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RETIREMENT FINANCIAL ADVISOR CHECKLIST

11 QUESTIONS FOR HELPING YOU FIND THE RIGHT FINANCIAL ADVISOR TO MAKE A SUCCESSFUL RETIREMENT TRANSITION

There are several financial transitions throughout life. One of the most significant financial transitions is retirement. The shift from pre-retirement when you are earning, saving, and growing assets to retirement when you are withdrawing assets is monumental. A successful retirement transition can make or break retirement. It's important your financial advisor is able to make this journey with you. If you've never worked with a financial advisor and are approaching or in retirement, or if you already have a financial advisor but are not sure if they can help you make the retirement financial transition, the following ten questions will help you better understand their capabilities, experience, and philosophy when it comes to helping their clients create a successful retirement.

1. Are you a fiduciary?

Frankly, this one is embarrassing. It's an embarrassment that it even needs to be a question you have to ask a potential financial advisor. Nevertheless, it is needed and important. It doesn't make sense to pay for advice when the advice doesn't have to be in your best interest. Period. A fiduciary is someone who is legally obligated to give you advice that is in your best interest. Yes, this means there are advisors (the majority of them, actually) who get paid by their clients and who do not have to put their client's interests ahead of their own. Ridiculous. Ludicrous. Preposterous. Why in the world would you pay someone for advice when what the advisor is recommending may actually be in their best interest? I just don't understand this. Imagine going to a marriage therapist and paying her to help you improve your marriage but knowing that she is also a divorce lawyer who can help you get divorced if your marriage doesn't go well. Why in the world would you pay for her marital "advice"? In the investment world, look for a Registered Investment Advisor (RIA) firm that is not affiliated with a broker-dealer. RIAs are true fiduciaries and are legally obligated to always place your best interest first. I'm hopeful that one day all financial advisors will be fiduciaries who are required to put their clients' interests first, but until then, this should be your first question to any potential financial advisor.

2. Why do you do what you do?

This is a question that doesn't get asked often enough. At the end of the day, you don't just want an advisor to legally put your interests ahead of their own (see #1). In fact, you don't even want an advisor that has a moral obligation to put your interests ahead of theirs. You want a financial advisor that is *honored* to always put your interests ahead of his/her own – an unbiased and independent steward of your money. Talk to the advisor. Find out what makes him tick. Why does she do what she does? What's driving him to get up every morning? Is it a calling to serve with integrity? Is it the joy of seeing their clients succeed? For the love of everything that is sacred, don't work with an advisor who is simply in it for the money. That will color her every decision and recommendation. Ask why they do what they do so you can learn why they want to work with you.

3. How do you make money?

There is nothing wrong with getting paid to provide expertise and a service. At the same time, you need to know who you are working with and how they get paid. There are several different ways a retirement financial advisor can be compensated, including by the hour, commissions from products they sell you, or a percentage based on the assets they manage for you (or maybe all three!). Each approach has advantages and disadvantages, but what we know is that every dollar in fees you pay is one less dollar you have in retirement. Therefore, it's important that you are getting value and expertise that exceeds what you are paying. If you work with a good retirement financial advisor, this shouldn't be too difficult. There are many ways to reduce your taxes, plan your estate, build an appropriate retirement asset allocation, and help you create lifetime income to live on in retirement. Good retirement advice should more than make up for the fee. When it comes to commissions, it's imperative you understand your advisor is getting compensated based on selling you something. In a fee-only retirement financial planning firm, there are no commissions. This means the advice you receive is not tied to your advisor's paycheck, which is something that makes sense to me and is what I think most clients are looking for.

4. How long have you been working as a retirement financial advisor?

I've written about the 10,000 hour rule before. This rule was coined as a result of the work by psychologist Anders Ericsson on exceptional performers. His research shows that great performers practice a lot. The 10,000 hour rule is a rule-of-thumb for how much practice is required to develop an expertise in a field of study. What this means is that it often takes at least 10 years of focused effort and experience in order to gain mastery in an area. Keep this in mind when you interview retirement financial advisors.

5. Do you have any regulatory/legal issues?

You're counting on your financial advisor to help you navigate retirement. Let's think about this. You've worked hard for 30 or 40 years and now you want to make sure your assets are safe and managed judiciously so you can travel and enjoy your retirement. If you are relying on your retirement financial advisor to help you throughout this process, it makes a lot of sense to verify your advisor has not had any legal, regulatory, or license issues. A quick way to do this is to use the **FINRA BrokerCheck** website as a starting point. If the retirement financial advisor has any licenses or designations (e.g., CFP), check these organizations' websites to see if anything has been reported there as well.

6. Does your firm hold my money and investments?

What you want to hear is no. There is a subtle, but significant, difference between a firm that manages your investments and one that manages and holds your investments. It is hard to overemphasize the importance between these two types of retirement planning firms. Why is this so important and something I've written and talked about for years? It has to do with investment fraud. If the firm managing your money also holds your money, there is a greater opportunity for embezzlement. The goal is to protect yourself and your finances as much as possible. This is why I feel so strongly about having a custodian -- an unaffiliated and large firm – hold your investments (such as Charles Schwab, TD Ameritrade, Fidelity, etc.) and a separate RIA retirement advisory firm to manage the assets.

7. Do you recommend and/or sell annuities to retirees?

Annuities are life insurance contracts that can provide guaranteed lifetime income. Guaranteed income and retirement go well together, which is why annuities are a popular investment for retirees. However, annuities can be complicated, full of fine print, have high fees, and can pay big commission to the advisors selling them. In other words, they can be ripe for abuse. I wouldn't count out a retirement planning advisor just because they recommend annuities, but if the bulk of their retirement "advice" is to buy an annuity, I'd look elsewhere. Annuities can be excellent tools to help provide income during retirement and there are some low fee versions available. One approach I take in my retirement planning firm is to outsource the purchase of annuities to others. This way I do not get a commission and the client knows the annuity recommendation was entirely for their benefit.

8. Do you manage retirement portfolios the same or differently from non-retirement portfolios?

What you are trying to understand is their philosophy to retirement investing. I'd argue that it makes sense to at least think of pre-retirement and retirement investing differently. This doesn't mean your portfolio needs a complete shift the day after you retire, but there should be a re-evaluation of the portfolio, the allocation, and an income strategy as you approach and throughout retirement. Someone who is 35 and is focused on saving and growing their money requires a different approach than someone who is 68 and is living off their investments.

9. Can you help me create an income strategy for retirement?

In retirement, this is one of the most critical and overlooked areas. Retirement is all about income. Once you stop working, the only sources of income for most retirees is Social Security, maybe a retirement pension if they are lucky, and their investment portfolio. A good retirement plan is one that provides the necessary income to live on and one that lasts a lifetime. This requires special planning and an investment approach that may look different from the accumulation phase during the working years. Your retirement financial advisor needs to be well-versed in creating retirement portfolios that provide for lifetime income and be able to communicate their approach to you in a way that makes sense.

10. Do you provide comprehensive financial planning?

Comprehensive financial planning is just as important at age 35, 55, 65, or 75. Although the type of advice may look different at each phase of life, each stage offers its own challenges and opportunities. In fact, I could argue that having a comprehensive financial advisor is even more important in retirement because you have more at stake. A good retirement financial advisor will be able to look at your entire financial picture and make adjustments and recommendations in areas such as taxes, asset preservation, insurance planning, cash flow, and income strategy. It's always fascinating to see how one change can affect so many other areas. For example, the decision of when to start taking Social Security is not just a question of if you need the extra income. Social security affects current as well as future cash flow, taxes, and even portfolio allocation. Every decision is interconnected and has an impact on the other areas of your plan. A comprehensive financial advisor is able to see the whole and model the impact of each decision on the overall plan. Since you have less time to overcome mistakes or bad decisions in retirement, it is critical your retirement advisor can see the big picture and how the seemingly small decisions affect your overall retirement success.

11. What do you see as the biggest risks in retirement?

A red flag is to hear there are no risks or that they eliminate all risks. A response like that is either ignorant, arrogant, or deceptive. None of these are great qualities for an advisor. There are financial and non-financial risks at every age. Most advisors don't want to scare potential clients, but at the same time they should be aware of and be honest about the risks retirees face. There are financial risks such as market corrections, inflation, long-term care expenses, and portfolio withdrawal rates that are too high. There are also non-financial risks some face in retirement, such as losing purpose, missing social connections, decreasing health or energy, and lacking professional responsibility. Being blind or sugarcoating these risks is not a good strategy. A better approach is to identify them and come up with a plan to eliminate or reduce them.

In addition to these eleven questions, there is another tool you can use to help evaluate potential financial advisors. It's called **AdvisorFit** and it's a free website I created to help people ask the right questions to financial advisors and to help them understand the responses. It's not foolproof and it doesn't guarantee you'll get a great advisor, but I'm hoping it helps.

I also hope you find a good retirement financial advisor. After working with retirees over the past 20+ years, I know how hard people work and save and how much they look forward to a comfortable retirement. You deserve someone you can trust and who knows how to help you reach your goals.

About the retirement financial planner

Robert Pagliarini, CFP®, EA, MA is passionate about helping people planning for retirement. He's the founder of Pacifica Wealth Advisors -- a fiduciary and fee-only retirement planning firm that has clients across the country. Robert has over 20 years of experience as a retirement financial advisor.

You may have seen him on Katie Couric, Dr. Phil or Good Morning America as an expert in retirement and investment planning. Robert is a certified financial planner as well as a CFP® Ambassador, one of only 50 in the country! Currently, he is earning his Ph.D. in retirement planning and is focused on how to make retirement portfolios last decades while providing a steady source of income.

If you have any questions about your retirement plan or investment strategy entering retirement, feel free to **contact Robert today**.

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