An EMI Industry Intelligence Report

Solving the Sphinx's Riddle

Helping Retirement Professionals Capture $5 Trillion in Motion

By: David Ehrenthal and Campbell Edlund

In Greek mythology, the Sphinx sat on the road to Thebes and asked travelers who passed the following riddle: **"What goes on four legs in the morning, on two legs at noon, and on three legs in the evening?"** The answer, of course, was man, who crawls on all fours as a baby, walks on two legs as an adult, and walks with a cane in old age. Travelers who answered the riddle correctly could continue on through the Gates of Thebes and fulfill their quest. But travelers who failed to solve the riddle could not enter the great city of Thebes and were arrested.

A White Paper for Professionals who develop, market and sell insurance and investment products for pre-retirement and retired households.

For businesses in the burgeoning retirement industry, solving the Sphinx's riddle about the three stages of life is both an opportunity and a challenge. To achieve in this market, winners will need to solve a more contemporary version of the riddle: **"How can I convince my channel partners to advocate for savings in the morning, accumulation at noon, and solutions for reliable streams of retirement income in the early evening?"** The answer is, of course, by training and enabling an effective team of financial advisors to develop and manage appropriate retirement income solutions for their clients.

EMI Strategic Marketing

Gaining the Advantage

Historically, many manufacturers and distributors have based their retirement strategies on the accumulation model — allocation among risky assets — and used investment returns as their primary performance metric. But for the future, winners in this market will need to design profitable products and solutions that meet the primary goal of most Transition and Retired households: ***maintenance of their lifestyle through a consistent monthly income.***

The intent of this whitepaper is to arm insurance and investment sales and marketing professionals with some best practices to help solve this emerging riddle and successfully "enter the gates" of the potentially lucrative Transition and Retired life-stage segments.

5 Key Takeaways

$5 Trillion Migration. By the end of 2010, American households held about $9 trillion in IRA and defined contribution plans (almost evenly split). With 79 million baby boomers streaming toward retirement, an estimated $5 trillion in financial assets will migrate from "Building" to "Transition" and "Retired" life-stage households. Just this shift in financial assets creates enormous opportunities and risks for investment and insurance product manufacturers and channels, as a record number of households begin their transition from an accumulation to a retirement income goal.

A Persistent Change. To most households, the nearly three-year Great Recession has been both scary and scarring, particularly because it came on the heels of the dot-com bust. Just as the harrowing experience of the Great Depression is embedded in the behavior of the Silent Generation, the angst of this financial crisis will persist in the American psyche. No doubt, financial advisors who survived the last ten years were exposed to unprecedented trauma that will influence how they manage their clients' financial plans.

Early Adoption. To better align themselves with their channels, insurance and investment product manufacturers will need to accelerate the development of their retirement income product strategies and re-assess how they go to market. Making these changes now will allow manufacturers to meet the needs of distribution and intermediary channels as they are making adjustments to their practice in response to increasing household demand for reliable retirement income solutions.

The Trusted Retirement Income Expert. The winners in the Transition and Retired life-stage segments will be those who develop and efficiently market products that easily fit into the retirement income solutions channels require to serve the markets. A unique opportunity exists for manufacturers to become *THE* trusted retirement income expert with financial advisors who are open to retirement income products. Manufacturer education programs should help financial advisors understand how their products support retirement income solutions and contribute to practice profits and growth.

Discontinuous Channels. The pace of retirement income solutions adoption will vary considerably across channels. At a high level, three segments will emerge: open and capable, open and novice, and closed. Channel strategies should focus on establishing a preferred relationship with the "open and capable" for fast payback while investing to push the migration of the "novice" for substantial and long term payback.

With household interest in lifetime income solutions increasing, manufacturers will need to accelerate efforts to support their channels' adoption of this trend. In this Intelligence Report, EMI presents five best practices that, if implemented, will give manufacturers a much better chance of solving the new Sphinx riddle and capturing their fair share of the estimated $5 trillion in motion.

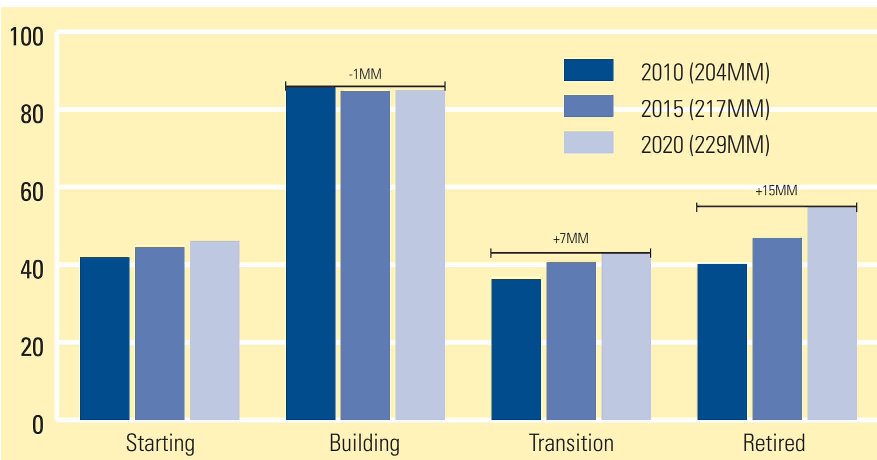
But first, an important context.

The Die Has Been Cast

For as long as retirement professionals can remember, demographers have prophesied apocalyptic consequences from the 79 million baby boomers now streaming toward retirement. These consequences include the gradual bankruptcy of Social Security and Medicare, a reversal of net inflows in financial assets to net outflows, under-financing of worker pensions, and declines in equity-market returns due to lower potential real GDP growth.

The chart below captures the marked population shifts projected by life stage in the next decade. Most noteworthy is the fact that, in the next five years, the number of Transition and Retired individuals will increase by 10.5 million while number of individuals in the Building life stage will decline by 1.3 million. The same pattern holds true for 2020.

Chart 1: Dramatic population shifts — from Building to Transition and Retired life stages — create new opportunities and challenges for retirement product manufacturers.



Life-stage description: *Starting (ages 25-34): low accumulation, low savings, limited investments, limited risk management, starting a family, buying a home. Building (ages 35-54): peak earnings; high accumulation, saving and investing. Transition (ages 55-64): declining earnings, financing children's education, risk averse/loss averse. Retired (ages 65+): savings consumption, loss averse, high health expenses.*

EMI believes the seismic shift affecting the financial services industry is not just about numbers — it's also about changes in the attitudes and behaviors of households in each life stage. Since the mid-1980s, despite some minor hiccups, households learned to depend on capital gains from equities and real estate to meet their expected retirement consumption liabilities instead of deferring consumption, i.e., saving. Unfortunately, the last few years wiped out years of capital gains. Declines in household wealth have been massive in the aggregate, with mean household wealth falling by 24% between 2007 and 2009. To make matters worse, historically high household debt-to-income ratios will further constrain household consumption in the next few years, as the deleveraging process plays out.

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The current financial crisis is an unprecedented and traumatic experience for the baby boom generation. And after exposure to this and the dot-com bust, many financial advisors who survived the last ten years may have a mild case of post-traumatic stress disorder — a state that will influence their future behavior with clients.

As the Exhibit below demonstrates, Transition and Retired households are increasingly anxious about financing their desired retirement lifestyles.

Exhibit 1: Index of Household Financial Anxiety

79%[1]	Percentage of 55+ Americans more concerned about their financial situation than before
72%[1]	Percentage of 55+ Americans who now say they need to save more money
6 in 10[2]	Number of 55+ workers who fear the Great Recession will delay their retirement
18 points, to 71%[1]	Jump in the percentage of 55+ concerned about the real value of assets between 2001 and 2009
62%[1]	Percentage of 55+ concerned about the impact of interest rate changes on their lifestyle
4 in 10[2]	Number of Americans who have adopted a more conservative savings and investment approach since the recession in their retirement accounts

Sources: 1 Society of Actuaries, *2009 Risks and Process of Retirement Survey Report Findings,* March 2010; *2 Pew Research Center, 6/30/2010, How the Great Recession Has Changed Life in America*

And the narrative doesn't end here. Independent of the demographic changes and the Great Recession described above, there are also other long-term forces to consider:

- A colossal national debt that will consume an increasingly large share of federal tax receipts and constrain government spending on entitlement programs
- Growing global competition from emerging giants such as China and India that will dampen gains in employment and real income
- Greater longevity risk due to improvements in life expectancy
- Increasing household self-reliance on providing retirement income as private sector employers gradually replace defined benefit plans with defined contribution plans
- Growth in the cost of health care and long term care
- Changes in regulations that affect financial adviser professional standards in retail and work place channels

All this raises an important question: Is the current approach to financing adequate life styles in retirement — the accumulation model — appropriate for the vast majority of American households? Just as the Silent Generation's memory of the Great Depression persisted throughout their lives and impacted their behavior, so too will the painful memory of the current global financial crisis — the Great Recession — be likely to endure and influence household savings, investment, and spending behaviors for the next decade.

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The Answer to the $5 Trillion Riddle: It's the Monthly Check

Over the next ten years, an estimated $5 trillion in financial assets will migrate with households moving from Building to Transition to Retired life stages. By 2015, assets held by households in the Transition and Retired life stages are projected to grow by an estimated $1.2 trillion and $1.6 trillion respectively. This $2.8 trillion is projected to grow to $5.5 trillion by 2020.

These demographic shifts alone will impact consumer demand for investment products, insurance products, and advisory services. When combined with the effects of the Great Recession, it is reasonable to believe that fewer households will embrace the "accumulation" retirement model that flourished in the 1980s and 1990s. Increasingly, these households will seek more predictable retirement paths and embrace approaches that engineer retirement income floors to support their basic consumption needs and their desired lifestyles. They will want to know what their monthly "allowance" will be. And with more assets held by households in the Transition life stage, an increasing share of investments will be allocated to lower risk products. Since its creation in 2005, the Retirement Income Industry Association (RIIA) has made important contributions in this area of research.

When "Push Comes to Pull"

Trends in financial services are always dictated by the ebb and flow of "push" and "pull" forces:

- ***Push:*** Manufacturers try to convince the target market of their products' value and endeavor to influence the purchasing decision.
- ***Pull:*** Customers articulate their needs and ask if the manufacturers or financial advisors can help.

EMI believes the protracted financial crisis may have created a tipping point where the number of households looking to purchase products that provide reliable retirement income solutions will surge. Such a change in household demand will progressively force financial advisors to re-evaluate their approach with Transition and Retired households and likely fuel an explosion in retirement income product innovation in the near future. Several investment manufacturers (e.g., Wells Fargo and Putnam Investments) recently announced increased efforts to develop income guaranteeing products, while others have already launched new products (e.g., Barclays Retirement Income Notes). And many asset management leaders have been quoted in the press highlighting guaranteed retirement income products — annuities or other instruments that replicate them — as the "Holy Grail".

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Disruption Creates Opportunity:

Five Best Practices to Enter the Gates of Thebes

Investment and insurance product manufacturers targeting households in the Transition and Retirement life stages, directly or through channels, can benefit from this growing market by meeting their fundamental needs: financing retirement consumption, mitigating longevity risk, and creating exposure to upside for a better lifestyle.

Building Your Retirement Income Business: Five Marketing Best Practices

1. Dynamically prioritize your target market and ignore the laggards
2. Become your channel's retirement income "go to" expert, before someone else does
3. Speak your channel's language
4. Thread your value proposition across all marketing channels
5. Train and educate, then go to market

Now, let's go into these best practices in more detail.

1. Dynamically prioritize your target market and ignore the laggards.

Target market definition is typically based on (in this order) potential value, alignment of needs with the offering, and the competitive context. Once defined, the target market is rarely updated. In the case of retirement income products, channel openness to retirement income products should be the first filter to define your *core target* market.

- Some financial advisors are ***early adopters*** of retirement income products. They
  - recognize the benefits
  - know how to discuss them with clients
  - integrate them seamlessly into their retirement planning processes and solutions.
- Others are retirement income ***novices***. They
  - see the opportunity
  - are looking for help in incorporating these products into their practices.

  These ***novice*** advisors should also be in your core target market and, bang-for-the-buck, may represent a better place to allocate marketing investment, despite their longer term payback period than the *early adopters*. *Novices* will require a more complex treatment than *early adopters*, but the opportunity for loyalty to your brand is greater when they adopt.
- Still others are retirement income product ***laggards***. They
  - are resistant to change,
  - remain vested in the accumulation model
  - don't have the knowledge to use them with their clients.

A channel unwilling to use retirement income products should be placed outside your target market because medium term returns will probably be zero. They should not be forgotten, however, as many may migrate to the novice segment. Relative channel productivity can change over time, reflecting changes in investor behavior and industry dynamics. For example, EMI has found that local and regional bank interest in reinforcing their investment and retirement programs has accelerated in recent years. While some of this may be driven by a heightened awareness of demographic shifts, this phenomenon may also demonstrate a trust advantage gained recently by small, local banks. This could justify a change to your retirement income product core target market that would have been unexpected five years ago.

Retirement income novices require a more complex treatment than early adopters, but the opportunity for loyalty to your brand is greater when they adopt.

2. Become your channel's retirement income "go to" expert, before someone else does.

The majority of financial advisors don't have a good understanding of retirement income products. Many need help in understanding how guaranteed income products can be incorporated into their approaches and the tangible benefits these products will create for their practices. Financial advisors also don't have the time or the desire to work closely with dozens of manufacturers — they tend to pick a few trusted relationships that can support the development of their business. Timing matters and you want to be the first. A unique opportunity exists now for manufacturers to build a trusted retirement income relationship with advisors who are open to retirement income products. To achieve this and enhance their value proposition with financial advisors, successful investment and insurance manufacturers will embed training, support, and practice management elements into their retirement income offering that emphasize customer solutions more than product. Much of this can be accomplished through digital media and outbound telemarketing as a supplement or alternative to face-to-face activities. Specifically, product manufacturers should:

a. ***Help educate channel partners who are open to retirement income products.*** Programs should help the advisor understand how the products fit into their processes, what process changes may be required, and how the manufacturer's retirement income products will benefit both their clients and their practice. Michael J. Zwecher's *Retirement Portfolios: Theory, Construction and Management* (2010) does a fine job coaching advisors on making the transition from the accumulation model.

b. ***Help your channels identify clients for your products by developing appropriate and inappropriate investor types.*** One approach to creating these investor types is based on three dimensions and reflects the thinking of the RIIA: (1) years to retirement, (2) the financial position of the household (expected future consumption needs relative to financial assets), and (3) the client's value to the practice. For example, annuities may be most appropriate for under-funded, mass affluent households; longevity insurance might be most appropriate for constrained, high net worth households; and structured products may be most appropriate for unconstrained, ultra high net worth households.

c. ***Provide tools that help your channels explain the benefits of the retirement income approach to their clients.*** Your retirement income product provides the advisor with an excellent excuse to initiate contact with a valuable client or prospect. Create a presentation with your channel partner's brand, highlighting the delivery of a check each month to cover basic expenses in retirement, and comparing it to the uncertainty of a more conventional accumulation portfolio approach. Help your channel explain the "why" and the "how" of the transition to a portfolio better aligned with most 50+ clients' primary objective — a stable stream of retirement income.

d. ***Become your channel's trusted retirement income expert.*** Provide support beyond an annual or quarterly visit for your most important channel partners. For highly profitable channels, consider near on-demand support for retirement income product questions. Over time, the cost of this support should decline as advisors travel down the learning curve. And by becoming the "go to" expert on retirement income products, you create exit barriers for your channel partners while making them most comfortable with your products.

A unique opportunity exists now for manufacturers to build a trusted retirement income relationship with advisors . . . timing matters and you want to be the first.

3. Speak your channel's language.

Attitudes towards retirement income products and solutions vary considerably across distribution and intermediary channels. Behind these are differences in business model, philosophy, perceptions of financial opportunity (often misperceptions) and general resistance to change. The messaging used to communicate with channels needs to take this into consideration. Using up-to-date insights from interviews and surveys — available behavioral data — and knowledge of how the channels use your retirement income products, a channel segmentation may begin to emerge. Continuous educational communications through digital media and telephone, and oriented toward retirement income solutions, can help win advisor mind share. For example, financial advisors in commercial banks may be more responsive to messaging that links a retirement income product to mass customization solutions such as systematic withdrawal plans, whereas registered investment advisors may respond better to messaging that includes maturity match portfolios or longevity insurance with their Transition and Retired clients. These biases may also reflect the profile of the advisor.

Your channel messaging can always benefit from market intelligence, which can be costly to gather and track. Social media is a realtime, lower cost tool to monitor the perceptions of your channels, and these perceptions can inform your messaging strategy. Insurance and investment companies need to constantly monitor social media where their target audiences and their target audience's clients congregate to capture what they may be saying about their product/brand, as well as competitor products/brands. Social media is also being used by advisors to build their practice by encouraging clients to interact through a Facebook or LinkedIn community. After all, research demonstrates that the majority of new business comes to advisors through word-of-mouth. These networks offer opportunities for manufacturers to help their channels educate clients. Despite constraints created by Compliance considerations, social media can be a viable and important tool to build product awareness, generate qualified channel leads, and gain feedback about how well you are speaking your channel's — and your channel's clients' — language and what adjustments may need to be made.

Use continuous educational communications — through digital media (e.g., email and video) and telephone — oriented toward retirement income solutions to win advisor mind share.

4. Thread your value proposition across all your marketing channels.

Financial advisors will interact with your brand through the web, email, phone, printed materials and face-to-face. You've already defined a value proposition that resonates with your target markets, and your messaging around retirement income products is now relevant to their practices. Now comes the most difficult part: ensuring that your value proposition is consistently articulated through every touch point and that you always deliver on your brand promise. After all, you want to be the brand financial advisors turn to, independent of the marketing or servicing channel, when they need help executing a retirement plan or selling a suitable product.

By providing multiple options for engagement, you give your channels the ability to access assistance in the manner most comfortable to them. Many insurance manufacturers have developed effective micro-sites to educate advisors and individuals. These sites are excellent for advisors who prefer online education delivery. There are still many, however, who prefer either face-to-face, telephone, or printed materials. Keep your value proposition consistent and effective across all media and channels.

One often-overlooked channel is the search engine. In EMI's experience, financial advisors are active users of search engines, particularly in the evaluation stage of making a "purchase" decision. When used effectively, including the threading of your brand promise, search engine marketing is an economical and scalable source for new qualified leads. Benefit from this by developing search engine marketing programs which are integrated into your other sales channels.

5. Train and educate, then go to market.

You've developed an innovative new retirement income product that you believe will be embraced by advisors with retirement practices. To support your selling efforts and ensure that your message about the product is understood and received by your target market, you need a sound go-to-market-strategy that precedes and accompanies the product launch.

Recently, several leading investment manufacturers have either announced new retirement income products or their intention to focus product development in this area. One investment manufacturer launched a retirement income product with very little explanation of how it works. Moreover, the web site provided no suggestions on the role of these products in developing a retirement portfolio. As a result, the manufacturer ended up losing a potentially large opportunity because the excitement around a product launch — and sales — quickly diminish when channels are unsure how to use the product and how it will benefit their practice. As you prepare a product for launch, ensure that advisors know exactly what it is, what it is designed to do, and who it is for.

Provide multiple options for engagement to give your channels access to information in the manner they are most comfortable.

Solving the Riddle

Reaching the Gates of Thebes was a challenge for many a traveler, even though the answer to the riddle was within the grasp of most if they only looked for the clue with a fresh eye.

For manufacturers of investment and insurance products, understanding where the market for retirement products and services is going — the new retirement paradigm — is more important today than ever.

The emotional and rational effects of the Great Recession have heightened the importance of monitoring the attitudes of the end-audience: the household in Transition or Retired. Most households want assurances that when they retire, there will be a steady stream of income to maintain the lifestyle they desire. Products that deliver guaranteed retirement income meet this need. By following the five sales and marketing best practices

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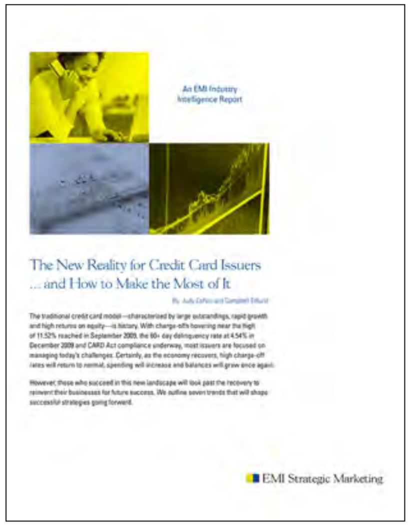
— and solving the new riddle of how to convince channels to advocate savings in the morning, accumulation at noon, and the locking up of reliable streams income for retirement in the early evening — manufacturers of retirement income products will stand a much better chance of building their businesses through distribution and intermediary channels.

New Perspectives on Social Media:
Sales Enablement in Financial Services



The New Reality for Credit Card Issuers
...and How to Make the Most of It

Expanding Rewards Impact
While Maintaining Program ROI

The Transformation of
Small Business Banking

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About EMI

EMI has been working with Fortune 500 companies and financial services leaders to drive results through our clients' sales and service channels. For more than 20 years, our strategic programs, combined with our industry expertise, have helped companies achieve greater growth and increased customer loyalty.

To learn more about what EMI can do for your company, call 617-224-1101 or visit us on the web at emiboston.com.

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