SMART INSIGHTS FROM FINANCIAL PROFESSIONALS

Think Your DIY Retirement Plan Can Beat an Adviser?

Think again, according to studies by Vanguard and Morningstar. Maybe young, uncomplicated investors can get away with a passive plan, but you'd be surprised at exactly how much anyone near retirement could benefit from the guidance that a real retirement plan offers.

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After age 50, investors need more than a pie chart — they need a retirement plan.

As an investment adviser representative, I meet with retirees and pre-retirees every week, many of whom tell me they have been "working with a retirement-planning firm for years." Yet, when we dig into their "plan," there is often not much more than a diversified pie chart of stocks, bonds and mutual funds.

What's astonishing is that many of the big Wall Street firms considered by most to be trusted names have been hanging their shingles out as "retirement planning firms." However, very few have done much to provide advice for their customers on massive issues like maximizing their Social Security benefits or efficiently coordinating withdrawal strategies to help clients minimize the impact of taxes on their retirement income.

In the face of lackluster advice and the inability of some money managers to beat their benchmarks, wouldn't you agree that an investor nearing retirement should question whether they are actually receiving valuable advice? This is why we've seen such a dramatic migration away from the traditional adviser/client relationships to passive, low-cost indexing platforms. Unfortunately, many people have decided to try a DIY retirement with advice through an 800 number and have not had a chance to truly evaluate strategic long-term and tactical short-term decisions.

In retirement, the rules change. There are completely different needs for someone who is in the accumulation, or savings, phase of their life versus someone who is entering the distribution, or spending, phase. Clients' paychecks stop coming in, and they become dependent various savings accounts and defined benefits programs like Social Security to fund their quality of life. These folks now need to focus on the preservation and distribution of their assets — opposed to accumulation — and measuring performance throughout various timeframes.

My goal here is to summarize a few studies that Morningstar and Vanguard have independently compiled to identify if there really is a quantifiable value that an adviser can provide beyond a good pie chart. These third-party, independent sources have shed the light of math and science onto the true value of an advisory relationship and what a retiree should look for in a relationship with an adviser.

VANGUARD BOILS DOWN THE VALUE OF FINANCIAL ADVICE

Vanguard conducted a study that showed the potential effect a professional financial adviser's knowledge and experience can have on the growth of a clients' retirement accounts. The study, Putting a Value on Your Value, considered three best practices that investors can use when controlling their accounts. These best practices are not necessarily geared toward getting the highest return for all investments, but rather have accounted for several other factors, including reducing tax liability, investment or transaction costs and managing risks.

Vanguard concluded that a retirement plan, if properly managed by an experienced adviser, can produce as much as a 3% net benefit beyond a do-it-yourself (DIY) investor. Advisers found extra growth opportunities by focusing on low-cost investments with low expenses and on choosing appropriate accounts for tax reduction, by selecting a wide variety of investments and by focusing on total return—not just increased income. In addition, advisers were able to coordinate an account withdrawal strategy, reallocate funds for the best possible scenario for tax/income purposes, and encourage clients to hold steady to the investment plan, even when things appeared less than desired.

MORNINGSTAR'S RESULTS: INCOME THAT'S 22.6% HIGHER

The folks at Morningstar Investment Management also researched the effects that the right financial advice could make on the growth of retirement accounts. Morningstar researchers took five separate issues related to making good financial decisions and explained how DIY investors typically react to the issue, as opposed to the better outcome resulting from a financial adviser's expertise. The study evaluated:

1. Allocating clients' total assets
2. Income planning and account decisions
3. Retirement-planning product options
4. Leveraging tax advantages through allocation and withdrawal strategies
5. Considering expected retirement expenses

Morningstar concluded that using the improved methods as recommended by financial advisers could boost clients' retirement accounts by 22.6%. (Full details can be found in their study, "Alpha, Beta, and Now... Gamma.")

OTHER VALUES ADVISERS BRING: CUTTING TAXES AND BOOSTING SOCIAL SECURITY

Many retirees today are discovering that their No. 1 retirement expense is taxes, as most people have their savings in large 401(k)s and IRAs — which is all pre-tax money — and have very little Roth or after-tax dollars. The majority of families today looking to retire on incomes of $50,000 to $100,000 per year are typically unaware of the significant opportunities available to improve their ability to fund their quality of life. The single easiest improvement an adviser can make is by evaluating and creating a distribution strategy designed to maximize their Social Security benefits throughout an expected lifetime. Often, this can add anywhere between $50,000 to $200,000 in additional benefits throughout a lifetime.

In addition to the higher monthly benefit, the fact that these Social Security dollars have tax-preferential treatment means they will also provide tens of thousands of dollars in additional tax savings throughout a lifetime as they now represent a larger portion of funding quality of life.

Of course, these studies are limited in the extent of value that can be definitively measured. Financial advisers can add all sorts of non-monetary value, such as:

- Lessening the risk of poor financial decisions caused by declining cognitive ability.
- Protecting and supporting family members who are not as financially savvy but may be left in charge.
- Helping to coordinate estate matters, Medicare and other health care decisions as they age.

Most likely, you would rather spend time with your family doing the things you enjoy, not tracking allocations and staying on top of tax laws. If you find an adviser who can show you that paying the typical 1% fee for financial advice can help you gain 4% more, you will have gained an additional 3 percentage points and spent more of your time doing the things that you love. If this is true, then I would suggest that you can't afford neglecting to hire an adviser who can help coordinate your retirement through a planning process that can empower you to make sound decisions.

At our firm, we strive to empower clients to make great financial decisions by providing informational services and a comprehensive planning process. Each plan is custom-built for our clients' specific goals, needs and desires through the lens of providing optimal after-tax income streams throughout a lifetime. Many advisory firms focus on offering pie charts — which worked fine while clients are accumulating assets — but when it comes to retirement, we firmly believe in providing more than a pie chart; you need to be producing, evaluating and adjusting a real plan.

David Stryzewski is an educator, author and regular contributor to various news, TV and media sources. He is the founder of SPG Advisors LLC, a Registered Investment Advisory firm located in Washington state. He is the CEO of Sound Planning Group, Sound Tax Planning and a mentor to various advisory firms around country. You can find more information about him at www.SPGadvisors.com.