Retirement Income
JOURNAL

Where the Fiduciary Puck is Headed

By Kerry Pechter *Thu, Jun 9, 2016*

'As a practical matter, the DOL rule killed the business of single product sales, and ushered in an era based on process,' said David Macchia, founder of Wealth2k, in a timely webinar this week. Highlights of the webinar are summarized here.

A native of New England hockey land, David Macchia long ago knew where the retirement puck was headed. Years before digital platforms for advisors or floor-and-upside retirement income plans became conventional, he championed those concepts.

This week, the founder of **Wealth2K** and marketer of a bucketing strategy called the Income for Life Model held a webinar called "How to Prosper after DOL." He and colleague Jason Ray interpreted the Department of Labor's new Fiduciary Rule, which will make commissioned-based sales to retirement (IRA) investors problematic.

To be clear: This was a sponsored webinar. Just as we know that Ralphie's secret decoder ring in Jean Shepherd's *A Christmas Story* will tell him to drink more Ovaltine, we know Macchia's advice will, at some point, involve his product. But insights preceded the pitch. Here are some of the highlights of the one-hour interactive presentation.

The end of one-off product sales

"As a practical matter, the DOL rule killed the business of single product sales, and ushered in an era based on process," Macchia (at right) said. "Process will drive the business. In the future, all product sales will need a context and a process around them. If you recommend a product, you will need to link that recommendation to a specific type of risk mitigation within an overall strategy. Choosing products on the basis of risk mitigation will be really important."

Emphasize risk mitigation, not returns

"The three biggest retirement risks are sequence of returns risk—the risk that a person will retire just before or after a market downturn—inflation risk, and longevity risk. If you handle these three risks, the client will have a great chance of success in retirement." Avoid high-risk strategies for people who can't afford them, he added. "Don't recommend a systematic withdrawal plan (SWP) for constrained investors who have low savings relative to the amount of income they need. They don't have much margin for error. They're safer with an outcome-based strategy, not a probability-based strategy."

Income expertise as a competitive advantage

The DOL rule "is a massive gift to people who specialize in retirement income distribution," Macchia said. "Retirement specialists, especially those who have one of the professional designations (such as the **RMA**, **RICP**, or **CRC**), will be able to make a compelling case for clients to aggregate their retirement assets with them, and aggregation will be the best way to grow assets under management as a way to offset the impact of fee compression.

"The easiest new market to penetrate will be income planning. In the income market, you'll find the greatest client needs, the most assets, and the opportunity to differentiate yourself from the crowd.

"The methodology for choosing a retirement income strategy has got to be transparent and understandable. If clients understand it, and have a sense of confidence in it, then it's much less likely that you'll encounter problems down the road."

IMOs, broker-dealers and banks will all fare differently

"The DOL will boost the business model of the independent broker-dealers. But it will alter the dynamics between the advisors and the firms. The broker-dealers will start providing roadmaps for advisors to follow. The banks still do a lot of transaction-based business, and moving past that may be difficult. On the other hand, bank advisors are employees. It will be easy for a bank to define a new top-down corporate policy," he said.

"Insurance marketing organizations (IMOs) face the greatest disruption. Under their business model, they are unregulated entities. So they aren't 'financial institutions' under the rule [and can't, without an individual exemption from the DOL, sign a Best Interest Contract so that their agents can sell products on commission]. It will be interesting to see how IMOs respond to this."

Distributors will lead product design

“I think you’ll see the power over product design shifting to the distributors. Products will be simpler and more transparent. They will look more alike. I believe that we will eventually see individual product ratings. If a product doesn’t get a certain minimum rating, large distributors won’t be able to sell it,” he said.

“Life insurance companies are now incentivized to reduce compensation. This is a huge reversal, and it will lead to a commoditization of products and standardized fees. It will affect product development. **Ron Rhoades** has predicted that high-cost mutual funds will see a sales decline. Many variable annuities will see a decline in sales. And fixed indexed annuities will see much more scrutiny.”

A de facto universal standard of conduct

The new fiduciary standard for retirement accounts will inevitably extend to after-tax accounts, Macchia believes. “Can two regimes co-exist in the same household? If Mr. Smith has a retirement account and Mrs. Smith has a taxable account, does one type of account deserve a different level of care? The DOL has given us a universal standard.”

Assume that the DOL rule will take effect

A webinar attendee asked if the lawsuits against DOL are likely to stop the rule from taking effect. “The general consensus is ‘No,’” Macchia said. “The suit filed by NAFA [the National Association of Fixed Annuities] suit might be stronger [than the Financial Services Institute, Securities and Investment Firm Marketing Association, and Insured Retirement Institute], because the courts have ruled that indexed annuities are fixed products [and not variable products, as the DOL inferred]. But if you’re wondering whether to take steps to comply with the rule, yes, start preparing for it. Don’t focus on the 10% chance that it won’t go into effect.”