Finding Trustworthy Financial Advice for Retirement and Avoiding Pitfalls

MANAGING RETIREMENT DECISIONS SERIES

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Introduction

People often turn to others for financial advice as they approach retirement. Finding trustworthy advice takes time but is worth doing. Experienced financial professionals, trusted individuals and family members can be invaluable sources of information that help a person gain insight into and make better choices for their financial decisions.

A good place to start is to become more knowledgeable about finance, investments and other financial matters. The good news is that individuals do not need to learn complicated information, and possessing such knowledge can help save money and avoid possible mistakes. Having more knowledge can also help individuals select advisors and enhance interactions with those professionals, make better decisions and potentially improve an individual's financial results.

Seeking an advisor's help and guidance is the right thing to do for many individuals. Even financially sophisticated and knowledgeable people can do well to engage a financial advisor. Regardless of socioeconomic status, as individuals age and especially if diminished capacity and cognitive decline becomes evident, they may

- Be at risk of making poor financial decisions
- Assume too much investment risk
- Become less aware of current ideas in financial planning or
- Become targets for manipulation, identity theft and financial fraud.

This Decision Brief provides some ideas that can help with the challenges of finding trustworthy and experienced financial advice.

Finding a Good Advisor

Many individuals say they would like to have the assistance of a good advisor, but they do not know how to locate one. They can look to large financial institutions such as banks, investment firms, brokerage firms or insurance companies for advice or recommendations, or they can utilize smaller firms or individuals who provide advisory services. Employers may offer advice as part of their retirement benefit or wellness programs. The Financial Industry Regulatory Authority (FINRA) and U.S. Securities and Exchange Commission (SEC) offer resources that provide guidance on the selection of an investment professional, investment process, managing personal finances and setting sound financial goals. Other resources are mentioned at the end of this brief.

Employer Programs

Many people use their employee benefit programs as a source of advice. Employers may offer information about their benefits only or broader financial information through a financial wellness program. Some programs offer individual coaching through which the coach helps with the evaluation of a specific issue. Many offer tools and financial planning software. Some of these programs are connected to specific financial products used in the benefit plans. Some investment advice is provided through managed accounts in 401(k) or 403(b) plans. In many of these programs, the employer is paying for the vendor's cost of providing the advice.

Employees are encouraged to take advantage of these employer-offered programs. For many individuals who have specific situations, such as children with special needs, parents needing help, children still in college or multiple debts to pay off, the employer offerings may not address the total picture, and the individual will want to seek additional advice elsewhere.

Financial advisors can be employed by financial institutions that are federally or state regulated, routinely audited and subject to substantial regulation. Major firms are generally "household names" and may be rated for their financial stability and business risk. Make sure the firm being used is properly regulated, publishes financial statements, is audited, pays attention to cybersecurity and is in good financial condition.

Technology has changed the way complex decisions are evaluated and the way information is procured. With financial advice, technology is involved in a variety of ways:

- Supporting tools that can be used by the individual or an advisor
- Online advice systems (or Robo-advisors)
- Supporting communications between advisors and clients
- Systems for storage of financial data
- Online platforms for trading
- Providing a large range of information online
- Enabling advisors to work effectively with clients in any location

Robo-Advisor
Robo-advisors are another resource for people comfortable with technology solutions to investing and goal setting. Robo-advisors provide automated portfolio strategies and rebalancing based on an investor's stated personal preferences. Financial advice or investment management is provided online using mathematical rules or algorithms requiring only moderate to minimal interaction with a financial advisor.

Many financial planning tools are available that focus on a range of issues from specific decisions to more general planning. In some cases, a tool will help the user evaluate a question without the need for further advice. In other situations, it will be advisable and valuable to discuss the results, options and trade-offs with a financial advisor.

Be aware that the output of all calculations depends on the assumptions used, the structure and purpose of the tool and the input data. Users are encouraged to be careful about their choice of tools. When an advisor uses a tool, the advisor is responsible for checking the tool and its suitability. When an employer recommends a tool, normally the employer or their consultant will have verified the effectiveness and accuracy of the tool.

The use of tools is an important part of securing assistance, but it is generally not the entire story. Below are listed some factors to help guide the search for a financial advisor.

Competence: The advisor's training and experience provide insight into competence. Credentials—such as degrees and professional designations—help assess training. But some designations entail more rigorous study, exams and continuing education than others, so it is a good idea to research any designations the advisor holds. As for experience, factors to evaluate include the number of years in business, the stated specialty and the advisor's target market.

Experience Helps
Individuals making retirement decisions will benefit by working with an advisor who has experience dealing with similarly situated clients.

Investment philosophy: It is best to steer clear of advisors who claim to add value by selecting superior investments, timing the market or executing other market-beating strategies. Even if advisors can demonstrate superior past performance, this is no guarantee of future results. It is more effective to look for an advisor who focuses on understanding the client's risk tolerance and financial needs for investment return, is aware of different investments that fit their clients' needs and objectives, and can clearly explain the investment choices. It is important that the advisor's recommendations about taking investment risk fit within the client's ability to understand and accept the risk and that the client understands the key features of the investments being recommended. Within employer-sponsored plans, such as 401(k)s and other financial products, there may be investment choices, such as Target Date funds, that do not require a participant to select specific individual investments.

Total financial planning approach: An advisor cannot make good recommendations without understanding the client's total personal, family and financial picture, including investment matters, possible needs for insurance and taxation strategies. Advice may be needed beyond investment options such as when and where to retire, paying off loans, gifting to family or charity and other matters. Clients need to be ready to provide information to the advisor that helps the advisor make tailored recommendations. Clients also need to be willing to choose trade-offs on financial decisions since their available resources may not allow for all options.

Beware of specialists who promote just one or two products with all clients regardless of circumstances or who make recommendations before understanding their client's situation.

The advisor's business background: Check various sources for information on an advisor's background and business practices. Some resources are the SEC Investment Adviser Public Disclosure for registered advisors, the North American Securities Administrators Association (NASAA) for state-regulated advisors and FINRA BrokerCheck for broker-dealers. A reputable advisor will have a brochure that explains their background, strategies, sources of compensation and potential conflicts of interest. In addition, doing a general online search may uncover more information. It is helpful to ask for references of clients with similar needs and contact them for more information on working with the advisor.

How the advisor is paid: Financial advisors must be paid for their services, and a variety of payment arrangements are available.

In one common arrangement, financial advisors receive compensation in the form of commissions from the products and services they sell. Commission-based advisors may represent a single financial firm or a variety of different firms, each with their own fees and commission structures.

Other advisors charge fees for services rendered. These fees can be a percentage of assets under management or an hourly or project-based charge. Some advisors work on a subscription basis, charging a yearly fee to cover regular and routine planning and advice.

Inevitably, every financial advisor's payment arrangement implies behavioral incentives for the advisor, some of which may conflict with the investor's needs. Each arrangement has trade-offs.

For example, fee-only advice was designed to counter a commission-receiving advisor's conflicts of interest with clients. Commissions charged for each trade may result in too frequent trading ("churning"). Some mutual funds and investment managers compensate firms and advisors to recommend their offerings, encouraging advisors to sell high-paying funds or services.

The originators of fee-only advice saw payment based on assets under management as eliminating these conflicts. Unfortunately, the assets under management model also may have conflicts: any action that reduces assets under management means lower fees for the advisor.

A useful approach for addressing conflicts is to ask the advisor for a full disclosure of their form(s) of compensation, be aware of and understand any potential conflicts, and then actively manage them. The table below outlines typical potential conflicts of interests for some of the most frequently used compensation arrangements and suggests approaches to mitigate them.

Fee Model	Examples of Potential Conflicts	How to Mitigate
Commission	• Churning (unnecessary trading) • Recommending funds or services that share (high) fees with the firm or advisor	• Insist on approving every trade • Seek low-cost funds or asset managers • Require explicit comparisons of recommended funds or managers to similar high-quality, low-cost alternatives
Assets under management	Advisor recommends against: • Paying off mortgage • Purchasing an income annuity • Purchasing real estate	• Ask for logical arguments against an individual's plan • Encourage advisor to recognize the conflict • Ask advisor to quantify the costs and benefits of the alternatives
Annual or subscription	• Doing too little work • Adding too little value	• Agree in advance on topics and issues to be addressed • Specify depth required
Hourly	• Unnecessary work • Charging for time not worked	• Agree in advance what work will be done • Ask for full quote in advance

A good strategy is to check out the advisor thoroughly via referrals, references and other sources before hiring them. Inquire about an advisor's fees and commissions—how much they are, how they are calculated and how they are paid. Check if fees and commissions are excessive when compared to comparable work done by other advisors. Talk with a prospective advisor about how they manage potential conflicts of interest. Once the decision is made to work with one, consistently ask how each recommendation benefits them. Be suspicious of advisors who promote their services as "free of charge"—there are almost certainly undisclosed costs somewhere.

Fiduciary versus suitability standard:

State or federal licensed Registered Investment Advisors (RIAs) must, under federal securities law, operate under a "fiduciary" standard of care when they advise clients about securities (such as stocks, bonds, mutual funds or variable annuities). This means they must act in the best interests of their client at all times, putting their client's financial interest ahead of their own financial interests. The fiduciary standard is the most protective standard for consumers.

On the other hand, most stockbrokers, dually registered representatives and insurance agents operate under the "suitability" standard when they give advice about securities. This means they can recommend products that are merely suitable for the customer and such products may have higher costs and provide the advisor greater financial benefits. Insurance agents are regulated by state insurance departments that also apply a suitability standard. The suitability standard of care is viewed as less stringent than the fiduciary standard.

What about advisors who refer to themselves as financial planners? The applicable standard depends on whether they are licensed as RIAs or as securities or insurance brokers or representatives, or both.

While it is not necessarily bad to work with an advisor under the suitability standard, it is critical that an investor understand what legal standard will apply before entering into an arrangement. Ask the advisor how they will ensure that the recommendations meet the fiduciary standard or are suitable. Ask the advisor to put this information in writing (especially if the advisor is operating under a fiduciary standard). Also, get a written explanation of the process the advisor will follow in making the recommendations.

Understanding Expense Charges

Advisors may recommend financial products with varying expense charges. Generally, such expense charges will be in addition to the advisor's fees discussed above. In essence, these charges will reduce the overall return of an investment. Thus, it is important to understand these charges and that they are fair and reasonable.

Note: Employer 401(k) and 403(b) plans may have lower expense charges than retail products. Compare such charges and understand the cost implications before transferring funds from employer plans to a retail product.

For investment products such as mutual funds, exchange-traded funds (ETFs), and variable annuities, expense costs are disclosed, and it is advisable to evaluate the level of such charges when deciding whether to invest in such a specific product. The company may levy the charges either up front (at time of investment) or as annual charges over the life of an investment. The company may express the charges in dollar amounts or, more typically, as a percentage of the investment.

Some financial products also carry surrender or redemption charges. These apply if investors take money out of the product within a certain number of years after the purchase. Such charges may not affect long-term investors, but they do put limitations on access to the funds in the early product years. That reduces flexibility and is one consideration in the decision-making process.

Diligent investors will also find it helpful to read through the investment's prospectus. The prospectus (or summary prospectus) is a brochure that provides information about the investment, including fees and expenses. Investors can then add up all the charges and check whether the stated charges agree with the advisor's disclosure. If not, they may wish to ask some pointed questions.

Analyzing expense charges: Here is how one individual went about making an expense evaluation. The individual wanted to make a $100,000 investment. The advisor recommended an investment that had the following expense charges: an up-front charge of 5 percent of the initial investment, annual charges of 1 percent of the investment value each year, plus an account maintenance fee of $25 every year.

The individual calculated that this investment would cost $5,000 up front plus roughly $1,025 each year ($1,000 in annual expenses plus the $25 a year maintenance fee). Note: The yearly expense amount would vary depending on whether the investment value goes up or down.

Take-Away

This expense comparison experience makes clear that individuals have good reason to ask an advisor to disclose the full expense charges for any prospective investment—and to justify the costs.

Next, the individual shopped around and found a much lower cost investment—a low-cost index fund that charged 0.2 percent a year ($200 in this example) but with no up-front charges. That cost comparison put the individual in a better position to make an informed decision than if they had just listened to the sales presentation. With the additional information the individual could evaluate the additional cost and determine if the higher cost investment added enough value (the potential return) to justify the additional cost.

Financial Advisory Relationships in Practice

When the financial advisory relationship works well, there can be a positive impact on one's finances and sense of financial well-being. Typical comments from those in a satisfactory advisory relationship include the following:

"I know where I am financially and what I need to do next."
"My portfolio is tailored to my personal goals, and I understand how it is working."
"I feel organized, in control, and on top of my financial life."
"I feel like I have someone on my side."

If such comments do not resonate with a person's experience, it could be that they are not yet with the right financial advisor. As with any important purchase, comparison shopping can help one identify the right resource for their needs.

Unfortunately, the advisory relationship can sometimes be problematic through advisor behavior that is incompetent or in bad faith or may even rise to the level of fraud. The following provides some guidance on recognizing good behaviors:

- One should expect to receive regular, written, detailed reports on investments from the brokerage firm or investment custodian that holds the investments, not just reports just from the advisor's office.
- A responsible advisor should never ask for or accept a check for deposit to a client's investment account made out to the advisor. Make out checks to the brokerage firm or investment custodian, for benefit of the account number.
- Pay attention to how carefully an advisor protects private information. Are unsecured emails being received with messages or attachments that have private information? On visits to an advisor's office, is any confidential client information out in the open? If so, the advisor may not be following current data security practices.
- If many more trades than expected show up in an account, or returns are found that are grossly different from general market returns, ask for more information. It could be that an advisor is "churning" the account or not implementing standard practices for portfolio diversification.
- Look at the documents for portfolio management that are presented for a signature. Does the description of the desired level of investment risk match what was meant to be conveyed to the advisor?

- Are meetings held with the advisor at least once a year? Can the advisor be contacted between meetings with questions or concerns?
- During meetings with the advisor, is the impression given that the advisor is tailoring advice to the client's preferences and circumstances, or does it seem like the advisor is selling something that may or may not have to do with the individual's situation?
- Does the advisor listen when questions or concerns are expressed, and do they talk through issues?
- Does the advisor explain the concepts used in the plan so that they are understandable and a level of comfort is created with them?
- If a couple is working with an advisor, do both spouses or partners feel a part of and comfortable with the advisory relationship? Is the advisor working well with the couple both together and as individuals?
- Is it clear how the advisor is being paid and how much is paid in various fees? Does the advisor talk comfortably about fees and portfolio expenses?
- Could a close friend understand from a description what the advisor is doing and how that has helped?

If unease or frustration is experienced in an advisory relationship, consider first raising concerns directly with the advisor. In the rare instance when true wrongdoing is occurring, be aware of the various options available to report unethical professional behavior, seek redress or both as the next section describes.

What to Avoid

Experts in consumer fraud stress that individuals need to learn what to avoid to protect themselves against fraud or unwise investments. For instance, it is wise to avoid unsolicited contacts for financial products, whether delivered via in-person requests, mail, telephone, email, social media or the internet. Although there is a very small chance of missing out on a good opportunity this way, there is a greater chance of avoiding fraud.

It is also prudent to avoid anyone offering "rushed investment opportunities," "hot stock tips" or "surefire trading strategies." Sound investing requires careful planning, not time pressured decisions.

It is good to remember the old saying "If it sounds too good to be true, it probably is."

It may be surprising to hear that individuals also need to exercise caution when involving their personal support system, including family and friends. Loved ones may provide extremely helpful information and guidance, but not always. For example, financial interest may color advice given by future heirs. Or loved ones may offer investment advice but have little or no investment experience or training, making their suggestions of questionable value.

In addition, a family member or friend may recommend an advisor for vague reasons, such as "The advisor is a great person to work with." Such statements of personal likes or dislikes are not a particularly compelling reason to do business with someone. By comparison, a recommendation based on experience and knowledge, such as that the advisor set up an income plan to cover all of the individual's basic expenses, provides telling insight into the type of work that an advisor does.

If One Has a Complaint

Trustworthy and competent financial advice at a reasonable cost is an extremely valuable commodity. But when individuals find they experience fraud or incompetence from a financial advisor or institution, they need to know how to seek recourse.

Arbitration agreements are more common and may be required by the financial institution. Such agreements limit the capability to file a lawsuit and provide an alternative structure to file complaints and seek restitution for financial losses due to fraud or incompetence.

Some may want to seek restitution via a lawsuit filed by an attorney who specializes in such cases. That may not be feasible, however, for a variety of reasons.

Often a do-it-oneself approach will work. But filing complaints does require homework and diligent effort, so sometimes a general family attorney can help with advice and assistance with writing letters. A new financial advisor may be able to help as well.

In writing complaint letters, individuals should be detailed and specific about what occurred, report any financial loss suffered and include what restitution is being sought. Also, it is best to act quickly in filing any complaint. Various time limits may apply depending on the type of complaint.

It is important to file complaints with entities that have the authority to deliver or order financial restitution. Detailed and accurate documentation is vital to the success of any complaint. See the references below for more information about how to file a complaint.

More Help

Seeking a financial advisor's help and guidance can set an individual on a good path to financial awareness and security. The individual may also learn enough to enable them to make wise financial decisions that support them throughout retirement. References provided below can help an individual learn more about financial advisors.

References and Resources

Consumer Information and Protection

- U.S. Department of Labor Employee Benefits Security Administration (EBSA)
  - » Online security tips: ***https://www.dol.gov/sites/dolgov/files/ebsa/key-topics/retirement-benefits/cybersecurity/online-security-tips.pdf***

    A tip sheet offering plan participants and beneficiaries who check their retirement accounts online basic rules to reduce the risk of fraud and loss.
  - » How to tell whether your adviser is working in your best interest: A fiduciary guide for individual consumers: ***https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/fact-sheets/a-fiduciary-guide-for-individual-consumers.pdf***

    A fact sheet offering tips on selecting a financial advisor.
  - » Choosing the right person to give you investment advice: Information for investors in retirement plans and individual retirement accounts: ***https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/faqs/choosing-the-right-person-to-give-you-investment-advice***

    An online publication providing questions to ask of investment advisors for a retirement account.
- Consumer Financial Protection Bureau (CFPB): ***https://www.consumerfinance.gov/***

  A federal government agency dedicated to informing consumers on resources available to protect and manage their finances and providing a source to file complaints for trouble with financial products or service.
- *Investor.gov,* U.S. Securities and Exchange Commission (SEC): ***https://www.investor.gov/***

  An extensive website with detailed, authoritative information about investing and investment professionals.
- Financial Industry Regulatory Authority (FINRA)
  - » Professional Designations tool: ***https://www.finra.org/investors/professional-designations***

A tool to understand a financial professional's credentials and determine whether the issuing organization requires continuing education, accepts complaints or has a way to confirm who holds the credential.

» BrokerCheck: ***https://brokercheck.finra.org/***

A free tool to research the background and experience of financial brokers, advisers and firms.

» Choosing an investment professional: ***https://www.finra.org/investors/learn-to-invest/choosing-investment-professional***

A guide for understanding and choosing among the different types of investment professionals.

» How to find and work with an investment professional: ***https://www.finra.org/investors/learn-to-invest/choosing-investment-professional/where-do-i-start***

A guide providing six steps for finding and successfully working with an investment professional.

» Have a problem? ***https://www.finra.org/investors/need-help***

A resource for filing complaints and working toward solutions.

» FINRA Securities Helpline for Seniors: ***https://www.finra.org/investors/have-problem/helpline-seniors?fbclid=IwAR29CIWu4VhVxjasAsGRCDChtKHq02GJaX8nr1ZyFO8o2S19-rUYNSYtjUw***

A helpline for seniors who have questions about their brokerage account statement or an investment in a brokerage account or concern that their account may have been mishandled by a broker.

» Avoid fraud: ***https://www.finra.org/investors/protect-your-money/avoid-fraud***

An array of information and resources to help people outsmart investment fraud.

» SEC Regulation Best Interest and Form CRS: What You Need to Know: ***https://www.finra.org/rules-guidance/key-topics/regulation-best-interest#investor-education***

An explanation of the Best Interest and Form CRS that are required from broker-dealers and SEC registered investment advisors (RIAs).

- North American Securities Administrators Association (NASAA): ***https://www.nasaa.org/***

An association of state and provincial securities regulators in the U.S., Canada and Mexico with the mission of protecting investors from fraud and abuse and providing investor education.

- About AARP fraud watch network, American Association of Retired Persons: ***https://www.aarp.org/money/scams-fraud/info-2020/overview.html***

  A resource on fraud and scams along with information on prevention.

Finding a Financial Advisor

- Certified Financial Planning Board (CFP): ***https://www.cfp.net/***

  A professional association for certified financial planners that provides standards of practice and certification for financial planners.

- National Association of Personal Financial Advisors (NAPFA), Consumer Resources, ***https://www.napfa.org/financial-planning/consumer-resources***

  Consumer resources from a professional association for fee-only financial advisors that provides consumer resources for finding a financial planner.

- XY Planning Network: ***https://www.xyplanningnetwork.com/***

  An organization of fee-only financial advisors that provides consumer resources for finding a financial planner.

- Verheyen, Tony. *In Our Reach—How Resourceful Employees Build and Preserve Wealth at Work.* (Elk Grove, WI: Richfield Companies, 2021).

  A book that provides a simple framework for building a financial life with practical steps leading to improvements and success. Chapter 21, "Hired Hands," discusses how one can engage better advisors. Appendix G, "Sample Advisor Candidate Questions," provides sample questions to ask when interviewing potential advisors.

Other Resources

- American Association of Independent Investors (AAII): ***https://www.aaii.com***

  A resource for individuals who want to spend time learning and developing ideas about investments; note that this is a membership organization.

- National Association of Insurance Commissioners (NAIC): ***https://content.naic.org/consumer.htm***

  A consumer resource that provides tools and tips to understand and choose insurance products better.

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Serving as the research arm of the Society of Actuaries (SOA), the SOA Research Institute provides objective, datadriven research bringing together tried and true practices and future-focused approaches to address societal challenges and your business needs. The Institute provides trusted knowledge, extensive experience and new technologies to help effectively identify, predict and manage risks.

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The Society of Actuaries Research Institute would like to acknowledge the work of its Committee on Post-Retirement Needs and Risks in producing this series.

The committee's mission is to initiate and coordinate the development of educational materials, continuing education programs and research related to risks and needs during the post retirement period. Individuals interested in learning more about the committee's activities are encouraged to contact the Society of Actuaries Research Institute at 847-706-3500 for more information. Additional information and research reports may be found at *http://www.soa.org*

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