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RETIREMENT INCOME: Advisers temper boomers' eggs-pectations

By Lisa Shidler
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CHICAGO — An ideal day in retirement is no longer putting in a game of golf, leaning back in the lounge chair to watch “Wheel of Fortune” and calling it a night.

Baby boomers have great expectations of retirement, planning to be more active than were previous generations.

According to research based on interviews of affluent investors 55 to 65, an exclusive analysis shows that they want to travel to Europe, go on cruises, play sports, pursue hobbies, take college courses and learn new languages when they retire. But the price tag for this expensive retirement is usually higher than investors planned, leaving financial advisers to cope with figuring out how to stretch distribution dollars.

The Investment News analysis shows that even affluent investors are worried about running out of money while attempting to achieve an ideal retirement, particularly as health costs continue to rise.

Unrealistic expectations

Advisers say that their affluent clients aren't realistic about how much money they need to fund their ideal retirement.

Even clients who have saved \$1 million or more can't afford to do everything they want in retirement, said P.J. DiNuzzo, a registered investment adviser, and founder and president of DiNuzzo Investment Advisors Inc. in Beaver, Pa.

Not surprisingly, clients aren't happy to hear the news.

“It goes over like a lead balloon,” Mr. DiNuzzo said of having to caution clients to curtail spending.

“It gets touchy,” he said. “They may have come from a family of wealth.”

Most clients simply don't understand that if they have saved \$1 million, that they will still need to limit their spending, meaning that they won't be able to afford month-long trips to Europe or three cruises a year, Mr. DiNuzzo said.

The worst clients who wrongly assume that they have saved enough are affluent clients who have been earning \$300,000 a year and have been accustomed to spending that much each year, he added.

Middle-income clients are accustomed to spending less and often do better in retirement than affluent clients who are accustomed to spending more, Mr. DiNuzzo said.

“We’re the financial parent in this relationship, but it can never be in a condescending manner,” he said. “These are chief executives and vice presidents, but you do have to chip away at the misperceptions they’ve build up over the last several years about retirement.”

Wealthy clients don’t want to reduce their spending in retirement, and some of them envision spending even more.

That means the retirement savings of an affluent person could diminish even faster than someone who has less money, said Michael Matson, president of Danbury, Conn.-based Matson Financial Advisors Inc.

Over the years, he has learned that it is best to be brutally honest with clients — even if that means telling them that they are nowhere near ready to retire.

“As I’ve matured in my business and in relationships with clients, I’ve become more comfortable in really telling them what I believe, as opposed to telling them what they want to hear,” Mr. Matson said.

He has been an RIA for 22 years and said that near the founding of his practice, it was more difficult to be candid with clients. Now, Mr. Matson realizes that they appreciate his being straightforward.

“There’s a certain level of respect they have for you when you tell them the whole story, and not what they want to hear,” he added.

One of the most significant differences between baby boomers and the World War II generation is that many members of the latter realized that they would have less money in retirement and made a conscious decision to spend less. Baby boomers want to spend the same amount in retirement, and in some cases more, Mr. Matson said.

Another problem is that many clients haven’t truly envisioned their retirement, said Gary Witten, a Williamsville, N.Y.-based certified financial planner and registered representative with ING Financial Advisors LLC of Hartford, Conn.

“Some people will be in retirement as long as they’ve been in the workplace,” he said. “For a lot of people, it’s a new beginning.”

Mr. Witten approaches his clients using a philosophy of advising called financial life planning, and he often asks clients to describe their lives as if they had all money they had ever dreamed of.

He also asks them what they would do with their lives if they were told they had only a few months to live.

“Those questions are very profound, and when you reach down and answer those questions, you’re starting to put down your dream of freedom,” Mr. Witten said.

That is how he begins his relationships with clients, but eventually, the conversation moves to finances.

ING U.S. Financial Services in Atlanta introduced 35 of its advisers to this philosophy, but Bill Lowe, Hartford-based head of the firm’s corporate and individual-markets group, said that the concept doesn’t work for all advisers, because it is so time-consuming.

“I’d say some of the advisers really embraced it, and others have chosen to continue what they were doing,” he said. “Old habits kick in, and some of them didn’t take to it.”

Many advisers initially thought that they were using the concept of life planning in their financial strategies, but they soon learned that life planning is a different technique that takes longer than the typical financial-advice session, Mr. Lowe said.

Rather than just helping a client achieve a certain amount in savings, the discussion first focuses on what the client truly wants to do during retirement, he said.

Mr. Lowe added: If they want to travel, do they want to travel three weeks, six weeks or six months out of the year? Also, do they want to travel in Europe and stay at luxury hotels, travel across the United States in a Winnebago or rent a house on the beach?

While time is an issue for many advisers, what may be most important is simply sending a message about the importance of saving for retirement, said Paul Dewey, a managing director in Putnam Investments LLC’s retirement group. Boston-based Putnam is a unit of insurance broker Marsh & McLennan Cos. of New York.

Putnam this month said that Winnipeg, Manitoba-based Great-West Lifeco Inc., a unit of Power Financial Corp. of Montreal, agreed to acquire the money manger.

Putnam works closely with its clients to help 401(k) participants increase their contributions, Mr. Dewey said.

Half the battle is getting people to start thinking about retirement when it is still a long way away, he said.

Mr. Dewey thinks that even in the workplace, advisers can talk to employees during educational sessions about how they envision their ideal retirement.

“It’s not all about that message of saving more and more; it’s more about taking a step back and thinking about how you envision yourself in retirement,” he said.