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The Advisory Career

Great Expectations

Closing The Gap Between Client & Advisor Priorities

by Tamiko Toland

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There's a big gap between advisor and client expectations around critical planning objectives. Research we conducted earlier this year highlights differences between what advisors believe clients want from them and clients' expectation of their advisors. This matters. Expectations that are misaligned inevitably create disappointment. For advisors there's a key takeaway—the need for more direct conversations with clients around important retirement planning objectives.

Our research for the fifth annual Guaranteed Lifetime Income Study, conducted with Greenwald & Associates, asked the same questions about client expectations of more than 300 advisors and 1,000 retirees and near-retirees with at least $100,000 in investable assets. It's important to point out that the results show that advisors and clients are aligned in giving high priority to three advisor abilities: designing an effective retirement income strategy, providing comprehensive planning beyond just investments, and protecting assets against significant investment loss.

Strengthening Client Relationships

That's the good news. We'll focus on one key gap here because it reveals an opportunity to strengthen client relationships.

In our research, we asked consumers to rate the importance of six different advisor capabilities and advisors to rate how important they believed these capabilities were to their clients. We grouped the answers based on whether the consumer was retired; similarly, we asked advisors to consider the retirement status of the client.

The starkest difference was around a fundamental planning issue: the importance of achieving the highest possible returns on investments. Fully 66% of retired consumers felt this was highly important, but only 19% of advisors agreed. The difference was similar among consumers who had not yet retired. At first blush, this discrepancy is alarming, but it helps to deconstruct how clients and advisors view and interpret the goal of "highest possible returns."

Why the Disconnect?

If advisors are to address this gap, we need to look at what's driving it.

Within the industry, we think of clients transitioning from accumulation during their working years to spending down those assets during retirement. In this context, advisors consider annual returns as one component in their approach to help clients build their retirement nest eggs. Even so, they are also looking more broadly at the clients' overall strategy, including managing the risk of loss.[pullquote]

While the financial industry recognizes money management and financial planning are distinct disciplines, the evidence suggests that clients do not. The traditional idea of the advisor as stock picker, someone whose job it is to invest in ways that will outperform the market, still shapes what clients believe they are paying for: returns.

But clients clearly want advisors to maximize returns hand-in-hand with other goals, like achieving long-term financial planning objectives, assembling portfolios designed to benchmarks, and developing product strategies to generate retirement income. Achieving high returns may be a worthy component of a broader strategy, but advisors are more sensitive than clients are to the connection between returns and risk.

The focus on performance should not come as a surprise. Who wouldn't want the highest possible returns on their retirement portfolios? Furthermore, the steady focus in the media on financial market and product performance is an ongoing reminder to clients of the need to maximize the growth potential of their assets. Clients may perceive performance as the means to address their needs, though they remain aware of the risks of market volatility.

In fact, this seems to be even more important to them. Whereas 66% of pre-retirees and 69% of retirees valued maximized returns, even more reported that the advisor's ability to protect assets against losses is important. Among pre-retirees, this figure was 72% and, among retirees, it was 74%.

Getting the Message Through

The gaps between clients and advisors require ongoing discussion, education and engagement. Conversations around returns need to be explicit and place them in the context of a holistic approach to planning in which they are one part of the bigger picture. Bear in mind that, while most believe that delivering pumped-up returns is an important part of an advisor's job, they are probably more concerned about having a stable and sustainable plan that will work into and through retirement.

A better understanding of client expectations provides an opportunity for advisors to have conversations that resonate strongly on all topics, including retirement income and estate planning. Framing the development of effective investment strategies and comprehensive plans in ways that reflect advisors' focus on maximizing performance over the long-term taps into shared priorities.

Having these discussions is critical, but the survey results show something that should sound familiar to anybody who has lived with a teenager: clients don't necessarily remember these conversations. As a case in point, 80% of advisors said they had spoken with their clients who were 55 and older about income strategies; only 55% of clients reported that advisors had done so.

We strongly suspect that advisors are talking about income strategies, but the message is not always getting through. Clients may be distracted or are either not ready for or receptive to a particular point the advisor may want to get across. The advisor may need to raise a topic multiple times for it to register with the client. The principle applies to other aspects of financial planning and management, including investment performance.

Source: Fifth Annual Guaranteed Lifetime Income Study (GLIS) by Greenwald & Associates and CANNEX, 2019

Understanding client expectations is crucial to managing client relationships, even in areas where we know that advisors and clients see eye-to-eye, like retirement income planning and protection from market volatility. Identifying areas where there are common mismatches is key to helping advisors shape conversations and strategies that meet the needs of investors, keep them on course with an overall financial plan, and ultimately keep them as long-term clients. The failure to address differences in priorities—or worse, being unaware that they exist— leads to misunderstandings, unhappy clients and advisor turnover that casts a poor light on the profession as a whole.

Most advisors believe that they craft plans that are well aligned with their clients' goals. The research shows that, for many practitioners, there is still work to do to make sure clients believe it, too. ❖