between staying in business vs. going out of business. We know from experience that the core business model of investment management is "collection" [of Assets Under Management (AUMs)]. On the other hand, retirement-management's core business model is the "payment" [of monthly checks]. We can therefore expect that developing customized, high-diagnostic retirement plans in order to create monthly payments will lead to new forms of professional-services firms. However, if the nature of the work is low diagnostic and low customization, the winning firms will follow a technical-services model rather than a professional-services model. Either model (professional vs. technical) can be expressed in a formula that Maister developed for the optimal management of the professional services firm **(ADDITIONAL DETAILS ARE SHOWN IN APPENDIX 2)**.

So, the question remains: Is a retirement planner a professional or a technician? If we frame this question in light of what we have just learned, we can see that the answer must address the question at both the level of the individual financial advisor and the level of the financial institution. This is the case because teams and not just individuals will be required to solve the range and complexity of retirement planning. At the individual level, some members of the team will focus on the diagnostic aspects of the work, while others will focus on the execution aspects. At the institutional level, retirement-planning firms may have more of a professional feel and less of a technical feel because retirement planning requires both a large amount of diagnostic work and client customization.

As delivering reliable outcomes becomes more important than managing probabilistic expectations, clients will seek thriving retirement-planning institutions and individuals who are successful in managing professional and technical talent as well as client relationships. These firms and people will have a reputation for being able to customize the right retirement plans and to deliver reliable monthly checks.

At the financial advisor level, these findings are consistent with the work of our members in the search and placement industries who played a key role developing RIIA's retirement-management and retirement-income body of knowledge by drafting the Retirement Management Professional job description. This job description identified the characteristics of an emerging type of professional, the Retirement Management Professional, who was different from the Investment-Management Professional. This job description also identified the new professional skills required by Retirement-Management Professionals. These Retirement Management Professional skills became a key dimension in the articulation of the body of knowledge finding its written expression in the first version of the book: *The Body of Knowledge for RIIA's Retirement Management Analyst℠ (RMA℠) Designation: How to Benefit from the "View Across the Silos."* This book, and its subsequent versions, formalizes the body of knowledge for RIIA's Retirement Management Analyst (RMA℠) designation.

The Tools in the Retirement Management Professional's Toolbox

Drawing from the body of knowledge for the RMA℠ designation in order to continue to explore the professional vs. technical nature of both investment-planning and retirement-planning work, we will use the analogy of a toolbox. This will help us highlight in a step-by-step fashion the key differences between the investment-management/accumulation body of knowledge and the retirement-income/retirement-management body of knowledge.

Financial advisors ask: Why it is so hard to do retirement income with what we have and what we know about investment management? The answer is: You are bringing the wrong toolbox to the retirement-income job. It is a bit like bringing a plumber's toolbox to an electrical job. Both jobs deal with flows (water vs. electrons), but we all know that wet plumbing tools will bring unwanted results when electrons flow freely. The same idea applies when you bring your Accumulation Toolbox to a retirement-income job.

We will use the toolbox matrix **(SEE FIGURE 3)** to summarize the differences between the Accumulation Toolbox and the Retirement-Income Toolbox. For this purpose, we will show eight "tools" to compare the Accumulation Toolbox and the Retirement-Income Toolbox as shown below. The items identified in the Retirement-Income Toolbox are some of the components of RIIA's RMA℠ designation. The "tools" include: The Client View (or the Place of Work), The Client Goals (or the Performance Metrics), The Segmentation of the Clients (or the Segmentation Device), The Client Resources (or the Work Medium), The Risk Metrics, The Client Process (or the Work Objective), The Structure of the Client's Portfolio (or the Implementation Instruments) and The Academic Justification.

In the interest of time, let's describe only the "Place of Work" tool for both the Accumulation and the Retirement-Income Toolboxes.

First, note that the key "Place of Work" differentiating observation is that retirement is not an individual client event but that instead retirement is a household event.

Second, see how the matrix on the next page **(SEE FIGURE 4)** contrasts the usual client "Place of Work" in the Accumulation Toolbox ("Usually at the Client level") vs. the necessary household level "Place of Work" in the Retirement-Income Toolbox. While accumulation-level work can sometimes involve the entire household rather than just the individual client, this is not necessary, nor is it prevalent. For retirement income, the household is the place to start. This seemingly small semantic

FIGURE 3: THE TOOLBOX MATRIX

Tools	Accumulation Toolbox	Retirement-Income Toolbox
The Client View (or the Place of Work)		
The Client Goals (or the Performance Metrics)		
The Segmentation of Clients (or the Segmentation Device)		
The Client Resources (or the Work Medium)		
The Risk Metrics		
The Client Process (or the Work Objective)		
The Structure of the Client's Portfolio (or the Implementation Instruments)		
The Academic Justification		

difference matters because it is one of the many reflections of the shift in the mentality of the investor from the traditional view of "make-me-rich" to "pay-me-a-smooth-monthly-income."

One of the consequences of this different "Place of Work" is that the retirement advice relationship is likely to be deeper than the traditional investment advice relationship.

There are other second-order implications that readily come to mind:

- For instance, the focus on household helps explain why retirement-income management may be more process-oriented than accumulation investing. The added complexity may not be easily answered with straight product sales. We will be able to further refine this observation when we look at client segmentation in the last part of this paper
- The focus on the household helps explain why the leading wave of retirement-income innovation is happening in the $9+ trillion retail and nearly $5 trillion IRA channels rather than in the $4 trillion DC channel. Aside from the accumulation-focused regulatory constraints of DC, it is also more complicated to get the household view in the employer-sponsored channels than in the retail channels

In order to help us more clearly look into the future, the table on the next page **(SEE FIGURE 5)** shows the remainder of the toolbox matrix. This matrix and its individual observations are explained in greater details in the book for RIIA's RMA SM designation, mentioned earlier.

Note in particular the crucial difference in the "Work Objective" toolbox: In retirement, the goal changes dramatically from the traditional "Expose [the client's] Assets to Upside in accordance with the Client's Risk Profile," to "First Build a Floor, Then Expose to Upside." This suggests that retirement-management and retirement-income professional

Figure 4: The Toolbox Matrix – Focusing on the Client View/Place of Work

Tools	Accumulation Toolbox	Retirement-Income Toolbox
The Client View (or the Place of Work)	*Usually at the client level*	*Always at the household level*
The Client Goals (or the Performance Metrics)		
The Segmentation of Clients (or the Segmentation Device)		
The Client Resources (or the Work Medium)		
The Risk Metrics		
The Client Process (or the Work Objective)		
The Structure of the Client's Portfolio (or the Implementation Instruments)		
The Academic Justification		

tasks include all or most of the traditional investment-management professional tasks. In addition there are retirement-management professional tasks that fit above and beyond those used by the investment-management professional.

Client Segmentation Drives the Proper Application of the Tools

The final section of this paper will show the link between the Retirement Management Professional's tasks, the matching toolbox and the products/processes that best fit specific client segments. To accomplish this goal, we will use RIIA's Client Segmentation Chart as shown on the next page **(SEE FIGURE 6)**.

The chart shows, on the y-axis, the traditional investment-management dimension for client segmentation: AUMs. It also shows on the x-axis, RIIA's retirement-management dimension for client segmentation: Expected Annual Consumption in Retirement (C) divided by Financial Capital (FC) – shown in the rest of this paper as C/FC.

The AUMs axis shows that clients can be High Net Worth (HNW), Affluent or Mass Market. AUM thresholds vary from company to company but $100,000 has long been a traditional dividing line between Mass Market and Affluent. Similarly, $1 million has also long been a dividing line between Affluent and HNW.

In 2004, the HNW households represented 3.5% of U.S. households (adjusting for inflation) and 43% of the financial AUMs. The Affluent represented 26% of households and 48% of AUMs. The Mass Market represented 71% of households and 9% of the wealth.

By 2010, the HNW represent 5% of U.S. households and 49% of the financial AUMs. The Affluent represent 29% of households and 44% of AUMs. The Mass Market represents 67% of households and 7% of the wealth **(ADDITIONAL**

FIGURE 5: THE TOOLBOX MATRIX – EIGHT POINTS COMPARISON

Tools	Accumulation Toolbox	Retirement-Income Toolbox
The Client View (or the Place of Work)	*Usually at the client level*	*Always at the household level*
The Client Goals (or the Performance Metrics)	*Investment returns*	*Payment of a smooth monthly income*
The Segmentation of Clients (or the Segmentation Device)	*Assets Under Management (AUMs)*	*Ratio of annual consumption divided by financial capital*
The Client Resources (or the Work Medium)	*Work primarily with financial assets*	*Always work with human capital, social capital and financial capital*
The Risk Metrics	*Traditional range of public policy and business risks*	*Larger range of public, policy and client risks*
The Client Process (or the Work Objective)	*Expose assets to upside subject to client's risk profile*	*First build a floor, then expose to upside*
The Structure of the Client's Portfolio (or the Implementation Instruments)	*Asset allocation among risky assets (Diversification)*	*Allocations among risk-management techniques, including: Diversification, risk pooling, risk transfer and retirement-focused risk-free assets*
The Academic Justification	*Modern Portfolio Theory (MPT)*	*Theories that encompass and extend MPT*

DETAILS ARE PROVIDED IN APPENDIX 3).

Clearly, knowing where a potential investment client falls on the AUM spectrum is important. However, it is not enough when encountering a potential retirement-management client. In this case, it is important to bring an income dimension into the picture because retirement clients are interested in their consumption goals.

The C/FC dimension brings consumption in retirement in the market segmentation. "C" and "FC" are numbers that can be elicited and approximated during the first meeting with most clients. Note that expected annual consumption, expected income and expected expenses are three different concepts that should eventually converge to a similar value. As the client/advisor relationship develops, these numbers can be refined, challenged and adjusted. In particular "C" should evolve in the course of planning discussions into "c" to reflect only the portion of expected annual consumption that must come from financial capital as opposed to the portions that can come from human and/or social capital.

Dividing expected annual consumption in retirement ("C" or "c") by financial capital provides a ratio. Using this ratio, the x-axis shows that clients can be Overfunded, Constrained or Underfunded. Like AUM thresholds, C/FC definitions and thresholds standards can vary from company to company. RIIA's definitions and thresholds are based on "c," the minimum flooring from financial capital, and use the following values:

- 3.5% defines the boundary between OverFunded and Constrained
- 7% separates the Constrained from the UnderFunded

This added dimension is important for retirement-focused advisors because the clients they can best serve are not just HNW or Affluent along the AUM dimension but must also be Constrained or perhaps even Overfunded on the C/FC dimension.

Given these two dimensions for retirement-client segmentation, we can describe each one of the nine

Figure 6: RIIA's Client Segmentation Chart – Labeling the Axes

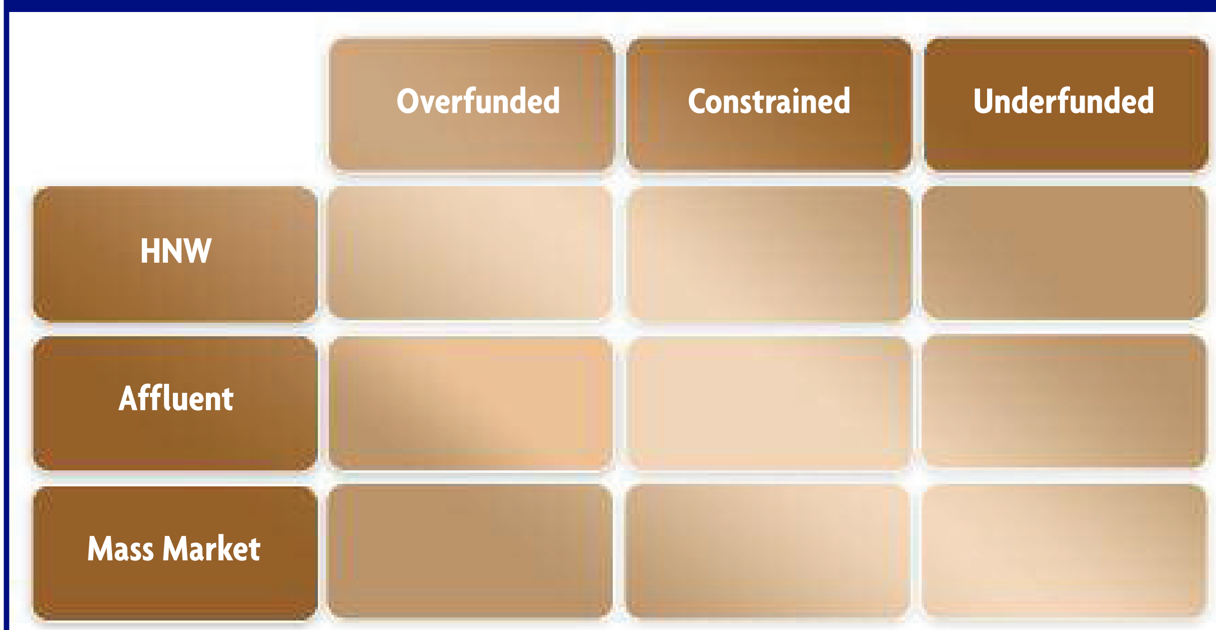

Figure 7: RIIA's Client Segmentation Chart – Filling in the Cells

	Overfunded	Constrained	Underfunded
HNW	Actively Managed Harvesting and Growth	Actively Controlled Income Planning Some Risk Pooling	Advice-based Budgeting/Risk Pooling
Affluent	Systematic Withdrawal Plans	Programmed Income Planning Some Risk Pooling	Mass-Customized Budgeting/Risk Pooling
Mass Market	Productized Income Planning	Productized Income Planning Some Risk Pooling	Productized Budgeting/Fixed Annuities

cells in the matrix using descriptions of the types of processes and products that may best fit the client type they describe **(SEE FIGURE 7)**.

It is useful to remember that "fuzzy logic" applies to the placement of product/process solutions in the matrix. While the placement of the descriptions makes intuitive sense, it is always possible to find exceptions. Clearly, the ability to apply good judgment based on the facts of each case is one of the key elements of value-add that an advisor brings to the client.

Let's continue exploring the matrix, starting with some general observations **(SEE FIGURE 8)**. Looking first at the top-left cell, we can see that High Net Worth and Overfunded clients are most likely best served with "Actively Managed approaches to Harvesting and Growth." This is very similar to traditional investment management. The difference may come from a higher use of "pooling" risk management techniques (insurance) rather than a near exclusive use of "diversification" risk-management techniques (asset allocation).

Other general observations include:

- The inherent "product" focus (at the near exclusion of the "process" focus) of the Mass Market across all levels of funding as shown by the horizontal oval
- The inherent value of "financial literacy" and "budgeting" as a risk-management technique for Underfunded clients across all levels of AUMs as shown by the vertical oval

One of the most interesting grouping of clients from our point of view is the L-shaped band of client segments between the Overfunded High Net Worth client cell and the Underfunded and/or Mass Market client groups. These client segments are those where good retirement planning can bring the most readily visible added value. This is the case because good planning can help lower the C/FC ratio as well as increase their AUMs. It is also the case because the use of "mortality credits" can most visibly make up for these clients' relative lack of savings.

RIIA's RMA^{SM} *BOK (2nd ed.)* explained the range