NaviPlan®
by Advicent

New realities in retirement

Retirement planning considerations for the modern financial advisor

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Retirement planning considerations for the modern financial advisor

Today's state of retirement

As the world slowly rebounds from the COVID-19 pandemic, investor behavior and opinions will never be the same. This is especially true for investors that are planning for retirement.

Today, nearly 70 percent of Americans have no formal retirement plan yet 68 percent believe they know the amount needed to retire comfortably according to MagnifyMoney. In May 2020, just two months after COVID-19 was declared a pandemic, research revealed that nearly half of Americans with a retirement savings account either did, or planned to withdraw retirement funds due to the pandemic. The result has created a retirement reset for Americans according to The Harris Poll, where nearly 20 percent believe their retirement will begin later than expected and 10 percent fear they will no longer be able to retire at all.

Despite the concerns facing future retirees, emerging trends give optimism for investors and advisors alike. Historic numbers of consumers have entered the financial markets, meaning more investors than ever before recognize the importance of comprehensive financial advice to prepare for their future.

The pandemic has put pressure on Americans to be more prepared for the road ahead. In this whitepaper, we will examine the new trends facing today's investors and how the modern financial advisor can evolve to serve their needs.

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New realities at play

Impact of a global pandemic

More than a year after the COVID-19 outbreak was officially declared a pandemic, many aspects of the "new normal" remain. Capacity limits on local establishments, work from home policies, and mask mandates continue to impact daily life across the U.S. Also continuing is government assistance in the form of economic stimulus bills, the third of which was signed into law by President Joe Biden on the one-year anniversary of the World Health Organization's (WHO) pandemic declaration.

Made up of financial elements such as extended unemployment benefits, direct payments to individuals, and various tax provisions, the impact of these stimulus packages vary depending on an individual's situation. This combined with the millions of Americans whose income sources were impacted by lay-offs or furloughs throughout the pandemic leave advisors with new scenarios to consider for their clients. Altered savings strategies, extended time horizons, and higher contributions may be at play for those looking ahead to retirement.

Additionally, as vaccination rollouts continue across the country – advisors must consider how investor spending will change as regions begin to reopen. According to the U.S. Bureau of Labor Statistic's Household Pulse Study, total consumer credit and debit card spending decreased by $7.5 billion from January to April 2020 alone – roughly a 34 percent reduction. Drops in spending on discretionary items such as entertainment, transportation, and travel were "drastic" and the subsequent rise in these categories in the future will be important to watch.

Emerging financial trends

Though the trend is not new, the impact a global event such as the COVID-19 pandemic can have on the markets is always surprising. Investor sentiment was shaken in the final week of February 2020 after the worst week for Wall Street since the 2008 financial crisis. With significant swings of market volatility in the weeks that followed, investors began to worry about the impact on their savings.

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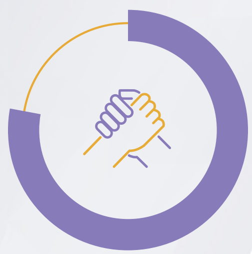
This uncertainty kickstarted a rise in activity for advisors as more and more investors wanted to ensure they were on track with their current plans. Research from the CFP Board in April 2020 found that 78 percent of CFP professionals experienced an increase in client inquiries following the start of the pandemic and two-thirds of advisors noted high stress levels amongst their clients. While juggling these client questions, advisors also dealt with a rise in prospective clients as 34 percent of CFP professionals saw increased inquiries from prospects.



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Investors not only turned to financial professionals during the pandemic but also took matters into their own hands. With remote work policies providing more free time, popular securities falling in price, and self-directed investment platforms readily available – a firestorm of retail investors entered the market. JMP Securities estimates that more than 10 million individuals opened new brokerage accounts in 2020, flocking to the likes of Robinhood, TD Ameritrade, E*Trade, and others. This surging interest in finance further expanded into alternative investment options such as cryptocurrencies and non-fungible tokens (NFTs) such as the popular NBA TopShot – an exchange where investors gain ownership over various NBA GIF images.

Remote tendencies

While the rising interest in finance during the pandemic was astonishing, many of the trends that gained widespread popularity have been on the industry's radar for some time. This is especially true with the shift to remote client engagements.

Consumers have long expressed a desire for quicker access to more information. Whether checking in on goals during a vacation or reviewing plan details from the comfort of their own home, investors want the ability to access their advice anytime, anywhere. In response, FinTech platforms have placed a high priority in developing digital tools for advisors to increase the accessibility of their advice.

Of all the lessons for advisors to learn from the pandemic, it is that today's investor is evolving. No longer are clients following simple savings patterns and sitting on the sidelines. Rather, they are actively seeking new paths to reach their expanding financial goals and want to have a say in the process. Advisors need to take a step back and truly assess if their processes and technology are equipped to serve the modern investor.

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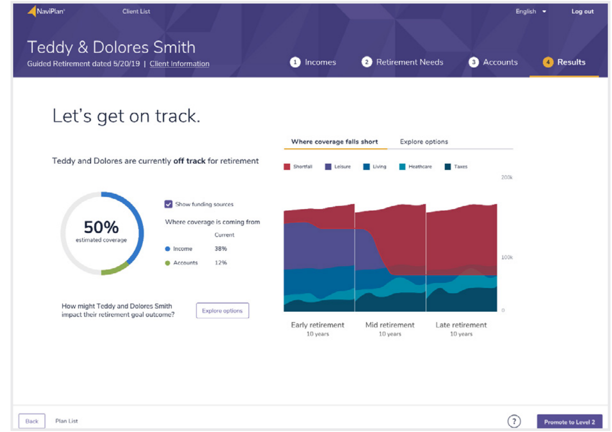
Serving the modern investor

Kickstart the retirement conversation

For many, the pandemic showed just how uncertain the future can be. Today's investor saving for retirement has a heightened interest in ensuring their all bases are covered across a variety of retirement planning topics. This includes retirement income, tax considerations, and especially after a global health event – healthcare expenses.

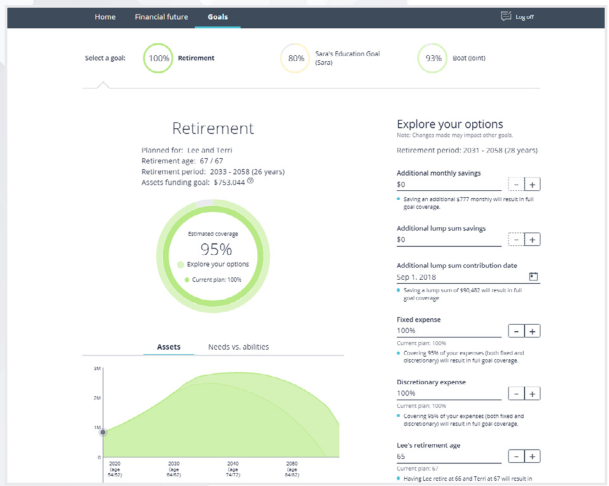
With an advisor's time spread thin across client and prospect inquires, it is imperative to embrace a solution that helps showcase their value right from the start. The NaviPlan platform is designed to do exactly this with its Guided Retirement assessment. By entering just one data point – income – advisors can begin to show clients their projected needs across three phases of retirement. Built using smart assumptions based on consumer spending, trusted academic research, and other big data sources, Guided Retirement is able to categorize expenses into leisure, living, healthcare, and taxes.



After showcasing these needs, advisors can quickly promote the assessment data to a full Level-2 financial plan. From here, robust modules such as estate planning, business planning, and detailed tax analysis can be introduced to handle the most advanced planning scenarios. Made possible by the platform approach of NaviPlan, this streamlined workflow helps advisors highlight their value and quickly gain trust with clients and prospects.

Increase advice accessibility

As the country slowly returns to life before the pandemic, certain trends are here to stay. Easily accessible financial advice being one of them. This is where client portal technology comes into play. In the NaviPlan client portal, for example, clients are not only able to access plan details and check on goal progress but are able to get involved in the planning process as well.



As clients continue to explore self-directed and retail investing options, offering a shared client/advisor planning experience can help firms retain their books of business for the long haul. This concept is a key tenant of the NaviPlan platform and will continue to evolve over time.

Brace for new methodologies

Retirement will continue to be the primary long-term goal for most investors, but the avenues to reach it are evolving. Advisors need to place a priority on understanding the investor interest in alternative investments such as cryptocurrency, NFTs, and other categories. While it may not an advisor's job to precisely project the value of say, Bitcoin or an NBA TopShot GIF, it is imperative to understand how these can play a meaningful role in savings strategies and goal funding.

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Having a base understanding of why an investor may be interested in making alternative investments a bigger focus of their portfolio can help lead to meaningful discussions on how it can work with their overall financial plan.

Retirement reset

With more than a year of altered spending patterns and savings behavior during the pandemic, it may be wise for advisors to take a step back and get on the same page with clients. While statistics show that spending decreased in the U.S. overall, each client's scenario is different. If additional money was spent in unexpected areas over the last year, advisors should clarify what impact this could have on goal coverage. Conversely, if clients were able to save more than expected, advisors can provide guidance on the best ways to allocate those savings to achieve decreased time horizons or expanded retirement savings.

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By getting on the same page with clients, advisors will be able to clearly outline the impacts of the pandemic and as the country begins to reopen and daily life returns to normal, this clarity will help guide spending patterns moving forward.

While it might be natural for clients to soon increase spending on categories limited by the pandemic such as travel and entertainment, demonstrating how this can impact goal progress will show that the advisor has their best interests in mind.

The financial tastes of tomorrow's retirees are changing and for advisors to elevate their appeal to these investors, evolution is required. By adopting the right FinTech, embracing processes that welcome the modern investor, and remaining on the same page with clients – firms will be in an ideal position to retain and grow a healthy book of business.

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There are countless paths to every client goal.

How you get there matters.

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