Affluent Baby Boomers Moving to Managed Accounts Will Drive Next-Generation Robo-Advisory Technology

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While the vast majority of all retirement funds are passively managed, the growing wealth accumulated by today's Baby Boomers has prompted many of these investors to take advantage of a managed account. As the number of these actively managed, fee-based accounts continues to grow, manual management of these accounts will become increasingly inefficient, creating demand for more sophisticated digital robo-advisory solutions.

The Rise of Managed Accounts

About 17 million Americans are now 65-69. In the next several years, these seniors will begin required minimum distributions (RMD) from their retirement accounts. At this stage, the traditional retirement portfolio shifts from growth to wealth preservation, with a corresponding transition from equity to fixed income instruments. However, bond yields have gone from an effective rate of 4-6% to barely 2%. That low rate of return is unacceptable to many well-heeled retirees and unsustainable for others with smaller, seven-figure portfolios looking to make it last a lifetime. As a result, a growing number of Baby Boomers have been encouraged to explore other investment strategies such as separately managed accounts (SMA) and unified managed accounts (UMA).

Managed accounts can have highly-individualized goals, tax considerations, weighting parameters and instrument preferences or restrictions. If wealth managers have to adjust hundreds or thousands of individual portfolios on a one-by-one basis, the process becomes resource-intensive, expensive and can hinder the wealth manager's ability to optimize those portfolios. The solution to this challenge is more sophisticated robo-advisor technology.

Next-Generation Robo Advisory Technologies Needed for Greater Efficiency

The broad-brush algorithms that drive most of today's robo-advisors were never designed for investors with more sophisticated strategies. However, new technologies with more advanced, rules-driven engines, such as SS&C's Tailored Investment Automation (TIA), allow wealth management firms to make macro changes in investment strategies and have them automatically trickle down to individual client portfolios—all while maintaining individual client needs and preferences.

Technologies like SS&C's TIA allow the firm to trade and distribute securities across all appropriate portfolios in strict compliance with the investment strategy, risk profile and restrictions of each portfolio model. If a firm takes a large buy or sell position in a certain security, it can automatically trade those instruments, proportionally, in each individual portfolio.

Similarly, managed account managers may want to shift a client's investment model to reflect expectations for a particular market, sector or asset class. This exercise is exceptionally impractical when performed manually over hundreds or thousands of managed accounts. Instead, it demands another next-generation robo-advisory technology, which SS&C calls Tactical Asset Allocation (TAA). Both of SS&C's TIA and TAA include a wide range of algorithms. As more Baby Boomers are attracted to managed accounts in the coming years, wealth management firms with the technology to efficiently capitalize on this trend will gain a significant advantage. ■

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