Younger Americans Embrace Value of Unbiased Financial Advice

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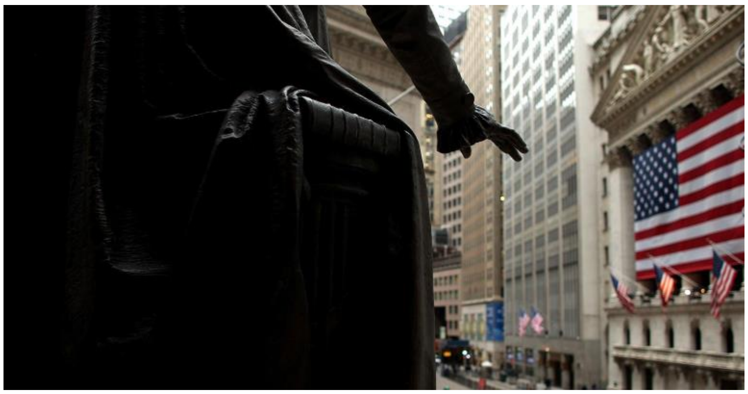
REUTERS



Newly empowered Republicans in Washington are not retreating from their battle to overturn a new regulation that protects retirement savers from conflicted investment advice. But for the public, the battle is winding down - and the regulators are winning.

New research shows a surge in the number of investors who understand the value of paying for financial planning advice, and a preference for paying a fee rather than commissions on product sales, which often appear to be “free” to the investor but often lead to conflicts that cost them money over time.

And younger investors - who represent the future customers of the advisory business - are more interested in paying for financial help than any other age group, according to a survey by Cerulli Associates, a leading asset management research firm.

Cerulli found that about half of all investors polled late last year are interested in paying for financial advice, up from 40 percent in 2008. But a whopping

79 percent of investors aged 30 to 39 would like to pay for help, as would 73 percent of investors under age 30. By comparison, 54 percent of investors age 40 to 49 said they would pay for financial advice.

Chalk up the positive change of attitudes, in part, to all the attention surrounding the U.S. Department of Labor’s so-called fiduciary rule - set for final implementation in April. It requires retirement advisers to put their clients' interests ahead of their own by eliminating conflicts of interest on retirement accounts that can lead some brokers to recommend investments that will get them a higher commission or fee.

The rule could save small investors about $17 billion a year by keeping them out of risky or inappropriate investments, according to the White House Council of Economic Advisors.

The drawn-out battle over the rule has garnered plenty of attention in the press and in social media that has helped boost awareness of the fact that we all pay for these services - one way or the other.

As recently as 2010, some 64 percent of investors thought investment advice was free, or they had no idea whether they paid for it or not, Cerulli says. Now, the clueless category is down to 44 percent of the total.

But there has also been a sharper focus by regulators, the press, and social media users on the complexity of making a holistic financial plan, said Scott Smith, director of advice relationships at Cerulli.

“We have plenty of online tools, calculators and resources and information from 401(k) providers,” he said. “But those are gateways to advice, not solutions. “People are starting to understand what they don’t know.”

The Human Factor

Just as pronounced is a shift toward fee-based advice.

Cerulli says independent, non-commissioned advisers accounted for 41 percent of the total advisory market in 2015, up from 37 percent in 2010, while the share held by traditional commission-based brokers fell from 63 percent to 59 percent. Cerulli expects independent advisers to manage more than half of the business by 2020.

Some big brokerage firms got the memo. Bank of America Merrill Lynch has been preparing to eliminate all commission-based options for its retirement accounts. Beginning in April - when the rule is scheduled for final implementation - commission-based IRAs will migrate to Merrill’s advisory platform, self-directed brokerage or its robo-advisory service.

In fact, Merrill Lynch has rolled out a large advertising campaign touting its commitment to fiduciary values, headlined, “We’re committed to your best interest. Not the status quo.”

Meanwhile, a fee-only network of financial planners targeting young investors is off to a fast start. XY Planning Network has attracted about 350 financial advisors in less than three years since it started, according to founder Michael Kitces. But he adds that a different relationship model is a must. “Young clients pay for advice from their cash flow, not their assets/portfolios. So while the demand and opportunity is there, it requires a different business model to serve them."

So that is the future. Meanwhile, here in the present, U.S. Representative Joe Wilson of South Carolina introduced legislation in the House last week that would delay the Labor Department rule’s implementation for two years. That would give opponents more time to gut the department rule or have it replaced entirely.

Republican legislative moves to block the rule are nothing new. Opponents in the financial services industry - mainly brokerage and life insurance companies - argue the rule will drive up the cost of getting good retirement advice and leave consumers with access to fewer products.

Repeal would remove the muscle, but the consumer trends are encouraging. As in so many areas these days, the public is running way out in front of political leaders.