
Advisors to retirees shouldn't neglect the 'household balance sheet'

By Editorial Staff Thu, Sep 22, 2016

'A complete understanding of the household's requirements and resources is necessary to apply a fiduciary standard effectively in both the accumulation and disbursement phases,' according to MacroMonitor, a publication of Strategic Business Insights.

For advisers active in recommending rollovers from defined-contribution plans to IRAs, the DOL's new fiduciary rule might appear at first to have little impact. That's because clients may roll over only a couple of times in their careers, and because many advisers are already fiduciaries.

But, across the advice industry, the impact of the rule could be much greater than might first appear, according to the MacroMonitor, a publication of Strategic Business Insights (SBI).

For one thing, the fiduciary standards will shift tens of billions of dollars into the pockets of IRA owners. Second, advisers are at risk of underestimate how much broader their fiduciary responsibilities will be to clients who have entered retirement.

On the first point, the fiduciary standards could save IRA owners over \$40 billion in ten years, SBI research shows. "Even narrowly applied, the impact could affect about seven million households and nearly \$600 billion that rolls over into IRAs annually—the numbers are rising," this week's issue of the MacroMonitor said.

On the second point, fiduciary standard of advice to a retiree may mean a shift in the focus of advice from the narrow field of investment management to the more comprehensive management of each client's "household balance sheet."

The household balance sheet includes the sum total of the household's assets and debts, and includes the interests, if applicable, of a spouse, children and perhaps other stakeholders, MacroMonitor said.

"A complete understanding of the household's requirements and resources is necessary to apply a fiduciary standard effectively in both the accumulation and disbursement phases" because "the purpose of advice is to create and maintain a secure income (such as cash flow) during retirement."

Expertise in mutual funds alone will not be sufficient for the fiduciary retirement advisor.

“Providing good retirement advice requires knowledge about all retirement resources, retail investments, debts, and all forms of protection held; most households have a variety of them all,” the report said.

“Recent-rollover households more likely than all households to own all types of retirement accounts—IRAs (Roths, Simples, Traditional), 401k’s, 403b’s, 457’s, and individual annuities—and at least one household head is also more likely than all household heads to have a defined-benefit pension plan.”

Other demographic and financial characteristics of recent-rollover households make the task of providing good advice complicated and difficult. Near-retirement household hold more debt than all other households combined.

The report noted, however, that rollover clients are receptive clients. “The good news is that rollover households frequently secure advice before making major investment decisions,” the MacroMonitor said. “They are more likely than all households to use most types of financial institutions and intermediaries, and they tend to trust these firms and professionals. Many already have a written financial plan and wills in place.”

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