

Is it R.I.P. for Retirement Income Planning?

By Mitchell Maynard

I recall when I took the retirement planning course from the College of Financial Planning years ago that 'retirement planning' was considered a singular concept, but it seems recently that further clarification from the financial industry is being requested. Or is it instead something created by companies trying to market their sales schemes? This happens all the time.



For example, the Christmas holiday once was solely a simple celebration of the birth of Christ, but now has become a massive gift-giving venue championed by that invention of retailers, Santa Claus. What promoted the change? Answer: Corporations with profit motivations. Corporations needed to sell products to make a larger profit and what better way to do this than to mold an entrenched holiday into a gift-giving necessity?

Similarly, in recent years there have been more companies offering magic solutions for financial advisors to sell their unknowing clients. Many of these solutions are nothing other than prettily gift-wrapped promises that as 'financial plans' are doomed to failure. The greatest disservice any advisor can do to their client is offer promises based on optimistic assumptions. It creates false expectations. Why would any advisor do this? Answer: To make sales.

It has become very apparent to me as I work with many organizations and individual advisors that there are truly two camps in the financial industry: 'Salesman' and 'Planners'. What is the difference? Answer: Motivation. A Salesman is primarily motivated by sales of products that earn them a profit, while Planners are primarily motivated by providing solutions to their client's needs.

Many "retirement income planning" schemes enable Salesman to pose as Planners, degrading the reputation of the true planners and the retirement planning industry as a whole.

A true example of such a sales scheme is the use of what is widely known as 'Bucket Planning'. There are many variations offered through assorted software presentations, but I assert that you and your client will only regret using them. This so-called retirement income planning technique is very prominent with annuity salesman. I venture to say that has become so popular because, as I have heard it from many a salesman's mouth, "Clients really like what they see". I ask you, if you were a 70 year-old and you were shown a magic formula that promises "income you can never outlive" with no risk to your principal, wouldn't you like what you see? However, their assertion of "income you cannot outlive" is usually a lie – a fabrication.

Unfortunately, a Salesman chooses to ignore the flaws of such a scheme, enamored by the sales potential of presenting fabricated expectations. The annuity industry for the most part adds fuel to the fire, by offering

compensation only upon the initial sale of the product. When a salesman earns a commission only at the outset, he/she is often not motivated to follow up and monitor the plan sold to the client. The result is an inclination of the salesman to pose as a planner to sell a plan that he/she has no experience or intention of monitoring. This is truly a disservice to the retirement planning industry and it won't be long before regulators crack down on the use of this pseudo-planning in sheep's clothing.

What does a true Planner offer?

A Planner is primarily motivated to develop long term relationships with their clients and provides that most important service of all: plan monitoring. Planners look to educate themselves on an ongoing basis so that they can continue to provide solutions that are on the cutting edge and the best being offered. They look for tools that implement these financial theories and invest in them because their clients' well-being comes first.

A Planner doesn't offer promises that he/she can't keep. Instead, a Planner evaluates multiple scenarios and results over many differing market conditions so that the client is provided with a realistic view of the planning technique being implemented. A Planner has a motivation to develop realistic client expectations because he/she wants to maintain a healthy relationship with their client and he/she is not afraid to discuss worst-case scenarios, understanding that no one can truly predict or promise the outcome of a future event and at best, one can only provide probabilities.

What should Retirement Income Planning be?

With so many baby boomers facing retirement in the short range future, there is a great need for a retirement income planning specialty. There is going to be a large demographic focused only on needing income during their retirement (which could be years longer than previous generations). There is already a growing need for planners who solely focus on providing income for clients that is derived from their invested dollars. With the popularity of the 401k in the last 10 – 20 years boomers are a generation that will be providing most of their own income.

I do believe that Retirement Income Planning should be a specialty offered by Planners, not Salesman. However, since clients will not have a second chance at retirement, Planners need to be vigilant at providing the best in planning techniques, avoiding the schemes offered by salesman looking to earn a commission.

Retirement Income Planning needs to be offered by planners educated in statistical analytics and projection-oriented analysis, since the future is unclear and clients need to know all of the facts, not just the ones that convince them to BUY. Most of all, Retirement Income Planning must be considered as a process. In a business course I took in college, I learned that a Plan is developed and then a Plan is managed. Since a Planner will be managing a plan much longer than initially drafting it, the true focus of Retirement Income Planning should be on managing those plans.

I will be exploring proper Retirement Income Planning in depth in a white paper due out at the end of October.

- [Read Mitchell Maynard's white paper on Bucket Planning >](#)
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