dpl financial partners

RIA Retirement Planning Benchmarking Survey:

Executive Summary & Key Findings

The 2019 RIA Retirement Planning Benchmarking Survey provides insight into advisors' current retirement planning practices and strategies and helps advisors understand ways they may be able to better meet clients' needs for predictable income and peace of mind in retirement.

Overview

Retirement planning has never been more important for financial advisors and their clients. The convergence of several trends underscores the importance of this need: Baby Boomers are retiring in huge numbers each day; secure retirement income sources like pensions are disappearing; bond rates are at historic lows, reducing the capability for fixed income investments to fund secure retirement.

The good news is that highly effective guaranteed income products are now available to RIAs. The challenge appears to be how to make advisors and clients aware of these products and educate them about ways they can be used to generate predictable retirement income and the peace of mind that comes with it.

About DPL Financial Partners

DPL Financial Partners is the leading RIA insurance network that brings low-cost, commission-free insurance solutions from a variety of the nation's top carriers to RIA practices. DPL's mission is to create a marketplace of no-load insurance products that enables RIAs to incorporate insurance into their practice to more holistically serve their clients. Clients benefit from products with improved pricing and fiduciary implementation rather than a commissioned, sales-driven one. www.dplfp.com

Methodology

DPL Financial Partners conducted the study from late May to mid-June 2019 in an online survey format. A total of 201 advisors completed the survey with 92% falling under the Registered Investment Advisor (RIA) channel.

Table of Contents

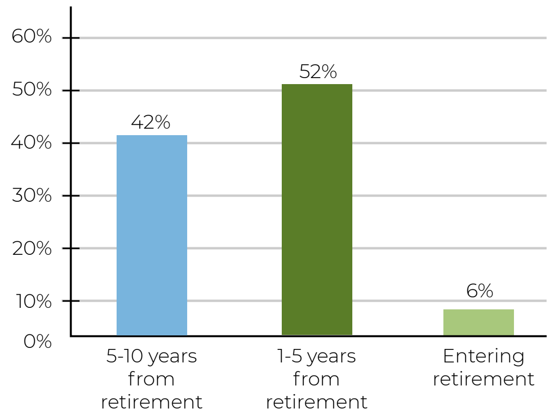
Introduction

A recent survey of 201 registered investment advisors by DPL Financial Partners measured advisors' retirement planning attitudes and practices, their understanding of clients' retirement income concerns and priorities, and their preferred strategies to meet clients' income needs. The survey results provide insights into how advisors can better utilize today's investment tools and education to deliver improved outcomes for their clients—both psychologically and financially—before and in retirement.

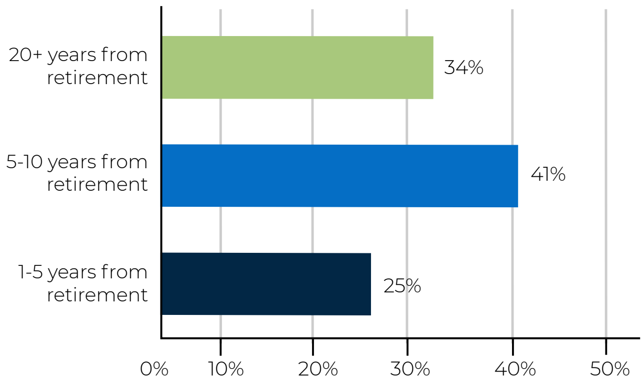
The survey found that advisors believe the vast majority of their clients value predictable income over asset growth in retirement, and prioritize "not running out of money" over "maintaining their lifestyle" after they retire. Just over 50% of respondents said the primary job their clients have tasked them with is to provide a secure retirement.

Despite client concerns about predictable income, more than half of advisors surveyed wait until five or less years before a client's retirement to discuss retirement income strategies. One in four of respondents begin planning for retirement income needs just one to five years before the client retires. This short planning window represents a couple of missed opportunities: 1) to begin the retirement income needs discussion with clients while they are still in the accumulation phase and may feel less stress about the impending transition, and 2) to take advantage of income strategies that allow for asset growth while securing a reliable income stream when the client retires.

When do you start talking about specific retirement income strategies with clients?



When do you start planning for your clients' retirement income needs?



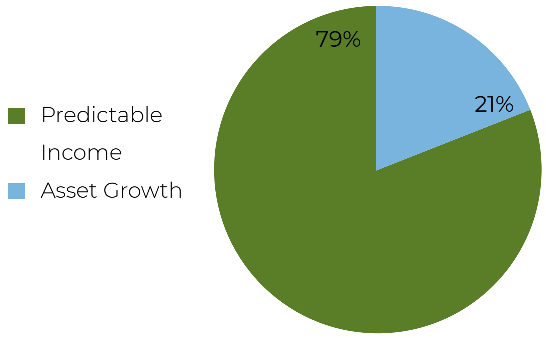
The survey also uncovered several interesting findings that suggest advisors' focus on traditional asset growth strategies to address retirement income needs, and a bias away from annuities—products that are designed to generate predictable income—which prevent clients from learning about and benefiting from highly effective, academically-validated, retirement income strategies. These insights highlight the need for further advisor education about guaranteed income products that are available to them, how these products work, and their ability to generate secure retirement income for their clients when used appropriately in a financial plan.

Following are highlights of the survey findings.

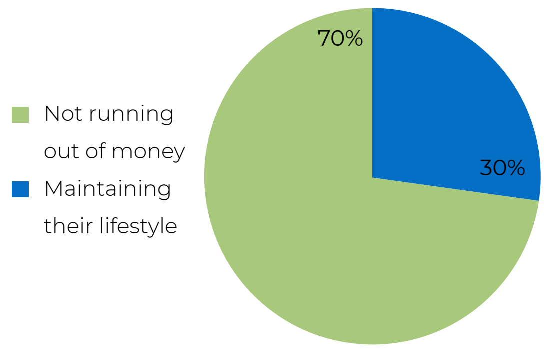
Advisors' Perceptions of Clients' Needs

The majority of advisors are aware of their clients' desire for a secure retirement. Respondents said 79% of their clients believe predictable income is more important in retirement vs. 21% who prioritize asset growth. Similarly, 70% of clients feel not running out of money is more important than maintaining their lifestyle when they retire.

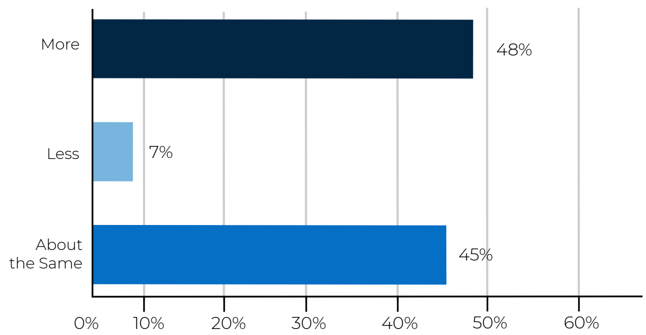
Generally, which is more important to your clients in retirement?



Generally, which is more important to your clients in retirement?



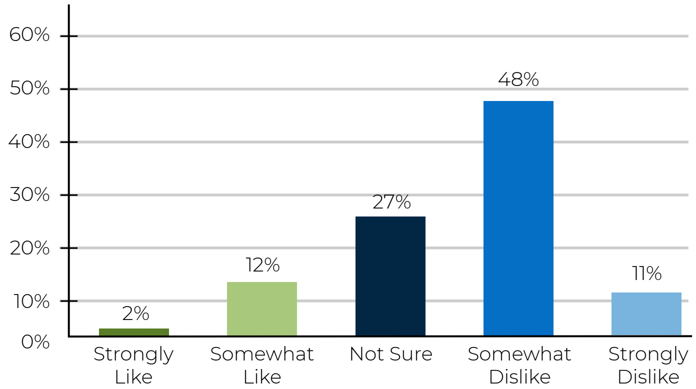
Do clients typically worry more or less about the market and portfolio performance once they are retired?



When clients transition to retirement, advisors said they worry about the market, with almost half of clients (45%) worrying more about the market after they retire.

While advisors are aware of their clients' focus on retirement security, one in four respondents aren't aware of what their clients think of annuities, a product designed specifically to deliver predictable retirement income.

What are your clients' attitudes towards annuities?

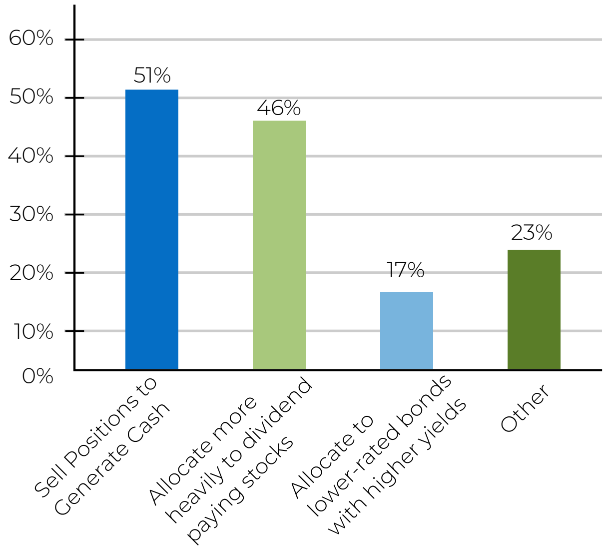


With sources of secure income, like pensions disappearing, and life expectancies expanding, clients' concerns about outliving their money aren't surprising. Clients want and need predictable retirement income they can't outlive, no matter how long their retirement lasts.

Methods Used to Generate Safe Retirement Income

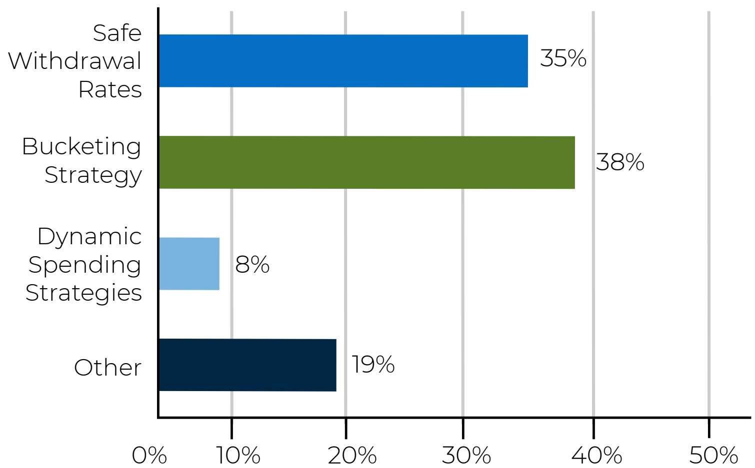
The majority of advisors indicate they generate retirement income for clients through either a bucketing strategy—whereby short, intermediate and long-term retirement funds are separated—or safe withdrawal rates.

In a low-yield bond market, how do you bridge the gap between your clients' desired retirement income and the yield from their bond portfolio? Select all that apply.



When there is a gap between a client's desired retirement income and the yield from their bond portfolio, more than 50% of advisors sell positions to generate cash and 46% allocate more heavily to equities, strategies that increase risk in clients' portfolios. Liquidation of assets introduces sequence of returns risk and additional exposure to equities is contrary to many clients' risk tolerances as they grow more conservative in retirement.

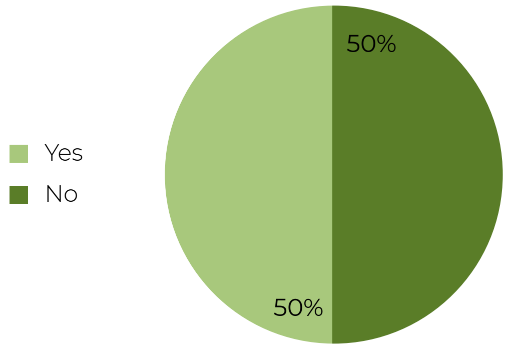
Which strategy do you primarily employ for clients when generating retirement income?



Given advisors' awareness of their clients' desire for predictable income and worries about market performance, these preferred strategies to generate safe income reveal the limitations advisors face when trying to meet clients' needs and expectations without having access or being open to annuities.

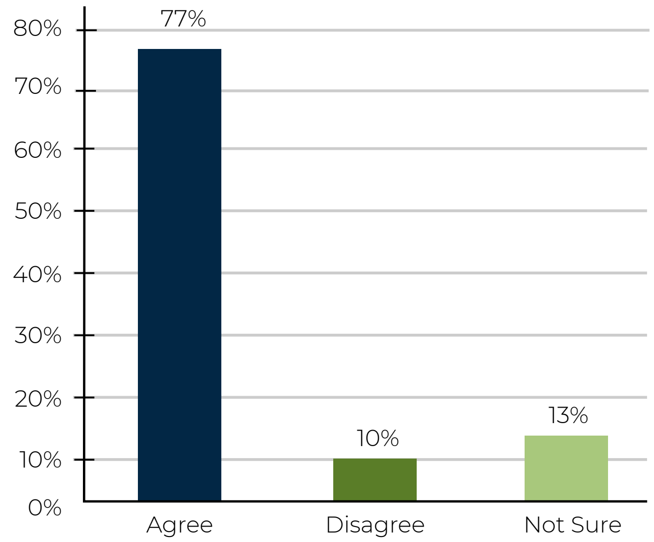
Awareness of Annuity Benefits

Are you familiar with the academic research of Wade Pfau and Michael Finke regarding annuities for retirement income?

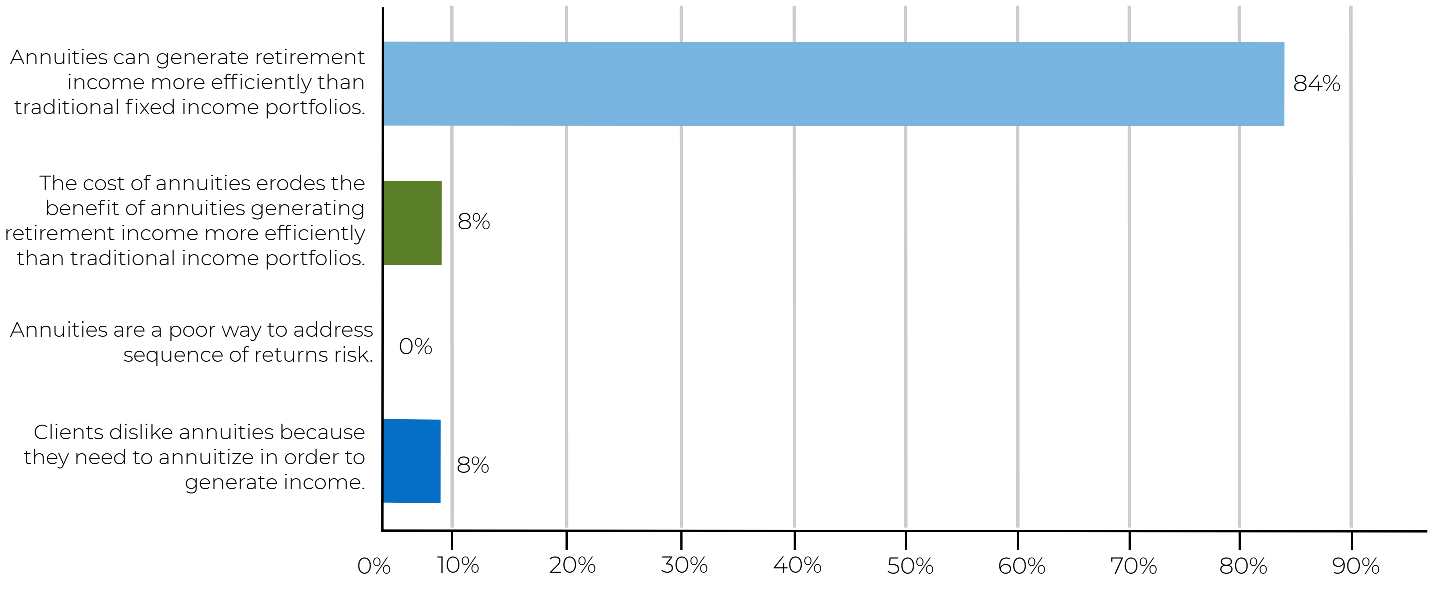


Half of respondents said they have explored annuities and understand the research supporting the use of annuities to efficiently generate retirement income.

Select your agreement with the following statement: You can generate income through an annuity without annuitizing.



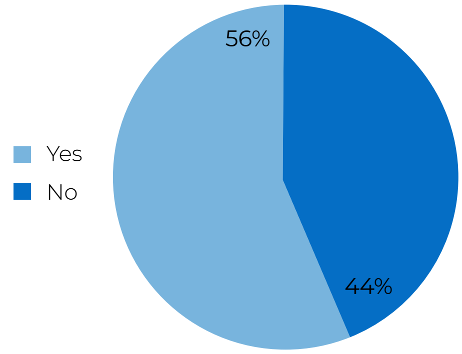
What is the central consensus of this academic research?



Of those who are aware of the research, 84% are aware that annuities can generate income more efficiently than traditional fixed income investing. However, there are 50% of advisors who are unaware of the pervasive research on annuities. Twenty-three percent of advisors are unaware that a client can generate income from an annuity without annuitizing. And 44% are unaware that a low rate environment, as we have right now, is a good time to utilize annuities.

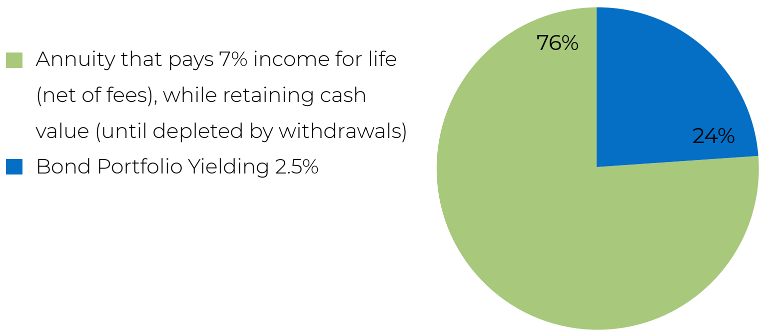
Given the overwhelming academic research supporting the use of annuities to generate efficient and secure retirement income, these findings suggest that advisors need to be made more aware of the research on annuities and need additional education on how annuities can be used to benefit their clients in a financial plan.

Do you believe a low interest rate environment is a good time to use an annuity?



Annuity Bias

When choosing between the two options below, which would you rather choose?

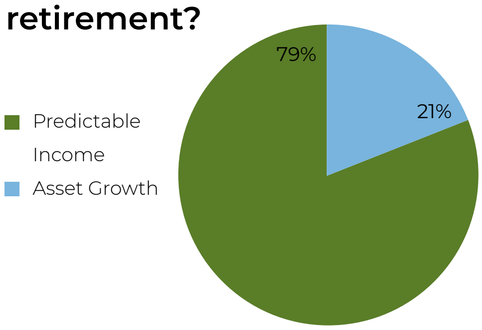


The survey reveals a strong advisor bias against annuities, despite the ability of annuities to efficiently generate retirement income when used appropriately in a financial plan.

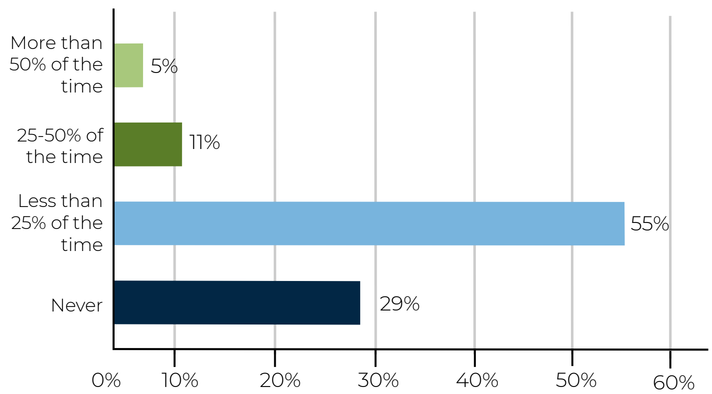
This bias is demonstrated most starkly when respondents were asked to choose between an annuity solution that is overwhelmingly better for the client and a bond solution with far weaker returns. In this scenario, one in four advisors still chose the bond solution.

Despite being aware of their clients' clear desire for predictable lifetime income, 29% of advisors said they never recommend an annuity and 55% said they recommend an annuity less than 25% of the time.

Generally, which is more important to your clients in retirement?

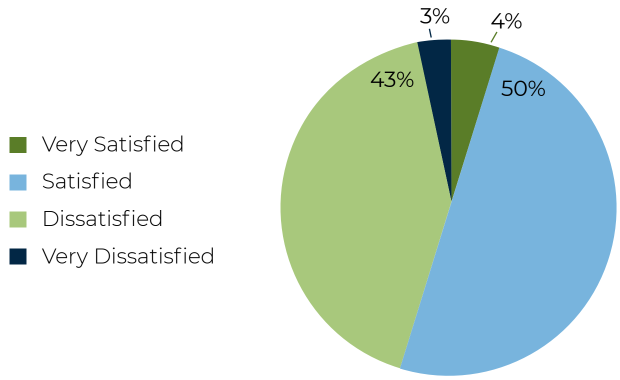


How often do you recommend annuities to clients?



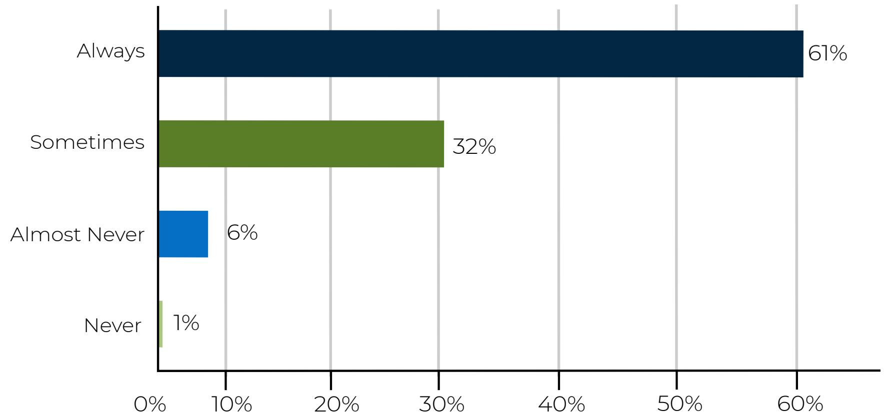
This resistance to annuities is made more interesting when you consider that 46% of respondents said they are either dissatisfied or very dissatisfied with the fixed income returns they are earning for their clients.

How satisfied are you with the current fixed income market and your fixed income returns?



Educating Clients and Addressing Sequence of Returns Risk

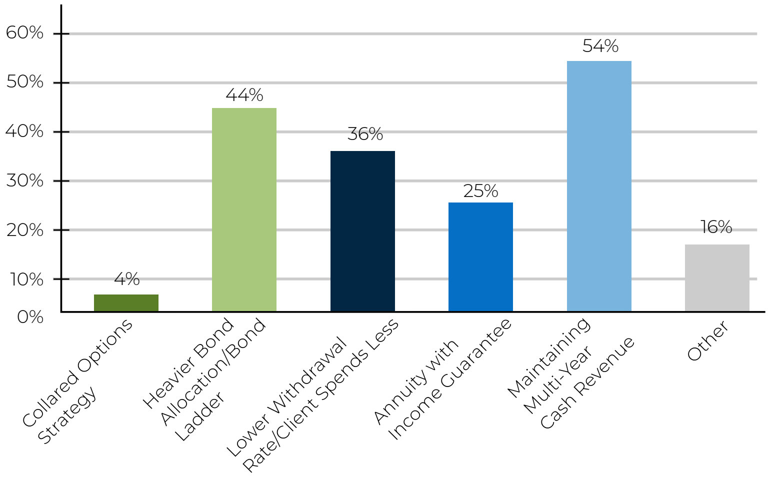
Do you educate your clients about sequence of returns risk in retirement?



Sixty-one percent of respondents talk to clients about sequence of returns risk—the risk that an investor transitions from wealth accumulation to distribution as a market downturn impacts their portfolio and threatens its ability to meet their income needs through retirement. Nearly 40% discuss this risk sometimes, almost never, or never with clients.

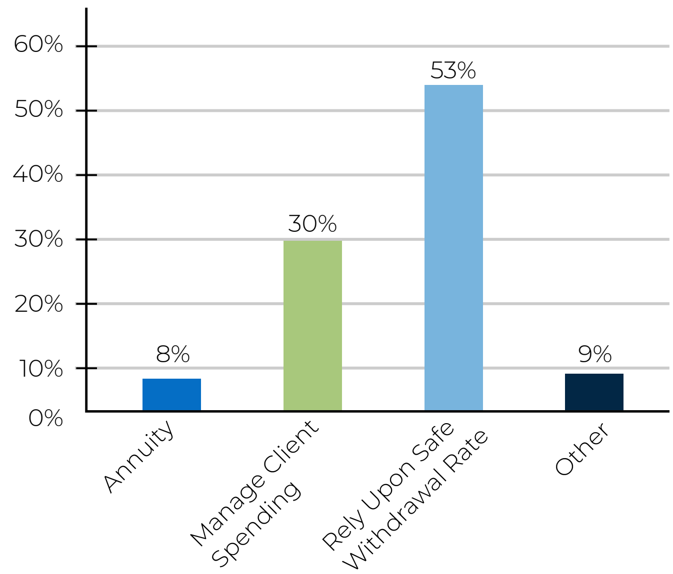
The most popular strategies for mitigating sequence of returns risk involved converting assets into cash or bonds, thus missing out on potential equity upside. Fifty-four percent use a multi-year cash reserve and 44% move client's asset allocation heavier into bonds. Only 25% said they use annuities to protect clients from sequence of returns risk.

How do you mitigate sequence of returns risk for clients? Select all that apply.



Addressing Longevity Risk

The most commonly cited strategies for addressing longevity risk—the risk that savers will outlive their assets in retirement—are 1) relying on "safe withdrawal" rate (53%) and 2) managing client spending to maintain assets (30%).

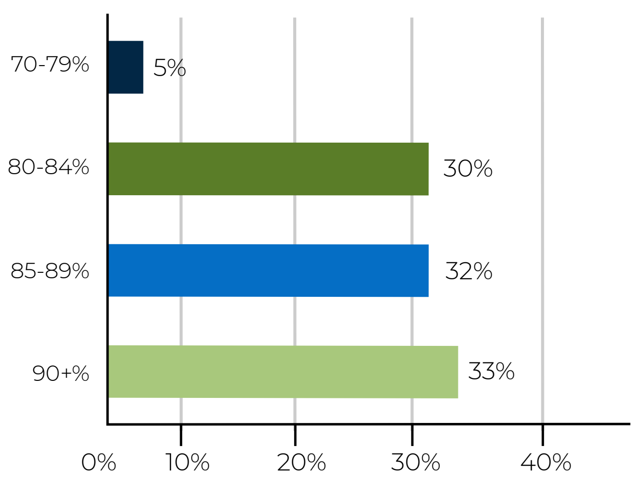


When it comes to addressing longevity, both of these strategies are insufficient to ensure that clients won't run out of money in retirement. Since it is impossible to know how long a client will live, and therefore how long withdrawals will be made from the portfolio and/or spending will need to be managed, it is also impossible to identify a truly "safe" withdrawal rate, or monthly spending target. It is equally impossible to anticipate medical or long-term care expenses as a person ages, which add another level of uncertainty that these strategies are unable to appropriately address.

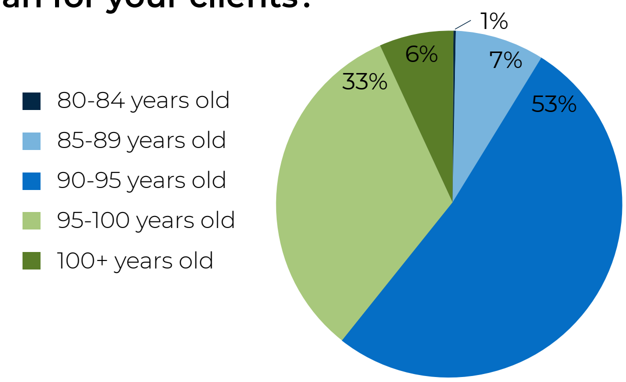
Annuities are the only product designed specifically to address longevity risk, and yet only 8% of advisors say they use an annuity. These findings further underscore the need for advisor education about annuities, so they become comfortable utilizing and talking to clients about these options.

Comfort with Risk in the Portfolio

What is an ideal Monte Carlo score for your clients' retirement plans?



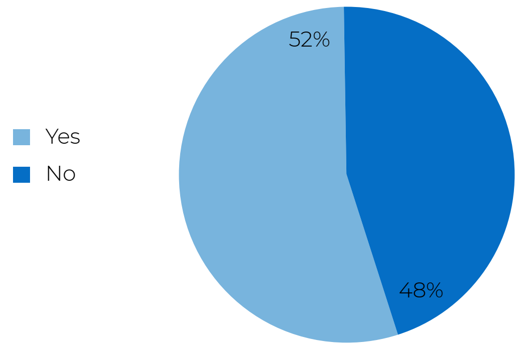
To what life expectancy do you typically plan for your clients?



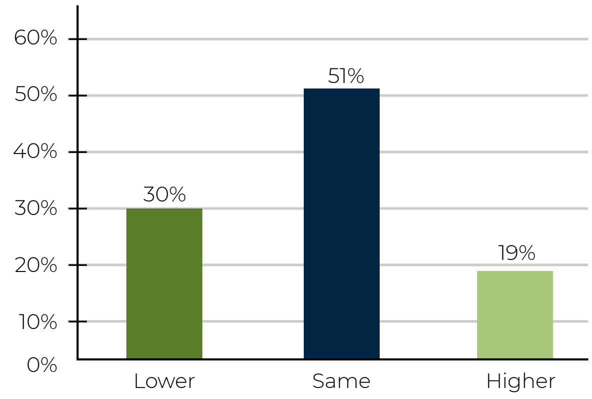
The survey highlights advisor comfort with risk in their clients' portfolios. Over half (53%) of respondents indicated they typically plan to a life expectancy of age 90-95 for their clients and just over 60% target a Monte Carlo score between 80-89%.

Just under half (48%) do not fund essential retirement expenses differently than discretionary ones. And almost three in four advisors believe a safe withdrawal rate is 4% or above.

Do you look to fund essential expenses differently than discretionary?



In 1994 Bill Bengen established the "Bengen Rule" for safe withdrawal rates to be 4% in retirement. Today, do you believe the safe withdrawal rate is:

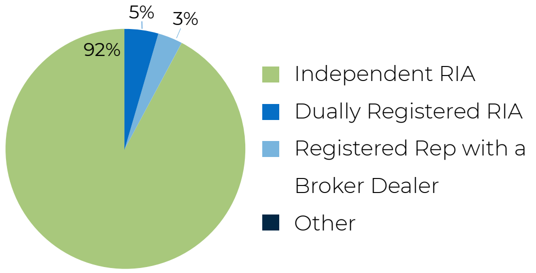


What could this combination—a planning age that is a little bit on the short side and managing to a relatively low Monte Carlo score, combined with relatively high "safe" withdrawal rate—mean for the client?

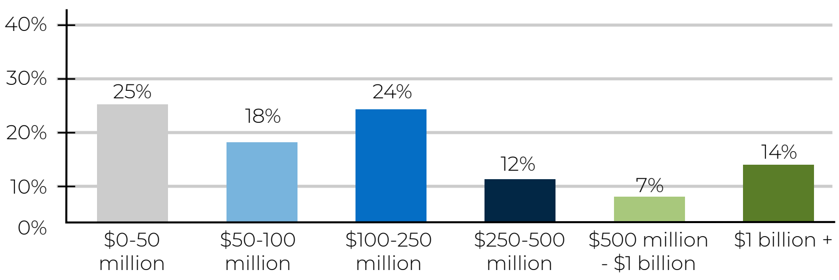
If the client lives longer than expected, there is a real risk that the client's assets will be depleted early. Advisors often say that they can manage client spending, especially considering that discretionary spending statistically goes down as people age. However, other expenses, like medical and long-term care, may skyrocket unexpectedly. These uncertainties underscore what can happen when advisors try to plan for uncertainty without the benefit of products like annuities that provide a guaranteed income stream that is protected from these unknowns.

Respondent Demographics

Advisory Channel



Firm AUM



The vast majority of advisors that completed this study were Registered Investment Advisors with a small minority falling into the Registered Rep with a Broker Dealer and Dually Registered buckets. Assets under management were fairly dispersed across tiers. A third of advisory firms have greater than $250 million in assets under management.

Conclusion

While annuities are a product class that is expressly designed to address many client retirement goals and concerns, the survey demonstrates that many advisors either don't understand how to use annuity products, lack knowledge about how annuities can meet their clients' guaranteed income needs, or have a level of distrust about annuities that prevents them from using these products. Advisors are unaware of annuity products that are available to them, that they can bill on them in an investment portfolio, and that they are uniquely suited to generate retirement income. For so long, annuities have been unavailable to them, and so, even when there is a clear need for them, they don't use them.

This may change as more advisors become aware of new, lower cost, no-load annuities that can be used by fee-only advisors as part of their AUM model. Research illustrating the long-term benefits of incorporating guaranteed income products into retirement portfolios also needs more awareness. With retirement durations expanding, fixed income yields at historic lows, and sources of secure retirement income drying up, retirement income strategies and annuities are more important than ever. Holistic advisors need to educate themselves about annuities and should present clients with financial plans that present annuities as options.

1906 Stanley Gault Parkway
Louisville, KY 40233

contact@dplfp.com
888.327.0049
dplfp.com

Securities offered through The Leaders Group, Inc. Member FINRA / SIPC
26 W. Dry Creek Circle, Suite 575, Littleton, CO 80120 • 303-797-9080

DPL Financial Partners is not affiliated with The Leaders Group, Inc.

Check the background of this firm on FINRA's BrokerCheck.

The content provided herein is general in nature and is for informational purposes only. This information is not individualized and is not intended to serve as the primary or sole basis for your decisions as there may be other factors you should consider.

DPL Financial Partners does business in the state of California as DPL Insurance Solutions under California License #0M42434.

FOR REGISTERED INVESTMENT ADVISOR USE ONLY. NOT TO BE USED FOR CONSUMER SOLICITATION PURPOSES.