



Finding Trustworthy Financial Advice  
for Retirement and Avoiding Pitfalls

MANAGING RETIREMENT DECISIONS SERIES

**PEOPLE OFTEN TURN TO OTHERS FOR FINANCIAL ADVICE** as they approach retirement. It's a little like turning into a gas station for directions when approaching unfamiliar territory.

Unfortunately, finding trustworthy advice is not always easy. Experienced financial professionals and family members can be invaluable but some may be unreliable or even dishonest. This Decision Brief provides some pointers that can help deal with the challenges.

A good place to start is to become more knowledgeable about retirement planning and investments. Many older people do have the time and ability to do this. Possessing such knowledge can help them save money and avoid possible heartache. Being better educated can also help seniors select advisors and ease interactions with those professionals.

**Word to the wise:** Hours spent learning about finance, investments, and other financial matters can generate huge benefits.

### What to Avoid

Anti-fraud experts stress that older people need to learn what to avoid to protect themselves against fraud or unwise investments. For instance, it is wise to avoid all solicitations for financial products, whether delivered via cold calls or the internet. Although there is a very small chance of missing out on a good opportunity this way, there is a very big chance of avoiding being ripped off.

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

Another area of caution is a surprising one. This is a person's personal support system, including family and friends. Many loved ones 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 and/or training, making their suggestions of questionable value.

Older people are also wise to avoid anyone offering "hot stock tips" or "surefire trading strategies." Sound investing requires careful planning, not a flash in the pan.

#### Disclaimer

This Decision Brief is not intended to provide advice for specific individual situations and should not be construed as doing so. It is an information tool for general guidance. Individuals needing advice should seek the services of a qualified professional. Keep in mind that the tax code can change, the taxation of products and strategies vary, and individual tax needs and issues are unique. Consideration of tax issues is beyond the scope of this work.

Another precaution: It pays to move slowly if family members or friends highly recommend an advisor but for vague reasons. For example, a close friend may say, “John is a great guy to work with.” That is an interesting but not a particularly compelling reason to do business with John. By comparison, a recommendation that “Matt helped me set up an income plan that covers all of my basic expenses” provides telling insight to the type of work Matt does.

## Finding a Good Advisor

Many older people 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 institutions like Fidelity, Vanguard, or Schwab or they can utilize smaller firms or individuals who provide advisory services. Employers sometimes offer advice as part of their benefit programs.

Here are some factors to help guide the search.

### Experience Helps

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

*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 and exams than others, so it is wise 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.

*Investment philosophy:* It’s 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 indication of future results. It’s more effective to look for an advisor who focuses on understanding the client’s risk tolerance and need for investment return, and on investments that fit their clients’ needs. It is critical that the advisor’s recommendations about taking investment risk fit within the client’s comfort zone, and that the client understands the key features of the investments being recommended.

*Total financial planning approach:* An advisor cannot make good recommendations without understanding the client’s total personal, family, and financial picture, including both investment matters and possible needs for insurance. Beware of specialists who promote just one or two products with all clients regardless of circumstances.

### Which Suitability Standard Is Best?

In general, the suitability standard of care is viewed as less stringent than the fiduciary standard.

The suitability standard gives the advisor more leeway to recommend products that may have higher costs, and without researching all applicable possibilities.

It is not necessarily bad to work with an advisor under the suitability standard. Suitable products can be the best products for the situation. But the client should ask early on under which standard the advisor is operating.

If it's the suitability standard, they should ask how the advisor can ensure the recommendations are suitable. If it's the fiduciary standard, ask how the advisor can assure that this level of care has in fact been performed. The goal is to exercise due diligence up front.

*How the advisor is paid:* Retirees should inquire about how the advisor gets paid. Many competent, honest financial advisors receive compensation in the form of commissions from the products and services they sell. Unfortunately, when starting a relationship with a commission-based advisor, the customer may have no way of knowing whether the advisor's recommendations are biased by the size of the commission. A good strategy is to check out the advisor thoroughly via referrals, references and other sources before signing on the dotted line.

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 fee-based advisors may even work on a retainer basis, where they charge a yearly fee to cover regular and routine planning and advice. In general, fee arrangements involve less potential conflict of interest than commission-based arrangements. However, checking around to be sure the fee is not excessive compared to comparable work done by others will be time well spent.

Beware of advisors who promote their services as "free of charge." There are likely to be costs built in somewhere that are undisclosed.

*Fiduciary versus suitability standard:* State—or federally—licensed registered investment advisors (RIAs) must, under law, operate under a "fiduciary" standard of care. This means they must act in the best interests of the client at all times. On the other hand, most stockbrokers, registered representatives, and insurance agents operate under the "suitability" standard. This requires them to sell products that are suitable for the customer.

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

The rules about standards may be changing. Securities and Exchange Commission (SEC) staff has recommended that the fiduciary standard apply to brokers as well as RIAs. It is now up to the SEC to write specific rules and oversee implementation. It may take until at least late 2012 to fully implement the new standards.

### Understanding Expense Charges

One strategy for assessing the cost/benefit of a financial product is to look at

the expense charges, which pay for sales costs (like commissions), administrative costs, and, in some cases, guarantees.

For investment products like mutual funds, exchange traded funds, and variable annuities, people can evaluate the level of such charges. 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.

Here is how Richard went about making an expense evaluation. He 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/year.

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

Next, Richard shopped around. He 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 him in a good position to make a more informed decision than if he had just listened to the sales presentation.

Diligent investors may also find it worthwhile to read through the investment's prospectus (booklet that documents the investment details). They 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.

Some financial products also carry surrender charges. These apply if the retiree takes money out of the product within a certain number of years. Such charges may not affect long-term investors, but they do put limitations on people who want access to the funds in the early product years. That reduces flexibility and should be a consideration in the decision-making.

### Take-Away

Richard's expense comparison experience makes clear that retirees have good reason to ask the advisor to disclose the full expense charges for any prospective investment—and to justify the costs.

## The Dark Side—Various Types of Financial Wrongdoing

Unfortunately, investors do lose money to bad actors who seek to prey upon the unsuspecting. Here are some ways that happens:

*Simple theft.* This is the most egregious crime. A person might, for instance, write a check directly to the advisor and the advisor walks away with the money. One should never write a check or assign investments directly to an individual. The actual funds should always go to a well-recognized financial institution.

*Ponzi schemes.* This is a form of disguised theft. Here, the so-called advisor siphons off money for personal use, and pays for investor withdrawals out of money provided by new investors the advisor has snared. Such schemes are typically exposed in a financial crisis when many investors need to withdraw funds at the same time. The Bernie Madoff scandal is an example.

*Churning and more.* Some investment schemes hurt financial product performance due to excessive commissions. These schemes may entail lots of buying and selling of investments (churning) or selling the client the highest commission/highest expense product when a product with lower expense charges will do the job better.

Clients should not give advisors powers to buy or sell investments without explicit client authorization on each transaction.

To protect themselves, clients should make every effort to have a clear understanding with the advisor about how funds will be managed. It's best to do this at the outset of the relationship—and to refresh whenever uncertain.

### How to complain

Trustworthy, competent, financial advice at a reasonable cost is an extremely valuable commodity. But when people find they have been badly treated by an unscrupulous advisor, they need to know how to seek recourse.

Some may want to seek restitution via a lawsuit filed by an attorney who specializes in such cases. That may not be feasible, however. Attorney fees may be high and good attorneys are in such high demand that they may take only the most egregious and high-amount cases.

## Guidelines for Complaints

- *Have good grounds.* There have to be good grounds for filing a complaint and asking for financial restitution. Losing money on investments is not enough. The complaint must show that the advisor did something wrong.
- *Identify the complaint.* Examples include recommending investments that were unsuitable from a risk standpoint; failing to disclose important information about recommended investments; and/or excessively churning a portfolio of investments to generate commissions.
- *Do Internet research.* A lot of information about complaints, including government-sponsored, user-friendly sources of information is online.
- *Pinpoint the chain of supervision.* Do this for the advisor in question. Also confirm who has responsibility for oversight. Example: For a stock broker, the chain goes from the broker to the branch manager and then to the complaint department of the firm's main office.
- *Try complaining to government authorities.* Do this if earlier efforts did not achieve results. Possible authorities include the state securities regulator, the SEC, or the Financial Industry Regulatory Authority (FINRA), all of which have user-friendly websites with specific guidance on how to file complaints.
- *Contact insurance or banking regulators.* If the product is not a security, try filing the complaint via the user-friendly websites of state insurance departments, or state and federal banking authorities.

Many times a do-it-yourself 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. Sometimes a new financial advisor may be able to help as well.

In writing complaint letters, people should make clear that they understand the chain of responsibility and supervision. There is no need to be threatening, but there's no harm in being assertive. Also, it is critical to act quickly in filing any complaint. Various time limits may apply depending on type of complaint.

Certain professions have professional oversight boards that can take disciplinary action but it's important to be clear on the oversight body's authority before filing a complaint. Some may not be able to order financial restitution.

**Pointer:** It's important to file complaints with entities that have the authority to deliver or order financial restitution.

## More Help

With an inquiring mind, older people can learn much more about how to get good advice and keep themselves safe from fraud. They can also learn enough to enable them to make wise financial decisions that support a comfortable retirement. The box below shows some resources that can help.

### Read more about It

- **General investments:** The most useful books in this category are by authors who focus on managing risk, keeping expenses down, and asset diversification. Examples include:
  - Bogle, John. *The Little Book of Common Sense Investing*. Hoboken, New Jersey: John Wiley & Sons, Inc
  - Larimore, Taylor, et al. *The Bogleheads' Guide to Investing*, Hoboken, New Jersey: John Wiley & Sons, Inc
- **Retirement planning:** Larimore, Taylor, et al. *The Bogleheads' Guide to Retirement Planning*. Hoboken, New Jersey: John Wiley & Sons, Inc.
- **Websites that address both investing and potential pitfalls:**
  - Women's Institute for a Secure Retirement website. [www.wiserwomen.org](http://www.wiserwomen.org).
  - MyMoney: [www.mymoney.gov](http://www.mymoney.gov) (a Federal government website)

The Society of Actuaries 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 at 847-706-3500 for more information. Additional information and research reports may be found at <http://www.soa.org>.



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