The Longevity Revolution

BY JANE WOLLMAN RUSOFF

People are living longer than ever. Don't give them the same old financial advice.

DECADES AGO, baby boomers were famously dubbed the "Me Generation." Today, we might easily rename these men and women the "Understand-Me Generation" — at least when it comes to figuring out and meeting their financial needs.

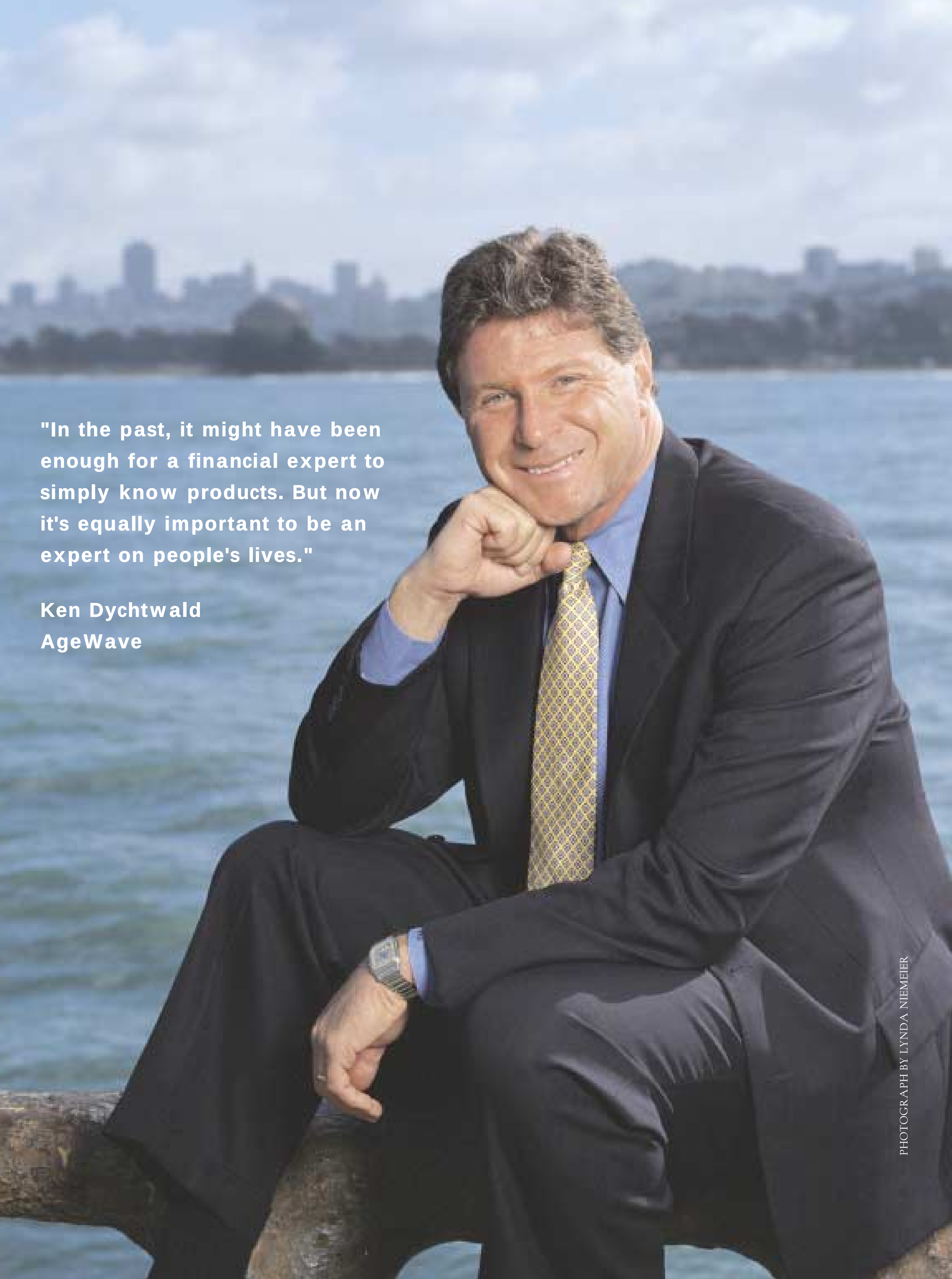
Driven by these key consumers, America is experiencing a dramatic demographic upheaval. Boomers — now moving into their 50s — are migrating into that life stage of taking wealth accumulation and financial planning seriously. Concurrently, life spans are lengthening greatly.

At the start of the 20th century, average life expectancy was 47 years; as the century closed, it had risen to 76. And human biological potential is now believed to be between 120 and 140 years.

"We are in the midst of an incredible longevity revolution," says Ken Dychtwald, Ph.D., psychologist and gerontologist, and leading authority on the aging of America. "This is one of two profound changes that are having reverberations in the world of financial services. The other is a transformation in the way we live our lives.

"Boom times are coming [for advisors] because baby boomers have been so deeply immersed in immediate gratification that a frighteningly small percentage has [ever] actually taken financial planning to heart," says Dychtwald, 51, author of "AgePower: How the 21st Century Will Be Ruled by the New Old" (Tarcher/Putnam, 1999).

What a golden opportunity for the savvy financial advisor! "It doesn't get much better than this: tens of millions of people growing into the stage where they seek out this kind of help," says Dychtwald. "They are relatively uninformed and in many ways unprepared for what's to come. Today a new class of [senior] is [here] that's much more demanding, much more inde-



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Ken Dychtwald
AgeWave

PHOTOGRAPH BY LYNDA NIEMEIER

pendent and also much more irresponsible when it comes to financial matters. This is not your father's Oldsmobile Generation."

But one size does not fit all. Boomers are looking for financial advisors who understand precisely who they are and just what constitutes their personal dreams. They need consultants who can provide customized approaches to help them build bridges to the future. "Boomers want a financial planner to really try to understand the journey of their life and where they'd like it to head, then help them [develop] financial solutions and blueprints to fulfill those dreams," says Dychtwald, who is president of San Francisco-based AgeWave, and advisor to North Castle Partners, a private equity fund investing in the healthy-living and aging sectors.

At the same time, there are already 40 million retirees who also need financial advice, and many are taking part-time jobs or even launching new businesses post-retirement. Obviously, they need planning help in their new work-lives.

Larry Klein, 45, president of NF Communications, Inc., an educational company for financial professionals in Walnut Creek, Calif., has catered to seniors aged 60-plus from the time he became a broker 15 years ago. "In this country, people over 60 have 77 percent of the nation's wealth. When you're in the financial-services business, you go where the money is — and that's where it is.

"Retirees are also more motivated," says Klein. "They have a greater degree of financial insecurity because they don't get an automatic paycheck every week. Thirdly, they respect the value of advice. Seniors understand that there's wisdom with age and experience — because they feel that way about themselves — so they're willing to compensate somebody for the value of added experience."

About 6,000 Americans turn 65 every day; in nine years, that figure will jump to 9,000, according to Ed Pittock, 58, president of the Society of Certified Senior Advisors, whose Denver-based program covers health, financial and social issues. "We're becoming an old society: The number of people being born as a percentage is decreasing at the same time the older population is increasing: by 2025, the over-50 population will increase 74 percent, while the under-50 population will increase only 1 percent.

"For financial advisors, people living longer represents the number one opportunity. But we're only on the tip of this. In the next 25 years," says Pittock, "there will be over a million centenarians in this country. So it's going to be very common to live to 110 or 115. Therefore, people have a lot more to plan for and for a longer period of time."

Royal Alliance Associates, whose advisors' clientele is 50 percent pre-retirement and retirement, is positioning itself early to capitalize on the longevity revolution. Recently, the broker-dealer commissioned Dychtwald to direct the Harris Yankelovich organization to survey 1,000 retiree households about retirement life now and in the future. Interviewers are probing attitudes and asking subjects, among other advisor-oriented questions, to describe their ideal financial planner.

Results are expected in January 2002. At press-time, preliminary focus groups showed, says Dychtwald, "that what people really want is not so much the halting of work but the chance to take a deep breath and do what they want to do — to pursue the dreams they've had corked up for years. That may involve working, volunteering, going back to school, writing a novel, living on a tropical island. But what people want is freedom to do what they want to do. And this is powerful."

He adds: "Therefore, the financial planner has an enormously important role to deeply understand that personal dream and then help put the financial elements in place so that the likelihood of its happening is very high."

Royal Alliance's research will produce the first retiree segmentation model ever, according to Dychtwald. "Not all retirees are the same. Some are having a blast. Some are very bored. We're going to attempt to find out what kind of financial preparation was necessary among those having a fabulous time for that to occur."

Mark Goldberg, president of New York-based Royal Alliance, says: "We're finding that not all retirees are moving down to Florida to retire to the two-bedroom condo, play pinochle and live off a pension. They're part of a generation that's reinventing everything: They want to be active. Some are working at McDonald's. So to think of retirement in a very traditional way is not meeting the client's needs."

Adds Goldberg: "We commissioned this study to better understand the marketplace and through training and education, put our advisors in a better position to meet those needs. What are the types of products and services they're looking for? What's the advice component? It seems very clear that here's an opportunity to help clients. The question is how best to do it. That requires research and study. What we have identified so far is a trend; we're on the cusp of an opportunity. Then it comes down to execution."

Prudential Financial million-dollar producer Richard R. Fulton, a senior vice president who specializes in older clients in North Palm Beach, Fla., thinks the longevity revolution will "allow [advisors] to broaden their product mix and, for example, bring in trust services." Apart from safe, income-producing investments, older retirees need equity exposure, too. "They're living longer so they always need an element of growth, an inflation fighter. It could be conservative growth. But don't be misguided thinking that just because your client is retired, he wants 100 percent guarantees."

Still, Glee B. Pope, CFP and vice president for investments at A.G. Edwards in Carefree, Ariz, says older clients "need different things as opposed to younger ones, such as second-to-die life insurance policies to take care of estate-planning needs. They may need annuities." The most challenging part of working with these clients is that "they're dealing with their own mortality and fear of running out of money. They all feel they will no matter how much they have."

Notes Pat Ternes, CFP and vice president at RBC Dain Rauscher in Phoenix: "The best thing you can do is get to know the client and what their ultimate concerns are, their immediate needs and their ultimate life goals. Maybe it's not to leave a bundle to the family; maybe it's to leave a bunch of money to charity; or maybe it's to live it up. It depends on the individual. There are no cookie-cutter approaches."

In Edina, Minn., financial consultant Sharon Winsness, senior vice president of RBC Dain Rauscher's Consulting Group, says: "The bottom line is the financial plan: Plan early, review the plan often, stay with the plan. But certainly pay attention to lifestyle changes. If something changes, go back and revisit the plan to see how it will impact on your original approach."

First Union Securities senior advisor Kim Love, in Boca Raton, Fla., agrees that the senior market is lucrative, but warns: "You need to be extremely cautious. You must have empathy for whom you're dealing with as far as their nerves go. You can't put everything they've got into things that can have big fluctuations because you'll give them a coronary. You can't be a gunslinger doing a lot of stock trading or option writing in a volatile market. My advice to brokers getting into the senior market is to start with safety — stay with preferred stocks and fixed annuities."

Larry Klein recommends a number of services and products for seniors including fee-based investment management, health insurance and annuities. "Immediate annuities, which have not been popular in recent years, may become more popular as seniors live longer and seek out another source of income."

In his book, "Marketing Financial Services to Seniors" (NF Communications, 2000), Klein writes that most seniors are more interested in protecting what they have than in raising returns. "Show them the mutual fund that is less volatile, the safe annuity company, how to reduce income taxes and keep more, and stocks with the lower beta."

Fred Hensler, president of Hensler & Associates Wealth Management, in Grand Blanc, Mich., who holds seminars to prospect 50-to-70-year-olds, has observed a lethargy on the part of many seniors even to work up a financial plan. "Some very sophisticated people are absolutely paranoid about the idea of investment management and financial planning. They'd rather stick their heads in the sand and hope that everything is OK than do something about it and take a proactive role."

But as Ken Dychtwald points out, such tendencies, together with powerful demographic and lifestyle shifts in progress, represent a stunning opportunity for financial advisors. America is going through "a metamorphosis," he says. "People are living longer and are more inclined to change jobs or careers or marriages if they're tired of the old ones. You're seeing the rise of an entirely new paradigm of living that I call the cyclic life plan. The effect of this is that life has not only become longer, it's gotten more complicated and unpredictable. That's why the more extended our lives become and the more twists and turns there might be, the more valuable the financial planner becomes.

"In the past, it might have been enough for a financial expert to simply know products. But now it's equally important to be an expert on people's lives. Unfortunately, very few financial planners hit the mark because they have limited understanding and sensitivity to our lives and to adulthood."

Adds Dychtwald: "In the years to come, planners, who might ultimately call themselves life planners, will have one foot in the world of financial products and the other planted in the world of life stages and adulthood. It's more than just retirement: It's also parenthood, empty-nesting, divorce, widowhood, loss of a career. So for a financial planner to simply guide a person toward retirement when they might have three to five more major life events to go is selling the client short."

In fact, says Dychtwald, "'Retirement' is about to become an obsolete concept. In recent studies, 80 percent said they expected to work in retirement — which makes you wonder: What's retirement?"

To be sure, there are numerous ways that the longevity revolution can transform an advisor's business. The host of relevant products and services has grown to include

HOW TO TALK TO OLDER PROSPECTS

For advisors inept at presenting to older prospects, the response they hear most often is the deadening: "I'll think about it."

Certainly, selling to seniors requires a different approach from winning over younger prospects. "When you're presenting to people who aren't seniors, you spend much more time on facts, features and benefits," says Larry Klein, president of NF Communications. "Seniors don't make decisions that way. They analyze the person and proceed based on an assessment of their knowledge, trustworthiness and credibility.

"So if you don't spend time establishing yourself as an authority and expert, the product could be the key to Fort Knox and they'll probably say, 'I'll think about it.'"

But, says Klein, "if they trust you because you've learned how to present yourself correctly, they'll say, 'That sounds good. Would you do the same thing for your mother? Yes? Great, let's proceed.'"

Gender can make a difference too. Notes Richard R. Fulton, senior vice president, Prudential Financial: "Men are more risk-takers, women more conservative. They have a longer attention span; men want to get to the point right away. Women want to learn more."

Says Fulton: "With widows, the biggest thing is their independence. You have to tremendously respect them even if they're very unsophisticated and you have to spend a lot of time educating them. Some don't even know how to write a check. They're scared being on their own. You have to go slower in the education process because they feel abandoned."

How about wooing married couples? "If the husband is a genius and the wife has been a homemaker all her life, you can't direct comments only to the husband," says Fulton. "You must get the wife into the conversation because she's going to walk out of there and do nothing but squawk to her husband that all the broker did was pay attention to him because he's the smarter one."

In advertising to seniors, Klein says ads that get the most response are those appealing to — in descending order — seniors' "desire for security, need to be wanted, fear, pride, guilt, vanity, greed."

Klein strongly advises throwing some humor into a seniors seminar to show that "you're a funny guy, open and light." But be careful. "Younger advisors could shoot themselves in the foot with this. It can't be jokes you'd tell to your 45-year-old friends. It has to be humor that seniors think is funny. I tell a lot of jokes about retired people or someone going to the doctor or playing golf. I use Henny Youngman lines, too. It's all oriented toward their reality."

One more caveat: Don't call boomers seniors. "That's not a word people close to 65 relate to or want to be associated with," says psychologist Ken Dychtwald. "Ask a 62-year-old if they'd like to be considered a senior and they'll tell you, 'Yeah, when I'm 90!'"

Dychtwald uses these terms: boomers, older adults (for those beyond boomer-age) and elders (folks over 75). "The word senior," he says, "has lost its glow."

— JWR

pension plans for new companies, reverse mortgages, estate planning and long-term care insurance. About the latter, Larry Klein notes: "This is the first generation in the history of the world that will outlive their bodies. They'll be around, but won't be able to function very well."

Indeed, long-term care insurance should be introduced when clients are in their late 50s and healthy, when costs are lower. "The fastest way to drain an estate is if someone becomes disabled or has a terminal illness, needs long-term health care and doesn't have insurance for it," says Prudential's Fulton. "This is such a hot topic — clients are calling me about it."

A.G. Edwards' Pope calls long-term care insurance "a comfort factor a lot of people are finding very agreeable these days. There's an increased sense of 'I want to make sure all my ducks are in a row and that I've taken care of my family' — especially after Sept. 11."

Further, the longevity revolution presents an outstanding opportunity for financial advisors to sell longevity insurance, investment insurance and bill-paying services. Klein says the following are of "unique benefit to seniors: a capital-gains elimination trust (actually a charitable remainder trust), a single premium immediate annuity to fund long-term care, converting annuities to life insurance, and reducing taxes on IRA distributions."

Just what skills are critical to make the most of the longevity revolution? Says Dychtwald: "The first thing is: Love your work. This is a people business. Two, know your products and be able to explain them thoroughly. Three, know how to customize. This is a generation [boomers] that doesn't want off-the-shelf. Every single member of it feels unique and special and wants to be related to that way. Four, really understand adulthood — the challenges and life stages that tens of millions of Americans are going to confront in the years to come — and relate with some sensitivity to what people have in front of them.

"Finally, you have to be a bit of a futurist and see 20 years downstream. Then marry that with your knowledge of which financial products can [provide] clients the highest level of financial independence and freedom."