

Serving the Needs of the Mid-Market

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2013 marks the 100th anniversary of...?



Underserved segment of the market

- AUM of less than \$250,000 require greater volume deterring many planners (Franklin, 2011)
- The needs of the MM are unique- requiring more cash management and coaching (Rappaport et. al, 2012)
- Serving the MM often requires segmented business models (Longo, 2003)

Size of the mid-market ages 55-64

Household Type	Number of Households	Median Income	Est. Median Net Worth
Middle Mass Households (25% to 75% of households by income)			
Married	5.7 million	\$82,000	\$277,000
Single Female	2.7 million	\$32,000	\$41,000
Single Male	1.8 million	\$44,000	\$76,000
Middle Affluent Households (75% to 85% of households by income)			
Married	1.1 million	\$146,000	\$1,241,000
Single Female	0.5 million	\$64,000	\$185,000
Single Male	0.4 million	\$85,000	\$339,000

*Note: Financial assets exclude the value of defined benefit pensions and Social Security.
Source: Society of Actuaries – Segmenting the Middle Market: Retirement Risks and Solutions,
Update to 2010 Survey of Consumer Finances Data.*

Wealth of middle income households

Ages 55 to 64

Household Type	Number of Households	Median Income	Est. Median Net Worth	Non-Financial Assets	Financial Assets	Non-Financial Assets %
Middle Mass Households (25% to 75% of households by income)						
Married	5.7 million	\$82,000	\$277,000	\$181,000	\$96,000	65%
Single Female	2.7 million	\$32,000	\$41,000	\$34,000	\$7,000	83%
Single Male	1.8 million	\$44,000	\$76,000	\$63,000	\$13,000	83%
Middle Affluent Households (75% to 85% of households by income)						
Married	1.1 million	\$146,000	\$1,241,000	\$671,000	\$570,000	54%
Single Female	0.5 million	\$64,000	\$185,000	\$117,000	\$68,000	63%
Single Male	0.4 million	\$85,000	\$339,000	\$214,000	\$125,000	63%

*Note: Financial assets exclude the value of defined benefit pensions and Social Security.
Source: Society of Actuaries – Segmenting the Middle Market: Retirement Risks and Solutions, Update to 2010 Survey of Consumer Finances Data.*

Findings from focus groups at FPA 2012 Retreat

- Goal: determine how they reach mid-market clients and why mid-market may not use financial planning services
- Key issues of serving the mid-market
 - Managing spending
 - Reducing debt
 - Lack of investable assets
 - Profitability of serving the market
- Some solutions to better serve mid-market
 - Build efficiencies into the process
 - Improve technology
 - Focus on cash management or specific issues

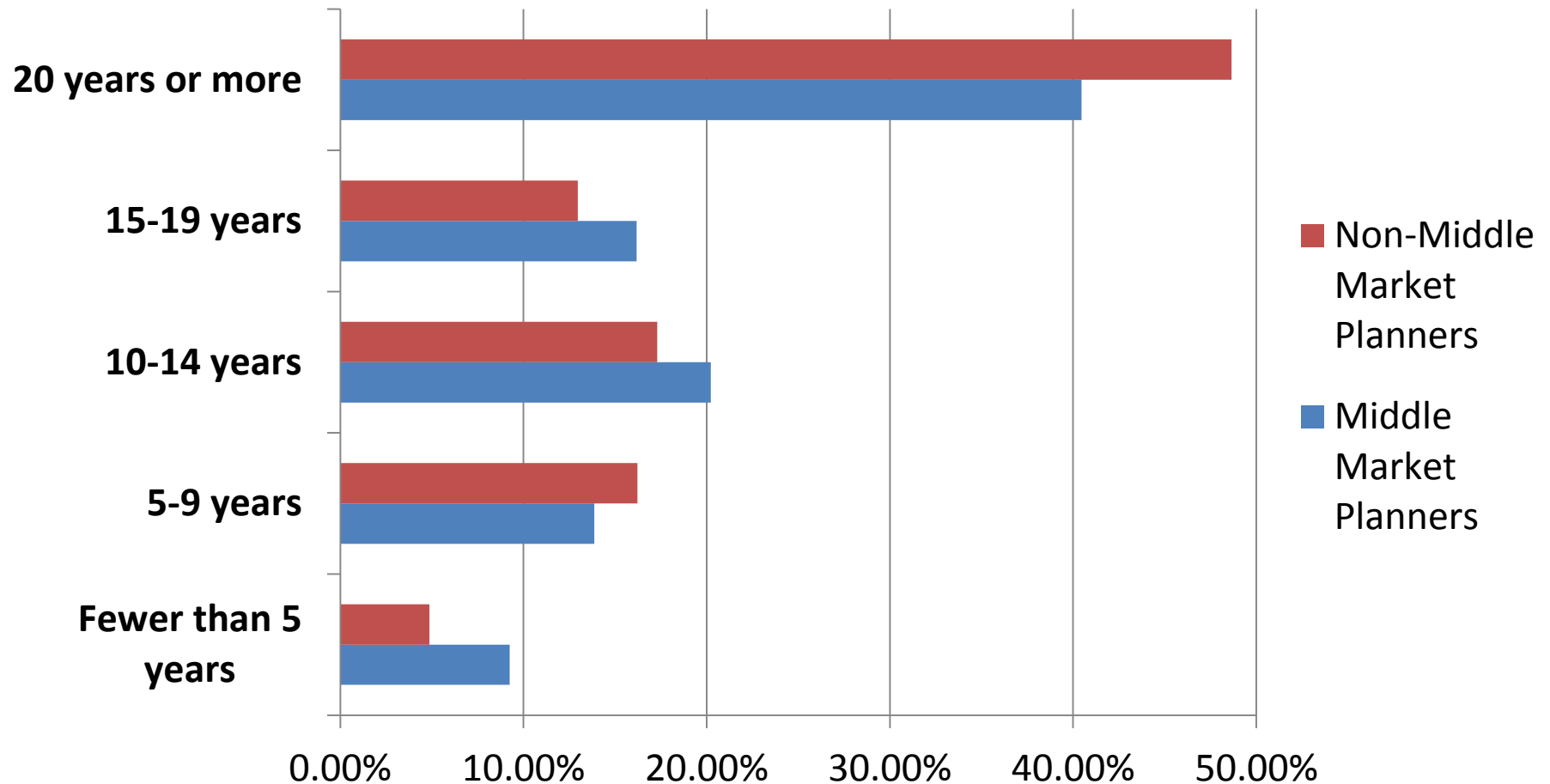
Planning methodologies used today: Focus groups' planning approaches

- Focus on efficiency
- Cash flow management
- Modular planning
- Flat recurring fee with client data entry

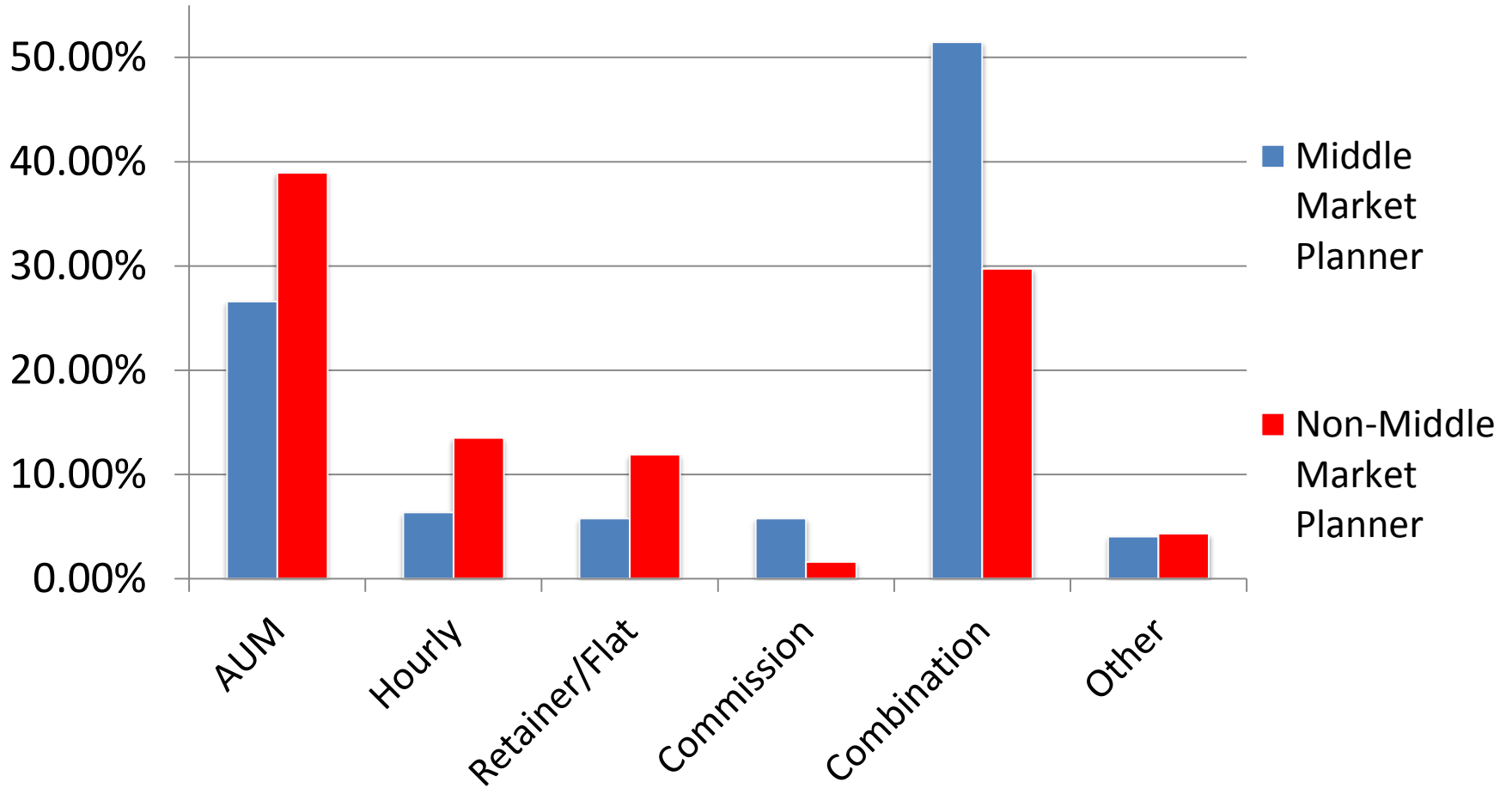
FPA member survey to identify how they serve the mid-market

- Conducted in March 2012 to practitioner members of FPA by the
 - Financial Planning Association (FPA)
 - International Foundation for Retirement Education
 - the Society of Actuaries
- 358 practitioners responded and 173 were deemed “middle market” planners
 - MMP defined as >50% of clients had assets of \$499,000 or less

Survey results: Who is working with the middle market?



Revenue Model



Regulatory Model

	MMP	Non-MMP	T-test
	%	%	Sig
Business Regulatory Model			
Registered Representative	35	17	***
Dually Registered Advisor	31	17	**
Independent IAR/RIA	24	53	***
Unregistered	5	7	
Other	5	6	

Assets Under Management

	MMP	Non-MMP	T-test
	%	%	Sig
Total Assets Under Management (AUM) in \$			
No AUM	16	16	
<10 Million	16	10	*
10-24.9 Million	21	15	*
25-49.9 Million	21	12	***
50-74.9 Million	9	10	
75-100 Million	4	10	*
100-199.9 Million	6	10	
200 Million or More	2	13	***
Prefer not to say	5	4	

Annual Revenue

	MMP	Non-MMP	T-test
	%	%	Sig
Annual Production/Revenue Level			
Less than 100K	26	17	**
100k to 199k	19	14	*
200k to 299k	13	6	***
300k to 499k	12	10	
500k to 999k	11	14	
1 Million or More	6	16	***
Prefer not to say	15	24	***

Binary Logistic Regression

Variables	Coefficient	Odds	Std. Error	Significance
Total AUM (Ref: I don't have any AUM)				
\$75-100 million	-1.7799	-0.831	0.6814	***
\$100-199.9 million	-1.1479	-0.683	0.6762	*
\$200 million or more	-1.8159	-0.837	0.8608	**
Total Annual Revenue (Ref: > \$100k)				
\$1Million or greater	-1.3026	-0.728	0.6625	**
Prefer not to say	-1.0663	-0.656	0.4979	**
Experience (Ref: 20 plus years)				
Fewer than 5 years	0.565	0.759	0.5653	
5-9 years	0.0678	0.07	0.423	
10-14 years	0.0869	0.091	0.3836	
15-19 years	0.3934	0.482	0.3873	
Business Model (Ref: Registered Representative)				
Multiply registered adviser	-0.1929	-0.175	0.365	
Independent IAR/RIA	-1.2472	-0.713	0.3542	***
Other	-1.1796	-0.693	0.6511	*
Revenue Model (Ref: AUM fee)				
Hourly fee	-1.2009	-0.699	0.5923	**

Who is working with the middle market?

Licenses, certifications, or designations

2%	CFA	5%	Enrolled Agent
78%	CFP	54%	Life/Insurance
10%	ChFC	23%	Series 6
0%	CIMA	64%	Series 7
12%	CLU	20%	Series 24
2%	CLTC	51%	Series 63
3%	CPA	33%	Series 65
1%	CPA/PFS	32%	Series 66
3%	CRC	26%	Other
8%	CRPC		

Barriers

- **What are the biggest challenges you face in trying to serve mid-market clients?**
 - Fear (21%), cost (22%), not enough assets (18%), life balance/budgeting (18%), financial illiteracy (13%), and multifaceted issues (8%).
- **For your middle market clients what are the most common challenges they face?**
 - Not enough assets to meet retirement needs (86%)
 - Concern about outliving their investment savings” (64%).
 - Healthcare expenses and long-term care issues (62%).
 - Investment decisions, market conditions, inflation, and disability paled in comparison

How they serve the middle market

- **What do you do differently when providing retirement planning services for middle market clients?**
 - Budgeting (26%)
 - Client education (19%)
 - Look for guaranteed income (11%)
 - More time planning and monitoring (8%)
 - Focus on withdrawal rates and sustainability (6%)
 - More active money management (5%)
 - Nothing (20%)

Approaches used to secure retirement

With mid-market clients who do not have enough money to retire as planned, what do you typically recommend/suggest?

94%	Extending the number of years the client and/or client's spouse works
93%	Working part time in retirement
91%	Cutting expenses

Approaches for managing retirement risk

How do you usually evaluate the likelihood of a retirement plan providing the income a middle market client needs and addressing the risks they face?

25%	Portfolio stress testing/sensitivity analysis
60%	Monte Carlo or other simulation analyses
15%	Rolling period analysis using historical data
3%	Home office review of your plan
38%	Use the 4% or less initial withdrawal rate rule-of-thumb
35%	Application of ongoing and emerging research on sustainable withdrawal strategies
65%	Needs analysis
74%	Ongoing monitoring of the plan/reviewing their current and expected fixed and variable expenses and evaluate their income sources
30%	Worst-case scenarios
18%	Third party contractual guarantee

Approaches used in managing expenses

When mid-market clients need to cut expenses in order to achieve their retirement goals, how do you typically hand that process?

- 56% After having the conversation that expenses need to be cut, the client(s) determine how they are going to cut their expenses.
- 37% I/someone in my practice analyzes their spending and makes some specific recommendations for cutting expenses.

For those mid-market clients who need to leverage their housing wealth in retirement, which of the following approaches do you typically recommend?

- 72% It varies based on the client's objectives.
- 62% Moving to a smaller home or senior housing and investing the additional assets.
- 21% Utilize reverse mortgages to set up lifetime or period-certain stream of income.

Approaches used for managing health expenses

In which of the following ways are you helping your middle market clients manage their health care risks/costs in retirement?

73% Provide access to long-term care insurance

74% Refer client to expert(s)

31% Reserve home equity for the potential funding of large health expenses or long-term care through later sale of the home or reverse mortgage.

25% Facilitate HSA participation

Approaches used to generate retirement income

Which of the following reflects your approach to using a withdrawal strategy with middle market clients ?

54%

My use of a withdrawal strategy varies based on client asset level.

Retirement investments used

Please select any of the following products you use/recommend with your mid-market clients for retirement income generation (all that apply).

Investments

66%	Bonds
43%	CDs
75%	Dividend-paying investments
48%	Treasuries/TIPs

Funds

84%	Bond funds
80%	Equity mutual funds
56%	Exchange-traded funds (ETFs)
4%	Guaranteed payout funds
4%	Managed payout funds (income replacement funds)
27%	Separately managed accounts (SMAs)
14%	Target maturity funds

Other

44%	Combination products (e.g., life insurance and long-term-care)
10%	Limited partnerships
53%	Real estate investment trusts (REITs)
3%	Hedge funds
9%	Other (please specify)

Annuity usage

To what extent do you recommend/use the following products with mid-market clients?

Do not use	Occasionally	Frequently	Always	
29%	40%	28%	3%	Variable annuities with income, asset, or withdrawal guarantees
72%	23%	4%	1%	Indexed annuities with income or withdrawal guarantees
72%	19%	8%	2%	Mutual funds with stand alone lifetime benefits
25%	58%	14%	2%	Income annuities, fixed & variable (also known as immediate annuities)
91%	9%	1%	0	Impaired income annuities
71%	28%	2%	0	Longevity insurance (like an immediate annuity with a long deferral period before payments begin)
20%	57%	20%	3%	Life insurance

Conclusion

- There are planners successfully serving the middle market
 - Flexible revenue models
 - More focus on budgeting, debt management, savings, risk, healthcare, and retirement income
 - Access to home equity will be important but still seems underutilized

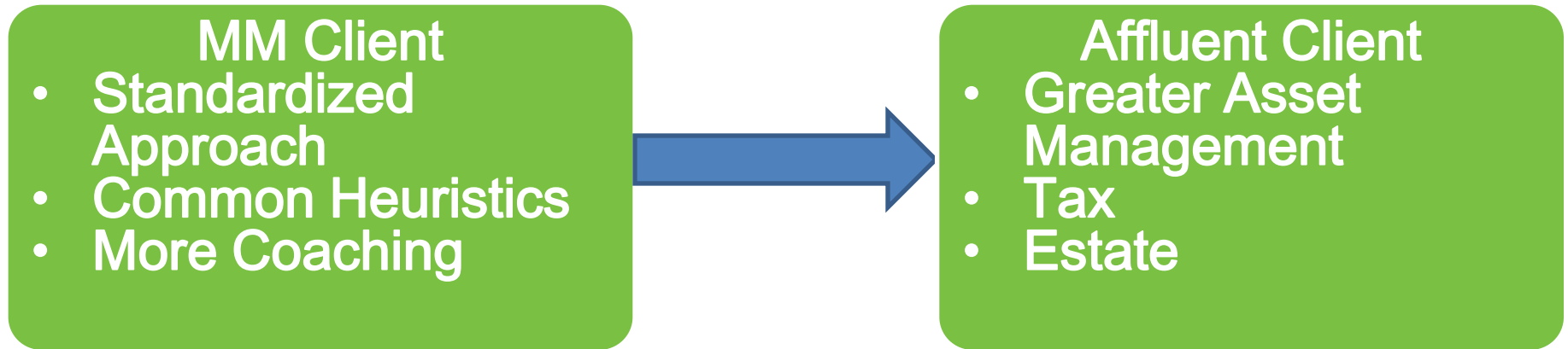


Where do
we need to
go?

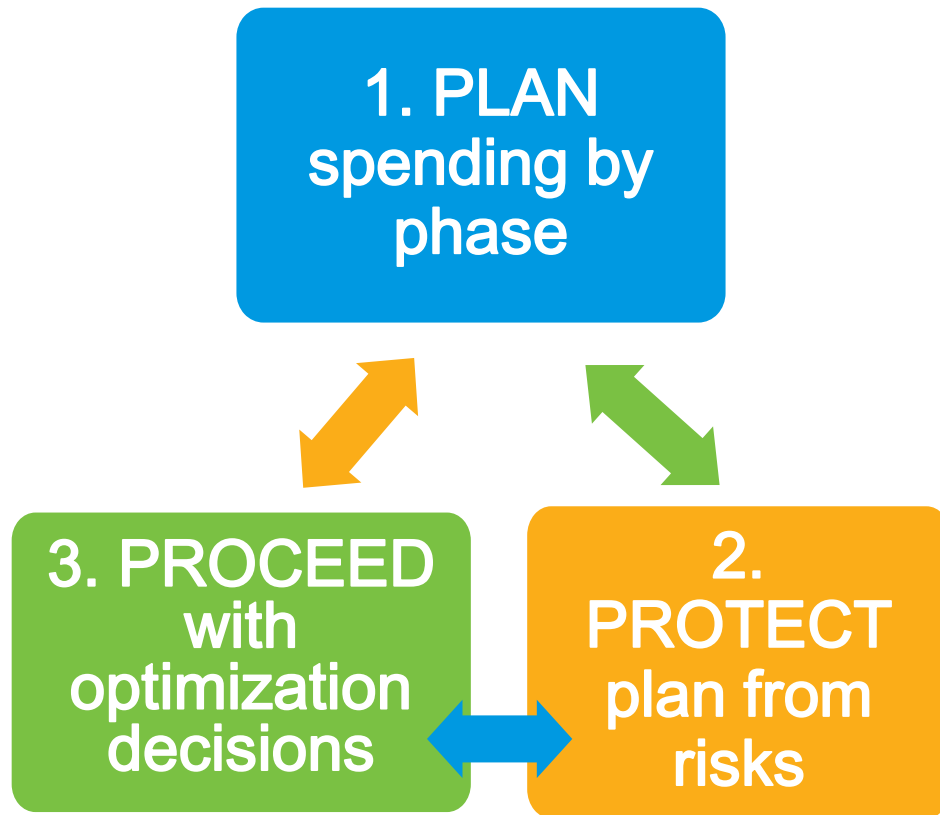
Some Ideas

Segmented practice model

- Not a one-size-fits-all approach rather:
 - Common financial education entry process
 - Plan individualization based on narrower bandwidths



The mid-market requires a cash-flow based retirement decisions model



Step 1: PLAN spending and income decisions by retirement phase

Step 2: PROTECT plan from risks by identifying and ranking risks to manage

Step 3: PROCEED with making informed retirement decisions that manage risk and income desired

Software gaps: add new protocols designed for mid-market

- Software opportunities include:
 - Social Security claiming strategies
 - Expenses and income by phases of retirement
 - Funding of healthcare expenses
 - Use of home equity
 - Use of annuities to increase savings duration
- Provide ability to self service, screen scrape