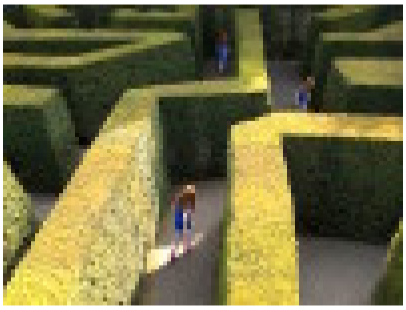
Guiding Clients Through the Medicare Maze

By Kerry Pechter *Thu, Sep 15, 2016*

Medicare counseling can be an excellent marketing tool for advisors, especially those who are positioning themselves as retirement specialists. Just ask Ash Toumayants of State College, Pa.



If you're an advisor and you're not helping guide your 65-year-old clients through the Medicare maze, maybe you should reconsider. Multi-licensed young retirement advisors like Ash Toumayants are only too happy to lever the Medicare opportunity to pry your clients away.

The 34-year-old founder of **Strong Tower Associates** in State College, Pa., Toumayants brings an outsider's perspective to financial advice. Arriving in the U.S. from Cairo with his parents only 14 years ago, this grandson of refugees from the 1915 Armenian genocide appreciates entitlements like Social Security and Medicare as perhaps only an émigré can.

"Armenia is a poor country. So is Egypt," he told *RIJ* recently. "Social benefits are meager. You have to pay for everything yourself. The strength of the public system here is incredible to me. You guys have it made, but you don't give much thought to making the most of what you have."

After graduating from Penn State with an industrial engineering degree and digressing into insurance and financial services through a temp job, Toumayants is now establishing himself. He's affiliated with **Retirement Wealth Advisors** and **FormulaFolios**, two Michigan-based RIAs founded by Jason Wenk, who gained some renown a few years ago as an iconoclastic annuity blogger.

As we know, many traditional investment-focused advisors are aging out of the profession, and a new generation is emerging. If Toumayants is at all representative of them, they're more holistic and more retirement-minded than their predecessors. In a telephone conversation, he talked with *RIJ* about Medicare, annuities, robo-advice, the Department of Labor's fiduciary rule and his business model, among other things.

Panicky 64-year-olds

When Toumayants (at right) was temp-ing in college, making outcalls for a Medigap writer, he was dismayed not just by the level of panic that the Medicare decision inspires in 64-year-olds, but also by their ignorance of the program and the lack of support that investment advisors offered in that area. He smelled opportunity.

“Ask any 64-year-old and you’ll hear that every week they get 20 pounds of mail about Medicare supplements,” he said. “It makes them really panicky. There are Medicare supplements, Medicare Advantage plans, prescription drug plans—and people don’t know which is which. This decision is even more stressful than the rollover decision. You can always stay in your 401(k), but with Medicare you’re forced to make a decision.”

Investment advisors, perhaps because they didn’t have health insurance licenses and/or because there isn’t much money in it, didn’t seem to be helping these people much. This mystified Toumayants

“I was shocked by the number of people I met whose financial managers had no idea how Medicare worked,” he said. “How can you be sure that your clients will have enough income for life if you don’t know what arguably their biggest retirement expense will be? Medicare is its own animal. It’s hard to understand and most advisors don’t bother.”

What’s so hard about Medicare? For one thing, because neither Medicare A or B (hospital coverage and physician coverage) covers all health expenses. So new enrollees face the responsibility to top up their coverage by choosing either a Medigap plan or a Medicare Advantage Plan.

In theory, this decision should feel familiar to anyone who has ever had to choose between a fee-for-service health insurance plan (like Medicare supplement insurance or “Medigap” coverage), which lets them to visit any doctor, and an health maintenance organization or preferred provider network (like Medicare Advantage), which claims to offer lower costs for patients willing to use only doctors or hospitals in a given network.

In practice, 65-year-olds typically face a flurry of mail and telephone solicitations from insurance agents who work from lists, they often face a hodge-podge of familiar and unfamiliar insurers, and the pressure of an enrollment deadline booby-trapped with rare but scary penalties.

The dilemma is having to choosing between the monthly premiums of a government-standardized Medigap plan plus a separate drug plan—or yield to the seduction of a zero-premium bundled Advantage plan, usually with co-pays and an annual cap on out-of-pocket costs. (All Medicare recipients pay at least $121 a month for basic Medicare, usually as a deduction from their Social Security checks. If you choose a Medicare Advantage plan, Medicare pre-pays the insurer a fixed amount to cover you.)

Toumayants often recommends Medigap. "It's more predictable," he said. "You know what you will pay. There are no co-pays, no networks to worry about. They cover you anywhere in the country. Any hospital or doctor will accept them. If you're someone who wants to travel in retirement and see all 50 states, you should get Medigap."

Building a tower

Merely selling Medicare supplements isn't a career—a trail commission might be $100 per year per in-force policy—but Medicare counseling, as a kind of loss leader, can be an excellent prospecting tool, especially for advisors who are positioning themselves as retirement specialists, Toumayants has learned. Medicare advice establishes his bona fides as a financial advisor, and bona fides, in the wake of the DOL rule, is gaining value.

Toumayants considered various business models before deciding to get his Series 65 license, become an investment advisor representative of an RIA, and start Strong Tower (whose name refers to **Luke 14: 28-30**). "I tried the brokerage model. I didn't like it. It's too expensive and too cumbersome. With the insurance model, you have to do product training and get new certification and pass a test to sell a new product. With the RIA model, I can charge an AUM fee or an hourly fee for planning," he said. His annual AUM fee is one percent for the first $100,000 under management; the fee drops to 75 basis points for amounts above $1 million.

For guaranteed income, Toumayants recommends fixed indexed annuities with guaranteed lifetime withdrawal benefits and roll-ups rather than immediate or deferred income annuities.

“Even though the income stream is less than from a SPIA, The FIA roll-up creates predictability for a 55-year-old who wants to start income in 10 years. Even though the income stream may be less than you’d get from buying a SPIA in 10 years, that 20% haircut is worth it because people know exactly what they will get. I also like the death benefit feature,” he told *RIJ*.

“I’m not a big fan of longevity insurance. If you’ve structured your guaranteed income properly and set other assets aside, mainly for inflation protection, you shouldn’t need it. We also have to make sure, for people who still have money when they die, that that money will go to the kids. I know that there’s a shift under way, with Boomers saying, ‘I will take care of me first,’ but your kids are really going to need that money,” he said, given the high housing costs and low investment returns that the future appears to have in store for them.

As for investment management, Toumayants outsources that to the RIA, Retirement Wealth Advisors, which uses a managed account program called FormulaFolios, which in turn is monitored by a proprietary system called WealthGuard that automatically sells off risky assets when a client’s portfolio balance threatens to break through an agreed-upon floor.

“I tell clients, ‘I don’t have time to meet with you *and* manage your money,” he said. I could do that if I had 10 clients with $10 million each. Or if I simply did ‘buy and hold’ investing. But if that’s all I were doing, it would be hard to justify the AUM fee.”

On the insurance side, he said, “I wish I could give people all the insurance guidance they need for a flat $300 a year and not take any commission on product sales. But in Pennsylvania that business model doesn’t exist. I can’t go to an insurance company and say, ‘I have these clients who want to sign up for your plan, can’t you give them commission-free pricing?’”

Strong opinions

Regarding the tectonic forces that are affecting advisors today—the DOL fiduciary rule and the rise of robo-advice—Toumayants doesn’t feel threatened by either. RIAs aren’t necessarily immune to the effects of the DOL rule—they need to sign a Best Interest Contract to sell indexed annuities, for instance—but they aren’t in the DOL’s cross hairs.

“I don’t know what will happen, or what the outcome will look like, but I’m not worried about it. I know that if I’m doing what’s right and fair for my clients, I’ll be fine,” he told *RIJ*. “Any time legislation passes, there are more documents to sign and the applications get a little bigger. That’s all. It’s hard to regulate something like this.”

As for robo-advisors, he doesn't regard them as serious competition to his high-touch managed account services. "I've surveyed my clients and people over 50 don't have any interest in it. Robo-advisors offer rigid fixed portfolios of index funds and a rebalancing service. There's hardly any tactical management," he said.

His managed account service delivers more, he said. "FormulaFolios is not just a rigid mixture of 60/40 through thick and thin. And we don't need 100% percent of upside. All we want to capture is 80% of the market's gains and absorb no more than 40% of the losses. We think it will deliver better average performance than you can get by riding the market up and down. Robo-advisors are only going to attract people over 50 who think they know more than I do."

Toumayants believes he's taking the long view—the view of a young advisor who may still be practicing in the year 2050. "I'm 34. I want to stay in business. I don't want to be like the Blockbuster owner who wakes up one day and has no customers coming into his store," he said. "I have strong opinions on this stuff," he added, "and it aggravates me that most advisors don't think about it and don't sit down and develop a perspective on what they're doing."