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MIDDLE MARKET RETIREMENT: APPROACHES FOR RETIREES AND NEAR-RETIREEES

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The Committee on Post Retirement Needs and Risks recently released a paper that examined approaches for retirement for middle market consumers. This article presents excerpts from that paper and the surrounding issues.

BACKGROUND

The opinion of many retirement professionals is that the middle market is underserved when retirement planning is considered. This is even more the case for middle market consumers on the verge of retirement, or already there. Most retirement planning is focused on asset accumulation and growth, yet many middle market families and individuals have few financial assets, while they stand in great need of help with other financial challenges.

Different approaches are used by individuals, professionals, and other service providers to address this need, but they are far from uniform. The purpose of the paper was to shed light on the variety of approaches and consider how they fit the needs of the middle market.

The intent of the paper was to:

- encourage discussion about approaches to this market, their comparative advantages, and their suitability for specific audiences;
- move toward documenting, refining and getting acceptance on a cross-disciplinary basis for the intellectual framework for middle market planning;
- provide a framework for understanding the various planning models for this market, since no accepted system of classifying them currently exists;
- sketch out the pros and cons of various approaches, in terms of their ability to address the range of needs that exist in this market, and in terms of their suitability for different segments within this market; and

- open up a path that will eventually culminate in more and improved service to this important population group.

USES OF THE PAPER

Although the paper does not offer final answers, it provides useful information for financial planners who are considering different approaches to working with their middle market clients. In addition, the report should be useful as they evaluate the use of software for their own practices. Software and product developers and financial writers/reporters should also find the report helpful in their endeavors. Some organizations may be evaluating specific software and products for their clients' or employees' retirement planning, and the paper will raise important issues that are helpful as they think about their audiences, what questions to ask, and how to position various points of view. Researchers and policy makers may find the paper helpful in understanding the range of ideas and issues that apply when thinking about this important population segment. While the report is not intended for consumers directly, they also may find it helpful in better understanding the financial planning approaches being offered to them.

CHARACTERISTICS OF THE MIDDLE MARKET AS USERS OF FINANCIAL PLANNING

Research indicates that middle market families and individuals are different from their more affluent neighbors for purposes of planning, in that the middle market exhibits the following characteristics:

- They have significantly less (and maybe no) financial assets.
- They are likely to be resource-constrained in retirement; i.e., available income and assets will limit the choices they can make, and total risk management will not be feasible.
- They are less able and willing to pay fees for advice. They are also less trusting of financial institutions and advisors.



- Planning for this group is not primarily focused on investment management, but rather should focus on cash flow, debt, and/or solvency management.
- They need to make trade-offs in lifestyle and health care options to get the best result for themselves given their limited resources.
- Social Security is a significant part of their retirement resources.
- Efficiency is vital to a workable planning process. The cost of the process must be compatible with what users are willing to pay for its implementation. Assets Under Management planning models do not fit their needs.

A FRAMEWORK FOR UNDERSTANDING PLANNING APPROACHES FOR MIDDLE MARKET RETIREES

Middle market retirees face a broad range of financial risks and concerns. Yet the tools and methods available to address these issues often were designed for other audiences (especially high net worth families) and/or only for narrow purposes. Approaches that may work adequately for their intended use and audience are therefore not always suited to middle market retirees.

Although each particular software tool, analytical method, and advisory service needs

to be evaluated on its own, this paper aims to facilitate this evaluation by categorizing approaches into four major groups, and thirteen sub-groups. Note that while there is a tendency to think of calculation software as the natural delivery mechanism for these approaches, in principal the same classification can apply to other alternatives: books on retirement, workbooks, informational websites, and a wide variety of advisor-based services that are not necessarily centered on software.

The balance of the paper presents the following:

- Definition of the proposed categories and subcategories of retirement analysis/advice models
- Characteristics of the proposed categories and subcategories, in terms of which retirement issues they address, their applicability to different audiences, and a few other points of concern
- Summary of key middle market segments, their needs, and which models tend to be most suitable for them
- Summary of the main categories and subcategories of models and which audiences they best serve
- Appendices identifying issues relating to employer plans, consumer issues, and software concerns.

CONCLUSION

This is an area that continues to demonstrate a need for further investigation and approach development. The Committee on Post Retirement Needs and Risks has plans to further explore this topic in future work. Thanks again to the working group that produced the full document. ■