

A WEALTH2K®  
POSITION PAPER



# MANAGING THE IMPACT OF DOL

## Why Advisors Should License The Income for Life Model® 2017

By David Macchia

*DOL changes everything. Every financial advisor will be impacted. To be successful in the post-DOL marketplace, most advisors will need a new business model. Wealth2k developed The Income for Life Model® 2017 to provide the model that will help advisors prosper.*

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*In general, I'm optimistic about what the future holds for financial advisors. Although DOL will create disruption, and the business will change in lots of ways, advisors can secure their futures if they implement some common sense business strategies. What I recommend below is a common sense path that recognizes both the challenges and the opportunities that DOL has given us, including an unintended but massive gift to the business of income distribution planning.*

DOL will soon be implemented. Irrespective of his or hers business model, every financial advisor will be impacted. After DOL was published, I recall reading the comments of some RIAs who felt that, for them, DOL is not a big deal. After all, they already operate as level fee fiduciaries. I believe this assessment will prove to be inaccurate. If only for the commoditization that DOL unleashes, RIAs will also feel a significant impact. DOL's disruptive influence will be even more challenging for brokers, hybrid advisors and insurance agents.

DOL doesn't exist in a vacuum. It arrives at a time when new technologies and innovative business models are disrupting traditional business models. Uber is one obvious example of how, almost overnight, an upstart company was able to marginalize incumbents. Of course, technology-driven disruption cuts across businesses in a variety of industries beyond networked transportation. Dollar Shave Club, for example, is being sold for \$1,000,000,000. Its business model very quickly disrupted the business of personal grooming. Incumbents such as Gillette won't escape the impact.

## **DOL INTERSECTS WITH TECHNOLOGY TO DISRUPT THE ADVISORY BUSINESS**

At the point where DOL intersects with advancing technology, commoditization of advice, products and advisors is unleashed. And this progression doesn't stop until, aided by technology, investment advice is ultimately free. The march toward free advice is already unfolding. If advice becomes free, or almost free, and if product fees and commissions are reduced dramatically, what does that portend for advisors?

Robo advisors like Wealthfront, Betterment and SigFig have garnered great attention. They provide money management for accumulating investors at fees so low that few if any human advisors could subsist on them. The robo upstarts caused established players such as Blackrock, Fidelity and Charles Schwab to unveil their own robo offerings. These new online providers have provided a different path for investors to walk down. Advisors may find it difficult to divert a significant segment of investors away from this path.

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*If you want to create and capture lasting value, don't build an undifferentiated commodity business*

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Peter Thiel  
Founder, PayPal

# A Commoditization Case Study: Schwab Intelligent Portfolios

Consider Schwab Intelligent Portfolios, an online investment advisor that, “builds, monitors and rebalances your portfolio”. The Schwab advisory service will:

- ▶ Build an ETF portfolio with up to 20 asset classes.
- ▶ Provided tax-loss harvesting on minimum-sized accounts.
- ▶ Offers sophisticated portfolio management.
- ▶ Make an investment professional available to speak with the investor 24/7.

Here’s the fact that advisors must understand. The fee-compression genie is out of the bottle and he’s never going back in. From this point forward, if you are offering the type of advice that technology can also offer, there will be continual downward pressure on your margins. I am not saying that advisors’ personal relationships with clients are becoming unimportant. I am saying that it’s inevitable that advisors who work primarily with accumulating investors will see their incomes fall unless they are able to attract more new clients than in the past.

## **WHEN WORKING WITH RETIREES, DOL BRINGS FORTH A NEW STANDARD OF FIDUCIARY DUTY**

What defines fiduciary duty in the post-DOL marketplace? I suspect that when it comes to working with retirees on the issue of income planning, the standard will shift. DOL was about “costs,” It should have been about “risks”. It’s easy to imagine a retiree going broke in spite of having an investment portfolio with extraordinarily low fees. Low fees do not insulate against economic risks that can devastate a retiree’s financial security.

More advisors need to embrace a risk-centric world view of their income planning responsibilities. I assert this because it’s the right thing for your clients, and it’s the right and logical stance for you to adopt. Let’s think about client segmentation. Traditionally we segment clients by AUM. This is illogical when our subject shifts to income planning. A better construct is to consider the size of the client’s nest egg in relation to the amount of monthly income the clients needs to generate. With many clients, their amount of accumulated savings is just enough, or maybe not quite enough, to create the desired monthly income. We refer to clients with this profile as “constrained” investors. They enter retirement with savings, that’s good, but the tolerances are so tight they have no margin for making investing mistakes. Chief among these mistakes is the making of emotionally-driven investment decisions that over time result in the investor’s failure to match market returns. This is problematic for the retiree whose incomes over time may not keep pace with rising prices.

# The Behavior “Bucket”

Income planning for “constrained” investors is, in part, an exercise in positioning the client to assume a psychological posture that enables improved investing behaviors.

To help insulate “constrained” investors against their own worst emotional impulses, income planners should adopt a philosophy that is focused on outcomes, not probabilities. They should then implement an investing process for outcome-focused planning that helps clients remain invested through all market conditions. In my experience this requires advisors to segment the client’s retirement assets in a way that income generated over the first 5-10 years of retirement is made certain because it is produced from a safe investment.

For this very reason, since 2004 Wealth2k has offered an income planning strategy called **The Income for Life Model**® (the Model). One of the Model’s greatest features is its Segment One, a 5-year bucket that is used to provide highly predictable if not fully guaranteed income over the

first 60 months of the client’s retirement.

I call this all-important Segment One the “behavior bucket” for its ability to create a psychological grounding for the client which enables the client to remain consistent with the strategy through even terrible market conditions. When a client knows that each month his or hers paycheck is going to be in the mailbox (or bank account), it’s much easier for the client to remain invested in risky assets. It’s even easier when the client understands that the income strategy is based upon a segmented approach whereby distinct pools of retirement assets are earmarked to produce future income streams beginning at targeted future time frames. Clients can intuitively grasp this “bucketing” of their savings, and this helps them better navigate their long-term retirement income challenge.

## 2008 Taught Me a Lot About the “Behavior Bucket”

In February 2009 I chaired the non-profit Retirement Income Industry Association’s Boston-based Communications Conference. Attending that meeting were retirement income focused advisors from across the U.S. I vividly recall one advisor I spoke with. He was forlorn. Many of his clients had recently sustained very substantial investment losses as a result of the 2008 market breakdown, losses made worse by this advisor’s recommendation of a systematic withdrawal income strategy. I tried to uplift the advisor’s spirits, but it was evident that I wasn’t being effective. However, I’ll never forget his words, “I’m here because I know now I have to think differently.” It wasn’t lost on me, nor him, that had this advisor recommended a segmented strategy with a “behavior bucket”, his clients’ realized losses could have been averted and their financial futures made more secure.

## The Urgency to “Expand the Pie” and Move Up the Value Chain

DOL slashes commissions and puts downward pressure on investment fees. So to the extent that every dollar an advisor attracts in the future will yield less compensation, it’s absolutely imperative that advisors find a way to attract more assets. There’s no other way to maintain and grow an advisor’s income.

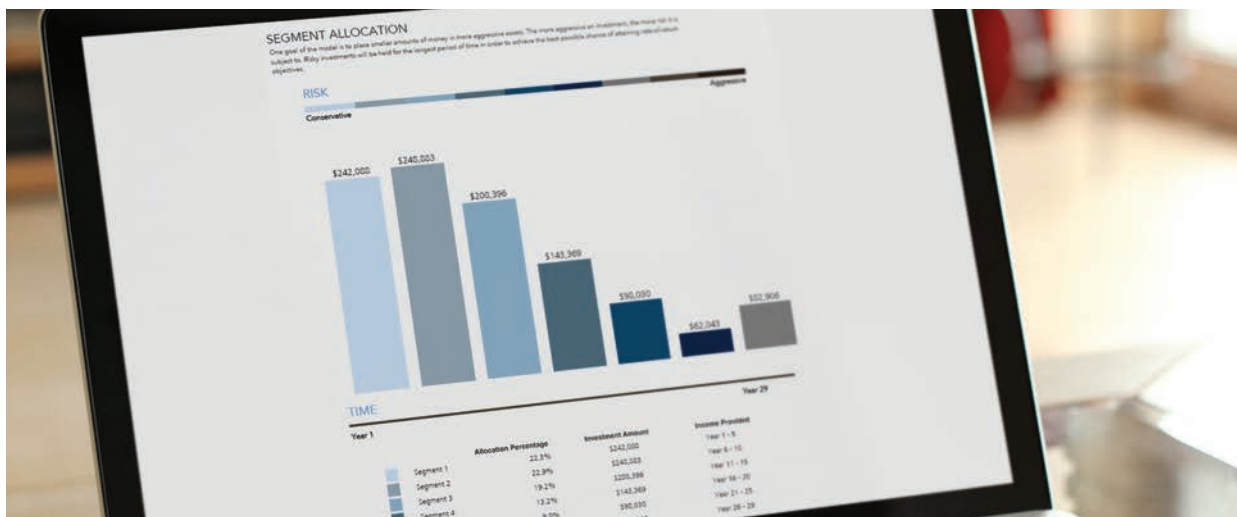
It’s been estimated that DOL will result in one-third of advisors leaving the industry. There’s precedent for this. When a similar regulatory scheme was instituted in the United Kingdom, that’s what happened. It also happened in Australia. To a lesser or greater extent, a similar outcome is inevitable in the United States. There will be survivors and there will be casualties. Your challenge is to be the survivor.

We now find ourselves in the pre-DOL transition period. It’s time to decide upon your post-DOL business model . If your objective is to secure your future, I urge you to separate yourself from the herd of advisors and commit to the niche business of income planning for “constrained” investors. I say this because this move is the one that is surest to promote your long-term prosperity.

Walk down the path where robos and most investment professionals don’t travel. That’s the path of income distribution planning. Adopt the “outcome-focused” mindset that aligns your planning focus with the “constrained” investor’s needs. Typically, when investors enter retirement their priorities change. Their traditional focus on ROI, return-on-investment, shifts to a new, more relevant form of ROI- Reliability of Income®.

When you make your own transition to delivering reliable outcomes you will find that you’ve discovered the key to marginalizing most accumulation-focused financial advisors. The easiest thing for an outcome-focused income planner to do is to disrupt an advisory relationship that is based upon the incorrect form of ROI. The income planner at this point marginalizes the “old” advisor and consolidates 100% on the client’s investment assets into a new, outcome-focused income plan.

At Wealth2k we’ve seen this process unfold thousands of times. The outcome-focused income planner is the most important advisor once the client’s preference turns toward the provision of stable, monthly income. He or she is the planner who owns the future, and it’s this planner whose AUM, post DOL, will accelerate most.



A Whole New Way to Deliver YOU!

Wealth2k's HumanRobo™ makes the sales presentation on behalf of a human advisor.





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*DOL slashes compensation. Nothing is more important than advisors finding a solution that touches more prospective customers. In today's society, that can only happen by the financial advisor embracing digital marketing communications.*

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## Use Technology to “Clone” Yourself

In some areas that really matter, human advisors are inherently disadvantaged in today's world. Unlike technology-based competitors or direct-to-consumer providers with 24-hour call centers, human advisors can't be available to prospects and clients 24/7. Yet clients and prospects may choose to learn about, evaluate and do business with money management options at a time of day that extends well beyond normal business hours. This poses a dilemma: how is the human advisor able to “meet” a prospect whenever and wherever that prospect wishes to be met?

Wealth2k has developed the solution. Once you're familiar with it I believe you'll agree that it's utterly impressive. It's called **HumanRobo™**. A digital extension of you, HumanRobo™ makes “perfect” compliant sales presentations on your behalf. It projects your online image in a manner that is of the highest quality. It offers resources that promote your capabilities in income planning. In comparison to the leading robos and big asset managers' online offerings, HumanRobo™ not only stands-up, it exceeds them in digital design quality and depth of content. In the retirement income market, it offers an exclusive experience that is one-of-a-kind. As a stand alone offering, HumanRobo™ would be well worth the price that Wealth2k charges for licensing The Income for Life Model 2017®. But it's just a single component in what is a larger system that has been designed to put you ahead of the competition and assure your success in the post-DOL era.

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*HumanRobo™ is the digital extension of a financial advisor that the post-DOL period demands. It's the business-building solution to fight back against technology-driven competition.*

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## HumanRobo™ Delivers the incredible What's My Income™ ? Presentation

- ▶ Unmatched online marketing capability
- ▶ Presents and sells for you 24/7.
- ▶ Builds demand for planning meetings.
- ▶ Delivers the **What's My Income?™** presentation.

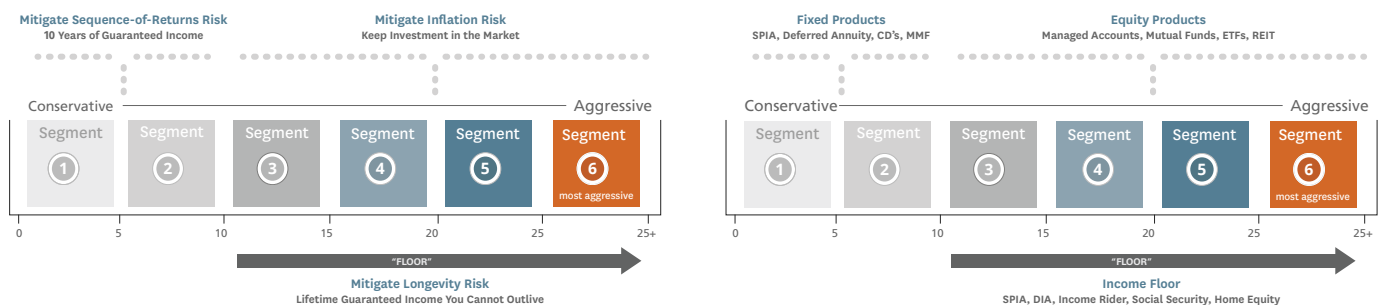




## Hybrid Time-Segmentation® : A Sharp Focus on Mitigating The 3 Big Risks™

Wealth2k's methodology for generating retirement income is called Hybrid Time-Segmentation® (HTS). HTS is an elegant blending of two popular retirement income methodologies; time-segmentation, or "bucketing", and "flooring", predictable lifetime retirement income. Wealth2k embraces HTS due to its ability to help the advisor mitigate three of the most significant economic risks facing "constrained" investors. **Sequence-of-return risk**, or **Timing Risk**, **Inflation Risk** and **Longevity Risk**. If the advisor is able to manage these risks through construction of an outcome-focused income plan, he's given the "constrained" investor a great chance of financial success in retirement. HTS also provides unmatched context for product recommendations because it enables each product's utility to be linked to a specified area of risk management within the investor's portfolio. HTS is the classic "better mousetrap".

What role do annuities play in the "constrained" investor's income strategy? In many cases, I'd say a virtually indispensable role. To mitigate longevity risk, a lifetime income annuity is the product of choice. SPIA and MYGA type annuity contracts are popular choices for Segments One and Two which are tasked with providing predictable income over the first ten years of retirement.



## Next-Generation Risk Assessment: The ROI Reliability of Income® Profiler

One of DOL's most significant practical outcomes is the death of transactional, single product sales. Going forward, all product sales must be secondary to a process that assigns a context and purpose to each product recommended. I've discussed how Hybrid Time-Segmentation® serves as this process. However when it comes to lifetime income annuities, we should go a step further. The ROI Reliability of Income® profiler helps the advisor build a better income plan by assessing the investor's needs and preferences in four key areas: (1) **sensitivity to investment volatility**, (2) **liquidity needs**, (3) **legacy benefit objective** and, importantly, (4) **the investor's preference for lifetime guaranteed income**. Is this quantification important? You bet. The "process" that leads to the recommendation of an annuity arises out of the investor's own preferences and objectives. This is an essential dynamic to capture when recommending annuities in the post-DOL marketplace.

## Each month, invest \$249 in you and your future.

The Income for Life Model® 2017 is being offered to financial advisors at a price of **\$249/mon.** For all that it offers and implies for those seeking to boost their success in the high-stakes post-DOL marketplace, I believe it's a tremendous bargain.

Wealth2k's objective in developing The Income for Life Model® 2017 was to craft the advisor's business model of the future. That is, the model focused on the most critical market, **retirement income**, the model that is **digitally-equipped, compliant, client-focused, fiduciary appropriate**, and able to **generate business growth** on behalf of its licensee.

There's another dimension that's implied by DOL that was prominent in Wealth2k's thinking. This line of reasoning needs further exploration. However consider this: **complex planning may be the enemy of the advisor in the post-DOL marketplace. Why?**

The principles-based nature of DOL compliance creates uncertainty over the ultimate potential for financial liability that results from the advisor's provision of advice as well as his or her recommendation of financial products. This means that advisors should look at how they are delivering advice, what's in the advice, precisely, and how the advice relates to the products recommended. I'm on the side of believing that simplification and full transparency make for safer outcomes. When clients truly understand the advice that is being given, and the products that are being recommended, then they are more likely to remain satisfied customers.

If the advisor is recommending a financial plan that is outlined in a document of 50, 75 or 100 pages, it may be critically important that the advisor is able to defend each and every assumption and variable that is a part of that financial plan. It's easy to imagine an advisor, as part of a deposition concerning a retired client's portfolio performance being questioned by a plaintiff's attorney, and being asked to give sworn testimony about the financial plan's economic assumptions. How would you answer something like this:

*"Mr. Advisor, please turn to page 68 of the financial plan document. Your projection indicates my client's account value today will be "X", with a 95% degree of confidence. However, my client has been retired for four years and, as of today, he's lost 41% of his money. I want to explore with you all of the economic variables that led to the assumptions behind your recommendations, including the Monte Carlo simulations, and my client's large investment loss. To begin, is it true that the one-year Treasury Bill rate assumption behind your modeling is 4.2%?"*

I believe that a prudent post-DOL business strategy is for you to focus on planning for a critical client need (Retirement Income), aimed at a defined market that needs planning assistance ("Constrained" Investors), utilizing a transparent, client-focused investing methodology (Hybrid Time- Segmentation), and that focuses on mitigating key economic risks that can devastate retirees' financial security (Timing, Inflation and Longevity risks).

Not only do I believe this is a wise course for protecting your professional reputation and financial future, it's a course that aligns perfectly with clients' needs.

DOL is disruptive. It's unintended consequences yet to be known. But there's nothing in DOL that indicates financial advisors cannot maintain and increase their personal success while also serving their clients' very best interests. Acquiring The Income for Life Model® 2017 makes it easier for you to attain these twin objectives.

## Two Additional Issues: The Income for Life Model Brand and What's My Income?™

Advisors who license The Income for Life Model® 2017 acquire a big advantage in terms of being able to market The Income for Life Model® brand. They join an exclusive group of income planner professionals who are the only individuals in the U.S. who can. This is a huge differentiator. What's in a name? Think about it. Doesn't every client want an income for life? There's a reason that *Kiplinger's Personal Finance* has published multiple glowing articles about it. It's a quality retail brand based upon a consumer-oriented strategy that just makes good sense.

The second issue is What's My Income?™. Imagine asking 100 people to tell you the size of their retirement nest egg. You'll get 100 pretty accurate answers. Now imagine asking the same 100 people how much retirement income they will have; I bet you'll get 100 blank stares!

Wealth2k is helping advisors focus on the one question that retirees need to answer above all others. What's My Income?™ is the all-important question, and when you answer it, you become the all-important advisor.

No other firm has What's My Income?™. You should seize upon the opportunity to make it part of your practice.

## Action steps to insulate yourself from DOL's worst effects and assure your continuing success.

- ▶ Commit to the niche market of income distribution planning for "constrained" investors.
- ▶ License The Income for Life Model® 2017.
- ▶ Earn one of the top income income planning designations (RMA, RICP or CRC).
- ▶ Embrace an "outcome-focused" philosophy of income planning. Educate clients about The 3 Big Risks™. Use Hybrid Time-Segmentation™ to implement risk-mitigating investing strategies.
- ▶ Craft income investing strategies that incorporate "flooring". Use the ROI Reliability of Income® profiler to determine the appropriate level of "flooring".
- ▶ Leverage Wealth2k's HumanRobo™ to extend and enhance your online presence. Promote HumanRobo™ in both online and traditional marketing efforts.
- ▶ Develop a referral network around the theme What's My Income?™ Let other professional advisors- and all of your contacts- know that you can provide the answer to the question, What's My Income?™ Consider community colleges as venues to teach retirees how to create retirement income.
- ▶ To maximize your financial "exit" from the sale of your practice upon your retirement, sell to a younger advisor whose practice is similarly based upon "constrained" investor income planning with The Income for Life Model® 2017. This approach eliminates inefficiencies and uncertainties for the new advisor, and it maximizes the financial terms you'll receive.



## Further Information

[www.incomeforlifemodel.com](http://www.incomeforlifemodel.com)

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