

Seven Implications for the Coming Retirement Revolution

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August 2, 2011

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Most advisors look to seniors as a core part of their client base.

That's why it's essential to understand how boomers are going to transform retirement, just as they have redefined every other stage of their lives. Let's look at three new pieces of research and the seven implications they carry for retirement planning.



A leading researcher's perspective

Michael Adams is founder of [Environics Research Group](#), a leader in social values research and author of a recent book on boomers in retirement. He contrasts the attitudes towards retirement of today's early boomers (aged 53 to 62) with the previous generation of retirees, who were in their sixties in 1992. As an example, he looked at today's intentions for retirement among boomers compared to early retirees 20 years ago. Boomers are dramatically more likely to plan to engage in active outdoor pursuits, explore exotic places and take classes to develop their interests.

They're also more likely to be concerned about having enough money throughout their retirement; six in 10 intend to work in retirement, almost twice the level of retirees in 1992.

This will lead to stresses as boomers' "I want it all and I want it now" mindset clashes with their ability to pay for this – and will also challenge advisors in developing retirement plans to fund some of those planned activities.

Not their parents' retirees

A recent Merrill Lynch survey of affluent American boomers aged 46 to 64 provides hard data on the extent to which boomers are planning to operate entirely differently in retirement than previous retirees.

Here are some of the survey findings among these boomers, all with investments of at least \$250,000. First of all, they were asked to compare their expectations to their parents' retirement:

- 86% plan a more active lifestyle



- 84% say their retirement will look different
- 72% expect a higher standard of living

Digging deeper in the kinds of activities boomers anticipate in retirement confirms some of the data from Michael Adams' research:

- 70% plan to keep working
- 32% expect to pursue additional professional success
- 26% anticipate to take courses and continue their education
- 24% plan to learn a new trade
- 20% expect to start or further their own business

I recently wrote an [article](#) on another recent research study – sponsored by US Trust – that reinforced the dramatic difference in priorities for boomers compared to previous generations. Investors with at least \$3 million were asked what they wanted to achieve with their money. Financial freedom and financial security ranked at the top – no surprise there. Then came travel and improving relationships with family and friends. Past generations would have given priority to leaving an inheritance – wealthy boomers ranked it number five, just ahead of “having fun” in sixth place Proof again that these are not your parents' retirees.

Gender differences in retirement expectations

The Merrill Lynch survey also pointed to significant differences in how men and women expect to spend time in retirement. Here are the responses among affluent men and women who are not yet retired about the activities they plan to pursue once retired:

	Women	Men	Gap
Travel	86%	66%	20%
Pursue a hobby	74%	60%	14%
Be involved in community	64%	43%	21%
Do charity work	62%	41%	21%
Start or further own business	14%	24%	(10%)

Seven implications for retirement planning

There are a number of critical implications from this research that put pressure on existing retirement plans:

1. Reexamine the assumptions on retirement spending

The conventional thinking on spending in retirement was that there would be a burst of spending in the immediate years after retirement on things like travel, after which



health issues and the fatigue associated with age would lead to less active lives and lower spending.

That may in fact be the case with affluent boomers ... But it's clear that most will be dragged into their rocking chairs kicking and screaming. It's possible that the appetite for spending in retirement won't abate, but will continue longer than is currently anticipated – putting stress on retirement plans that don't account for this.

2. *Dig deep on each client's retirement thinking*

Just as no two clients are alike before retirement, no two will be alike in retirement. Clients with similar backgrounds and in similar financial situations can have entirely different plans for retirement. If you haven't had a detailed conversation with clients about exactly what they visualize in retirement, now's the time to have that chat. And be particularly alert to differences in plans and expectations between spouses

3. *Tap into the interest in active travel*

The research study among ultra affluent Americans conducted by US Trust pointed to the strong priority to travel in retirement. If retirees are a key group for you, consider making yourself a resource for retired clients looking for new and exciting adventures to explore.

If you missed it, here's an excerpt from my article on that study:

The importance of travel creates an opportunity for advisors looking to deepen client relationships. Consider exploring a relationship with a travel agent who specializes in travel for active seniors – of note, the kind of travel most retired boomers have in mind is very different than the bus tours of Europe their parents went on. Some advisors have seen a great response to quarterly presentations on interesting and unusual travel destinations - and in some cases have established referral relationships with travel agents specializing in high end travel. (Note that high-end trips for seniors are one of the fastest growing niches in the travel industry.)

As part of this, be sure to inform yourself about out of country health insurance options for seniors – health insurance while abroad is a big concern for many retirees interested in travelling.

4. *Help retirees see the impact of charitable giving now*

Another finding from the US Trust research is that many wealthy Americans with over \$3 million in assets are interested in seeing the impact their giving now, rather than leaving a legacy when they pass away. In some cases, that's influenced by the desire for acknowledgement and recognition for their charitable contributions.



Despite this, four in 10 affluent Americans haven't discussed or sought advice about legacy goals or their philanthropic strategies. It's almost certain that the numbers are similar in Canada. If you're dealing with affluent clients, you need to engage them in a conversation about where charitable giving lies in their priorities and then help give life to their desires.

5. *Be cautious about income from part-time work*

Some successful boomers visualize life in retirement as a succession of well paid board jobs and consulting assignments, perhaps serving as executive residence at the local university. While that might describe life in retirement for a fortunate few, the surge in retired boomers competing for part time work will limit these kinds of opportunities. Retirement plans should be cautious about relying on significant income from part-time work while in retirement, especially given the frequency with which seniors run into health issues that constrain the ability to work.

Be especially cautious in cases where clients plan to operate their own business. Unless a client is continuing a business that they've been running before they retire, businesses in retirement should be viewed as hobbies that will cost money, not as even a modest source of income. This is especially the case with start-ups, whose failure rate is notorious.

6. *Factor in the impact of health costs*

Adding to the possible strain on retirement budgets are new medical advances that are extending lifespans – over the past hundred years, life expectancy at birth has increased by a remarkable 30 years, from under 50 in 1900 to 78 for a newborn child today. If you have a reasonably healthy couple as clients, there's a good chance that one or both will live well into their 90s or beyond.

The downside is that this longevity comes at a cost – with 80 year olds lining up for hip replacements, it's likely that we'll see more boomer retirees writing checks to get timely care.

Meanwhile, although science is extending seniors' physical vitality, progress on mental capacity has been slower. There's alarming data on the incidence of dementia after age 70; this will put pressure both on families' ability to cope as well as the ability to fund the quality of care that most retirees and their families want.

Given the magnitude of uncertainty, it's impossible to factor all of these possibilities into a retirement plan with any accuracy. For clients who can afford long term care insurance, the best route to reducing the risk of health issues of this kind may be to invest in that kind of insurance.



7. *Encourage clients to consider extending full-time work*

In some cases, a pre-retiree's financial situation is such that money won't be a concern regardless of how long he or she lives – but given extended lifespans and the desire to pursue active and potentially costly pursuits, those clients are relatively rare.

Last year I spoke with Alicia Munnell, Director of the Center for Retirement Research at Boston College. During our interview, I asked what advice she would offer baby boomers contemplating retirement. Her answer was simple: *“Most should work as long as they possibly can.”*

We're all creatures of habit and it's natural to expect the future to look similar to the immediate past. While that may be true in some aspects of our lives, it won't be true of boomers in retirement – and to serve them effectively, advisors will have to discard preconceptions about retirement from the past and embrace a very different reality.

[Dan Richards](#) conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries, go to www.clientinsights.ca. Use A555A for the rep and dealer code to register for website access.

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