JUST.
THE RETIREMENT SPECIALIST

RETIREMENT INCOME

FIDUCIARY DUTY OVER THERE

CONSUMER DUTY OVER HERE... DOES IT AMOUNT TO THE SAME THING?

We all know that what happens over here often mimics what's already happened 'over there'. Over there being the US of A of course. So, when I became aware of a bit of a spat between some high-profile personalities in the US financial planning community it piqued my interest.

Guy Anderson, Director
Retirement Income Distribution

One of the central characters in this story is a certain Ken Fisher who has built a significant wealth management business bearing his name over there. He also has a small footprint over here.

In a lengthy but well-constructed article published on the US website Advisor Perspectives in February[1], David Macchia [author, public speaker and founder of Wealth2k® and The Income for Life Model®] makes his case for why he believes Mr Fisher failed in his fiduciary duty towards some of Fisher Investments clients. The reason for failure is cited as his personal dislike and refusal to even consider, let alone recommend annuities as part of a retirement income plan.

It's probably worth mentioning at this stage that at the heart of both the fiduciary duty in the US and the developing Consumer Duty here, are the dual tenets of impartiality and acting in a client's best interests Although David Macchia makes many interesting points, I'll leave it to those who go and read his article to come to their own conclusions on whether they believe he is right or not in his assertions.

The lens you choose to look through

For this article I wanted to focus more on some of the other comments in David's article [and other related social media[2]] around which lens would someone more intuitively look through when assessing and advising a retirement client on their needs and objectives, and whether it's the lens you choose to look through that could potentially lead to questions over impartiality.

Much like the number of eyes we're blessed with, there are only two lenses through which to assess and advise private clients.They link to the domestic balance sheet which, like any other balance sheet, has assets on the left-hand side and liabilities on the right. The default lens, supported by current regulation both here and in the US, is to focus on the asset column on the left and growing those assets over time. You can't really argue with that when a client's goals and objectives are largely focused on still accumulating wealth.

But when someone moves into the life stage where their assets need to support their lifestyle, some advisers recognise that the focus should shift to the right of the balance sheet and become more about liability (income) management than asset management.

David Macchia and others would argue that many advisers in the US, maybe including Mr Fisher, remain rooted to looking through the asset lens in retirement and may, as a result, be doing some of their clients a disservice, especially during these times of capital asset volatility and mean reversion in markets.

Exactly which clients could be disadvantaged is also driven by this asset lens/liability lens concept. When it comes to client segmentation, a firm that is fully wedded to looking at everything through the asset lens will probably have segmented their services, and therefore their clients, based on the amount of assets they have (funny enough). This often results in segments defined by various precious or semi-precious metals. It would typically lead to all clients with similar wealth being offered similar solutions, irrespective of their retirement income needs.

Income-to-Assets-Ratio

A firm or an adviser, who recognises that they should look at their retirement clients through the liability lens, will be more aware that it's the liabilities a given amount of assets need to support that are more important than the assets themselves. David Macchia talks about this as the 'Income-to-Assets-Ratio'™ in another article[3] and it gives rise to three liability driven client segments in his model. He named them Underfunded clients, Overfunded clients and Constrained clients. In this approach to client segmentation, a client could have significant wealth, yet still be classed as a Constrained client due to their 'Income-to-Assets-Ratio'™ He argues that the failure of those advisers, who look through the asset lens, to be open minded about guaranteed income solutions [that can provide more sustainable income whilst reducing volatility and dampening sequence risk], could disadvantage these Constrained clients the most.

By way of a definition, David Macchia suggests that any retiree requiring their assets to support spending of in excess of 3% pa would be classed as a Constrained client.

Acting in a client's best interest

Advisers here in the UK have long had to adhere to the FCA conduct of business rules. It could be argued that a lot of what is coming within the Consumer Duty should already be seen as 'business as usual'. But as a greater focus will inevitably be applied to impartiality and acting in a client's best interests, it might be timely for those who are responsible for advice policy to reflect on the factors that drive their advice and client segmentation. A good place to start might be to ask the following types of questions within your business, with particular focus on your retirement income proposition:

1. Are we wedded to viewing everything through the asset lens, even for our retired/retiring clients?
2. What lens have we looked through when we've segmented our retirement clients?
3. How many of our retired clients could be classed as Constrained?
4. Are we allowing personal or commercial biases to shape our advice and solutions?
5. Are we confident we can evidence that we are truly impartial and always put client interests first?

If you'd like to know more, we'd love to talk to you. Please get in touch with your usual Just contact, or go to justadviser.com and search 'meet the team', call 0345 302 2287 or email support@wearejust.co.uk.

[1]https://www.advisorperspectives.com/articles/2022/02/09/the-trial-of-ken-fisher-for-crimes-against-annuities

[2]https://www.linkedin.com/feed/update/urn:li:activity:6967208467723915264/

[3]https://www.wealthmanagement.com/retirement-planning/tragic-politicization-annuities

FOR MORE INFORMATION

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