Adapting a practice for retirement income planning

Retirement income planning | White paper

EXECUTIVE SUMMARY

How to remain competitive and thrive amid the shift to retirement income planning

Financial advisors continue to feel the effects of a shift that will change the nature of their business, possibly forever. Millions of Americans are about to retire, and millions more have begun to realize that planning for retirement is a priority and a challenge that may require the services of an advisor.

The shift toward retirement income planning presents tremendous challenges and opportunities for advisors. Providing retirement income planning services is time consuming, and retired clients tend to generate less revenue from commissions as they are drawing down assets and shifting to more conservative portfolios. On the other hand, the opportunities are tangible. Clients are clearly looking for retirement income planning services, and they may be willing to change advisors to get them. Now is the time for advisors to offer retirement-related planning products and services – before someone else does.

This paper presents strategies for adapting a business to remain competitive in this changing environment, including: how to become proficient in retirement issues; how to differentiate a practice by focusing on health care; how to build retirement income plans; how to adapt business and revenue models; and how to acquire new retirement income planning clients.

Fidelity believes that advisors who successfully manage the shift toward retirement income planning will continue to thrive in their industry.

Contents

Principal data sources

This paper is the product of Fidelity's extensive analysis of industry trends and practice management processes, and is supported by insights from in-depth advisor interviews and industry research including the Fidelity Advisor 2010 Survey of Investors at Retirement and the Fidelity Advisor 2010 Survey of Advisors on Retirement Income.

Fidelity INVESTMENTS

SECTION 1

The changing landscape

Fidelity believes that four of the most powerful socioeconomic trends for retirees in America today – active retirement expectations, longer life spans, ongoing financial responsibilities, and the changing makeup of the family unit – are having a major impact on the U.S. economy, on investors, and perhaps most profoundly, on investment professionals.

Investment professionals, notably financial advisors, are beginning to experience a sea change in their industry. Advisors who have been focused for years on helping people accumulate assets are now being asked to help retirees distribute those savings to create lifetime income. This shift represents a major opportunity to help current and future retirees properly plan for their retirement income needs.

Yet capitalizing on this opportunity is challenging. Retirement income planning is more complex and time intensive than asset accumulation, and may generate less commission revenue than traditional investment product sales. To overcome these challenges, advisors may need to adapt their practices to this new environment and address some tough questions:

- How will they meet the additional time demands of retirement income planning?
- Should they expand their product offering to meet clients' increasingly complex needs?
- How will they adapt revenue models to capture the emerging opportunity?

The drivers of change

Expectations are higher

Current retirees are experiencing an active lifestyle, and those not currently retired are anticipating an active retirement.

Retirement is longer

Average life expectancy continues to rise. Many of today's 65-year-olds will live into their late 80s and early 90s, spending 20 to 30 years in retirement.

Responsibilities are increasing

Many retirees have delayed parenthood until later in life, so that into their pre-retirement and retirement years they may still be supporting their offspring. Additionally, many are carrying mortgages into their retirement years.

Family finances are more complex

Divorce and re-marriage are on the rise, adding layers of complexity to the family financial structure.

Facing the opportunity – and challenges – head on

The time to answer these questions is now. Financial advisors need to offer income planning services before an aging client base migrates to professionals who offer better targeted retirement products and services.

Warning signs are already evident: Pre-retirees and retirees have on average used two primary advisors since the age of 50, with 14% of retirees having switched advisors because they found a better advisor for retirement income planning.

The opportunity for advisors remains strong, however, because many investors are aware that they need a financial plan in retirement, and they are looking for help in building it.

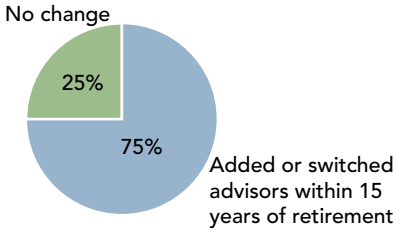
In fact, eight out of ten clients surveyed indicated that a retirement income plan was "very" or "extremely" important.

What's more, investors who are satisfied with the handling of their retirement income planning are likely to concentrate more of their assets with their advisor.

It follows then, that if advisors can adapt their business to better retain pre-retiree clients, they may be able to develop an important source of future retirement income planning business.

EXHIBIT 1

Pre-retirees may change advisors to get the services they need



Source: McKinsey & Co. "Managing Retirement Income: Innovative Strategies to Capture and Retain Retirement Income," 2006.

The recognition of the importance of an income plan combined with the growing number of Americans moving into retirement translates into a tremendous amount of money – and clients – in motion.

- There could be $1.7 trillion in rollovers between 2009 and 2014.[1]
- 92% of advisors surveyed by Fidelity expect their business to grow over the next five years as a result of offering retirement income planning, and nearly a third expect their business to at least double.[2]

In any industry, change creates winners and losers

History is filled with examples of businesses and industries that either failed to adapt to new realities or successfully changed in order to capitalize on emerging opportunities. The shift from film to digital photography crippled slow-moving companies while rewarding those that embraced the new technology. Typewriter manufacturers either reinvented themselves after the introduction of the personal computer or closed their doors forever.

Fidelity believes that professionals who provide retirement income planning services will be in a strong position to attract new clients and capture a larger share of existing clients' assets.

We also believe that advisors may be vulnerable if they fail to adapt to the industry's changing demographics as competition for retirement income planning clients intensifies.

SECTION 2

Understanding the challenges facing advisors

Traditional asset accumulation-based business models may not be well suited to a business with greater focus on retirement income planning. How can advisors hone their business models, expand their skill set, and remain profitable? They can start by fully understanding and confronting the three primary challenges facing them: **increased complexity, greater time intensity, and changing practice economics**.

Increased complexity

Retirement income planning is more comprehensive than the accumulation process. It not only requires analyzing clients' expectations and complete financial details, it demands an understanding of the key risks facing retirees.

This may be why a third of pre-retirees are less than satisfied with how their advisor is handling their retirement income planning.

Advisors often encounter sensitive or emotional issues with their retiree clients, making it more important that they learn effective ways to deal with them.

Clients may have issues that concern:

- Providing financial support to family members
- Having spouses with different goals
- Engaging in unplanned costly hobbies and activities
- Spending too much time consuming the latest financial news

Advisors we spoke with often talked about becoming more like therapists or counselors to their clients and the best are developing skills to handle the emotional challenges their clients present.

EXHIBIT 2

COMPARISON OF TIME ALLOCATION FOR ACCUMULATION-FOCUSED VS. INCOME PLANNING-FOCUSED PRACTICE

Hypothetical

	Focus		
	Accumulation	Income planning	
Activity	Hours/client	Hours/client	Change
Client planning/meetings	2.81	4.21	+50%
Client servicing	1.25	1.50	+20%
Training	0.73	0.87	+20%
Nondiscretionary tasks*	2.61	2.61	0%
Research	0.94	0.94	0%
Hours spent per client**	**8.32**	**10.12**	**+22%**
Number of clients	**200**	**164**	**-18%**

* Operations, trading, administration, and other.
** Sums may not be exact due to rounding.
Cerulli Associates & Fidelity Investments analysis. See methodology and information on page 19.

Greater time intensity

Retirement income planning requires deeper, more time intensive levels of exploration than is typically required when creating savings plans. As advisors increasingly service retirees, they will likely spend more time preparing for and serving each client than before, which could force them to reduce the total number of clients they serve or to spend less time on discretionary tasks.

Exhibit 2 shows that, assuming various activities will take longer in an income planning-focused practice, advisors may need to increase the time spent per client by about 20%. As a consequence of this, they may have to reduce the number of clients they service by about 20%. In this hypothetical example, an advisor who handles around 200 accumulation-focused clients would be able to serve about 160 income planning clients.

Since training and client acquisition will continue to be vital to advisors' success, finding additional time may require several new strategies, including:

- Increasing share-of-wallet per client
- Utilizing technology and packaged products to become more efficient
- Evolving compensation models and internal and external business structures

These strategies will be explored in detail in Section 3.

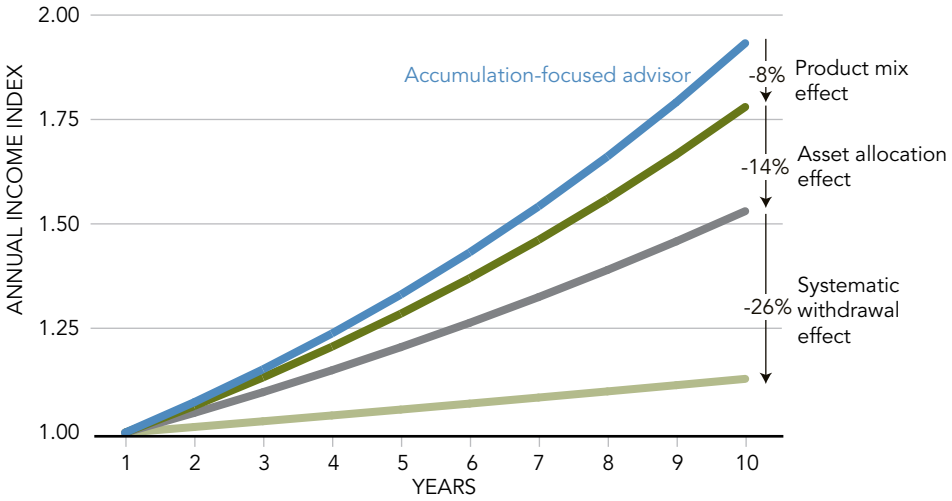
Changing practice economics

Building a profitable model for a business in which assets are shifting from accumulation to distribution requires an understanding of how retirement income planning may impact advisors' revenue. Advisors' compensation may be negatively affected by the following effects on retiree portfolios:

Product mix effect: Retirees may shift a greater proportion of assets to fixed-income or money market funds, which typically generate lower commissions and trails. Also, they may move some assets to annuities or long-term care insurance, possibly resulting in a shift from asset-based to transactional compensation.

EXHIBIT 3

IMPACT OF RETIREMENT INCOME PORTFOLIOS ON ADVISOR COMPENSATION



Source: Fidelity Investments analysis. See page 19 for data, assumptions, and methodology

Asset allocation effect: Retirees' portfolios tend to be more conservative than younger clients', which could reduce their growth potential and may limit the growth of advisors' assets under management.

Systematic withdrawal effect: Retirees will likely begin drawing down assets to fund retirement. The resulting reduction of assets under management could have a significant impact on compensation, especially when compared to portfolios with ongoing contributions.

Exhibit 3 illustrates the incremental impact on compensation from these effects, compared with that of an accumulation-only advisor. For advisors focused exclusively on retirement income clients, Fidelity estimates that over a 10-year period the product mix effect could reduce their revenue by 8%; the asset allocation effect could reduce income by another 14%; and a 4% systematic withdrawal effect might erode income by 26% or more. Higher withdrawal rates may erode advisor compensation even further. Section 3 will explore strategies to help mitigate these effects.

Income planning can have a positive effect

On the other hand, advisors who are offering retirement income planning services are already realizing tangible benefits. They have found that creating income plans drives client satisfaction, asset consolidation, and referrals.

SECTION 3

How to thrive in a changing market

Advisors can evolve and position their practice to improve client satisfaction, consolidate assets, and drive referrals with retirement income planning.

Fidelity believes successful advisors should consider the following ideas, and use them in conjunction to fully develop their practice.

- **Become proficient in all things retirement and create a retirement specialist brand**
- **Use health care knowledge as a differentiator**
- **Combine income planning with effective client management strategies**
- **Evolve to a more efficient, profitable business model**
- **Refine client acquisition strategies for retirement income planning**

Become proficient in all things retirement and create a retirement specialist brand

Many Americans need and expect more help from advisors with retirement planning.

Investors who said their advisors are providing them with a great deal of help in transitioning to retirement are far more satisfied with their advisors than those who don't.

For advisors to stay competitive and deliver successful retirement income planning services, Fidelity believes they will need to develop a deep understanding of retirement issues.

Develop retirement planning knowledge

Advisors can build income planning knowledge by doing the following:

- Learn the five key risks to financial security in retirement, as outlined in Exhibit 4
- Understand withdrawal strategies, tax implications, and regulations regarding asset distribution
- Stay abreast of changes in relevant government programs including Social Security and Medicare
- Be able to answer questions about income strategies, working in retirement, and managing health care costs

Offer a broader range of products to meet evolving investor needs

While clients are saving for retirement, it may be sufficient to help them build a portfolio with appropriate asset allocation by investing in mutual funds and individual securities.

EXHIBIT 4

The five key risks

Longevity	Many people underestimate their life span and risk outliving their assets.
Health care expenses	Rising health care costs coupled with inadequate health care coverage can have a devastating impact on a retirement income plan.
Inflation	Inflation increases the future costs of goods and services and may erode the value of assets set aside to meet those costs.
Asset allocation	Retirees with a portfolio overly concentrated in conservative investments expose themselves to a greater risk of outliving their assets.
Withdrawal rate	Aggressive withdrawal rates increase the likelihood that retirees will deplete their assets prematurely.

With retirement income planning, however, advisors may need to shift their focus from asset allocation to "product allocation."

Examples of appropriate products may fall into these areas:

Growth: Stocks, mutual funds (including asset allocation funds), and managed accounts

Income producing: Income oriented mutual funds, managed accounts, bonds, CDs and other bank deposits, and reverse mortgages[3]

Guaranteed income streams:^ Annuities to complement Social Security and pensions

Health care-related insurance products: Long-term care insurance and critical care insurance

The financial services and insurance industries have introduced many of these products, and new innovations will undoubtedly appear in the years ahead. Annuities in particular may warrant a closer look, due to developments in the areas of living benefits and longevity insurance.

Regardless of which products they choose to offer, advisors will need to stay current with retirement-oriented products, consider obtaining new licenses, and understand not only how these products might be included in retirement portfolios, but how a changing product mix can impact compensation.

Create a retirement specialist brand

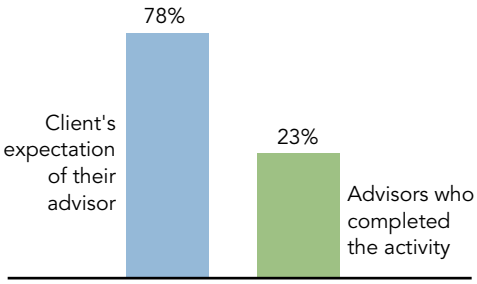
There are many ways to establish and communicate a retirement specialty. Keep in mind that advisors should work with their home office to ensure that any branding is consistent with their firm's guidelines.

- Reference retirement specialization in correspondence, business cards, letterhead, and other forms of communication.
- Consider obtaining retirement related certifications, and reference them as appropriate in communications.
- Craft an "elevator pitch" – a brief summary of retirement capabilities and a few probing questions about retirement preparedness to ask prospects and clients.
- Invite clients and prospects to retirement planning seminars and other group outreach activities.

EXHIBIT 5

The gap between what advisors offered and what clients want

One example shown in Fidelity's research concerns a key retirement planning activity: "Creating a plan to convert assets to cash flow."



Source: Fidelity Advisor 2010 Survey of Investors at Retirement

Take the next steps

- Identify key retirement risks, including longevity and health care costs, among others.
- Research retiree-specific topics such as Social Security and long-term care insurance.
- Be sure to offer products that income planning clients want and need.
- Investigate implications of offering new products, including licensing, training, and compensation.
- Create and communicate a retirement specialist brand.

^ Subject to the claims-paying ability of the issuing insurance company.

Use health care knowledge as a differentiator

Research shows that health care costs are the primary cause of anxiety for retirees and preretirees.[4] Providing information and education around the financial aspects of health care in retirement can serve as a powerful differentiator for advisors looking to stand out from the competition.

Understand important health care facts

Resources on health care are fragmented and hard to find, and governmental programs like Medicare are complex and change frequently. As a result, advisors have an opportunity to proactively fill the need for health care information.

Nearly 60% of investors surveyed expect their advisors to help them plan for health care costs, while more than 50% expect them to help plan for long-term care.

Consider these important facts:

- Nearly 60% of investors surveyed expect their advisors to help them plan for health care costs, while more than 50% expect them to help plan for long-term care.[5]
- Forty percent of retirees reported that their spending on medical expenses was higher than expected.
- A Fidelity study found that health care costs averaged about one-fifth of an average couple's total monthly expenses. Average health care costs ranked second to the largest expense, food and slightly higher than housing-related costs.[9]
- According to the U.S. Census Bureau, the average retirement age in America is 62, making strategies or covering health care without eroding assets prior to full Medicare eligibility more important.

EXHIBIT 6

Health care conversations at every age

Client age	Conversation starters
Under 50	• How long do you expect to live in retirement? What are you doing to ensure that you can afford health care? • Fidelity estimates that a 65-year-old couple retiring in 2010 will need approximately $250,000 to $430,000 to cover medical costs in retirement.[6] What are you doing to prepare for these costs?
50–59	• If you plan to retire before age 65, how will you pay for health care prior to becoming Medicare eligible? • There is a 50% chance that at least one member of a 65-year old couple will live to 92.[7] Have you considered purchasing long-term care insurance for yourself and your spouse?
60 and older	• What are your options should you or your spouse need critical care? Currently, one in five households utilizes a caregiver for an adult.[8] • What steps have you taken to ensure that your spouse's standard of living will not be adversely impacted should you become critically ill or need long-term care?

Get familiar with health care-related products and programs

Advisors may want to expand their knowledge of programs like Medicare and COBRA and consider becoming licensed to sell health care-related products, which may include the following:

- Medigap insurance
- Prescription drug plans
- Long-term care
- Longevity insurance
- Health insurance

Advisors might also choose to foster relationships with health care experts and health insurance providers, or try a combination of both. This way, advisors may be able to refer clients with specialized needs to appropriate providers.

Discuss health care issues with clients at every age

Advisors who communicate their knowledge of health care issues may stand out in clients' minds. Making health care a part of every retirement planning conversation, and offering strategies for preparing for health care costs, is an important and effective differentiator. Exhibit 6 offers some specific health care conversation starters.

Take the next steps

- Expand knowledge of health care-related products and programs.
- Investigate alliances with health insurance providers.
- Discuss health care issues with clients of all ages.

Combine income planning with effective client management strategies

To fully develop their retirement business, advisors will need to know how to develop and execute thorough, rigorous retirement income plans. Yet the process must be scalable in order for the service to be profitable. Once built, advisors need to encourage clients to put their plans into action.

As illustrated in Exhibit 7, Fidelity believes there is a definite retirement income planning process:

Step 1: Inventory expenses and income by estimating essential and discretionary expenses, as well as all sources of income.

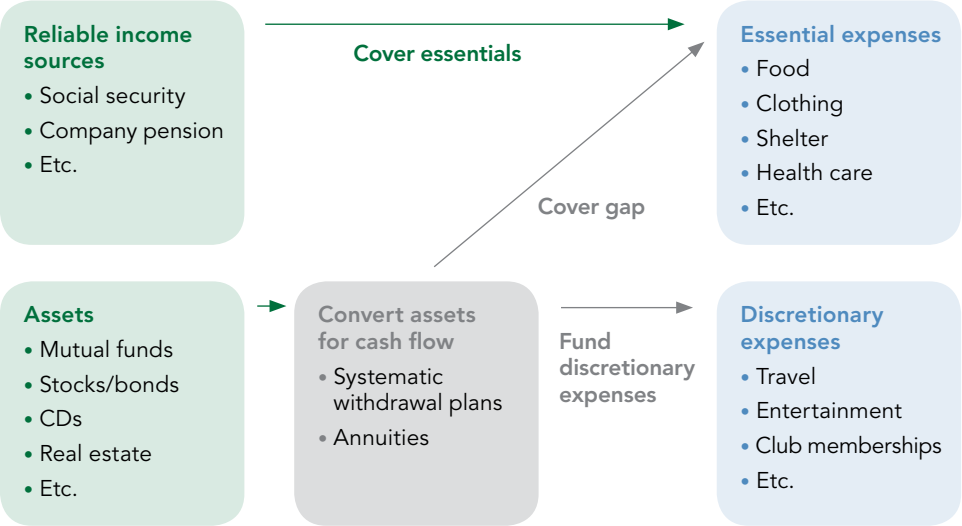
Step 2: Cover essential expenses, including health insurance, by ensuring that these costs are covered first by predictable sources of lifetime income such as Social Security, pensions, annuities, or sustainable long-term withdrawals from assets.

Step 3: Fund discretionary expenses by establishing appropriate investment strategies and withdrawal rates.

Step 4: Review the plan annually to make adjustments that reflect changes in clients' situations as they progress through retirement. This is an essential step for advisors, as it provides an ongoing opportunity to strengthen client relationships and meet any additional client needs.

EXHIBIT 7

Creating a retirement income plan



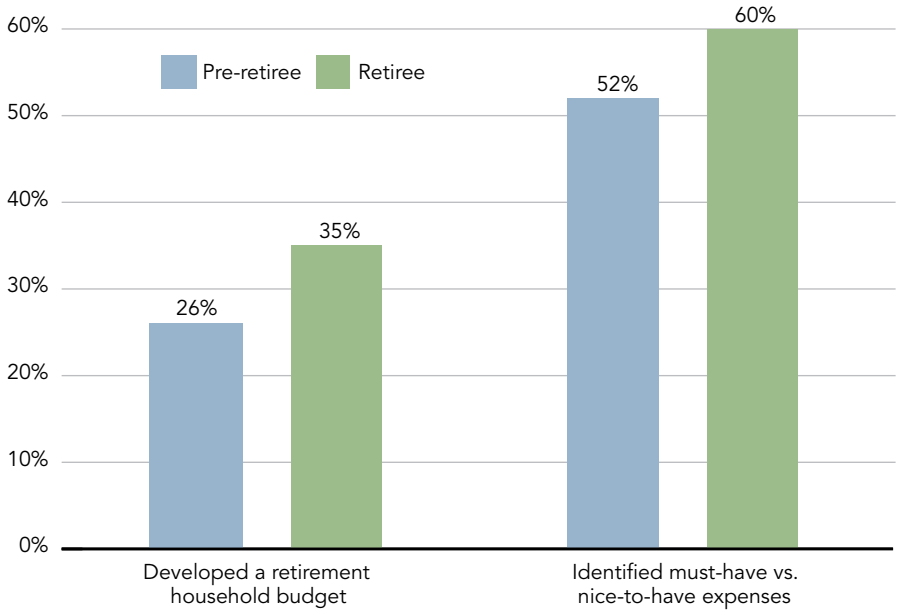
Use scenario-based modeling

Fidelity believes that scenario-based modeling – considering probability ranges based on past market events and hypothetical possibilities rather than historical averages – can be a better way to help clients assess how well their retirement income plan may meet their income needs.

Referring to historical averages may have some utility in the accumulation phase. It can encourage younger savers to look past short-term volatility and continue building their assets. In retirement, however, planning for income streams with a linear projection based on average returns can create a misleading sense of certainty about a portfolio's chances of success, given the unpredictability of financial markets.

EXHIBIT 8

% OF PRE-RETIREE AND RETIREES WHO EXPECTED, DISCUSSED AND COMPLETED A BUDGET AND IDENTIFIED RETIREMENT EXPENSES



Source: Fidelity Advisor 2010 Survey of Investors at Retirement

Monte Carlo simulations can be highly useful in income planning. Instead of a single answer based on historical average returns, a Monte Carlo simulation examines hundreds of possible outcomes to show probabilities of reaching a goal.

In short, retirement planning cannot be done "on the back of an envelope" or with a simple calculator; to be done well it requires sophisticated yet easy-to-use retirement income planning tools.

Encourage clients to put their income plan into action

Having a well-constructed retirement income plan is of no use if a client does not implement it. When retirement is imminent, errors can be difficult to correct. Procrastination, risk aversion, unrealistic return expectations, or misunderstanding the impact of withdrawal rates can have real consequences for retirees. It is critical for advisors to help clients facing

retirement understand the situations they face and make the right decisions regarding their income plans.

As Exhibit 8 illustrates, though retirement budgeting is a key component of a retirement income plan, few investors have completed a budget or identified must-have versus nice-to-have expenses with their advisor. As a result, there might not even be an understanding of how much money is needed.

Fidelity research shows that with a balanced portfolio, even a modest 5% annual withdrawal rate could exhaust assets in 24 years – potentially less than the life expectancy of many 65-year-old retirees. Higher withdrawal rates could put investors at even greater risk of running out of money in retirement.*

While a 5% withdrawal rate may be reasonable for some investors, advisors should review every client's portfolio allocation to ensure its growth potential can sustain the client's desired rate of withdrawal.

Help clients implement the plan
Some strategies advisors may find useful when helping clients make decisions include:

- Using guarantees associated with variable annuities[10] to encourage risk-averse clients to take on additional market exposure.
- Diverting dividends into a liquid account for clients who are reluctant to take profits or rebalance equity investments.
- Using Monte Carlo simulations to demonstrate the likelihood of success of various configurations of asset allocations and withdrawal rates.
- Explaining that long-term care insurance isn't about paying for a nursing home, but rather about staying out of one for as long as possible and maintaining a spouse's standard of living.
- Including significant others in decisions; something that seems unnecessary to one partner may seem vital to the other.

Take the next steps

- Know the elements of an effective income planning process.
- Use an income planning tool that incorporates scenario-based modeling.
- Communicate the importance of taking action on an income plan.
- Emphasize the relationship between asset allocation and withdrawal rates to help clients make informed decisions.

* Please see IMPORTANT methodology and information on page 19.

Evolve to a more efficient, profitable business model

To transition profitably to retirement income planning, advisors must build efficiencies into their practice and adjust their compensation models. This may require reassessing client value, considering new planning tools and products, and expanding professional networks. Fidelity suggests four strategies to manage profitability.

Identify high-value clients and increase share-of-wallet

Because advisors may have to reduce the number of clients they serve due to the time-intensive nature of retirement income planning, it is important to maximize the value of each client. Identifying high-value clients and increasing share-of-wallet are important factors in maintaining advisor compensation levels. Advisors who can effectively raise client value may find themselves increasing their compensation levels within a retirement income planning business model. Exhibit 9 offers potential strategies for achieving these objectives.

Leverage efficiencies

Advisors should consider utilizing tools and products that help streamline the income planning process. They may also want to expand their professional networks to alleviate workloads and increase efficiency.

Utilize a retirement income planning tool

As their business grows, advisors may need a tool that makes the retirement income planning process scalable. An easy-to-use tool that demonstrates the viability of retirement income plans can help advisors become more efficient and offer higher-quality services.

Offer packaged products that require less servicing

Packaged products can be a time-efficient approach to asset allocation. Lifecycle funds and funds-of-funds, for example, help advisors use a smaller set of investment products and still meet the needs of many types of clients.

Offering such flexible products may help increase profitability, save time, and satisfy a variety of clients' asset allocation needs. Implementing scaled-down but useful services for lower-value clients may go a long way toward establishing receptive, loyal clients who are in the process of building their own net worth. These clients may prove to be a source of revenue for many years to come.

EXHIBIT 9

Avenues for identifying high-value clients and increasing share-of-wealth

Assess total household worth	Building retirement income plans provides the advisor with a full picture of household assets, including spousal assets and assets invested with other firms, and can be a window to identifying high-value clients.
Consolidate assets	Investors who are very satisfied with their advisor on average consolidate over 75% of their assets with their primary advisor.
Identify the need for more products and services	Income planning may help identify clients who might benefit from additional products and services the advisor may be able to offer.

Optimize a practice by restructuring and networking

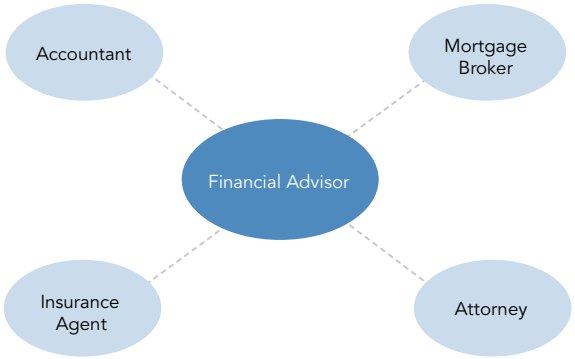
Advisors may want to consider reorganizing their practice along functional lines to reinforce their retirement focus. A successful practice may have a team-based approach that combines generalists with specialists who focus on specific areas such as client acquisitions, accumulation, rollovers, and retirement income services.

In addition, establishing external relationships with insurance agents, accountants, attorneys, mortgage brokers, real estate agents, and others can expand an advisor's value proposition, as it may allow him or her to offer a broader array of services. In firms that already encompass a variety of disciplines, advisors may want to strengthen relationships with in-house resources.

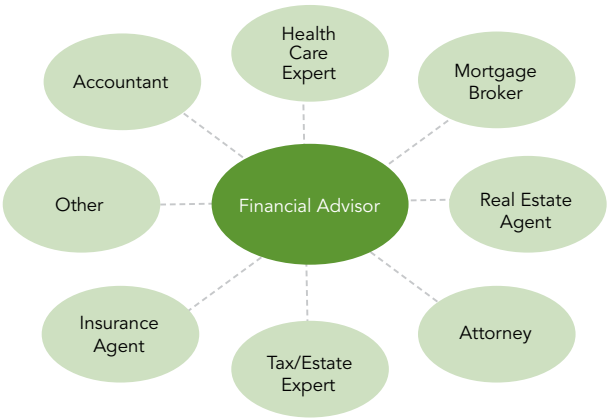
EXHIBIT 10

Expanding professional networks

Network for traditional practice



Network for a retirement-focused practice



Offer alternative products that help generate new sources of revenue

Retirement-oriented products that clients purchase at the expense of invested assets present opportunities to tap new income streams. Products that advisors often recommend but don't necessarily provide include:

- Variable deferred annuities
- Life insurance
- Income annuities
- Reverse mortgages
- Long-term care insurance
- Health insurance

Offering these products may help retain clients who might otherwise look to a professional who offers a broader suite of options.

EXHIBIT 11

Payment preferences for retirement income planning services

% of respondents*

Payment choices	
Fee-for-service	38%
Percentage fee based on assets managed	28%
Load, commission, or per transaction charge	17%
Flat or hourly fee	12%
Other	6%
Amount people are willing to pay for initial comprehensive retirement income plan	
$1,000 or less	50%
Over $1,000	21%
Do not know	28%

Source: Fidelity Advisor 2010 Survey of Investors at Retirement.

* Sums may not add to 100% due to rounding.

Adopt a compensation model appropriate for a planning-based practice

In the context of retirement planning, a fee-for-service model may be advantageous for advisors. Exhibit 11 outlines the results of Fidelity's research showing 38% of clients prefer fee-for-service over other compensation models for the development, execution, and monitoring of their retirement income plans. Further, 21% expect to pay $1,000 or more for this service.

And while 32% of respondents currently pay their advisor through commissions or transaction charges, only 17% would prefer that model for retirement income planning. A strong majority – 66% – prefer to pay their advisor either a fee-for service or a fee as a percentage of assets under management.

Therefore, a revenue model that relies exclusively on commissions and trails may not be well suited to a practice providing retirement income planning. As a result, revenue models are likely to evolve into one of two forms:

A fee-based model that is based on a percentage of assets under management using a pricing formula that takes into account a client's net worth, income, and complexity of planning needs.

A hybrid model that draws income from commissions and fees for service: As a practice's product mix changes, charging fees for services such as building retirement income plans could recapture revenue lost from declining sales of commission-based products.

There are risks inherent in either of these models. Fees can be an inconsistent revenue source. Because collecting fee revenue directly from clients is different from automatically collecting commissions and trails, advisors need to be prepared for the change if and when they choose to redesign their compensation model.

Of course, advisors should consult with their home office about licensing and compensation requirements.

Take the next steps

- Use information gathered during the retirement income planning process to increase share-of-wallet.
- Adopt a tool that helps make retirement income planning easy and scalable.
- Use packaged products and other flexible products appropriate for lower value clients.
- Consider selling additional retirement-oriented products that meet client needs.
- Explore new organizational models and expand external professional networks.
- Move away from commission based revenue models to fee-based models.

Refine client acquisition strategies for retirement income planning

Prospecting is an essential part of managing any successful practice. Until an advisor's book is generating enough new clients to make prospecting unnecessary, active client acquisition strategies are worth considering. In particular, applying acquisition strategies that are targeted to retirement income planning may put advisors at the front of their field.

Generate referrals consistently

With retirement income planning, referrals are a key element of success. In fact, 80% of advisors state that retirement income planning has resulted in referrals. On average, advisors believe that this business has increased their referrals by over 30%. Advisors should keep in mind that many of their industry counter-parts may not pursue this market because of a lack of knowledge. Garnering referrals after completing a retirement income plan is a simple, proactive way to tap into this growing opportunity.

Develop a retirement-focused niche

Advisors might consider focusing on a particular company, industry, or geographic area and becoming familiar with retirement issues relevant to that market. Creating a specialty around a specific company's benefits and employee needs can be a rich source of grassroots referrals and rollover dollars from employees who are changing jobs or retiring.

Talk with 401(k) plan sponsors

Advisors may find that offering retirement income planning services to 401(k) plan sponsors may help drive client acquisitions and build relationships in advance of income planning needs. The approach can begin with a simple question to the employer such as, "Is your current advisor talking to your employees about how they might convert their plan savings into a stream of lifetime income?" This approach may help position advisors to garner rollover assets – a potentially reliable source of income planning opportunities.

Partner with an advisor whose practice is at a different stage

As older advisors retire, their books of business can be a highly valuable source of clients for younger advisors. At the same time, advisors with a concentration of older clients may benefit from aligning their business with an advisor whose book consists largely of accumulation-focused clients. Advisors who reach out to other advisors may find it easier to build a practice that successfully combines accumulation and retirement income planning services.

Hold retirement-related referral events

Social events such as dinners or wine tastings combined with a casual retirement seminar are great avenues to gathering referrals and to build loyalty with existing clients. Another effective tactic for generating new business is to form a client advisory council: Meet periodically with a small group of top clients to elicit feedback, brainstorm new ideas, and solidify those relationships.

Reach out to clients at trigger points

Throughout a lifetime, there are threshold dates that allow (or require) investors to take action regarding their finances. These dates can be catalysts for action around retirement income planning, since clients may be unsure of what to do when each date arrives.

As well, there are time-specific events such as taking a lump-sum distribution from a retirement plan that can trigger discussions about retirement income planning.

Trigger points

Age 50	Eligible for catch-up contributions to some retirement plans
Age 55	Eligible to withdraw assets from tax-deferred defined contribution plans if separated from service
Age 59 1/2	May be eligible to withdraw assets penalty free from most retirement plans
Age 62	Eligible for Social Security
Age 65	Eligible for Medicare
Age 70 1/2	Must begin required minimum distributions[11]

Take the next steps

- After every interaction, ask clients if they know someone who would benefit from a retirement income plan.
- Develop a retirement-focused niche.
- Talk to 401(k) plan sponsors about income planning.
- Tap advisors whose practices are at different stages.
- Hold retirement-related referral events.
- Create an advisory council consisting of top clients.
- Reach out at trigger points and schedule meetings prior to these events.

Conclusion

Financial advisors are experiencing profound changes caused by shifting socioeconomic factors. Many investment professionals are quickly realizing that they can no longer ignore the fact that an aging population, rising health care costs, and increasing individual responsibility to fund retirement will necessitate changes in their practice.

Income planning services are more consultative and complex than asset accumulation services, and as a result, they may also be more time intensive. Income planning clients also are likely to generate less revenue for advisors from commissions than accumulation-focused clients.

However, the shift toward retirement income planning presents tremendous opportunities for investment professionals to increase client satisfaction, consolidate assets, and generate referrals. Fidelity research clearly shows that retirees and pre-retirees recognize the need for retirement income planning services – and are willing to pay for it.

The question is not if or when investment professionals should respond, but how. Advisors need to acquire the expertise necessary to provide retirement income planning services and then learn how to deliver those services profitably.

This paper has presented strategies for addressing these challenges. Fidelity believes that in order to thrive in this changing market, advisors must advance their capabilities and take the following steps:

- **Become proficient in all things retirement and create a retirement specialist brand**
- **Use health care knowledge as a differentiator**
- **Combine income planning with effective client management strategies**
- **Evolve to a more efficient, profitable business model**
- **Refine client acquisition strategies for retirement income planning**

For all the uncertainty created by the changing landscape, the business basics for operating a successful practice have not changed. Advisors who identify and adopt best practices, seek out industry expertise and support, and successfully build a retirement brand can thrive in the new environment.

Fidelity believes that successful advisors will embrace the changes in their industry and continue to prosper by helping their clients achieve financial security – the ultimate measure of an investment professional's success.

About Fidelity Advisor Retirement Income Services

Helping advisors protect, strengthen, and build their practice
Fidelity Advisor Retirement Income Services (FARIS) is a comprehensive program designed to help financial advisors meet the growing demand for retirement income planning and subsequently strengthen client relationships and grow their business.

Our goal is to help our professional clients become specialists in retirement income planning – and give them a true advantage in the marketplace.

The FARIS team conducts extensive proprietary research by interviewing hundreds of investors and advisors each year. Our team analyzes key industry and regulatory trends for their potential effects on our clients' business, and we offer strategies for tackling emerging issues like practice management and retirement risks.

The knowledge we gain from our research goes directly into educational and sales tools for advisors. Since being introduced in 2004, FARIS has shared the insight that Fidelity has gained from conducting in-depth continuing education seminars, working with advisors all over the country, and developing more than three-quarters of a million retirement income plans.

Fidelity's income planning approach has helped many advisors adapt their practice and successfully deliver retirement income planning services. Our proprietary methodology is documented and explained in white papers, seminars, brochures, and workbooks that we continue to update and enhance for advisors.

If you would like to learn how **Fidelity Advisor Retirement Income Services** can help you grow and strengthen your business, please visit **advisor.fidelity.com** or contact your **Fidelity representative** today.

METHODOLOGY AND INFORMATION FOR EXHIBIT 2

Advisor time assumptions	100% accumulation-focused clients			Assumptions per client to transition from Accumulation to Income§	100% income planning-focused clients		
	% of time*	Hours per year**	Hours per client		% of time	Hours per year	Hours per client
Client Planning/Meetings	27%	562	2.81	+50% per client	33%	693	4.21
Client Servicing	12%	250	1.25	+20% per client	12%	246	1.50
Training	7%	146	0.73	+20% per client	7%	144	0.87
Operations	5%	104	0.52		4%	86	0.52
Trading	9%	187	0.94		7%	154	0.94
Other	2%	42	0.21		2%	34	0.21
Administration	9%	187	0.94		7%	154	0.94
Research	9%	187	0.94		7%	154	0.94
Client Acquisition	20%	416	n/a	no change	20%	416	n/a
Hours per year		2,080				2,080	
Number of clients	**200^**				**164+**		

***** Weighted average per advisor based on "Channel Comparison: Advisor Time Spent on Tasks," Cerulli Associates, 2005. ****** Assumptions of 2,080 hours worked per year. **§** Based on Fidelity analysis. **^** Assumption of 200 clients per year. **†** 164 is the mathematical outcome based on the new assumptions in time spent per client.

METHODOLOGY AND APPROACH FOR EXHIBIT 3

Accumulation-focused advisor compensation (top blue line) – Compensation estimates for a typical accumulation-focused advisor assume the advisor has 200 clients; each client has $400K in investable assets; the advisor has a 50% share-of-wallet of each client; and net new client acquisition of 2% annually. • Assets are allocated across multiple products per Cerulli Associates' analysis, "Channel Comparison: Advisor Product Mix, 2005." Annual return assumptions for accumulation client portfolios were 8% across the portfolio (which includes a range of products such as mutual funds, variable annuities, and others) with the exception of 4% for fixed annuities and 3% for money market and other.

Income planning-focused advisor compensation (bottom three lines) – Compensation estimates for an income planning-focused advisor assume the advisor has 164 clients; each client has $400K in investable assets; advisor has an 86% share-of-wallet of each client; and net new client acquisition of 1% annually. • The assumptions for the incremental effects to the income planning-focused advisor change as follows:

Product mix effect – For the second line from the top, the product mix is modified to reflect products in a typical hypothetical retiree's portfolio.

Asset allocation effect – For the third line from the top, the annual return assumptions are modified to reflect a more conservative portfolio as follows: 5.3% across the portfolio with the exception of 4% for fixed annuities and 3% for money market and other.

Systematic withdrawal effect – For the bottom line, a 4% withdrawal rate is assumed. Note: Higher withdrawal rates may result in a greater drop in advisor compensation. • Commissions and trails vary by product and range from 30 to 550 basis points for commissions and 0 to 150 basis points for trails for both accumulation-focused and income planning-focused advisors.

Annual income index – Using these assumptions, all compensation is estimated over a ten-year period and then indexed to year-one compensation.

METHODOLOGY FOR WITHDRAWAL RATE EXAMPLE, P.11

***** Important: The projections or other information generated by Fidelity Investments Retirement Income Planner regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Over time, results may vary with each use.

Source: Fidelity Investments.

Hypothetical 5% withdrawal of assets held in an untaxed account invested in a balanced portfolio of 50% stocks, 40% bonds, and 10% short-term investments. Several hundred financial market return scenarios were run to determine how the asset mixes may have performed. In 90% of the scenarios, the portfolio produced an income stream for 20 or more years. The estimated returns for the stock and bond asset classes are based on a "risk premium" approach. The risk premium for stock and bond asset classes is defined as their historical returns relative to a 10-year Treasury bond. Risk premium estimates for stocks (domestic and foreign) and bonds are each added to the 10-year Treasury return. Short-term investment asset class returns are based on a historical risk premium added to an inflation rate, which is calculated by subtracting the TIPS (Treasury Inflation-Protected Securities) yield from the 10-year Treasury yield. This method results in what we believe to be an appropriate estimate of the market inflation rate for the next 10 years. Each year (or as necessary), these assumptions are updated to reflect any movement in the actual inflation rate. Volatility of the stocks (domestic and foreign), bonds, and short-term asset classes is based on the historical annual data from 1926 through the most recent year-end data available from Ibbotson Associates, Inc. Stocks, bonds, and short-term are represented by the S&P 500® Index, U.S. Intermediate Term Government Bond, and 30-day U.S. Treasury bill, respectively. • The S&P 500 Index is a registered service mark of the McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates. It is an unmanaged index of the common stock prices of 500 widely held U.S. stocks and includes reinvestment of dividends. It is not possible to invest directly in the index.

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NOTES

IMPORTANT: All data and information are from the following sources unless specified.

Fidelity Advisor 2010 Survey of Investors at Retirement, July, 2010. Conducted by NFO Research on behalf of Fidelity Investments, this survey included 504 investors between the ages of 55 and 70 with investable assets of $250,000 or more, and has a margin of error of +/-2.2% at 90%; +/-4.4% at 95% confidence level.

Fidelity Advisor 2010 Survey of Advisors on Retirement Income, August, 2010. Conducted by NFO Research on behalf of Fidelity Investments, this survey included 527 financial advisors with at least 10% of clients who have retired in the last 10 years, and has a margin of error of +/-2.2% at 90%; +/-4.3% at 95% confidence level.

1. Cerulli Quantitative Update: Retirement Markets, 2009.

2. 2008 Retirement Practice Readiness Advisor Survey.

3. Reverse mortgages are an option if a retiree wishes to tap equity and remain in his or her home, but the costs of these loans may still be quite high and there are significant risks that also must be weighed carefully.

4. National Association of Variable Annuities, "2005 Financial Retirement Fears," May 2005.

5. Employee Benefit Research Institute, The 2009 Retirement Confidence Survey, Issue Brief No. 328, April 2009.

6. Fidelity Consulting Services, 2010. Based on a hypothetical couple retiring in 2009 with both average (82 male, 85 female) and longer life expectancies (92 male, 94 female). Estimates are calculated for "average" retirees, but may be more or less depending on actual health status, area, and longevity. Assumes no employer-sponsored retiree health care coverage. Assumes retiree has traditional Medicare, elects Medicare Part D, and receives full government Part B subsidy. Assumes a health care cost inflation rate of 6.7% based on various service cost increases, ranging from 4% to 8%. Estimates are representative of amount needed in a taxable account. Assumes medical costs are incurred uniformly annually after age 65, and assumes an after-tax rate of return of 4% in retirement. Savings amounts do not include expenses related to over-the-counter drugs, dental care, nursing home care, or nursing home (long-term care) insurance.

7. American Society of Actuaries 2006.

8. Centers for Disease Control and Prevention and the Kimberly-Clark Corporation. "Assuring Healthy Caregivers, A Public Health Approach to Translating Research into Practice: The RE-AIM Framework." Kimberly-Clark Corporation, Neenah, WI, 2008.

9. Survey conducted via telephone to 376 respondents March 4-14, 2010 by Infogroup/ORC of Princeton, N.J.

10. Principal value and investment returns of a variable annuity will fluctuate and there may be a gain or loss when money is withdrawn. Guarantees are subject to the claims-paying ability of the issuing insurance company.

11. Roth IRAs do not require minimum distributions, and required minimum distributions from DC plans can be delayed until a later age depending on the employment status of the participant.

Before investing, have your client consider the funds' investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus, or, if available, a summary prospectus containing this information. Have your client read it carefully.

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