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Retiring Pensions – Challenges For Wealth Management

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10 years ago I remember sitting around the breakfast table with a family member and discussing his expectations of "retirement" - life after the daily grind of a corporate executive career. More "free" time to play golf, to travel the world with his wife and to enjoy the company of his children and future grandchildren. Like many in his early 60s, he had some health concerns but the mere thought of not spending 3 hours a day, 5 days a week, 40 plus weeks a year driving to and from work was visibly a huge emotional "release". Aside from delighting his clients and managing up his boss, his prime focus was maximising his “pension pot” and hanging on until it made sense to retire.

I mention this because for the past 70 years that is a very common mindset and behaviour for many employees in Western economies. Listen to me carefully - I think this mindset is moribund for many of us under 50 years of age or more than ten years from retirement. Why?

1. **The concept of "retirement" is dissolving fast.** The assumption that by *our* choice or an employer's, at a fixed time and date, we or they “want” or more importantly, “need” us to leave the corporate world is increasingly moribund. Individuals want to valuably contribute, whether it is in business, charity or a personal interest. Employers have a huge need to preserve "institutional memory" as a point of differentiation and value creation in a converging world. "How" they and we accomplish that is with increasingly diverse alternatives and flexible ways.

2. **The concept of a "pension" (or a "401(k)" for my US friends) as a funding vehicle for our future lifestyle needs is dissolving fast**. States and employers can no longer afford "past" pension promises, nor the responsibility for future investment risk. We live in a world, where "personal responsibility power" is now the dividing line between the "have's" and “have not’s" in a great many societies. "You (employer / State) want me to take greater responsibility for my actions and needs. That's great but do I have the power to positively influence the outcomes?" That's the crux of political battles in North America, Western Europe and Japan today.

3. **The construct of a "pension" is dissolving fast.** Historically, pension plans and products were structured to pay out (annuity income), a sum of cash to fund your future lifestyle needs. Those "needs" were largely known and relatively easy to predict (longevity, inflation and market risk). Product innovation moved in inches not miles. Today we have a myriad of risks and we are finding new risks in places we never imagined before. Health and education inflation is dramatically higher than the retail price index. With longer lives our needs in our 70s and 80s for cash, credit and investment to fund long-term care and housing reflect a "balloon" on our financial planning charts. We live in exciting and uncertain times.

4. **The constraints of a "pension" are dissolving fast.** In countries such as Australia, UK and many others to follow, traditional rules and policies on the funding of, incentives and utility of a pension are going through unprecedented changes. For example, the UK's "new enlightenment" allows pensions taken before 75 years of age to be taxed at marginal rates. There is no compulsion to buy annuities with lousy investment returns. Upon death, the pension falls outside the deceased's estate for inheritance tax purposes. The "pension" is now an inter-generational investment and savings vehicle. That has huge ramifications for wealth management firms, the products they offer and the quality of advice delivered by wealth managers, private bankers and financial advisers. Issues that were largely the preserve of the Family Office, preservation of wealth, efficient wealth transfer between generations and so on are now coming to the fore.

These are evolutionary times for many market participants demanding new value propositions, new ways to attract new customers, new ways to create and promote their expertise. It challenges widely held beliefs about the firm's position in the wealth management "value chain" and their remuneration basis. The future of these organisations is about four components:

1. The "Quality of Management" to formulate and implement their growth strategies in the real world (skills and volition).
2. The "Quality of Employees", the ability to hire people or develop their skills, experiences and behavioural traits to ensure the firm remains relevant to its' customers.
3. The "Amount of Uncertainty" that exists inside the firm around their ability to implement their growth strategy and navigate through these changes.
4. The "Competitive Threat" posed by new entrants and new technology that has the potential to disrupt or destroy traditional wealth management niches.

How does your firm stack up? What steps can you reasonably and appropriately take to positively impact each variable? Do you have a plan with defined actions, accountabilities and timings to accomplish those desired changes? Do you know where to start?

No one can accurately predict the future, my family member on when his time will come or a market participant on their firm's future relevance to its' client base. What we must do is live life at full blast, apply common sense and make good judgements to the best of our abilities. We don't accomplish that with our "head in the sand" nor retaining a set of beliefs about retirement that are largely disappearing in front of our eyes.