Episode 43: Do contractual lifetime income solutions fit within a fiduciary advisory framework?

Bob French 00:00
Are you a financial professional wondering how to transition your clients from the accumulation to the distribution phase, how to engage individuals looking for a professional with true Retirement Income expertise, how to mutually develop a solution that resonates with them? Or how to grow your practice in a meaningful way that's based on best practices for financial planning, then you've come to the right place. Sign up for our two day masterclass for financial professionals, hosted by Wade and Alex on January 23, and 24th. From 12 to 130. Both days, your future practice will thank you for it. Go to risaprofile.com/masterclass. Last week, we spoke about health care. And it was one of our most widely listened to podcasts. Oh, no. Well, this week, we upped the ante and talk about being a fiduciary. Listen, I dare ya.

Wade Pfau 01:16
Hi, everyone, welcome to retire with style. I'm Wade, and I'm joined by my co host, Alex. And we're happy to also have a special guest this week, John Faustino. Alex, can can you go ahead? And let us give us a little bit of background about John and what we're going to be talking about today?

Alex Murguia 01:35
Well, how about we let John say, hi, you cut them off when you cut them off. He was waving his hands.

John Faustino 01:44
Thanks so much for having me.

Alex Murguia 01:48
It's our pleasure. And here's a little bit of background about John. He's one of the good guys in the in the industry. And so we thought it'd be a great way, you know, we have a mix of audiences, right? We have advisors. And we also have a, you know, a significant, if not more, so a number of consumers and individual investors, if you will. And so I think John presents a nice nexus of, of what's going on behind the scenes to the benefit of consumers. And, you know, to the knowledge base of advisors, like I said, he's one of the good guys. And why say that is because you know, he's he's the head of Fi360. And within there, he serves as a chief product and Strategy Officer. He's had a lifetime behind the scenes, trying to bring these fiduciary concepts to the forefront to advisors, and which in turn, push them out to underlying consumers. And so this is a concept that, you know, you see it now out there, it's kind of in the zeitgeist of things. This whole fiduciary what is fiduciary? You know, that was kind of the marketing message five years ago. Now I get the sense that informed consumers, no, there's still some folks that are still trying to figure that out. But I think there's just headline knowledge. And so we wanted to bring John in for that reason, and we'll get to it. And the other reason wanted to bring shot we wanted to bring

John in is John is our you know, this is kind of the rollout of our advisory board for the Risa. We had Michael Fink a last time on the podcast. And so today, we wanted to introduce John Faustina, who also graciously accepted to join us so that's those are the reasons for this. And, and, John, as we begin this, why don't we start off with the advisory board why you decided to join and then we'll move on to your, your kind of like the your history and the like, if, if you don't mind? Does that sound like a good plan? Wade and John

John Faustino 03:45
does sounds great to me. Sounds good to me. Thank you again, for having me. And I am, I'm really thrilled to be a part of the Risa advisory board. And from the first introduction that was made from me to both of you and Risa. I was impressed with what you put together. There's absolutely a need in the market for a categorization system for retirement income solutions, and and investors. And it aligns really well with a retirement income Consortium, which we started at Fi360, Broadridge, Fi360 solutions earlier this year. So the connection that I saw with our retirement income Consortium, and I would say that even if it wasn't aligned with a business initiative that I that I had, I was very impressed with both of you. And the fact that you're you're not only PhDs, and you have that subject matter expertise, but you both really have pragmatic perspectives on how to apply theory in action. So it was it was the combination of those things that made me really excited when you gave me the opportunity to join the board.

Alex Murguia 05:01
Nah, no. I mean, the reality is that we're tickled pink that to have you I mean, like, like I said, you're somebody that has just a history of, of doing good within the industry. And as we've gotten to know you over this past year, it's one of those that only people that we really want to hang out with are kind of invited. And so we're thrilled that you decided to take us up on this, and how you can help us with the Risa as it applies to the fiduciary concept, and also within the defined contribution marketplace, which is the for the land of the 401 ks and 403 B's that we'll talk about during the course of this conversation, which, you know, is ultimately important for investors. Since there's there's a, there's a reckoning of sorts that I believe is has started that is beginning to come down this marketplace that it's good for everyone to really know. But as we begin to get into that frame, do you mind just given us a, you know, how you got here, kind of vibe with some sort of common fabrics that you've had along your professional trajectory? So give us some context?

John Faustino 06:07
Sure. And I'll say and it means a lot to me that you say that I'm one of the good guys, that that is not something that I take with a grain of salt. I've always been very much focused on doing the right thing for end investors. When I was in college, I interned at one of the wire houses, I'm not going to I'm not going to name the wire house, because they did some things there where I wasn't necessarily completely aligned with with what they were doing in terms of encouraging the sales of certain mutual funds just just to get the sales. And that fiduciary. You know, awareness really came to me when I was 19 years old. I worked in financial services from the time I was in my mid 20s. I left it for a little while and went back to school, I spent 15 years at Morningstar, which you know, very much had that put investors first at the core of their of their guiding principles, and then found my way to Fi361 of my colleagues at Morningstar met Wolowitz had had gone to Fi360, he brought me over a year or two after

he started. So I feel like financial services helping people really helping advisors to help end investors has been kind of in my in my blood in my DNA for about 30 years now. And that's been the common thread for me is doing the right thing for for end investors no matter what I'm doing in financial services.

Alex Murguia 07:34
Now, thank you, John. And John, I know you didn't want to name that firm just for everyone. It was Jackson Steinem and Company. Way where's that from? Wade? Where's that from?

Wade Pfau 07:46
Jackson Steinem. That's

Alex Murguia 07:47
where I'm at Wall Street, the movie Wall Street.

Wade Pfau 07:50
I thought it was Dewey Cheatham and Howe.

Alex Murguia 07:53
Yeah, exactly. Sorry, Dan. I couldn't I couldn't help myself.

Wade Pfau 08:00
pop culture references.

Alex Murguia 08:06
All right. Wade anything from from that vantage point?

Wade Pfau 08:11
No, I mean, I think that's good background, I guess, the common thread between what you were doing at Morningstar, because maybe a lot of listeners are not aware of Fi360. And probably most of our listeners have heard of Morningstar, but we could just what exactly is it that you're doing there in terms of bringing that sort of fiduciary concept or helping us better provide that fiduciary service? Sure. So

John Faustino 08:34
you know, a lot of people are familiar with the term fiduciary from the 2016, Department of Labor fiduciary rule that was actually vacated in May of 2018. But about seven years ago or so fiduciary started becoming very mainstream, in, in media and, and the like, Fi360s, started in 1999. So they've been around for more than 20 years. And they really were focused on bringing a fiduciary standard of care to financial services. And they did that a few different ways. So they created prudent practices for financial advisors, and investment stewards who are like plan sponsors, for example, and asset managers. And they they focused on understanding the legislation, regulation and the case law associated with that fiduciary standard of care, they were convinced that that is the best way to serve and investors. So what they do now is they've taken those prudent practices. It's really the blueprint that we have for everything that we do from a services and an offerings perspective. We train financial advisors on how to be fiduciaries. We've got over 12,000, designees that are active today. We provide

software to financial advisors and to other financial institutions to help them act with a fiduciary standard of care. And then we provide data and analytics as well to to help folks evaluate mutual funds and exchange traded Once, for example, to ensure that they adhere to a fiduciary standard of care from a selection standpoint, and we provide some analytics as well to, to home offices, asset managers and broker dealers. We do some things to help them with Ira rollovers and the like. So really focused on helping financial intermediaries focused on financial advisors, help individuals invest with with a fiduciary standard is really the focus.

Alex Murguia 10:28
So is if I'm hearing and I'm trying to, I'm kind of trying to listen to it now with my individual investor hat on, right. And so if I'm making sense of what you said, it's effectively you provide a system, a systematized toolbox. So financial advisors can implement best fiduciary practices for their underlying clients.

John Faustino 10:50
That's right, that's right. So a lot of our focus is really on operational efficiencies and the like. So acting as a fiduciary, you know, requires effort, it requires process. So what we've done is create the training and create the software and the data that helps streamline that process. So if you are acting as a fiduciary advisor, you can hopefully manage more clients with with less effort based on the training and the tools that we provide.

Alex Murguia 11:19
So there's a scalability to it, which is good now. Now, I kind of want to just the word fiduciary, obviously, advisors understand what that means and the nuances without getting into sort of case law, because I think when advisors get into this, they go deep into the weeds with regards to, you know, citing laws and stuff like that. And me, I just break down fiduciary in terms of like, the golden rule, you know, I keep it simple, you know, treat people how you would want to be treated, you know, kind of thing, but that's, that's my view, that's I realized that doesn't generalize to everyone results vary. And then there's the marketing ploy of you dwell, and we do well, you see, we're fiduciaries, you know, that kind of thing. How would you if somebody's listening in, you know, the sort of the standard 30 seconds or less, but it doesn't have to be I just mean him from from being concise? How would you describe to a consumer? What even this what what does it even mean to enable an advisor to be a fiduciary? In layman's term, laypersons terms?

John Faustino 12:20
Sure. So I like you know, I understand your your concept of the, you know, the Golden Rule, do unto others as you would have them do unto you, I would say that there's two things that we really focus on when we talk about acting in a fiduciary capacity, and one of them is the duty of loyalty. And that really gets your golden rule, where the duty of loyalty is that you act in the best interest of your end client, just like, if someone goes to a doctor, if they go to a lawyer, if they go to a CPA, those individuals are always acting in your best interest. So that duty of loyalty is really foundational. And then the one thing that I had to add on to that is the duty of care. So it's not only acting in the best interest of your clients, but doing so in a competent way. So there's the prudent person rule. So how would similar individual with similar training in a similar role? What would you expect them to do from a research perspective,

from a disclosure perspective, from an analysis perspective, to serve their clients? So it's really that duty of loyalty, that golden rule combined with a duty of care where you're acting in a competent manner, you've got the training, you can actually perform the work that combines together to make a really solid fiduciary advisor.

Alex Murguia 13:34
That's a good point, John, you know, what I was taking the duty of care for granted, I just assume everyone kind of keeps up with the literature, that kind of thing. But I understand that's, that's not reality.

Wade Pfau 13:48
Yeah, it's a really important distinction, that you can't really act in someone's best interests if you're not competent, to be able to figure out what their what the best interest is. So that's absolutely where you serve that very valuable function of providing the education and the best practices of how to be able to serve the client's best interest.

Alex Murguia 14:08
And so if you're in a if, again, with my investor hat on, okay, John, how do I know that my advisors acting in my best interest? Are there any tells? Because, you know, I talked to my advisor, and they just told me, yeah, we act in your best interest, or, you know, they give me some general terms. And, you know, there's other there's other like, consumers, and we've gotten this at McLean, where they say, can you put this in writing or this or that? And, you know, truthfully, part of that is it's not that I don't want to put in writing as long as like, I don't want to deal with people like that. Because if they start off their relationship like that, it's almost like, yeah, it sort of scare me off from that vantage point. But what is what is the good dynamic that a consumer or an individual investor should expect with an advisor to know that they are acting in their best in Interest besides kind of the sound bites?

John Faustino 15:03
Well, I think you make a great point. And I think there's a lot of individuals who are in financial services who say, hey, we do the right thing, you know, we take care of our clients and the like, what we suggest that end investors do is ask their advisor or prospective advisor directly, are you a fiduciary? So there's a difference between saying, Hey, I do the right thing. I do what's in my client's best interest, and explicitly acknowledging that they are fiduciaries. It's great. If they do that in writing, oftentimes, you can tell from their website, if they are a fiduciary, or not. But you know, we suggest that you actually ask the question, Are you a fiduciary? Because to your point, I think there's a lot of people that play kind of fast and loose with words and terms, and, you know, suggest that there may be doing things that they aren't. So you've got a responsibility as a consumer, if you think about all the research you do when you're buying a car, or, you know, looking at what you're going to buy off the menu, you ask the waiter or the waitress questions on what you're going to eat and what's in this what's in that you shouldn't be afraid to ask the individual that you're entrusting with your financial health, if they're a fiduciary, which really summarizes those, you know, duties of care and duties of loyalty together.

Bob French 16:28
If you're looking for more personal advice, please know that our show is sponsored by McLean Asset Management. Learn more at McLeanam.com. That's McLeanam.com. McLean Asset Management is a

wealth management firm where we help you design and implement the right retirement plan for you. Nice.

Wade Pfau 16:53
I guess maybe a follow up question. There is just there are advisors who can wear multiple hats. And so it depending on which hat they're wearing for a particular occasion? How does the consumer get a sense of what that means? What the answer means? And whether does the answer have? Is it based on regulation of yes, I'm regulated as a fiduciary? Or does the adviser Are they able to say I'm a fiduciary? Because I do want to serve your best interests? That's a How can the consumer really evaluate that the answer that they're receiving?

John Faustino 17:31
I think, I think that's a great question, Wade. And I'll say that what we're seeing at the end of 2021, for the first time, we had more fee based advisors, who are fiduciary advisors, and duly registered advisors, which is, which is what you're getting at. So those folks that are acting in a fee based capacity, they charge a percentage of, of assets. And if you do better, they get they get paid more. But they also may do some business where they get a commission. We had more, and we call those folks hybrid advisors. So there were more fee based and hybrid advisors than there were pure commission advisors for the first time ever in December of 2021. relative to what we've seen in the past. So the trend is moving towards more advisors acting in a fee based capacity, whether it's solely fee based or or in that hybrid capacity. And I think there is an opportunity for advisors to educate certainly the clients as well to there may be some instances where it's better for them to act in a commission based capacity from a from a client best interest. perspective. So the the manner in which they're being paid fee based or commission based, may vary when they're doing what's in the best interest of a given client, depending on on what that activity is. So again, I would I would put it on the investor to ask, Are you a fiduciary? And if the advisor comes back with Well, I act in a fiduciary capacity at some times I act in a in a different capacity and others for for them to really have that back and forth conversation. So it can be two ways and I think, to the extent an advisor is acting in a hybrid capacity, and they're doing so to better serve their clients, they should have the ability to articulate that clearly and succinctly to the folks who are working with

Alex Murguia 19:30
John would for consumer would this be in any document already, like an ADD and ADD is a brochure that the advisor sort of presents to a consumer, letting them know how they do business with what a consumer would be able to read that stuff in those documents in that brochure?

John Faustino 19:47
There are disclosures in the in the CRDs and the various filing documents that the advisors put out there. So that's that's one thing. Certainly that folks will look Yeah, I would, I would suggest that having a conversation, in addition to reviewing those materials is is a way to go to get context from the adviser and have things be explained. The reality is that very few folks go to those documents and read that

Alex Murguia 20:17

I agree 100%. And that's why I made my comment about documents earlier that, you know, when you come in, if a prospect comes in, sort of asking for things in writing, it's well within the right, but it's one of those that it kind of, I don't know, I just like a friendlier dialogue, that to start with, which is just let our conversation and discuss how you know, you know, what fits your needs, etc. On that to piggyback on something you said, is fi only the only way you can be a fiduciary. And what I mean by that, in a generally in a generalization kind of way that if you if you sell any form of contractual income, what you're doing is isn't is a non fiduciary kind of action? How would you respond to a statement like that?

John Faustino 21:03
Yeah, I would say I would, I would say that, you know, delineate how someone is being compensated from whether they're acting with the duties of loyalty and the duties of care. So P based advisors, our fiduciary advisors, but it's one of those things where you can't necessarily judge a book by its cover. And I think it gets back to how you evaluate a financial advisor. And if they're a good fit for you, certainly, I would recommend everyone looks for fiduciary advisors, but there's a personality fit and everything else, maybe go back to the Ronald Reagan, trust, but verify where you have the conversations in you and you get the information. And then maybe you check the filings that folks have to, to verify that. So I would say that there are certainly opportunities for advisors to act in the best interest of a client. So they're showing that duty of loyalty, they're employing that golden rule that you referenced, Alex, and they're also very competent, and they're doing things in a thoughtful way, from a analysis standpoint, with their recommendations and what they're making available to clients. And they could potentially do that and make a commission, or they could do that, and, and make a fee a percentage of assets instead. So I would delineate those two things. It's, it's really a question of order of magnitude and scale. If you if you were to classify someone as fiduciary, or not a fiduciary, based on whether they charge a percentage of assets or a fee? Well, what if that percentage of assets is 18% of your portfolio I'm gonna take every year, and what if the fee is, you know, a penny that I'm charging you. So all those things I think have to be put into context.

Alex Murguia 22:53
I agree, 100%, I, you know, I've had my significant convictions about this. But yeah, that's curious where you're at this, and waited, I like to actually ask you something simply because, you know, we talked about it a lot off the air, and it just to get your thoughts on your research and how you view it from this from this, from this manner, you know, the sort of the scientific method and how that blends into a fiduciary is that if at all, and I'm going to kind of put you on the spotlight here a little bit. Wade writes a lot about the place for contractual income within retirement income strategy. Wade gets a lot of heat, from advisors that just follow on assets on a fee only Model B, it only assets under management, or flat fee or whatnot, it whatever it is that they don't, you know, whatever the advisors business model is that they don't look at annuities within the construct of a retirement income plan. And not everyone but a lot of folks, you know, Wade receives a lot of email from folks a way you're just pushing annuities here, how could you do this, you know, this is bad, this is kind of you're not, you're not acting in the best interests of your client, you're just kind of fitting the research to kind of market annuities. And I want to bring that up, because, you know, I almost feel like fighting for weight, you know, when we get enough of these, you know, but, you know, it's a big boy, right? And so, within that, you know, but these guys wave this, or these folks wave, this flag of fiduciary, why these, this research is kind of unhinged, if you

will. what's your what's your feeling when you get those kinds of emails or comments and things along those lines with?

Wade Pfau 24:38
Well, I mean, I think this is the whole issue of retirement income. And the the simple idea that developed around fiduciary being fee only generally being assets under management. It's you mentioned already, like if your portfolio grows were paid more so our incentives are aligned. You could argue that that sort of concept works Pre retirement during the wealth accumulation phase, but it really breaks down post retirement because we know there are multiple retirement styles not everyone's comfortable generating a retirement income from a an investment portfolio. And historically, an annuity or other types of financial tools maybe weren't available in that fee only world they may provide a commission now there are we know fi only annuities today so that an investment manager can use those tools and still be able to charge and that's ultimately how the advisor is compensated if if a commission inherently makes it impossible to be a fiduciary that in a legal sense, that's problematic. Because building a retirement income plan means managing a new set of risks where people are not always comfortable going with an investments only approach and an investment manager who is fiduciary fee only if they have to give up assets, because they're going to suggest to the client go find an annuity that may be commission based, then they can charge less fees to that client. And so they're not fully incentivized to look at the big picture, they're kind of incentivized to think that total return is the best retirement income strategy and that everyone should use total return. And that all these other strategies are wrong. And that's how they can still maintain in their own mind that they are fiduciary. But at the end of the day, retirement is different. And we do need to be able to talk about serving client interests, perhaps with tools that don't align with that pre retirement wealth accumulation fee only concept or fiduciary concept that kind of became part of the conventional wisdom.

Alex Murguia 26:46
Yeah, sort of like winning the marketing game more than anything. But John, I saw you nodding a lot. You want to jump in on that?

John Faustino 26:52
Yeah, I'd say that that really resonates with me. And I think oftentimes, that's where I, you know, I like Alex, when you were talking about the golden rule, and simply, you know, what does it mean to be a fiduciary, it's about doing the right thing for your clients, and doing it with with a high standard of care. We don't get as many emails as as Wade does, just because I'm not as popular and famous as he is. But I will say that we have similar. Maybe in a in a similar context, I can share that we'd have some advisors that would say, you know, what, we don't need to do fiduciary training, we don't need tools for it, we buy index funds and index funds are inexpensive, and that's in the best interest of my clients. What I point out is that we evaluate every mutual fund that that Morningstar covers, and the last time I looked, it's been a couple of years, but it's fairly consistent 17 or 18%, of the index mutual funds, that, that we score and evaluate, we're in our fourth quartile poor, you know, poor selections for fiduciary accounts. So I think oftentimes, you know, advisors do this, and investors sometimes do this, where they take these general generalizations, annuities were sold in a very poor way, a lot of them to individuals in the late 90s, early 2000s. So they just put this big X over annuities, annuities are bad, the structure is not necessarily bad, the sales practices were bad. Not every index mutual fund is a good

selection for a fiduciary account. So I, I just feel some commonality with maybe the generalizations that have been shared around annuities. And I certainly agree that, you know, we have to take a principles based approach, when we're thinking about how we can best serve, and investors and how we can best equip advisors to serve and investors. And it oftentimes, you know, takes a while to turn the ship to get people on board with these with these newer approaches. But I think if you go back to the fundamentals, Am I doing the right thing for the end client? Am I doing it with a high standard of care in their best interest? Those are the things that should really drive how we how we serve people with financial services,

Alex Murguia 29:13
I 100%, on both the both of your answers, and I guess the way I'm wired myself, I'd rather just look at the person across from the table, and kind of just have these discussions and go from there. Because I don't know. Maybe I'm skeptical, but I don't almost don't care what a paper says. It's just what am I, obviously there's legal recourse if there's something written down. But that being the case, I just like to you know, have a conversation with somebody and make sure they are acting on on my best interest. The other thing I would say, it's funny, right, because I think you're hinting at this and I'm beginning to use this phrase a lot. But I think annuities right now, in this current day and age, are paying for the sins of their fathers, if you will, and and I guess I can I'm old enough now that I can say that I've been in this business for since Oh, one, right. So 20 years, and things kind of move in cycles. Right in terms of the way it works, right. And when I got on board, it was annuities are bad, you're right is like kryptonite. That's it be done with it. And it was a movement towards this fee only. But I think what's happened unexpectedly now is that as much as they you know, the phrase was, annuities are are sold, not bought hand over my heart, you can say with without, without hesitation, at least I can that model portfolios based on an AUM fee model are sold not bought. You know, and I think over time, this is what, and if you read the investment press nowadays, you know, they're always trying to find gotchas for cloth for consumers, right? Hey, you don't want to do this. You don't want to pay for an annuity. You don't want to pay for these fees that you have with mutual funds, which is very true. 100%. Right. What you're seeing now, in the investment press is, are you paying 1%? For a model portfolio? Yeah, that kind of thing. And what I'm getting at, it seems to me, the Aum driven advisors in the zeitgeist, if you were becoming, quote, unquote, the bad guys, in the sense of where their liability that individual consumers can scratch off their balance sheet and save themselves money, because it's an unneeded expense, even though there's this way, there's this waving a flag of fiduciary. And in that context, I think things are opening up more for what Wade said, for what you've been saying, Listen, if there's a place for contractual income within this person's, you know, retirement income plan, then it should be considered full stop.

Wade Pfau 31:44
Well said Alex.

John Faustino 31:49
Yeah. And I would say I wouldn't, you know, I think you can't maybe use the same broad strokes to say that everyone that's selling, or that's, that's providing those those models are doing so maybe in a in a negative way. But But to your point, I think there's there's opportunities for someone, whether you're commission based or whether you're free days to act in a in a good way, or a bad. Exactly.

Alex Murguia 32:14
So to your point, listen, and we have McLean Asset Management, that's that's largely, you know, that firm is largely an AUM driven wealth management firms. So I'm not, yeah, by no means am I like, you know, big, you know, bathtub accounting kind of thing. It's just one of those things where, no, there you can kind of shape the argument, you know, many times, and I think you need to just take a step back, and recognize that, you know, there's, you know, The Mirror Has Two Phases, if you will, what kind of so the, for Fi360, and this is something that we use at McLean asset management, especially within the 401k space, what what advisors do you attract, now, I'm thinking of it from the standpoint, I'm an advisor, I have my advisor hat on, and maybe they're listening about, they're listening to this, and they're, you know, there's, hey, you know, John's a good guy, how can I find out more? Well, you know, am I kind of a good fit for Fi360? You know, without, I don't mean it as a plug, but more like, as we're who are the advisors that are attracted to Fi360? Like, what are they about?

John Faustino 33:20
So so they're really they're those, the fee based advisors and the hybrid advisors that Wade referenced. So we deal with both of them, and we deal with individual advisors all the way up to wirehouses. We've got great relationships across the board. When you're working with a 401 K plan, in particular, you are under ERISA as umbrella you you have to act in a fiduciary capacity. So there are some advisors who maybe do some commission business, but they act in a fiduciary capacity with 401 K plans. So we provide services for those folks to do investment research, monitoring reports, and other analysis on 401 K plans. What I will say is that a lot of folks associate Fi360 with retirement and 401k plan specifically, we are increasingly seeing interest from advisers on the wealth management side that are dealing with individual investors. We do a lot I referenced it briefly earlier on with Ira rollovers, for example, and that's kind of a kind of a cross between retirement and wealth advising where it's really wealth centric advisors that are doing Ira rollovers, you're doing it out of a 401 K plan, and it's technically a retirement account. But if you deal with advisors in a fiduciary capacity, whether they are wealth accounts, whether they are 401 K plans, or foundations endowments, we're a good firm for you to to get to know both with the tools and also with that with that training with that AIF accredited investment fiduciary designation that we have.

Bob French 34:56
Are you a financial professional wondering how to transition your client Since from the accumulation to the distribution phase, how to engage individuals looking for a professional with true Retirement Income expertise, how to mutually develop a solution that resonates with them, or how to grow your practice in a meaningful way that's based on best practices for financial planning, then you've come to the right place. Sign up for our two day masterclass for financial professionals, hosted by Wade and Alex on January 23, and 24th, from 12 to 130. Both days, your future practice will thank you for it, go to risaprofile.com/masterclass.

Alex Murguia 35:40
John, and because we're kind of I'm trying to play a balance here a little bit for advisors, little bit for consumers. And I think it's very interesting. What you said here, incidentally, we use again, we use up by 360, also on the wealth management side. But you said rollovers, and I think this then segues nicely

into the consortium. But with regards to rollovers and your toolkit and what it does for advisors, I think it's important for consumers to recognize what goes on behind the scenes, when there's a recommendation to transfer assets from a rollover to an advisors account, you know, towards the towards, you know, an account that's being managed by an advisor outside of the 401 K plan. Why is that? Why is that dynamic, something that, you know, opens up eyeballs.

John Faustino 36:31
So there was a, there was a rule that the Department of Labor and for the consumers out there, they might not be aware, but the Department of Labor actually plays a big role in overseeing financial advisors, specifically, when those advisors are working with retirement accounts. And the Department of Labor came out with a new rule that went into effect in July of this year, that basically makes any rollover activity. So when you're moving assets from a 401 K plan into an IRA, that is now under a fiduciary purview for for the most part, the reason that regulators really care about that is that the Department of Labor is looking out for end investors that are looking for out for the everyday American worker, wanting to make sure they can retire with a with a good quality of life when they're done working. And one of the things that they have under their control, is helping ensure that the advisors and the other providers that work with folks in that retirement phase, are doing so in a way that makes it really efficient from a cost perspective for folks. So if you're in a 401 K plan with 10,000 of your co workers, you get economies of scale, you pay less for a mutual fund, than if someone you know went and tried to buy that mutual fund with $1,000 on their own. So the big thing about those IRA rollover transactions is that they oftentimes result in the end investor paying more for their investments for their advice than they do if they stayed in that 401 K plan. So the advisors have an incentive to take someone out of a 401 K plan, even if they're managing that plan, because they're going to make more money if they deal with them. One on one, so the kind of a long winded response. But the regulators want to make sure that the pricing power that plan participants have doesn't get taken away by an advisor looking at looking to make a quick buck off them. So they want to make sure that if you do take someone out of a 401 K plan, and put them into an IRA, that there's real good reasons for that happening.

Alex Murguia 38:41
No, that's exactly what I want to get at. I mean, there's business model dedicated to just rollover, IRAs, Roth, I mean, rollover 401 case,

Wade Pfau 38:48
where we're getting into the new consortium that you're developing. So like it's a little more context on that with the 401k world. There are annuities or different lifetime income options that now exist in the secure act that passed at the end of 2019 help facilitate making that more common, but that I think that's becoming a big issue with the consortium is are their lifetime income options inside of 401k plans? And if not, can that be a justification for a rollover or how to evaluate a rollover based on wanting lifetime income rather than just necessarily looking at the investment options I might have in my IRA versus the 401k plan.

John Faustino 39:35

That is that is one of the criteria that you can use to justify rolling someone over access to guaranteed income lifetime income. That absolutely is one of the criteria that can be used to justify the rollovers. It's interesting and I think probably not coincidental that the Department of Labor has this rule about rollovers and making sure that they're really well justified. They've also said one of their top goals for 2022 is increased access To guaranteed income within plan. So I think the Department of Labor realizes to your point, Wade, that getting access to that guaranteed income is one of the justifications used for rolling people over tends to be a little bit more expensive if you're in an IRA versus in a 401 K plan. So they're also trying to encourage the inclusion of those guaranteed income offerings within plan. So that there's there's less need to roll over to, to get access.

Alex Murguia 40:29
So think about that just as a as a concept. The whole fiduciary annuities are bad contractual income or bad only fi only investment models are the way to go, because that's the only way you can feasibly act in the best interest of somebody. ERISA, you know, the land or the fiduciary, if you will, are effectively kind of saying Not so fast, you know, with regards to that that statement, because there's a recognition that no contractual income does have a role in in a retirement income plan. Is that a correct statement? On my part?

John Faustino 41:09
Well, I think so I think if you if you look at the secure Act, there is there's a safe harbor, and they're essentially protections for plan fiduciaries, if they select an annuity for inclusion with within the plan, so I think the Department of Labor is saying, Yeah, you know, it's worth considering annuities, and we will give you some some protection, if you do put an annuity in the plan. So I think there is a realization that that we need more guarantees for our for our everyday workers. When, when I was growing up, my dad had a defined benefit plan, a lot of folks parents had defined benefit plans. And when you retired, that paid for your, for your retirement, and it escalated over time. There's very few of those now. So I think there's a realization from the department of labor that with fewer defined benefit options out there, which is essentially a guaranteed payment. It's like an annuity payment is what a defined benefit plan is. And also people living longer the combination of those things create a need for for us to make more available.

Alex Murguia 42:13
That's great. And with a consortium, who's part of it, like who are some of the major companies, if you can name him, I should have maybe asked beforehand, just because this is a big deal. It's not just oh, by the way, we have a minor consortium, it's it really is, you know, the who you want to be working with kind of thing if you'd if your plan sponsor.

John Faustino 42:30
Yeah, I think it's really a who's who of asset managers and insurers in the defined contribution space firms like BlackRock, Allianz, nationwide Prudential Prudential principle, income America. So it's really tremendous firms. And I would say, I would pay the same compliment that you paid to me, Alex, at the beginning. They're really the good guys and the good women in the industry. The folks that have aligned with this consortium, they're very much focused on doing the right thing for end investors in aligning that with their commercial interests, certainly, but they're really good grounded, folks. And so

Alex Murguia 43:16
I think this is a good point. And one of the reasons why I want to do on as well or wait and i is i, we get a sense from individual investors and consumers. There's just a skepticism, right. And there's, there's always this balance between cynicism and skepticism. healthy skepticism is good cynicism, kind of leads you into dead ends, if you will. And when it comes to the financial services, you know, there's this concept of any financial service companies bat, you know, they're trying to squeeze the extra, any extra penny and guess what the extra penny comes from my account. And so there's this sort of antagonism and being in this industry for the time that I've been in, and I think Wade, will, will subscribe to this as well. There are a lot of folks that are actually watching out for the consumers best interest. And in you know, I would say henna rock, you're leading that charge. But I don't think there's this realization about the number of folks behind the scenes that are really, they're not looking at it from the standpoint of just dollars and cents dollars and cents. Yes, this is it's a commercial entity. It's not a charity. But by that token, the consumers best interest comes first, second, and third, you know, in many of these decisions, would you what would be your reaction to that statement?

John Faustino 44:33
I completely agree with that. I'm really heartened when when I go to a conference, and I talked to advisors, and when I talk to the people that are leading a lot of these financial services firms, that they really do want to make a change. It's a mission for a lot of these firms, just like it's a mission for us to do the right thing. And what I'll say is that one of the things that I'm really heartened with, with the folks that have joined the consortium specifically, is that our focus is on transparency. gets around creating a level playing field. And I think when you see some of the egregious negative things that create these reactions from people to not trust financial services in general, it's when you know, firms or individuals are trying to pull the wool over your eyes. The individuals that have partnered with us on this consortium are doing the exact opposite, where they're trying to level the playing field, create transparency, so that you can compare their offerings to others offerings, in a really easy to understand way.

Alex Murguia 45:30
Okay, and John will have on the show notes, how consumers because maybe there's folks that are plan sponsors, that are wondering about this consortium, and advisors just wanted to know, we'll make sure we have links out to the consortium. So if people want to find out more, they can definitely do it. It's kind of one of these. It's an idea whose time has come. And Wade, I think we're getting good because I think we can bring this full circle back to the Risa and John's involvement. And you know, one of the reasons like John is in this is really to help us promote this research framework within this construct of contractual income, with, you know, inside of the defined contribution space we, John reactions to that statement.

John Faustino 46:14
Yeah, no, I'm excited that the Risa framework is the only academically validated categorization system that I've seen for retirement income out there, full stop. And that is something that we that we really need, it really gets to leveling the playing field, making sure that you're looking at apples to apples comparisons, that you're not comparing a managed payout to a pure annuity offering. And that's where

I think you can have people that have bad motives do bad things is when they're making these apples to oranges comparisons. So a frameworks like Risa really aligned with the core of what we're trying to do, which is to help make really informed, simplified decisions for end investors and for advisors and plan sponsors alike,

Alex Murguia 47:03
No, thank thank you for that. And again, I think that's, that's, that's good. We tend to we always think there's a 20 minute podcast and it ends up pushing the boundaries. And I know we have, you know, we had John until two o'clock, but just hitting it. So I don't want to extend that in respect for your time. But really, truly, thank you again, for everything I suspect you'll be on again, be honest. Assume the sale, right, wait. But I mean, what can I say but but thank you, and we hope our listeners got something out of his obviously advisors, if you're unfamiliar with Fi360, you are now you're familiar with it now. So you know what to do next. For consumers, I just want to let them know that under the water, there's a lot of folks rooting for the best interest of them. They have their sort of retirement outcome. And John and his group is certainly one of the protagonist in that initiative. And we're again, I said it earlier, but we're tickled pink to have the Risa kind of run in that lane a little bit. So I'll leave you guys with that. Wade.

Wade Pfau 48:12
Yeah, thank you said that well, so thank you so much for joining us, John today. And we'll we'll catch everyone next time on retirement style.

John Faustino 48:21
Thank you. Thank you for including me and thank you for being to the big protagonist looking to do the right thing for end investors as well too. It's really a pleasure for me to speak with you today and to be associated with you at all.

Wade Pfau 48:33
Pleasure is ours. Thank you for the kind words.

Bob French 48:38
Wait, and Alex are both principals in McLean Asset Management and Retirement Researcher. Both are SEC registered investment advisors located in Tyson's Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. All investing comes with the risk including risk of loss. Past performance does not guarantee future results.