Clients Value Advice Beyond Investing, But Don't Always Receive It

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Abstract

Bento Research recently surveyed American investors on their advisory experiences regarding important wealth management milestones such as turning 50 – Catch-up Contributions, 62 – Social Security benefits or 70.5 – Qualified Charitable Distributions. The research focused on older (ages 50-82), wealthy (top half by annual income) investors currently in actively advised relationships (report having spoken to their human advisor within the past 6 months). And **two key findings** came to light – one less surprising, and one more surprising:

1) Less surprising: Clients value receiving comprehensive advice. And when they do, it directly benefits the advisor's business as well.

2) More surprising: Even wealthy, advised clients are not always receiving fundamental wealth management advice around highly predictable age milestones.

Key Age Milestones That Matter

In the US, there are **15 distinct age-based milestones, commonly referred to as "regulatory birthdates" that really matter** in wealth management because they trigger distinct risks or opportunities. These important milestones range from birth to age 72, and include for example:

- ☑ **Age 72:** Making sure investors take Required Minimum Distributions (RMDs) from their retirement accounts in a timely and efficient way
- ☑ **Age 62:** Helping beneficiaries select the optimal timing and efficient strategy for taking Social Security Benefits given their particular circumstances
- ☑ **Age 50:** Making sure investors make Catch-up Contributions above the typical contribution limits in their eligible retirement accounts
- ☑ **Age 26:** Making sure that adult children maintain appropriate healthcare insurance when they age out of parental coverage
- ☑ **Age 14:** Helping the Next Generation obtain "Working Papers" and opening Custodial IRA accounts under their name, so heirs get to experience the power of tax-deferred compounding for decades to come

Regulatory birthdays matter to clients in several ways. Receiving proactive, thoughtful guidance on complex topics such as Social Security or Medicare can reduce stress and anxiety (Marsden, Zick, Mayer, & Holden, 2011[1]). At the same time, being advised on opportunities such as Age 50 – Catch-up Contributions and Age 14 – Working papers can generate meaningful, quantifiable value over a lifetime (see Case Study 1[2] and Case Study 2[3] on the next page).

Today, many wealth management firms and financial advisors market themselves as providing holistic advice, and offering comprehensive services that would, ideally, encompass all these regulatory birthdays. While the importance of providing proactive advice on these highly predictable age milestones is well-known, it can be difficult to deliver.

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1 Marsden, Zick, C. D., & Mayer, R. N. (2011). The Value of Seeking Financial Advice. Journal of Family and Economic Issues, 32(4), 625–643. https://doi.org/10.1007/s10834-011-9258-z and Hechinger, P. (2016). Don't let Social Security fears hurt planning efforts. Financial Planning (Online).

2 Assumptions: Illustration assumes contributions of $20,500 are made annually from age 50 to age 65, plus an additional $6,500 per year in the catch-up scenario. Contributions are spread throughout the year. 401(k) grows at the rate of annual return indicated on the x-axis. Values shown are pre-tax and before fees. Contributions made ratably over the course of each year.

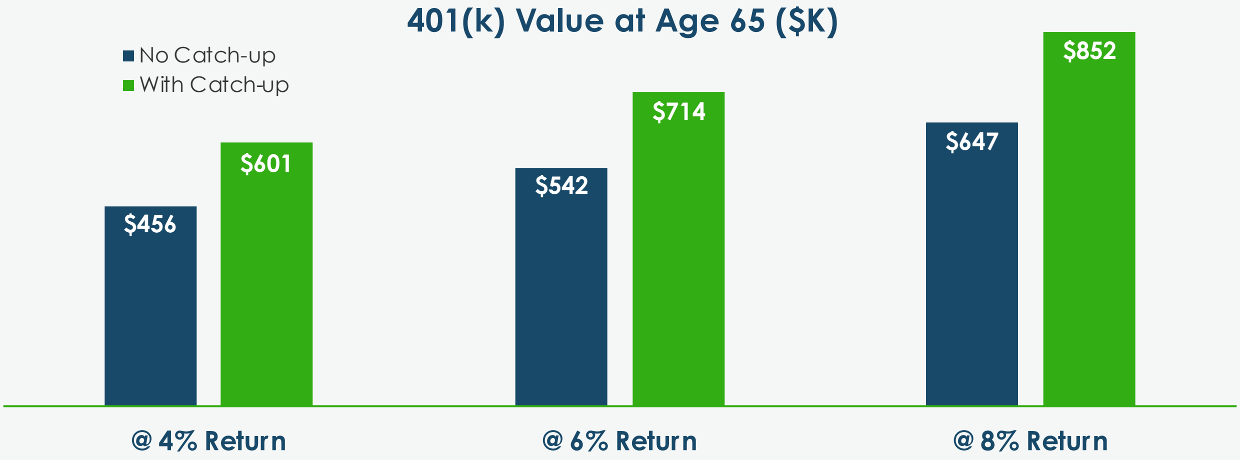
3 Assumptions: Illustration assumes contributions of $1,000 are made annually from age 14 to age 18. IRA grows at the rate of return indicated in the legend. Values shown are before fees or taxes upon withdrawal.

CASE STUDY 1

AGE 50 - CATCH-UP CONTRIBUTIONS

- U.S. taxpayers aged 50 and older are allowed to make contributions above the standard limits into certain retirement accounts, regardless of how much they have saved already

- When comparing the account values of an investor who contributes only $20,500 per year to a 401(k) from age 50-65 versus an investor who also contributes the additional $6,500 catch-up amount each year, the later would have over $170,000 more in their account (assuming 6% annual return)



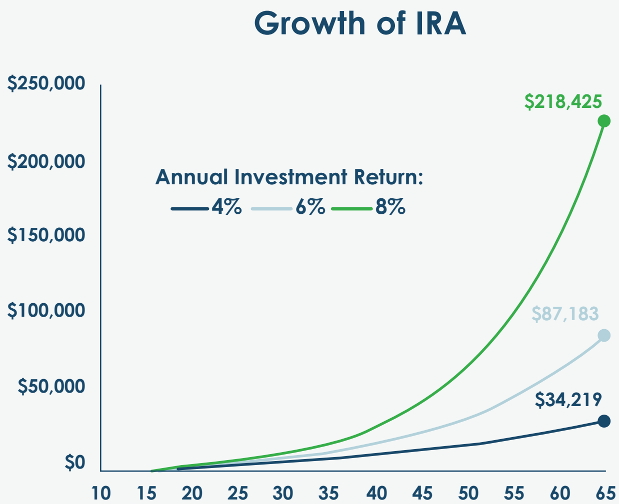
CASE STUDY 2

AGE 14 - "WORKING PAPERS"

- In general, minor children require "Working Papers" issued by their school district or State Department of Labor to work

- Once a child begins earning income, they are eligible to begin making contributions to a traditional or Roth IRA in their own name

- If a child puts just $1,000 from a summer job into an IRA each year from age 14 to age 18, the chart shows what those dollars could be worth by the time that child reaches age 65 – up to $218,000 (assuming 8% annual return)



Good News: Clients Value Advice Beyond Investing

Recent Bento Research clearly shows that when clients do receive comprehensive advice, they value it! Advised clients report that they are much more likely to stay loyal to the advisor, make more referrals, and consolidate assets with their advisor when they are being served comprehensively.

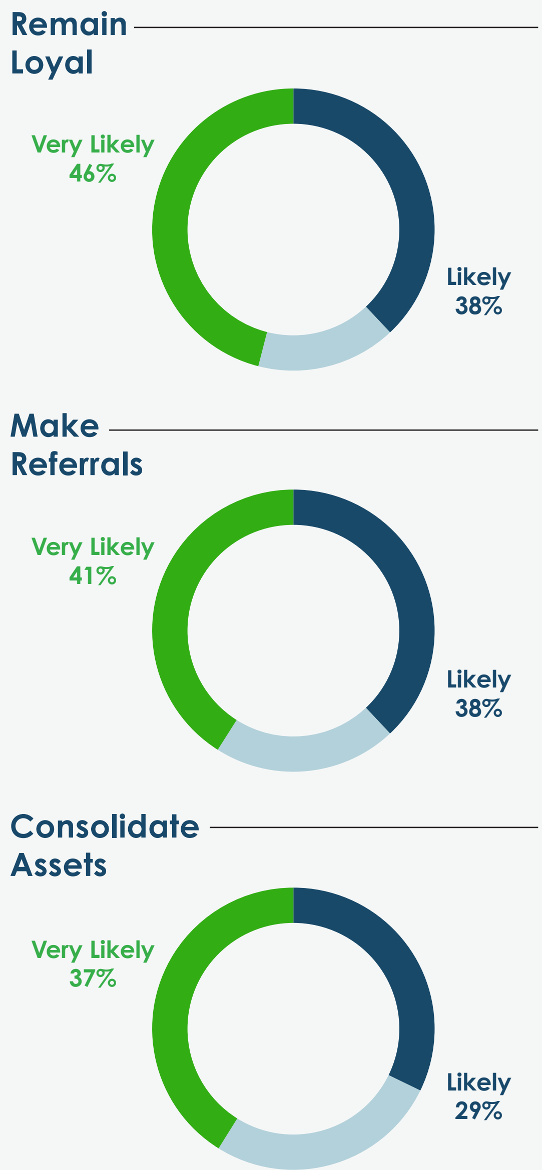
More precisely, clients that proactively receive education and advice on important age milestones are:

- More likely to **remain loyal – 84%** state they are *likely or very likely* to remain loyal when they receive this type of advice
- More likely to **make referrals – 79%** state they are *likely or very likely* to recommend the advisor to their colleagues and friends
- More likely to **consolidate assets – 66%** state they are *likely or very likely* to consolidate assets with the advisor that serves them comprehensively

This finding is very intuitive, as one advisor puts it *"When I take care of my clients, they put more trust in me. I become the go-to advisor, and I become the one they talk about to their associates."*

INVESTORS REWARD ADVISORS THAT SERVE THEM COMPREHENSIVELY

If you received proactive advice beyond investing, how likely would you be to...



Source: Bento Research Survey, September 2021 (amongst US investors aged 62-82, top 50% by household income, actively advised)

Not So Good News: Large Advice Gap

Yet, in a somewhat surprising finding, even wealthy, advised clients reported that they did not always receive advice on these fundamental age milestones from their advisor. For instance, although 87% of clients report having received RMD advice when they turned 72, only 60% report having received Social Security benefits advice when they turned 62, and for other important age milestones there are even larger advice gaps:

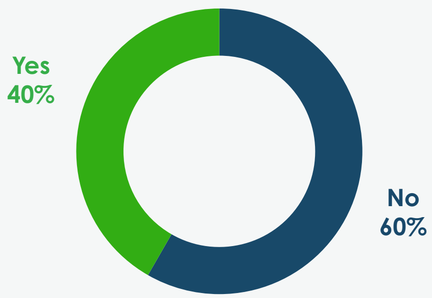
- 60% of clients report NOT receiving advice on Catch-Up Contributions when they turned 50
- 63% of clients report NOT receiving advice on Qualified Charitable Distributions (QCDs) when they turned 70.5
- 94% of clients report NOT receiving advice when their children reached working age
- 60% of clients report NOT receiving advice when their children reached the age of majority

We cannot help but notice and point out the stark contrast between RMD advice when compared to other age points such as working paper advice. RMD advice is a more traditional, financial planning milestone, but it also comes with a well-known penalty. Conversely, missing out on topics such as the working paper conversation have no penalty. Now, while it is true that a client would be justifiably angry about a penalty, which may drive advisor behavior, we do want to point out the "missed upside" of leaning in on all age milestones. Imagine in the case of working papers for example, how well taken care of a client would feel, being given the opportunity to prepare the next generation in early and constructive ways. Said another way, helping clients avoid a penalty is important but may not do much in terms of building loyalty, while on the other hand, "above and beyond" advice on helping their children build wealth competencies can do wonders for sustained long-term relationship building.

One more thought on the large number of clients that report not receiving proactive advice at key junctures of their wealth management journeys: In the best of cases, these lackluster results could be due to clients not remembering having received the advice from their advisor. In the worst of cases, the advisor never provided the guidance at all. In any event, clients – and the advisor – are worse of for not having discussed in meaningful, memorable ways the appropriate strategies to mitigate potential risks and/or maximize the upside around these age milestones. Again, clients report they would be more loyal and consolidate additional assets if they received holistic advice, so whether they didn't get it or they don't remember it, the result is the same – the client isn't feeling comprehensively advised, isn't as satisfied and isn't rewarding their advisor.

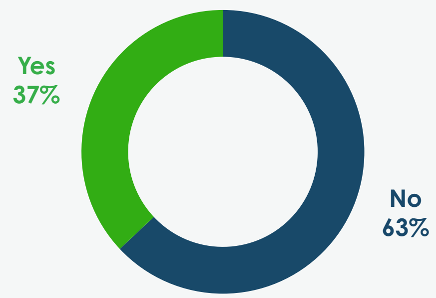
BEFORE YOU TURNED 50...

Did your Financial Advisor advise you on Catch-Up Contributions?



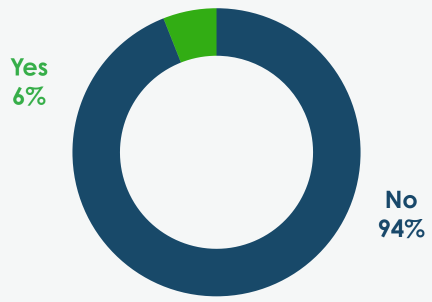
BEFORE YOU TURNED 70.5...

Did your Financial Advisor advise you on Qualified Charitable Distributions?



BEFORE YOUR CHILD TURNED 14...

Did your Financial Advisor advise you on Working Papers?



BEFORE YOUR CHILD TURNED 18...

Did your Financial Advisor advise you on Age of Majority?

Source: Bento Research Survey, September 2021 (amongst US investors aged 62-82, top 50% by household income, actively advised) and Bento Research Survey, September 2021 (amongst US investors aged 50-62, parents, top 50% by household income, actively advised)

Bento Research: Who Gets What Advice Varies by Income

Shedding further light on the question of who does and who does not receive important wealth management advice at key age milestones, Bento Research was able to analyze these dynamics along several client characteristics, and one of the most important was client income. More than anything, client income had an impact on who did and who did not report having received advice – and it wasn't just about the highest incomes receiving all the advice.

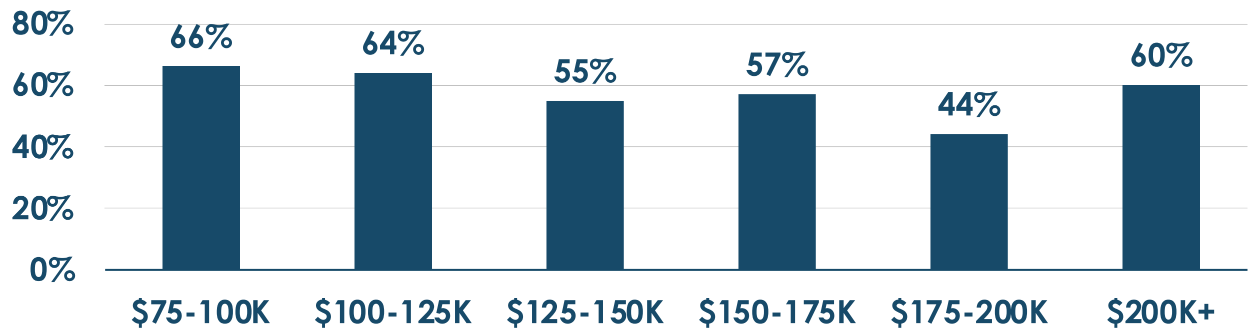
For instance, **clients with higher ($200k+) and lower ($75k-125k) annual income are more likely to receive Social Security benefits advice** when compared to the middle-income groups. Lower income bands receiving more of this type of advice when compared to the middle group may be explained by Social Security benefits being a more important, larger part of their annual cash-flows, and therefore a pain-point or a concern that this client group remembers having given its weight to the financial plan. On the other end, the higher income bands probably are likely remembering the more strategic dialogue around this topic, as the timing strategies can get very complex. Middle income groups may not be remembering receiving this advice because their strategies were not as complex and at the same time, although social security is certainly a part of their retirement – it may not have had as large of an impact.

The same barbell effect can also be observed with **QCD advice at age 70.5, clients at the lower ($75k-125k) and higher ($200k+) ends are more likely to get advice than those in the middle ($125k-200k)**. While this finding makes sense from a tax planning perspective at the higher-income end, certainly the argument could be made that all wealthy charitably inclined clients would appreciate and benefit from being educated on the QCD tax advantages.

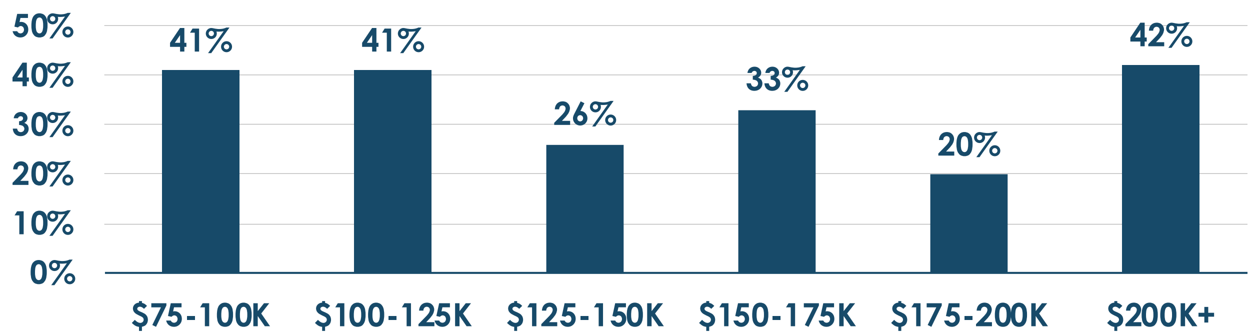
Proactive **Catch-up Contribution advice at age 50 seems mainly reserved for the higher income earners**, the higher the income, the more likely clients are to get it. While one should acknowledge that lower income clients can't always afford to make Catch-up Contributions, or that it is more difficult for them to do it, this does not negate its impact. Instead, advisors may want to advise these clients earlier over not advising them at all, in order to give them more time to figure out how to make those extra contributions.

GETTING ADVICE:
CUT BY ANNUAL HOUSEHOLD INCOME

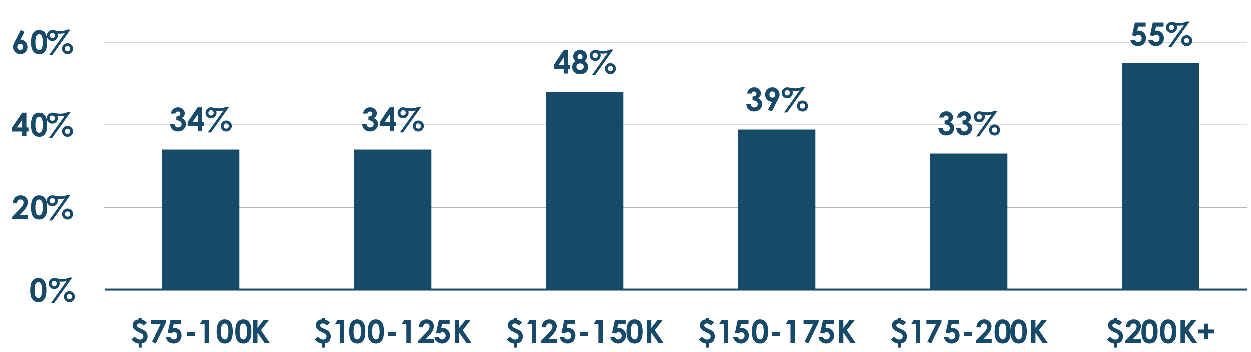
62 | Social Security Benefits



70.5 | QCDs



50 | Catch-Up Contributions



Source: Bento Research Survey, September 2021 (amongst US investors aged 62-72, top 50% by household income, actively advised; may not foot to 100% due to rounding)

Call To Action: Serve Your Clients, Engage Your Prospects

In closing, this Bento Research documents a critical advice gap around highly predictable, impactful age-based milestones that all financial professionals should be aware of – and all clients deserve. If (and when) advisors serve their clients proactively with impactful advice beyond investing, clients reward that with **increased loyalty, higher referral rates and higher share of wallet**.

Advisors should be mindful of and leverage several golden opportunities to connect with the **Next Generation** of the client family in early and constructive ways (e.g., "Working Papers" and Custodial IRA accounts at age 14, car insurance at driving).

Lastly, thoughtful advisors should consider weaving this type of advice into their **prospecting efforts**, because often, prospects do not seem to be receiving this type of advice from their incumbent advisors. And when they get this type of advice, ***everyone wins!***

About The Authors

Dr. Meghaan Lurtz

Meghaan Lurtz, Ph.D., FBS™ is a Professor of Practice at Kansas State University where she teaches courses for the Advanced Financial Planning Certificate Program, a lecturer at Columbia University where she teaches Financial Psychology, and an on-staff writer and researcher of financial psychology at Kitces.com.

Her research interests vary as she studies both practitioners of financial planning as well as financial planning and financial therapy practices and interventions. Her research and expertise have been featured in Journal of Financial Planning, Journal of Consumer Affairs, Financial Planning Review, Wall Street Journal, BBC, Million Dollar Roundtable, and New York Magazine. She has also contributed chapters to the CFP Board's textbook, Client Psychology.

Dr. Michael Kothakota, CFP®

As a practitioner and researcher, Michael is a dedicated financial planner who uses evidence-based approaches. Michael's approach is guided by a core belief that financial planning professionals' efforts on behalf of clients should be driven by data and a deep understanding of the field. Michael is committed to applying the science of financial planning to help his clients accomplish their goals.

Prior to WolfBridge Wealth, Michael worked for a large national financial services firm. His extensive experience and education have enabled him to provide exceptional financial planning services.

In addition, he has provided support and planning to hundreds of individuals and families. Michael teaches Foundations of Wealth Management at Columbia University and is also a Professor of Practice at Kansas State University, where he teaches Statistics and Statistical Programming.

Philipp Hecker

Philipp Hecker is a Co-Founder and CEO of Bento Engine, a FinTech at the intersection of technology and impactful wealth management advice. Throughout his career, Philipp has focused on designing and implementing "win-win" scenarios in the wealth management industry.

After completing his MBA at Harvard Business School, he spent five years at The Boston Consulting Group in New York, advising Financial Institutions on profitable growth strategies. He then spent the next 13 years in wealth management, at Deutsche Bank and J.P. Morgan in a number of senior leadership capacities. For example, at J.P. Morgan he served as Head of Strategy for Global Wealth Management. Philipp also launched and led J.P. Morgan's Wealth Planning & Advice organization, which included The Advice Lab, The Philanthropy Centre and all the Goals-Based Advice teams across JPMC. He is now excited to use technology to bring better advice beyond investing to more American families.

Methodology

This survey was designed, fielded, and analyzed by Dr. Meghaan Lurtz, Dr. Michael Kothakota, and Philipp Hecker. The survey was administered online in September 2021, and focused on older American investors (aged 50-82) that are wealthy (top half by annual income) and in an active relationship with a financial advisor (spoken with in the past 6 months).

Bento Engine

We are on a mission to bring better advice beyond investing to more families across the wealth spectrum. Via their caring financial advisors. So that families thrive, and advisor practices grow.

This is the first in a series of Bento Research Whitepapers on the importance, timing and impact of advice that goes beyond investing.

The next whitepaper will be focused on The Timing of Advice (i.e., when/how proactively clients get advice on certain topics) and if that is in line with their expectations.

You can learn more about Bento Engine by visiting **bentoengine.com** and following our thought leadership at **linkedin.com/company/bentoengine**. In case of questions or to Book a Demo, email us as **info@bentoengine.com**.