financial advisor to see if an annuity is right for you and, if so, how much of your retirement assets to invest.

7. What should I know about the company issuing the annuity?

Be sure to verify the financial strength and claims-paying ability of the insurance company issuing the annuity. Several rating services provide this information, including A.M. Best Company, Moody's Investors Service, Fitch Ratings, and Standard and Poor's ™. The ratings do not apply to the investment funds of variable annuities, which will fluctuate with changes in market conditions. Additionally, all insurance companies that sell annuities in your state must be members of the state's guaranty association. State guaranty associations protect policyholders from severe losses and delays in claim payment due to insolvency of an insurer, typically up to $100,000 per insurance company.

8. What are the qualifications of my financial advisor?

Make sure your advisor has the appropriate license(s) to sell annuities. Selling an annuity requires a license by your state insurance department. A variable annuity can be sold only by a registered representative of a broker-dealer who is a member of the Financial Regulatory Authority (FINRA). Also, determine the specific training that is required for the advisor to obtain his or her professional designations.

Source: IRI

Conclusion

The Baby Boom of 1946-1964 is becoming a Retirement Boom, as an average of 7,000 Americans per day turn age 65 during 2011. This first wave of Boomers are numerous, have amassed significant assets compared to the post-Boomer set, and—perhaps most importantly—are in need of advice concerning their retirement finances.

Boomers in this first wave have several concerns about their impending retirements. Only half believe they will have enough money on which to live during these years, and only slightly more have tried to calculate the amount of money they will need to save. And, although they are uncertain about their own retirement security, older Boomers place a good deal of importance on leaving a legacy to loved ones.

For advisors, serving the early Boomers will involve more than the traditional model of providing investment advice. Boomers in their 60s are contending with lifestyle situations, such as caring for both children and aging parents, and planning for retirement while still accumulating assets. Health situations are beginning to become more widespread, requiring some to think about powers of attorney or other legal means to ensure their long term financial security. Thus, the financial planning community is rapidly evolving to meet the needs of these clients.

Encouraging Boomers to seek professional financial advice is only the first step. Advisors need to understand the mindset of the older Boomer, and also be prepared to make some adaptations to the way they typically conduct business. Written summaries of meetings and action plans, secondary addressees, and the input of family members, for example, will all become standard parts of the planning process going forward. With 79 million Boomers on the way, this is a process that will continue to evolve over time.