

How prepared is the retirement industry for meeting the needs of retiring american workers?

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Abstract

There are 78 million reasons driving the need for a tremendous increase in the number of professionals prepared to competently help retiring American workers manage their retirement income. The literature, trends, potential societal impact, and complex decisions required of retiring workers are compelling. Retirement income management advice, guidance, and education for clients with assets in employer-sponsored plans are the explosive career growth opportunity of the next decade. Advisors traditionally have not considered the midmarket a primary target, providing students a unique opportunity to enter careers servicing employer-sponsored retirement plans to help meet this need. © 2008 Academy of Financial Services. All rights reserved.

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1. Introduction

The United States is on the crest of a perfect storm with the largest generation in history rapidly approaching retirement, with the longest expected longevity, the most assets for which individuals are personally responsible for making last their lifetime, a range of new retirement income

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Table 1 Total retirement plan assets (second quarter, 2007)

Type of plan	Assets (trillions)
Public pension	\$4.2
IRA	\$4.2
401(k)	\$2.8
Private DB	\$2.3
Annuities	\$1.6
403(b) and 457	\$0.8
Other DC	\$0.5

Data Source: Investment Company Institute, 2007.

products, and uncertain healthcare expenses. There is a need to significantly increase the retirement competence of the financial industry. Through enhancing university educational curricula and financial services training programs, future generations of financial services professionals will obtain a more in-depth understanding of retirement planning.

The need for retirement professionals is not limited to the retail client financial services sectors of banking, mutual fund and insurance companies, and broker/dealer intermediaries. Sixty-five percentage of all retirement assets today are held in employer-sponsored plans (Investment Company Institute, 2007). Companies employ individuals to help with various aspects of the plan such as: management, administration and compliance, and retirement counseling. They also hire financial service providers, third party administration firms, pension attorneys, investment management firms, financial education companies, and consultants for services not retained in-house.

2. Literature evidence for the growing need for professionals

2.1. The \$17.4 trillion in retirement assets

As of the second quarter of 2007, there were approximately \$17.4 trillion of total retirement assets in the United States (Investment Company Institute, 2007). To put this in perspective, total banking deposits as of the second quarter of 2007 were approximately \$8 trillion, including deposits at commercial banks, savings banks, and credit unions (Federal Reserve, 2008). The following table details asset levels according to plan type as of 2006 (Table 1).

It is also interesting to note trends in total retirement assets over time. The following figure depicts the assets held in each of the above accounts over the period 1995 through 2006 (Fig. 1).

Assets in individual retirement accounts (IRAs), 401(k)'s, annuities, and government defined benefit (DB) and defined contribution (DC) plans have experienced over 100% growth since 2000. The following table describes the growth rate of each type of plan (Table 2).

Within the period 2002 through 2006 annuities, IRAs, 401(k)s, 403(b), and 457 plans have experienced over 50% growth in assets. It is in these areas where the need for future

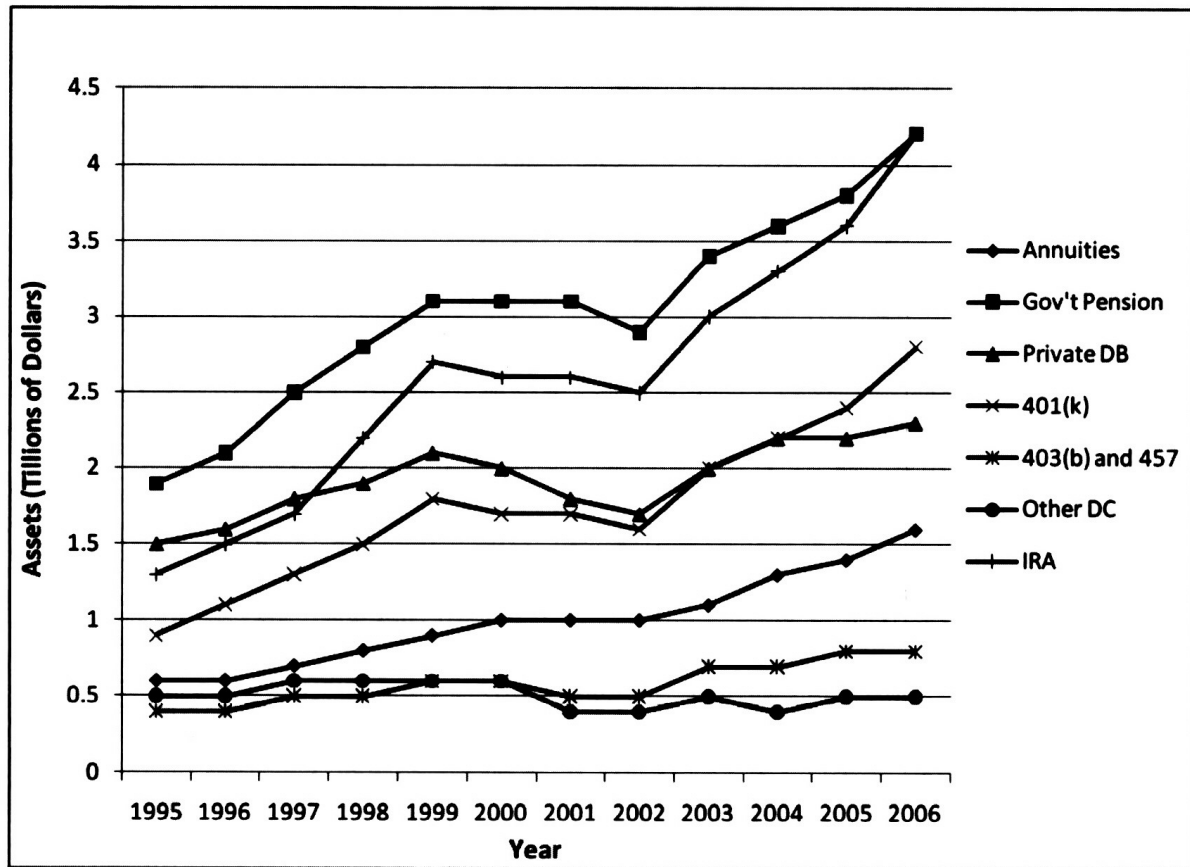


Fig. 1. Asset growth in retirement plans. (Data Source: Investment Company Institute, 2007.)

retirement professionals exists, in terms of plan management and participant advisory services.

2.2. Rollover IRAs

As of 2004, IRA assets totaled approximately \$3.3 trillion (Investment Company Institute, 2007).¹¹ To put this in perspective, in the same year, total IRA assets equaled that of all DC

Table 2 Total asset growth

Type of plan	2002 through 2006	1995 through 2006
Annuities	60%	167%
Gov't pension	45%	121%
Private DB	35%	53%
401(k)	75%	211%
403(b) and 457	60%	100%
Other DC	25%	0%
IRA	68%	223%

Data Source: Investment Company Institute, 2007.

Table 3 Total IRA assets as of 2004

Type of IRA	Assets (billions)	Percent of total
Rollover	\$1,490	45%
Traditional	\$1,490	45%
Employer-sponsored	\$ 200	6%
Roth	\$ 130	4%

Data Source: Investment Company Institute, 2007.

plans and was second in terms of total assets to public DB plans. As IRAs are self-directed investment accounts, the owners of the accounts are responsible for selecting investments, monitoring portfolio performance, and bearing investment risk. IRAs are a growing area of opportunity for financial and retirement advisors.

A plan participant eligible for a lump-sum distribution at retirement or who is changing jobs has at least one decision to make—leave the assets in the employer-sponsored plan, if possible, or roll the assets over into an IRA. Rollover IRAs, in 2004, accounted for approximately 45% of all IRA assets (Investment Company Institute, 2007) (see Table 3). Regardless of the rollover decision criteria, the individual may lose access to advice that was available through the plan and is now responsible for the investment management and retirement adequacy of the assets. Additionally, rollover IRAs may present the investor with more investment choices. In such situations, the investor will likely become overwhelmed (Pension Research Council, 2003), and often choose to simply not participate (Center for Retirement Research, 2004) in an IRA. This ultimately increases the need for sound advice.

2.3. Americans' retirement confidence decreasing

The most recent Retirement Confidence Survey (Employee Benefits Research Institute, 2008) conveyed startling evidence. First, the overall retirement confidence of Americans has not only decreased, but hit a seven-year low. The uncertain state of the economy and turbulence in financial markets during this period has impeded Americans' retirement confidence. Additionally, the percentage of workers who consider themselves to be "very confident" in their plans for retirement dropped by 9 percentage points to only 27%, the largest one-year drop ever.

As in the past, less than half of those surveyed have even tried to determine the savings needed for retirement, which suggests that many Americans are "sailing blind" in their quest for a comfortable retirement. Forty-three percentage of respondents said they guessed rather than calculated what they would need to save for retirement.

On a brighter note, more of the people who were surveyed stated that they would be willing to seek financial advice. Sixty-nine percentage of respondents reported they would likely seek advice from their plan provider upon retirement, 65% would likely seek advice from a financial services company retained by the plan sponsor, and 59% would seek advice from an independent advisor. Fewer respondents (41%) would seek advice from online services retained by employers. Workers over age 45 were more reluctant to seek advice online than their younger counterparts, leaving the desire for more personal interaction for advice.

2.4. Americans are not ready for retirement

According to the International Foundation for Retirement Education (InFRE) General Population Retirement Readiness Survey (2007), 56% of respondents report they are far behind schedule with respect to being on track for retirement savings. In fact, nearly 25% of respondents saved nothing for retirement in 2006. Only 34% claim to be on track. Few respondents in the survey have concrete plans for retirement, only 13% reported to have made plans for retirement. Interestingly, approximately one-third of respondents know how much they need to accumulate for retirement, and half of these respondents determined this amount within the past year. When all respondents were asked how much they needed to accumulate, half reported an amount less than \$500,000.

Respondents also underestimated their life expectancy. When asked to estimate their life expectancy as above or below average, 67% reported a life expectancy below average, and only 24% reported above average. These findings suggest that the task of managing expectations plays an important role in retirement planning.

2.5. Plan participation rates decreasing

Before the Pension Protection Act of 2006, which is discussed below, retirement plan participation rates had actually declined. Using the U.S. Census Bureau's March 2007 "Current Population Survey," the Employee Benefits Research Institute (2006) showed that of all full-time, full-year wage, and salary workers, only 53% of respondents participated in a retirement plan. In 2004, the participation was 55%. Sixty percentage of workers age 54 to 64 participated in a plan. However, this decline does not suggest that the need for retirement planning professionals has decreased but rather that the need for professionals to inform people of the benefits of investing in an employer-sponsored retirement plan has increased.

However, the automatic enrollment feature of the Pension Protection Act of 2006 has allowed plan sponsors to require eligible employees to opt out of rather than opt in to an employer-sponsored plan. A recent study by Diversified Investment Advisors (2007) has shown that, at least for larger plans, the automatic enrollment feature has increased plan participation. Assuming this trend holds true for all automatic enrollment plans, the retirement industry will see an increased number of plan participants.

2.6. The need to meet retirement expenses

In a proper retirement planning scenario, a client should strive to meet the financial and life goals they desire to accomplish during retirement. Obviously, very few goals are free, so there must be a determination of estimated expenses to meet these goals. Upon retirement, traditional wages may cease or significantly decline, though retirees will still have some standard of living that is desired. The question is how do retirees fund their retirement? Let's revert to the three-legged stool of retirement income, which now has a fourth leg. The traditional sources of retirement income were Social Security, private personal savings, and employer retirement benefits. The new fourth leg is wage income from working during retirement.

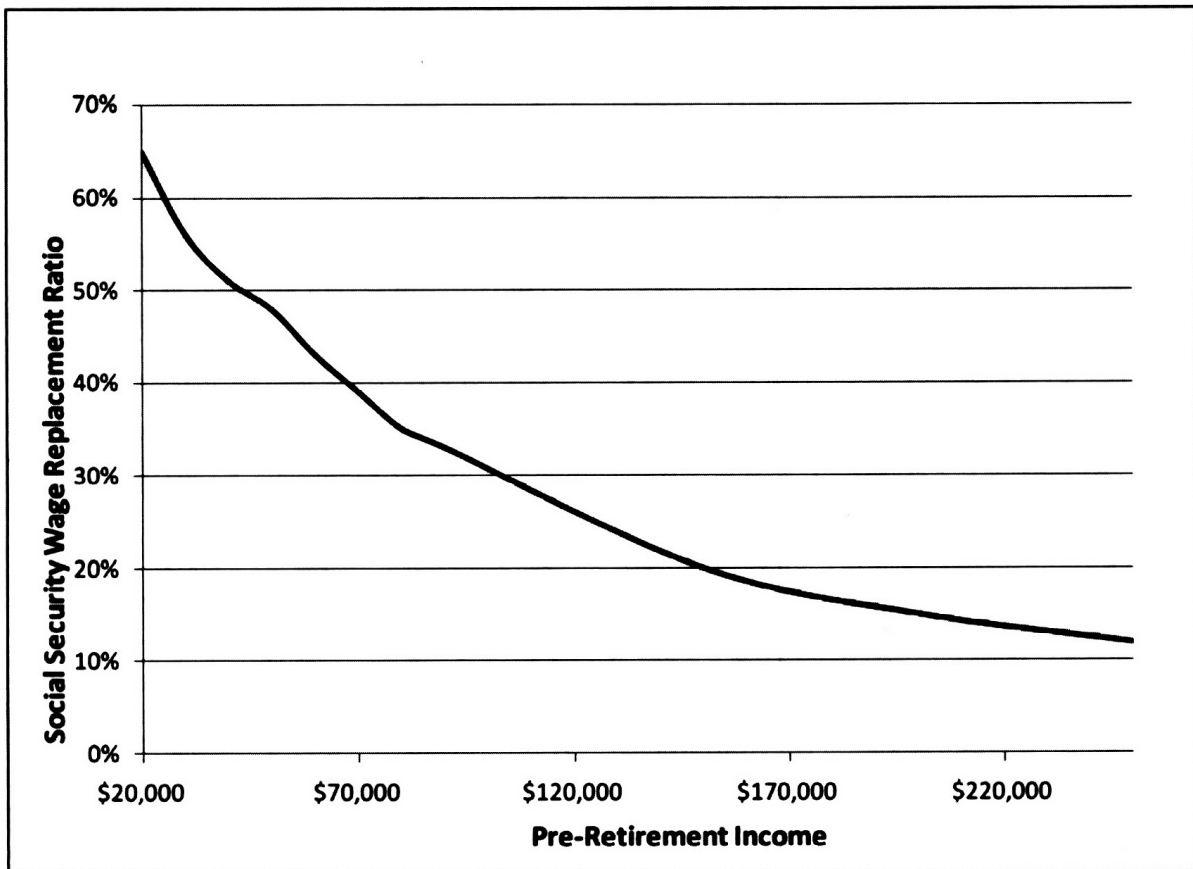


Fig. 2. Social security wage replacement ratio. (Data Source: AON Consulting, 2004.)

Assuming the Social Security system remains solvent and pays benefits, workers who have paid into the system and are eligible for retirement benefits can expect to receive an annual payment from the Social Security Administration. However, it should be noted that Social Security was not intended to be a retirement plan and that it does not fully replace preretirement income. To demonstrate this, see the following figure derived from a study by AON and Georgia State University (AON Consulting, 2004) detailing the approximate wage replacement of Social Security (Fig. 2).

No matter the income methodology subscribed to, whether it be meeting exact expenses or using wage replacement heuristics, Social Security income does not replace an adequate preretirement income, with the possible exception of lower income earners. The remainder of income needed to meet expenses will need to be derived from the other legs of the stool.

A common retirement heuristic is that a retiree needs to replace approximately 70–80% of their preretirement income. Interestingly, according to the Retirement Confidence Survey, only 45% of retired respondents claim that they spend less during retirement compared to preretirement. The other 55% spend the same or more than they did before retirement. Rapidly increasing healthcare costs are a major factor underpinning the concern of increased living expenses during retirement. A note on the fourth leg of the stool. It seems intuitive that if sufficient retirement assets do not (or will not) exist, one simply plans on postponing

retirement or working during retirement to supplement retirement income. The issue that counters the intuition is that many workers will actually retire earlier than planned. In fact, 51% of respondents to the Retirement Confidence Survey in 2008 retired earlier than planned. A closer look at this phenomena reveals that those taking an early retirement did not do so out of choice. Most notably, 54% of those taking an early retirement did so because of health problems or disability, and 33% did so because of company changes; but only 7% of respondents cited a positive reason for early retirement.

3. Components of the perfect storm: trends and events

3.1. There are 78 million reasons for more retirement planning help

It's no surprise that Boomers are driving the need to rapidly increase the number of competent retirement professionals. As seen in the two figures below, the number of older adults in the United States over 65 will double over the next 25 years and our country is not prepared to meet their societal and individual retirement planning needs. In addition, as an industry we lag in shifting our efforts from helping employees accumulate retirement assets to helping them make informed retirement distribution and risk management decisions (Fig. 3).

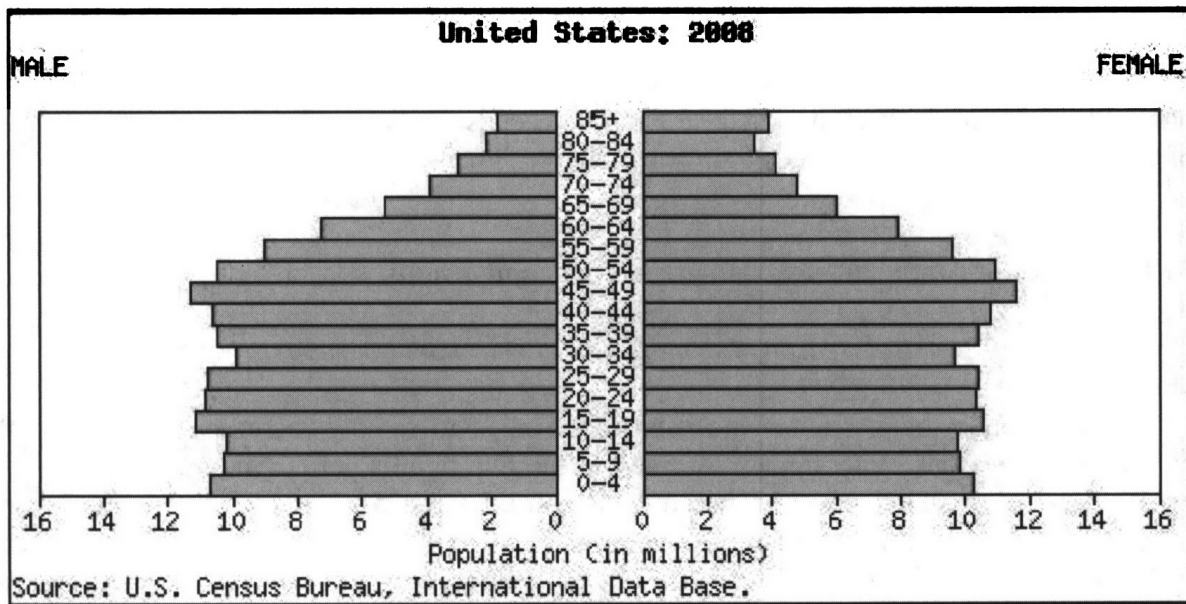
A longer retirement means higher total retirement healthcare costs, exposure to longer periods of market and inflation risks, and increased risk of running out of money. Longer retirements also create a new need to plan for phases of retirement (early, mid, and late), where more is spent on lifestyle expenses in the early years and healthcare in the later years of retirement—two areas of expense that are not constant in all three phases and are often underestimated before retirement. These additional retirement risks and planning challenges create an even greater need for retirement income management guidance to identify which risks are acceptable and how to manage the other risks.

3.2. The shift from primary reliance on DB plan lifetime payments to the personal responsibility of DC plans

To provide employees with a lifetime retirement benefit, DB plans pool funds provided by the employer and manage the investment and actuarial risks to provide each individual a lifetime income. People who die early subsidize those who live longer. Through a DC plan, individual participants assume these risks. They also assume higher costs in accumulating and managing their resources to produce the lifetime income they will need.

The number of DB plans decreased from 103,000 in 1975 to 50,000 in 1999 (McCourt, 2006) while the number of DC plans increased from 208,000 plans in 1975 to 683,000 plans by 1999. By 2005 (Department of Labor, 2008) almost 42 million people were eligible to participate in DB plans with half of those active, and just over 75 million people were eligible for DC plans, with 83% participation. With this shift, the Boomers have become the most personally responsible generation in history for recreating the bulk of their paycheck in retirement.

Population Pyramids for United States



Population Pyramids for United States

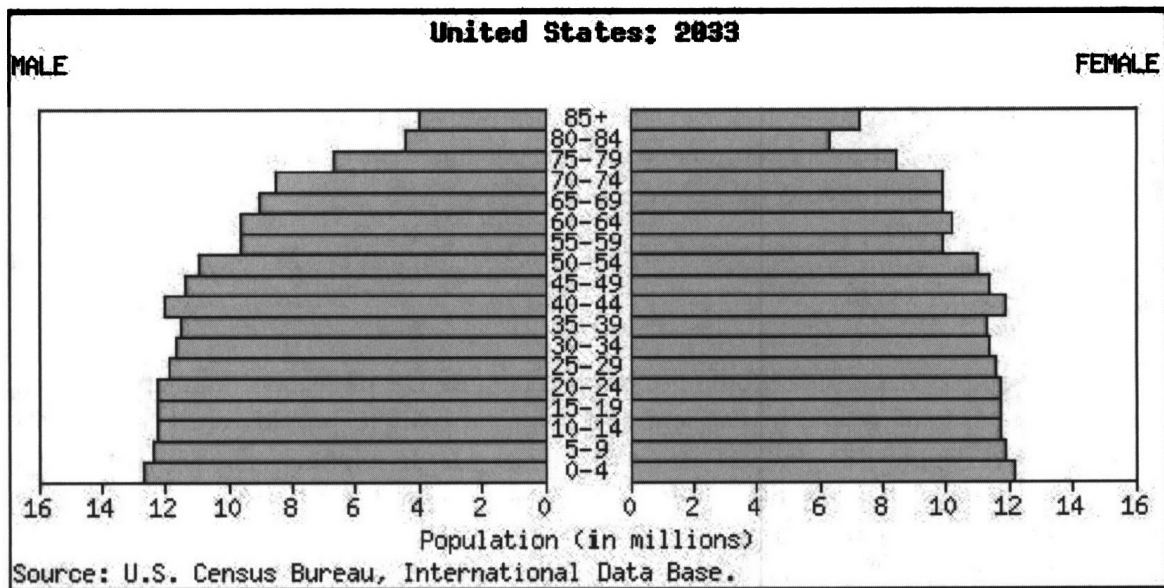


Fig. 3. Population pyramids for the United States.

3.3 Portability of retirement savings

There have been more changes in retirement plan-related regulations since 2000 than in the prior 30 years. One of the big changes has been the addition of retirement savings portability. In most cases, workers leaving one employer now may take their retirement dollars with them and consolidate their retirement assets into another employer's plan or an IRA, even if these dollars have been accumulated in different types of qualified plans.

However, rather than taking their funds with them upon employment termination, many employees might be better doing nothing and leaving the funds in their prior employer's plan. The ERISA Advisory Council (Employee Benefits Security Administration, 2005) concluded that many DC plan distributions tend to be paid out in lump sums that "expose retirees to a wide range of risks including the possibility of outliving assets, investment losses, and inflation risk." Another benefit to leaving assets in the plan is that fees are institutionally priced, allowing an employee to potentially increase asset value by twenty percentage or more over a 25–30 year retirement. In addition, the investment options in an employer plan are selected and monitored by an investment committee or other professional, providing a level of due diligence that most employees are not likely to perform when selecting investments on their own.

3.4 Retirement income management requires multiple complex decisions

There are a myriad of decisions for employees to make before and during retirement. The following are a few of the most common examples:

- How do I stay engaged and healthy in retirement?
- Where am I going to live or work?
- Should I retire now or later?
- Should I continue working part-time during retirement?
- When should I take social security?
- How should I take distributions from my retirement accounts to minimize taxation?
- How should I allocate my assets?
- How do I increase the duration of my retirement assets to make my money last?
- How do I balance my retirement income needs with my bequest intentions?
- How should I access my home equity if needed for retirement income?

Not surprisingly, retirement-specific knowledge for making informed decisions is not where it should be. In 2007, InFRE and Texas Tech University developed a RetirAwareness Quiz for use by the federal government's three million employees that is now being used with public and private sector employees. The quiz is designed to measure knowledge of basic retirement planning actions by career stage that lay the foundation for future retirement readiness. Percentage correct results by topic category of 462 completed individual surveys from federal, public, and private sector employees are presented in Table 4.

Employees understand the rollover rules best of all, but scored low on decisions regarding how much to save and accumulate, when to retire, how to minimize long-term care expenses, and when to take retirement distributions from their savings. Competent professional guid-

Table 4 Employee Retirement Awareness Quiz percentage correct by topic category

Topic category	Average score
Rollover decision	70%
Decisions to enroll in plan	60%
Job change and retirement savings	60%
Retirement housing	54%
Asset allocation decisions	51%
Retirement investing strategy	49%
Effect of inflation	47%
Choosing retirement saving accounts	45%
Forms of retirement benefit	43%
How much to save and accumulate	40%
Retirement timing decision	40%
Long term care expenses	39%

Source Data: International Foundation for Retirement Education, 2008.

ance is needed to help prevent an employee's retirement illiteracy from causing missteps at a stage of life when financial recovery is all but impossible.

3.5. The annuity conundrum: a love-hate relationship with control

The Society of Actuaries (2006) evaluated how Americans prefer to take funds from their retirement savings and make other retirement decisions. Americans' reluctance to annuitize is especially striking in observance of their strong preference for lifetime income. Two key findings of the study are presented here (Fig. 4).

1. When deciding on which payout option to choose from your retirement plan, how important is each of the following?

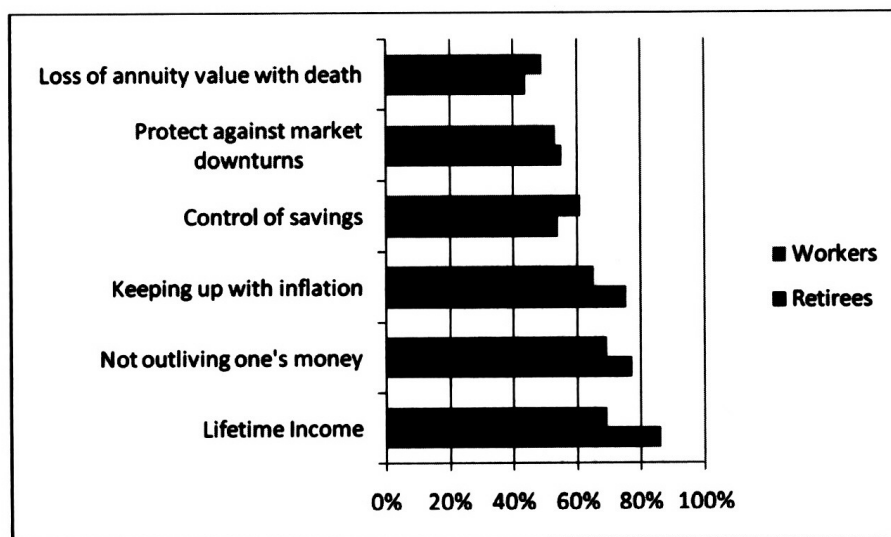


Fig. 4. Percent of workers and retirees who believe these issues are "very important" when choosing payout options. (Data Source: Society of Actuaries, 2005.)

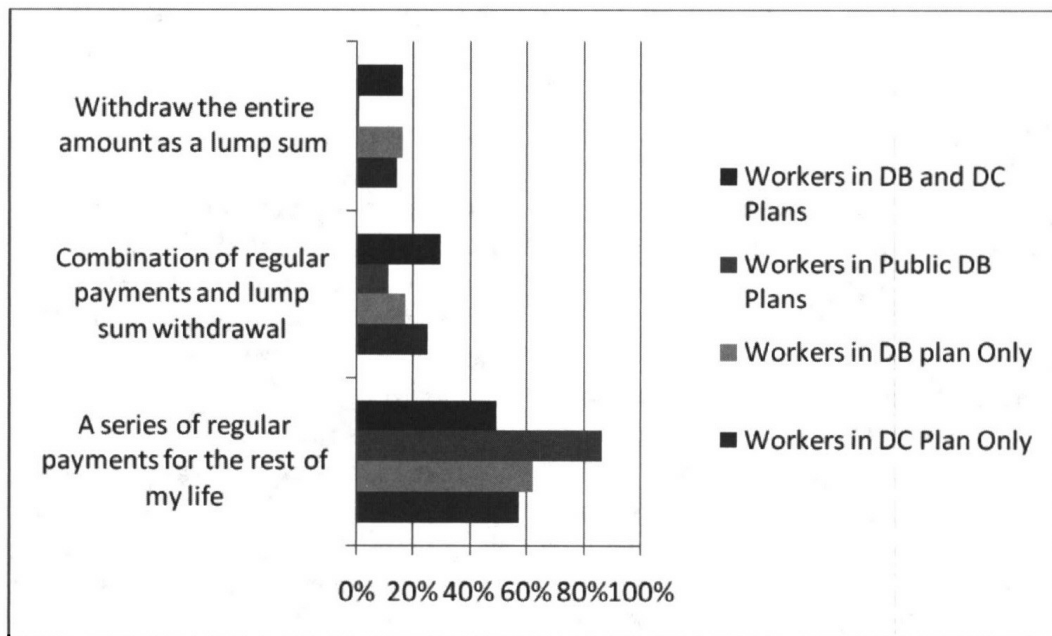


Fig. 5. How workers would like to receive retirement income. (Data Source: Society of Actuaries, 2004.)

The good news is that both retirees and workers recognize that they bear additional risks in retirement that they didn't bear while accumulating assets. Almost nine in 10 retirees consider lifetime income to be a very important consideration when choosing a payout option from a retirement plan, yet the most common form of distribution from a retirement savings plan (Society of Actuaries, 2004) is currently a systematic withdrawal. Workers consider the same set of factors to be very important, but add "control of savings" to the list of priorities as well.

At the same time, many express concern with annuity products because of a perceived loss of value with early death. Recently academics have been studying behavioral biases in the context of annuities and retirement planning. The National Bureau of Economic Research (2007) found that people separate the investment decision of the annuity from the income or consumption needs. These issues can be partially alleviated through employee education and professional guidance about the importance of managing retirement-specific risks, as well as the development of new income products with more flexible designs.

2. Which of the following best describes how you would like to receive your money at retirement from an employer's retirement plan(s), given that each choice is of equal value (Fig. 5)?

Even 57% of workers in DC plans want to receive lifetime income from their savings, perhaps "pensionizing" their savings. There is a disconnect between what workers want and what they do, perhaps because workers associate equal payments with lifetime income. Most people likely do not understand that systematic withdrawals plans (SWPs) are not guaranteed and are dependent upon the equity exposure of the portfolio, the overall

returns experienced, whether losses are sustained early or later in retirement, the percentage withdrawn per year over the course of their retirement, and other factors.

3.5. The coming explosion in new products

Retirement income management is as much or more about managing retirement-specific risks as it is about producing income. New retirement income products and services for employer-sponsored plans have only recently gained steam. Regulators and employers now realize that by providing an employer-sponsored retirement savings plan there is not only a fiduciary responsibility to help employees grow their assets, but also a responsibility to help them transition those assets into retirement income as well.

Today, new employer-based retirement income solutions include retirement income options that can be added to a plan's investment menu or can be offered as an employer-recommended rollover platform outside of the plan (with different levels of fiduciary liabilities). These solutions must seamlessly allow employees to convert DC plan assets into income streams to meet retirement income and bequest intentions, whereas maintaining a desired level of financial involvement, risk, and expenses.

In addition to the new employer plan investment options, several new retail "target distribution" or "managed payout" funds have recently been introduced. These funds have two main approaches: (1) to grow invested savings but eventually deplete the funds by a specified date, or (2) maintain the value of the principal, perhaps even growing it, while also paying out income. In addition, new variable annuity living benefit riders, such as GMWBs (guaranteed minimum withdrawal benefits), guarantee a stream of income payments to an annuitant and pay the remaining contract value at death to beneficiaries. Other new annuity products include "tail" or longevity insurance for ages 85+ that provides income for those who live past their life expectancy.

Other upcoming products combine insurance products, such as annuities, with mutual funds in various optimized asset allocation and annuitization timing strategies. Ibbotson Associates (2007) built on the work of Chen and Milevsky (2003) and Chen, Ibbotson, Milevsky and Zhu (2006) on the diversification benefits of incorporating insurance products in an investor's portfolio. Their empirical results showed that their combined annuity (GMWB) and mutual fund portfolio allocations had higher average income levels, lower variation of returns and lower income shortfall risk than if the assets were entirely invested in traditional mutual fund portfolios.

3.7. The arrival of advice for employer-sponsored plans

How has the awareness of the need for employees to make more informed retirement income decisions affected Department of Labor (DOL) policy? With the passage of the Pension Protection Act (PPA) of 2006, employers are now encouraged to provide more investment and retirement planning advice in the workplace.

Most private sector pension plans are covered by the Employee Retirement Income Security Act (ERISA) of 1974 that provides protections for participants and beneficiaries in employee benefit plans. Individuals who manage employer-sponsored retirement plans must

meet certain standards of conduct under the fiduciary responsibilities specified in the law and enforced by the DOL. Public sector plans such as federal, state, and local employee DB plans, 457 and 403(b) DC plans are not required to meet ERISA regulations, though many use it as a guideline.

Because of their fiduciary responsibilities and ERISA's prohibited transactions rule²² employers have historically had a strong aversion to providing retirement advice for their employees. However, since 2000, the DOL has issued several interpretive bulletins and exemptions that support employers providing not only investment advice, but retirement planning services as well. In addition, a relatively unknown provision of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 clarified treatment of employer-provided retirement advice by making qualified retirement planning services excludable from income and wages in the hope that the benefit would become more widely available and utilized.

Finally, through provisions in the PPA of 2006, employers were given more specific guidance on how to incorporate asset accumulation and distribution advice in the workplace for their plan participants. However, this doesn't mean employers are embracing advice with open arms. There is still concern about employer liability for advice that results in a loss, even if the advisor is competent, has no conflict of interest, and prudent man due diligence was performed when selecting the advisor. For employers who do provide advice, the most common forums today are one-on-one, Internet-based, and telephone consulting.

The above discussion lays the foundation for retirement income planning and investment management advice to soon become a standard employee benefit. Financial advisors who demonstrate competency in helping individuals evaluate their entire retirement picture to create a retirement income and lifestyle plan will have a distinct advantage in this market, as employers seek highly qualified advisors to meet their fiduciary obligations.

4. Decisions required of workers in today's new retirement environment

Retirement income management is much more complex for today's preretirees than in the past. With a longer retirement time horizon, there is a host of dynamic, employee-specific variables to consider that can affect their retirement income solution opportunities. To properly plan, software is needed to evaluate how to transfer risks and the respective tradeoffs. Many retirees will need professionals with the tools to guide them through the maize.

The type of retirement savings plan also determines the number and complexity of decisions to be made. DC plans obviously require more decisions on the part of participants than DB plans. According to the Center for Retirement Research (2007) most plans in the private sector are 401(k) DC plans, where everyone participates in Social Security as their DB plan equivalent. In the public sector, state and local employers offer DB and 457 and 403(b) plans for 12 million state and local government employees and 6.3 million public school district employees (Nationwide Retirement Education Institute, 2006). Public DB plans, in general, provide higher basic lifetime benefit levels, tend to offer cost-of-living

Table 5 Retirement income risks assumed by employees by type of employer and retirement plan

Type of retirement risk	Income risk protection provided by plan type			
	Public DB	Public DC (457, 403(b))	Private DB	Private DC (401(k), profit sharing)
Longevity	Protected	Not protected	Protected	Not protected
Inflation	Many have COLA	Not protected	Not protected	Not protected
Health and long-term care	Many public employees receive partial or full retiree health	Many public employees receive partial or full retiree health	Not protected	Not protected
Market volatility	Protected	Not protected	Protected	Not protected
Interest rate	Risk exposure when final benefit calculated	Not protected	Risk exposure when final benefit calculated	Not protected
Point in time	Risk exposure when final benefit calculated	Not protected	Risk exposure when final benefit calculated	Not protected

Source: Center for Retirement Research, 2007; McCourt, 2006; author compiled.

adjustments on pension payments, and provide one-on-one retirement counseling sessions making it easier for employees to transition into retirement.

Participants of DC plans therefore require more professional help transitioning into retirement because of the fundamental nature of DC plans, where employees assume accumulation risk, longevity risk, and market-related retirement income risks. The following table compares the most common types of retirement income risks inherent in the income streams provided by different types of employer-sponsored plans and indicates areas where employees need additional protection (Table 5).

5. The need for more knowledgeable retirement professionals

5.1. Career paths in employer-sponsored plans today

To date, many retirement professionals in employer-sponsored plans arbitrarily arrived at their careers. For example, the late Arthur N. Caple was a pharmacist before becoming the Executive Director of Maryland's Supplemental Retirement Agency with responsibility for the 457 deferred compensation, 401(k), 403(b), and 401(a) match plans. Most union or public sector retirement plan trustees make their living in fields totally unrelated to retirement.

The table below outlines the range of employer retirement plan job opportunities available today (Table 6). These positions require a broad range of skills, tasks, and competencies. Individuals who perform well with details have opportunities to apply their skill sets in employer-sponsored retirement plans as plan administrators. Individuals with an interest in financial planning now have increased opportunities to provide one-on-one counseling to help employees utilize their benefits in positions that don't require meeting sales targets or making cold calls. Others who enjoy working with investments have opportunities to influence investment options available to plan participants.

Table 6 Employer-based career opportunities where working Americans accumulate retirement wealth

-
- a. Employer-sponsored retirement plans
 - i. Defined benefit plans
 - 1. Employee retirement counseling for
 - a. Federal public sector
 - b. Non-Federal public sector
 - c. Taft-Hartley/union sector
 - 2. Administration, investment policy and management
 - a. Actuaries
 - b. Plan administrators
 - c. Investment managers
 - d. Trustees
 - ii. Defined contribution plans
 - 1. Employee retirement counseling for
 - a. 457 (public sector)
 - b. 401(k) (private sector)
 - c. 403(b) (universities and hospitals)
 - 2. Administration and investment policy
 - a. 457 (public sector)
 - b. 401(k) (private sector)
 - c. 403(b) (universities and hospitals)
 - b. Defined benefit plan service providers
 - 1. Investment managers
 - 2. Consultants
 - 3. Actuaries
 - 4. Third party administrators
 - c. Defined contribution plan service providers
 - i. Fund companies
 - 1. Investment managers
 - 2. Investment wholesalers
 - 3. Retirement call center reps
 - 4. Participant communication, education and marketing
 - ii. Third party administrators
 - d. Employee benefits counseling: A total compensation and retirement planning approach to the use of employee benefits
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Source: Author compiled.

5.2. Addressing the knowledge and skill set needed by today's retirement professionals

The traditional focus of retirement planning has been wealth accumulation. Within the past decade, in the wake of the retirement of baby boomers, postretirement planning has become a more important topic in practice and in research. Even with the increased focus on retirement income management, the topic has yet to become prevalent in the body of knowledge expected of those holding financial advisory designations.

One of the most recognized financial advisory designations, the Certified Financial Planner® designation, addresses wealth accumulation in their topic list (Certified Financial Planner Board of Standards, 2004), but has not yet explicitly included retirement income management as a subtopic of retirement planning. The Certified Retirement Counselor® designation, issued by the InFRE, is a retirement-specific certification that includes accumulation, plan participation, and administration, counseling techniques and investment management, but also explicitly addresses retirement income management.

As postretirement planning grows, job studies relating to retirement professionals will define the knowledge and skills required to perform these jobs. The results of these studies will be introduced into current financial advisory designations, as well as aiding universities in developing curriculum to meet the needs of this in-demand career track. InFRE is currently undertaking such a position analysis of retirement counselors and eventually the retirement industry.

5.3. Estimate of professionals needed

Citing the surge of baby boomers soon to be retiring, the Bureau of Labor Statistics (BLS, 2006) estimates the job growth rate for personal financial advisors of 41% over the next decade. As of 2006, there were approximately 176,000 personal financial advisors and BLS estimates a need for an additional 72,000 advisors by 2016. The growth rate needed for advisors is well above the average of all occupations.

However, the actual need may be even greater than 72,000 because many advisors today are baby boomers themselves and will be transitioning into retirement. According to Cerulli Associates' Edge Advisor Recruiting Edition, the number of financial advisors in the United States declined by approximately 4% between 2005 and 2007. The average age of those entering the industry has increased as well with only 3% of advisors being under age 30 in 2007, down from over 62% in the 1980s. The increasing age of entering financial advisors, furthers the opportunities and need for university educated advisors.

6. Summary and future directions

Retirement planning and income management is complex (there is no "one size fits all" solution) and most retiring workers will need help aggregating and converting assets into a lifetime income stream. With 78 million Boomers approaching retirement, income management has the potential to be the most explosive growth opportunity in the financial planning industry in more than a generation.

The retirement industry is developing new products, services, and software to meet income needs and risk profiles for various stages of retirement. To effectively use these new tools, the industry must increase retirement planning and income management competence, recruitment, and retention of retirement professionals.

Universities and colleges must begin working with the retirement industry to provide education programs, perhaps even retirement services education tracks, to prepare students to meet the financial planning needs of millions of retiring American workers. The time to build the retirement industry is now.

Notes

1. This broad category of IRA includes employer-sponsored IRAs, such as Traditional, Roth, SEP, and SIMPLE IRAs.
2. Where specified transactions that are a conflict of interest may not be entered into—directly or indirectly—by a party with interest in the plan.

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