

# Ethical Issues in Retirement Income Planning

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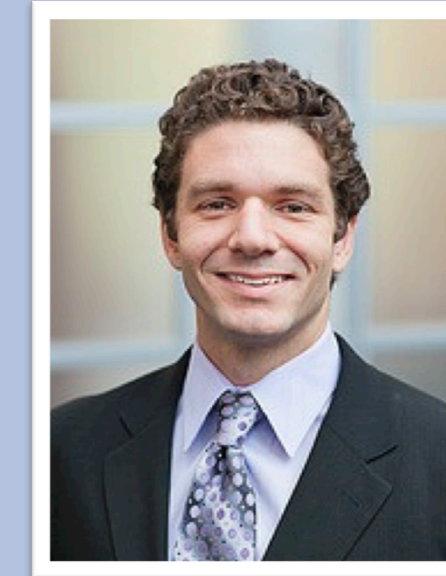
## Mission:

- Elevate the retirement-income planning knowledge of financial services professionals in order to improve retirement security for all Americans

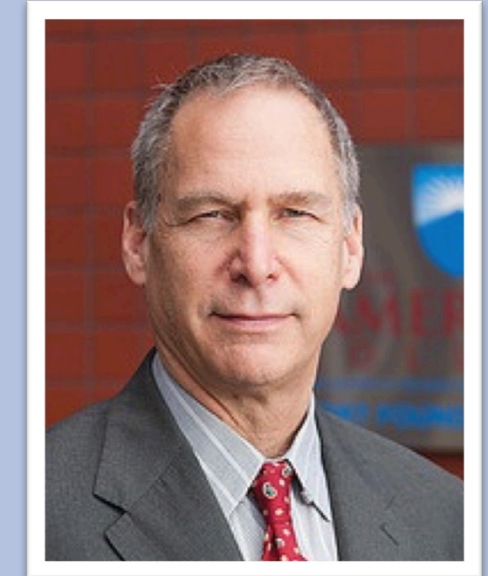
## Priorities & Initiatives:

- Research - RICP<sup>®</sup> Retirement Income Literacy Index
- Education - Retirement Income Certified Professional<sup>®</sup> (RICP<sup>®</sup>)
- Video Library [www.theamericancollege.edu/retirement](http://www.theamericancollege.edu/retirement)
- Thought Leadership and Visibility

## Leadership



Jamie Hopkins, Esq, LLM,  
RICP<sup>®</sup>  
*Co-Director,  
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CFP<sup>®</sup>  
*Co-Director,  
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IN FINANCIAL SERVICES

**Mission: To raise the level of ethical behavior in financial services industry**

**Priorities & Initiatives:**

Conduct and support research on timely and relevant ethical issues

Support corporate and industry level membership programs

Serve as a thought leader on ethical issues

## Leadership



**Julie Ragatz**  
*Director*

*Assistant Professor of Ethics*



# Ethical Issues In Retirement Income Planning

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## **Purpose**

1. Identify financial service professionals' primary ethical concerns in retirement income planning.
2. Gauge how financial service professionals view the industry's current ethical challenges.
3. Understand how ethical practices can be improved in retirement income planning.



# Topline Results - #1 Concern

- Protecting clients from financial elder abuse was the top ranked ethical concern for advisors out of 30 different concern areas.
  - Roughly 82% of advisors said they were concerned about protecting their clients from financial elder abuse.



# Topline Results - Education

- Advisors are very concerned about the knowledge level of both consumers and other retirement income planners.
  - Only 2% of the surveyed advisors thought that financial service professionals were extremely knowledgeable with regards to Medicare.
  - 71% of advisors were worried that other financial service professionals lacked the knowledge to properly utilize Social Security claiming strategies for their clients.
  - Social Security was the top response area for what a good retirement planner should understand.
  - 88% of advisors responded that they were concerned about their clients' ability to properly understand their retirement income plans.



# Topline Results - Compensation

- Advisors were not overly concerned about ethical issues due to compensation models alone.
  - Only 3% were very concerned about flat fee compensation models causing an ethical impact and only 28% were very concerned about a commissions based model.
- However, 66% of advisors were concerned that companies pressure their advisors to make sales at the expense of their clients' best interests.

# Professor Ragatz Remarks

- A primary ethical obligation of any professional is to maintain their competence. Respondents were troubled that in the increasingly complicated field of retirement income planning practitioners lacked the comprehensive knowledge to offer expert advice. This problem is exacerbated by a perceived decline in comprehensive training provided by large financial services organizations. The bottom line is that practitioners are concerned that harm will be caused not through deliberate malfeasance, but through lack of education.



# Professor Hopkins Remarks

- Retirement income planning is extraordinarily challenging. Retirement income professionals are expected to manage a variety of client risks, legal changes, and ethical issues when developing a comprehensive plan. The survey responses show that advisors are well aware of the challenges but worry that the industry as a whole lacks the proper training and education required to effectively serve clients.
- Retirement income planning requires the advisor to have the experience and knowledge in a variety of areas including long-term care, asset management, insurance, risk management, investments, health care, and taxes. Advisors are concerned that clients are being put at risk because of a lack of education both on the client side and on the advisor side. Retirement planners are very concerned that clients cannot understand their plans and that advisors are not adequately educated or trained to meet the clients' complex retirement income needs.

# Data & Research Methods

- This study consisted of two related research phases. We first conducted an online survey that asked respondents to answer a series of rank-choice questions related to ethical concerns in retirement income planning. We then solicited volunteers at the end of the survey to participate in telephone-based interviews. These interviews asked for more specific clarification on a number of ethical questions. A total of 244 individuals returned complete surveys, and of that total, 31 individuals were interviewed. All survey data were analyzed for difference in means of ranked scores. All interview data were coded using NVIVO 10 qualitative coding software.



# Survey Data and Results

# Ethical Concerns Ranked 1-15 (of 30)

- 1) How concerned are you about protecting clients from financial elder abuse?
- 2) How concerned are you that your clients understand the complexities of their retirement income plans?
- 3) How concerned are you about clients' abilities to understand the financial products and services offered to them?
- 4) How concerned are you about sales representatives or other agents misrepresenting financial retirement income products to clients?
- 5) How concerned are you that retirement income professionals lack proper knowledge about Social Security claiming strategies to best serve their clients?
- 6) How concerned are you about companies pressuring their agents to increase sales at the expense of the client's best interests?
- 7) How concerned are you about retirement income advisors being unable to perform their jobs because of inadequate training?
- 8) How concerned are you that retirement income professionals cannot keep up with the changes in regulations and laws that impact their clients' retirement income plans?
- 9) How concerned are you about companies pressuring agents to sell new or innovative products?
- 10) How concerned are you about the inability of retirement income advisors to accurately identify a client's retirement income needs?
- 11) How concerned are you that retirement income professionals lack proper knowledge about Medicare to best advise their clients?
- 12) How concerned are you about companies and financial advisors withholding information pertinent to a client's decision making?
- 13) How concerned are you that retirement income professionals lack proper knowledge about qualified retirement plans to best advise their clients when developing a retirement income plan?
- 14) How concerned are you that retirement income professionals lack knowledge about the taxation of retirement income products?
- 15) How concerned are you about financial planners lying to clients about the client's realistic expectations of portfolio and product performance?



# Ethical Concerns Ranked 16-30 (of 30)

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| 16) How concerned are you about the engagement of advisors and companies with their clients after a retirement income plan has been implemented?  |
| 17) How concerned are you about advisors losing focus and engagement over time because of upfront loaded commission structures?   |
| 18) How concerned are you about the overall ethical culture in the retirement income industry?  |
| 19) How concerned are you about companies failing to provide clients with a wide enough range of financial products to meet all of their retirement needs?  |
| 20) How concerned are you that financial advisors, rather than clients, make decisions about clients' retirement income plans?  |
| 21) How concerned are you about companies providing false or misleading advertisements about retirement income products?  |
| 22) How concerned are you about the inability of retirement income advisors to effectively communicate with their clients?  |
| 23) How concerned are you about the lack of a uniform fiduciary standard of care for the entire retirement planning industry?   |
| 24) How concerned are you about general conflicts of interest for financial planners between the compensation structure for retirement income planning and acting in the best interest of the client? |
| 25) How concerned are you that financial advisors working with clients before retirement and in early retirement will not be able to be the client's advisor throughout retirement?                   |
| 26) How concerned are you about conflicts of interest arising when the financial advisor is compensated based on commissions?   |
| 27) How concerned are you that companies and financial advisors overcharge their clients?   |
| 28) How concerned are you about companies and advisors misusing client assets for financial gain (e.g. fraud, theft, prohibited investments, etc.)?   |
| 29) How concerned are you about conflicts of interest arising when the financial advisor is a salaried employee?  |
| 30) How concerned you about conflicts of interest arising when the financial advisor is compensated based on a flat fee?  |

# Perception of Knowledge Levels

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- Respondents tended to think that they are much more knowledgeable about retirement planning than the majority of financial service professionals in their field.
  - 98% of respondents stated that they were knowledgeable about retirement income planning.
  - 64% of respondents were worried that retirement income advisors were unable to perform their jobs because of inadequate training.
  - 68% were concerned that retirement income advisors are not keeping up with legal changes that impact their clients' retirement income plans.
- Respondents believe that knowledge of Social Security and Medicare is very important for a retirement planner. However, most say that typical financial service professionals' knowledge of Social Security and Medicare is very low.
  - Only 8% believe retirement income professionals are extremely knowledgeable about Social Security issues.
  - Only 10% believe retirement income professionals are extremely knowledgeable about tax issues.
  - Only 2% believe retirement income professionals are extremely knowledgeable about Medicare issues.



# Changing Landscape

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2016 Social Security Rule Changes:

- Removal of “Aggressive” Claiming Strategies
- File-and-Suspend (Pre-2016 Bipartisan Budget Act)
  - When you turn your FRA (66 today) you could voluntarily suspend your benefits
- Why File-and-Suspend
  1. File for Retroactive Benefits
  2. Trigger Spousal Benefits
  3. Start-Stop-Start Strategy

# What Changed for Deemed Filing?

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- For anyone born 1954, January 2 or later
  - Deemed filing extended to age 70
  - What does this mean?
    - It means you Cannot Pick between the higher of your spousal or workers benefit at FRA
    - You always are deemed to have filed for all benefits that you are eligible for when you file.
    - You will get the higher payment of the two!

# What about File and Suspend?

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- Must file and suspend before May 1, 2016
- Means you need to be born on May 1, 1950 or earlier be 66 on April 30<sup>th</sup>
- If you file and suspend before then, you can still take advantage of the three strategies – trigger, retroactive, stop-start
- If not, you can no longer trigger benefits for a family member or for retroactive



# Elder Abuse and Fraud in Retirement Income Planning

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- The majority of respondents felt that the retirement income industry had a “good” ethical climate.
  - 64% of respondents believed the overall ethical climate of the industry was in good hands.
- Protecting clients from elder abuse was the number one concern for retirement income professionals.
  - However, only 28% of respondents believed that financial elder abuse was a common occurrence.
- Only 27% of respondents believed that instances of overcharging clients were common among retirement income professionals.
- Respondents believed that the use of misleading advertisements by retirement income professionals was very uncommon, and outright lying by retirement income professionals is seen as almost non-existent in the industry with only 6% believing it occurred frequently.

# Ethics and Compensation

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- 90% of respondents generally agree that most retirement income professionals experience pressure to increase company revenue through selling products and services.
- Respondents believed that commission-based compensation models were somewhat likely to create conflicts of interest, while salary-based and fee-based compensation were seen as less of a problem.

# Practitioner Concerns: Advisor Value

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- Perceived challenge is that clients do not understand the value that a trained financial advisor is able to provide
- Value comes from technical competence and experience
- Concerns about a lack of comprehensive education are not only about a failure to live up to ethical obligations, but they have practical import – as well as implications for public policy



# Knowledge, Competency, and Guidance

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- Respondents were not confident that practitioners were adequately trained to provide comprehensive retirement income planning.
  - Only 56% believed retirement income professionals had adequate training.
- 85% of respondents were concerned that clients do not understand the products and services they are offered.
- When asked if they were concerned that the lack of a uniform fiduciary standard may contribute to these problems, only 31% responded that they were very concerned.

# Performance Capability of Financial Advisors

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- Respondents were very concerned with the perceived lack of professional training and education in retirement income planning.
- Concern over the perceived lack of specific knowledge about Social Security and Medicare among financial service professionals was relatively high for respondents. This is problematic given how important respondents believe comprehensive knowledge of these programs is for retirement advisors.
- 71% of advisors worried that other financial service professionals lacked the knowledge to properly utilize Social Security claiming strategies for their clients.

# Practitioner Concerns: Description of Retirement Income Products

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- 66% of respondents were worried that sales representatives and other agents misrepresented retirement income products to clients.
- 57% percent were concerned about financial planners giving clients realistic expectations about portfolio and product performances.
- Only 8% thought it was common for financial planners to lie to their clients.



# Company Influence

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- 90% believe they are pressed to increase sales by their company.
- 65% believe this pressure could be against their clients' best interests.
- 64% were worried about being pressured to sell new products.

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# Qualitative Interviews

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# Qualitative Findings: Interviews

- What should a good retirement advisor be familiar with?
  - Social security, Medicare, tax laws
  - Different income strategies
  - A deeper understanding of the client as a person and his/her psychology

*“I would say understanding Social Security, understanding Medicare, understanding IRA solutions, rollover options, understanding guaranteed income versus investment types of income, specifically understanding how annuity works and the different options with annuities and the different riders, and having a good understanding of investments and building a diverse portfolio, and how much income should be able to be added to build someone’s portfolio.”*

*“The most important part of the withdraw strategies would be to fit the correct strategy to the goals of the clients. [R]ather than having the one-size-fits-all, I think you’d be better off to take the needs and wants, and the goals and hopes and dreams of the clients.”*



# Qualitative Findings: Interviews

- What are some of the main ethical concerns in the industry?
  - Improperly explaining products/services to clients
  - Promoting high-commission products
  - Pressure to sell proprietary products

*“I guess there are concerns about giving full disclosure to clients on how investment products work.”*

*“...people push products or [lead] with products based on[...] commission rate or limited knowledge and narrow knowledge and all.”*

*“Sometimes the investment selection has more to do with the budget of the advisor or the broker as compared to the investor or the retiree. That's probably the number one problem. I think number two is more institutional...If I work for an institution which creates [a proprietary] product[,] I think there's an ethical problem [if] I deliver only the product [from] my employer...”*

# Qualitative Findings: Interviews

- What do you think causes unethical behavior in retirement income planning?
  - Lack of education/misunderstanding products
  - Pressure
  - Greed

*“I think it can be partly ignorance. It can be a need for income. [P]erhaps some revenue competitions, you know?”*

*“I think number one is greed. Number two is incompetence. Number three is poor training.”*

*“I think [it’s accidental] rather than intentional, that what happens in our industry... is we talk about sales numbers and those types of things[... and] there’s a loss of focus what’s really going on. But I think that... you focus on educating... and doing your best with disclosures and sign disclosures related to that.”*

# Qualitative Findings: Interviews

- What skills are field agents missing that would make them behave more ethically?
  - More education
  - Company supported education initiatives

*"[...]more group classes. I think it would help reinforce people (sic). Because you get into any industry, I don't care where you are, but new words and the new theories and concepts, it takes a while to understand it especially if you haven't grown up with it at the dinner table, or been educated."*

*"Tools that help define the risk of profiles of individuals' time horizon."*

*"I think that a lot of it is just: here are the basic education requirements. You know, if you're gonna get your CFP you have to pass this test and you need to have, I don't know, ten hours of continuing education. Okay, well there's nothing wrong with having a minimum standard. But I think that advisors need to challenge themselves."*

# Qualitative Findings: Interviews

- Do Americans trust the retirement income industry? Why do you think this?
  - No, because of a few “bad apples”
  - They trust their advisor, but not the industry at-large

*“So all you have to have is one rotten apple and that’s spread out. The perception I get is when I go out and say I’m a life insurance salesman, people immediately back off. That’s my feeling.”*

*“One bad apple spoils it[...] it does just give the industry a bad name. For myself personally, if it’s a client of mine and we’ve been doing business for many, many years, the trust is there.”*

*“Those entertainment-- and you know who I'm talking about-- those entertainment experts, quote unquote, I think are a detriment to the consumer because I think all they are is a bunch of hype. And they're good at marketing but they have no backbone in education.”*



# Concluding Thoughts & Takeaways



# Conclusion

- Education is key:
  - Respondents believe that education is key to reducing ethical violations in retirement planning.
  - Respondents believe that companies do not provide adequate training. Companies should get more involved in making sure their retirement planners have the right education and skill set.
- RICP® provides comprehensive retirement income planning knowledge in the primary areas of concern – Social Security.

# Conclusion

- Respondents remain concerned about elder abuse despite the fact that it is not a widespread problem in the industry.
- Clients lack a deep understanding of:
  - Their individual financial plans
  - The value provided by financial advisors
  - The services available to them
- Compensation poses some potential to lead to unethical behavior, but it is not a primary concern for respondents.
- In general, respondents feel that the industry is on good ethical footing.

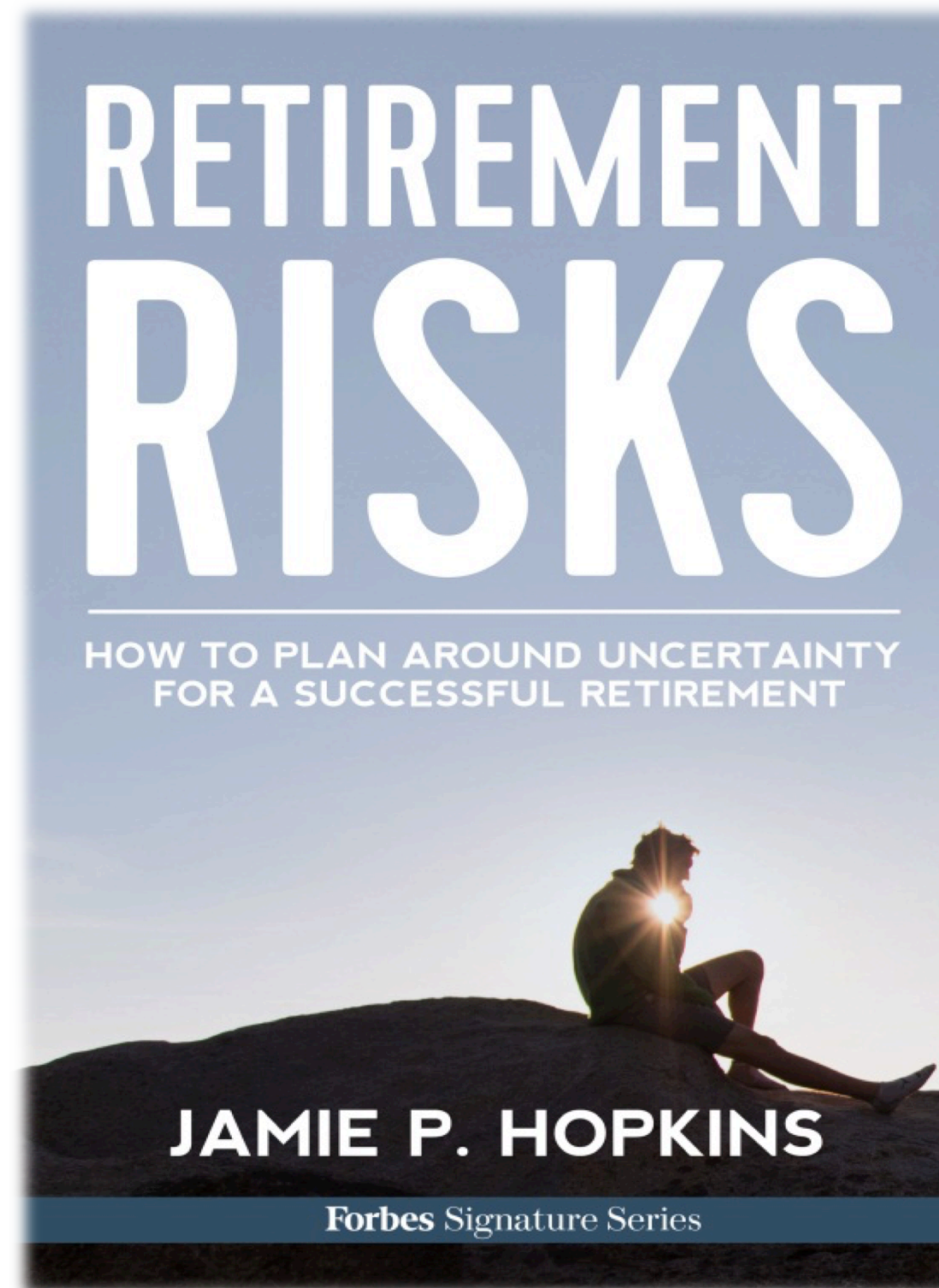
# Additional Information

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- The American College Cary M. Maguire Center for Ethics in Financial Services
  - <http://ethics.theamericancollege.edu>
- Retirement Income Certified Professional® (RICP®) designation
  - <https://ricp.theamericancollege.edu>
- Jamie Hopkins, Forbes contributor
  - <http://www.forbes.com/sites/jamiehopkins>



# Retirement eBook

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[Retirement Risks: How To Plan Around Uncertainty For A Successful Retirement](#)



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