The Next Wave of Financial Planning: How to compete in an endlessly changing advice landscape

John D. Anderson
Head of Practice Management
610.676.2174
janderson@seic.com
@SEIJohnA

Raef Lee
Head of New Services and Strategic Partnerships
610.676.1044
rlee@seic.com
@SEIRaeFL
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- Advisor Experience
- Industry Experience & Resources
- Client Service
- Sales & Marketing
- Operations
- Business Planning

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SEI

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Efficiency Phase
Growth Phase
Advisor Business Phases
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• Raef Lee, Technology - @SEIRaefL
• Amy Sitnick, Social Media /Marketing - @SEIAmyS
Agenda

• A Perfect Storm: The Catalysts of Change
• Generation Gaps: Serving the Needs of Multifaceted Market Segments
• Technology Disruptor: Innovative Financial Planning
• The Robo-advisor Effect
• Next Gen Planner: 8 Things You Should Do Now
A Perfect Storm:
The Catalysts of Change
Evolution » Birth of Financial Planning

Chicago 1969 and Beyond

• 13 men gather over 2-days to discuss the creation of a new profession
• Equal footing with accounting and legal professions
• Created Society of Financial Counseling Ethics which would eventually become the Financial Planning Association (FPA). 4 key tenets:
  – Education: Completion of comprehensive course approved by CFP® Board
  – Examination: A comprehensive CFP® Certification Exam
  – Experience: Three years’ minimum experience
  – Ethics: A strict code of professional conduct, act in best interest of clients

In the beginning…

• Primarily sales-oriented and insurance-based
• “Peddlers” of employer products

Source: http://www.cfp.net/become-a-cfp-professional/cfp-certification-requirements
Evolution ➔ 4 Financial Planning Forces

1. **Rise of the Investor: Shifted focus from Wall Street to Main Street**
   - Regulation especially in retirement (ERISA)
   - Deregulation of brokerage commissions in 1975
   - Created unprecedented demand for independent financial advice

2. **Organizations / Certification**: Practice standards and educational requirements solidified their relevance such as the FPA and CFP® designation

3. **Innovation / Theory**: Introduced new investment products and a proliferation of planning and advice models.
   - A broader range of tools to integrate advice about investing, taxes, retirement savings, employee compensation and benefits.
   - Modern portfolio theory, life planning, behavioral finance, asset allocation and other theoretical underpinnings

4. **Technology**: Enabled “even small firms and solo practitioners to streamline their operations and manage large amounts of information efficiently.”

Evolution › Advice Channels Evolve

- High-net-worth/Institutional Money Managers
- Wirehouse Brokers
- Insurance Agents, Bank Trust Officers and Private Client Advisors
- Investment Advisors
- Financial Planners
- Wealth Managers
### Evolution Who Am I?

<table>
<thead>
<tr>
<th>Advice</th>
<th>Practice Type</th>
<th>Advisor Perceived Practice Type</th>
<th>Cerulli Actual Practice Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Advice</td>
<td>Money Manager</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>Investment Advisor</td>
<td>27%</td>
<td>64%</td>
</tr>
<tr>
<td>More Advice</td>
<td>Financial Planner</td>
<td>54%</td>
<td>21%</td>
</tr>
<tr>
<td></td>
<td>Wealth Manager</td>
<td>10%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Cerulli Associates, RIA Marketplace 2013 The Changing Landscape of a Maturing Industry
Articulating Your Value Proposition › Who Am I?

- 76% of Sustainable Growth Firms Have Developed a VP
- 89% of Sustainable Growth Firms Implement Their VP Consistently
- 78% of Sustainable Growth Firms Utilize VP to Determine Pricing

Sustainable growth firms gain an advantage through the consistent implementation of their client value proposition

Source: The 2014 FA Insight Study of Advisory Firms: Growth by Design
Generation Gaps:
Serving the needs of multifaceted market segments
Serving Different Generations › It’s Not Just About Boomers

Population By Generation

- Greatest/Silent Generation: 12%
- Boomers: 24%
- Gen X: 24%
- Millennials: 24%
- Gen Z: 16%

Source: MILLENNIALS–BREAKING THE MYTHS, Nielsen February 2014
# Generational Gaps ➔ Retirees

<table>
<thead>
<tr>
<th>Generational Cohort - Market Segment</th>
<th>Born</th>
<th>Life Cycle</th>
<th>Top Financial Resources(^1)</th>
<th>Top Fears(^2)</th>
<th>Other Characteristics</th>
</tr>
</thead>
</table>
| The Greatest Generation             | >86 (Before 1928) | Already retired     | ▪ Financial advisor (78%)  
▪ Websites (33%)  
▪ Traditional media (31%) | ▪ Another financial crisis (83%)  
▪ Healthcare costs (66%)  
▪ Savings lasting through retirement (48%) | ▪ Biggest challenge: generating current income |
| The Silent Generation                | 69-86 (1928 through 1945) |                         |                                                                                              |                                                        |                                                            |

\(^1\)Harris Interactive /Nationwide Consumer Study, October 2013; N=783 adults with $100,000+ investable assets

\(^2\)2013 Client Experience Survey: Drilling into Digital Channels for the High-Net-Worth
# Generational Gaps ▶ Boomers

<table>
<thead>
<tr>
<th>Generational Cohort - Market Segment</th>
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<th>Life Cycle</th>
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<th>Top Fears(^2)</th>
<th>Other Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leading-Edge Boomers</strong></td>
<td>Leading-Edge: 59-68 (1946 to 1955)</td>
<td>Retiring</td>
<td>• Financial advisor (50%)</td>
<td>• Another financial crisis (86%)</td>
<td>• 76M born in the US plus 2 million immigrants(^3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Websites (45%)</td>
<td>• Healthcare costs becoming unmanage able (76%)</td>
<td>• Most affluent group ever amassing $41.5 trillion(^4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Traditional media (43%)</td>
<td>• Savings lasting through retirement (74%)</td>
<td>• Many support children and aging parents</td>
</tr>
<tr>
<td><strong>Trailing-Edge Boomers</strong></td>
<td>Trailing-Edge: 50-58 (1956 to 1964)</td>
<td>Approaching retirement; Prime earning years</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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\(^1\)Harris Interactive /Nationwide Consumer Study, October 2013; N=783 adults with $100,000+ investable assets

\(^2\)2013 Client Experience Survey: Drilling into Digital Channels for the High-Net-Worth

\(^3\)http://www.cfp.net/become-a-cfp-professional/cfp-certification-requirements

\(^4\)Advisor.com
## Generational Gaps » Generation X

<table>
<thead>
<tr>
<th>Generational Cohort - Market Segment</th>
<th>Born</th>
<th>Life Cycle</th>
<th>Top Financial Resources&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Top Fears&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Other Characteristics</th>
</tr>
</thead>
</table>
| Generation X                        | 33-49 (1965 through 1980) | Working; raising families | ▪ Websites (48%)  
▪ Financial advisor (43%)  
▪ Family (41%) | ▪ Another Financial crisis (85%)  
▪ Savings lasting through retirement (78%)  
▪ Retiring with desired lifestyle (78%) | ▪ Seek benefits of technology in their advisor relationships: communication, collaboration and accessibility<sup>3</sup> |

<sup>1</sup>Harris Interactive /Nationwide Consumer Study, October 2013; N=783 adults with $100,000+ investable assets  
<sup>2</sup>2013 Client Experience Survey: Drilling into Digital Channels for the High-Net-Worth  
<sup>3</sup>Fidelity research June 2014
## Generational Gaps ▶ Millennials (Generation Y)

<table>
<thead>
<tr>
<th>Generational Cohort - Market Segment</th>
<th>Born</th>
<th>Life Cycle</th>
<th>Top Financial Resources(^1)</th>
<th>Top Fears(^2)</th>
<th>Other Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millennials (GenY)</td>
<td>&lt;33 (After 1980)</td>
<td>Working; pursuing advanced degrees</td>
<td>▪ Web sites (58%)</td>
<td>▪ Financing children’s education (80%)</td>
<td>▪ Concerned about student loan debt(^3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▪ Financial advisor (51%)</td>
<td>▪ Another financial crisis (79%)</td>
<td>▪ Risk averse(^3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▪ Family (49%)</td>
<td>▪ Savings lasting through retirement (78%)</td>
<td>▪ Skeptical about financial institutions – not advisors</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>▪ Ethnically and racially diverse</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>▪ Becoming most educated generation(^4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>▪ “Always connected”</td>
</tr>
</tbody>
</table>

\(^1\)Harris Interactive /Nationwide Consumer Study, October 2013; N=783 adults with $100,000+ investable assets  
\(^2\)2013 Client Experience Survey: Drilling into Digital Channels for the High-Net-Worth  
\(^3\)2013 Wells Fargo Millennial Survey  
\(^4\)Pew Research, MILLENNIALS: A Portrait of Generation Next, February 2010
Dispelling Myths Across the Generations  ➤ Myth # 1

My 55+ Clients Aren’t Interested in Technology

Source: CEB TowerGroup Wealth Management Client Experience Survey, 2013, n=1,268
Dispelling Myths Across the Generations › Myth # 2

Young Investors Don’t Have Any Money

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Millenials</th>
<th>Gen X</th>
<th>Young Boomers</th>
<th>Older Boomers</th>
<th>Silent/Greatest Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>$75K - $99.9K</td>
<td>16.8%</td>
<td>19.8%</td>
<td>22.1%</td>
<td>18.8%</td>
<td>22.5%</td>
</tr>
<tr>
<td>$100K - $249.9K</td>
<td>12.4%</td>
<td>18.4%</td>
<td>22.6%</td>
<td>20.5%</td>
<td>26.2%</td>
</tr>
<tr>
<td>$250K - $499.9K</td>
<td>8.7%</td>
<td>14.8%</td>
<td>22.5%</td>
<td>24.0%</td>
<td>30.0%</td>
</tr>
<tr>
<td>$500K - $749.9K</td>
<td>7.5%</td>
<td>13.4%</td>
<td>21.9%</td>
<td>25.3%</td>
<td>32.0%</td>
</tr>
<tr>
<td>$750K - $1 Million</td>
<td>8.3%</td>
<td>10.5%</td>
<td>17.9%</td>
<td>24.9%</td>
<td>38.5%</td>
</tr>
<tr>
<td>$1 Million - &lt; $2 Million</td>
<td>9.8%</td>
<td>10.7%</td>
<td>16.7%</td>
<td>24.4%</td>
<td>38.4%</td>
</tr>
<tr>
<td>$2 Million +</td>
<td>14.7%</td>
<td>12.9%</td>
<td>11.8%</td>
<td>19.5%</td>
<td>41.2%</td>
</tr>
</tbody>
</table>

Younger investors born since 1964 comprise a growing share of wealth.

Source: Nielsen Income Producing Assets (IPA), 2013
Dispelling Myths Across the Generations › Myth # 3

Everybody Knows That Survivors Fire The Parent’s Advisor Once They Inherit Their Wealth

- **50%** I have different services for the parents and their adult children
- **40%** I use the same approach with the parents and their adult children
- **6%** I have a young advisor in my firm who works with the adult children
- **4%** I don’t try to engage the adult children of my clients

Source: SEI Quick Poll, Next Gen Financial Planning, August 2014, n=1,019
Serving Different Generations › Next Gen Associations

• **FPA – NexGen**
  – Created 2004
  – For planners 36 years old and younger
  – 2,000 members

• **NAPFA - Genesis**
  – Created 2011
  – For planners 33 years old and younger
  – Peer-to-peer networking

• **XY Planning Network**
  – Created 2014
  – Focused on Gen X and Gen Y clients
  – Virtual connection to clients
  – Offer monthly retainer fees
  – Virtual community for advisor
From Paper and Pencil to the Digital Age

Technology Disruptor: Innovative Financial Planning
Financial Planning Software ➔ The New Hub

- **Client Hub – CRM / Value Hub – Financial Planning**

  - **Software innovation**
    - Technology leads the way
    - Far ahead of the practice of financial planning
    - Innovation is accelerating

- **Financial planning software typically has the most loyal following of any front-office application**

- **The cost is subsiding even as the functionality is increasing, making it even more accessible to advisors**
Financial Planning » The New Hub

What is your primary financial planning tool?

- eMoney: 27%
- MoneyGuidePro: 20%
- I do not use financial planning software: 17%
- Spreadsheet: 12%
- Profiles: 8%
- MoneyTree: 7%
- Advicent Naviplan: 5%
- FinanceLogix: 2%
- Sungard: 2%
- GoalGamiPro: 1%
- WealthTec: 0%
- IAS: 0%

The market is:
- Not saturated
- Maturing
- Highly entrepreneurial

Source: SEI Quick Poll, Next Gen Financial Planning, August 2014, n=1,019
### Financial Planning Essential Aggregation

#### Client Net-Worth View
- Essential for holistic advice
- Monitor performance in areas not under your management
- Charge for ‘counsel-related’ assets
- Cost dropping
- Still painful operationally
- Client expectation (PFMs and Robo-advisors)

#### 1. Position-based
- Client’s net-worth
- A ‘must-have’ feature
- Inexpensive

#### 2. Performance-based
- Client’s total performance
- Typically for A tier clients
- Expensive
Aggregation › A “Must Have” But…Not Widely Adopted

Is account aggregation part of your financial planning software?

- Yes: 58%
- No: 42%

What percentage of your clients do you aggregate?

- 76-100%: 31%
- 51-75%: 24%
- 26-50%: 23%
- 1-25%: 22%

Source: SEI Quick Poll, Next Gen Financial Planning, August 2014, n=1,019
User Interfaces

• **Mobility**
  – Where is convenient for the investor

• **Decision-making v. Data**
  – Relevant information available for decisions
  – Fewer office visits
  – Elimination of paper

• **Simplicity**
  – Complexity is hidden deep in the application

• **Personalization**
  – Investors see it their way
New Client Engagement Techniques

- **Gamification**
  - Incorporates elements of gaming, such as point scoring and competing with others, to engage users.

- **Mind Mapping**
  - A series of automated diagrams that visually organize information
  - Educate your client about the financial planning process
  - Fully understand your clients’ goals and values

- **New financial planning model**
  - Interactive, goal-based financial plan
  - Alerts when disbursements or market conditions means that a goal has become more risky
The Robo-Advisor Effect
Robo-Advisors › What’s In a Name?

SigFigTV uploaded and liked

Flash Mob: 100 Piggy Banks vs Wall Street - SigFig.com
1 year ago • 8,579 views
Watch what happens when we flash mob a major Wall Street brokerage notorious for fees with 100 people in piggy bank suits....
Robo-Advisors › Birth

- 100 BPs
- Technology
- Gen X / Gen Y
- 2008
- Venture Capital

22% of Americans work with a financial advisor*

Source: * LIS Study, Putnam Investments, May 2014
Robo-Advisors ★ Landscape

Size of bubble correlates to fees: Higher fees = larger; Lower fees = smaller

Source: SEI – (updated) October 2014
Do you believe robo-advisors reduce your revenue in the years to come?

- **71%** No
- **17%** Yes
- **12%** I am not familiar with robo-advisors

Source: SEI Quick Poll, Next Gen Financial Planning, August 2014, n=1,019
Robo-Advisors › The Future

Which of the following best describes how you feel about robo-advisors?

- A movement that will endure but will change to incorporate captive human advisors
- A good idea that caters only to clients with less than $250,000 in investable assets
- An example of technology that will eventually be fully adopted by independent human advisors
- A fad that will die out in a couple of years
- A good idea that caters to all clients

Source: SEI Quick Poll, Next Gen Financial Planning, August 2014, n=1,019
8 Things Advisors Should Do Now
Co-Planning ▶
Collaboration Between Advisors and Investors

• Investors are more technically and financially astute

• Co-planning
  – Technology available today
  – Transfer from PFM to Advisor tools
  – Information input by investors
  – Collaboration tools for scenarios
  – Document sharing

• Deeper client engagement
Co-planning ➔ Collaboration Between Advisors and Investors

85% of Financial Advisors provide a way for your clients to look at their accounts/documents online (i.e. client portal)

What percentage of clients actually use a client portal?

- 54% use a client portal
- 29% use a client portal
- 13% use a client portal
- 4% use a client portal
- 1-25% use a client portal
- 26-50% use a client portal
- 51-75% use a client portal
- 76-100% use a client portal

Source: SEI Quick Poll, Next Gen Financial Planning, August 2014, n=1,019
Age Diverse Advisor Firm

- Clients like to interact with someone their own age.
  - Identify some young client segments
  - Create services for those segments
  - Hire younger advisors to serve the segment
- Built-in succession strategy
- As clients age and their portfolios mature, the firm will have the services to meet their needs.
- Creating a age-diverse workforce and client base can have a positive effect on the culture of your firm
- Younger advisors will use more technology and new methods of interacting with their clients.
- A path to service multiple generations within a family.
Advisor Approach to Financial Planning

89% of Advisor’s have embraced goals-based planning

- Combination of goals-based and cash-flow based
- Goals-based
- I use my own approach
- Cash-flow based

Source: SEI Quick Poll, Next Gen Financial Planning, August 2014, n=1,019
Goals-Based Planning ▶
Personal Achievement vs Benchmarks

HNW Individuals’ Preference for Assessing the Success of Their Portfolio

*Percentage of Respondents, Global, 2013*

- 35% I Judge the Success of My Portfolio Based on My Own Financial and Life Goals
- 23% I Judge the Success of My Portfolio by Comparing it to Financial Market Performance and Benchmarks

Goals-Based Planning › Monitoring with Goals-Based Statements

Tracking progress to a goal – “Am I on Track?”

Sample statement used for illustrative purposes only.
Hone Your Own Value Proposition

• Focus on developing your segment
  – As your firm grows develop multiple, complementary segments
• Identify specific services for the segments
  – Hard to emulate
• Go broader than financial services
• Show clients how they are doing compared to their peer groups
• Use active management to add value
  – Robo-advisors do passive investment management well
• Go virtual / Go national

Source: SEI Quick Poll, Next Gen Financial Planning, August 2014, n=1,019
Interacting with Clients › The New Way?

Do you have clients that you’ve never met face-to-face?

Source: SEI Quick Poll, Next Gen Financial Planning, August 2014, n=1,019
Become a Techno-Advisor

Clients are running ahead of advisors when it comes to technology – if you don’t keep up, you’ll be left behind.

• Let the client decide how they want to interact with you
• Ensure your client portal supports collaboration
• Get the most out of your current technology, especially your financial planning software
  • Re-train your firm
• Add workflows which will well ensure you maximize the use of your technology
• Install video technology that enables you to engage in two-way communication with your clients.
• Review your conference room and the flat screen technology
• Look into technical scheduling methods that allow a user to schedule their meetings with you
6

Operationalize Financial Planning

• Moving from Asset Management to Financial Planning Process
  – Consistency across firm
  – Training / Onboarding

• Workflow
  – Most role hand-offs in financial planning process
  – Metrics

• New Alert driven models
  – Financial plan is set up
  – Advisors are notified when a client’s goals are not being met
  – Proactively reach out

Source: SEI Quick Poll, Next Gen Financial Planning, August 2014, n=1,019
Retention and Revenue on Assets (ROA)

Fee Change › Fork in the Road

- **Status Quo**
  - 100 bps

- **Menu**
  - 25 bps – Asset Management
  - Retainer/Fee for Service
    - Financial Planning
    - Value Proposition Services
  - Charge more

- **PRESSURE**
  - Robo-advisors
  - Educated Clients
  - Validators
  - Transparency
8

Outsource

• Outsource everything except your client relationships and value proposition.
• Focus exclusively on the human connection that differentiates your services and helps you grow.
• Don’t become a CTO. Outsource as much technology as you can
Summary

• Financial planning is a mature and well respected skill, poised for more growth
• Financial planning is now the hub of wealth management
• Financial planning software is the most innovative sector of the advisor landscape
• Robo-advisors are a welcome addition which won’t reduce most advisors revenue; but advisors can and should learn from them
• Collaboration between client and planner/ advisor will transform relationships into partnerships
• Advisors’ value propositions should be reassessed and a new set of services built around them
• Fees are at a fork in the road
The Next Wave of Financial Planning White Paper

Raef Lee
Managing Director and Head of New Services and Strategic Partnerships, SEI Advisor Network

John D. Anderson
Managing Director and Head of SEI Practice Management Services, SEI Advisor Network

Michael Kitces, CFP®
Partner and Director of Research for Columbia, MD-based Pinnacle Advisory Group, and publisher of the Kitces Report and the popular financial planning industry blog, Nerd’s Eye View
Who We Are

SEI is a leading global provider of wealth management solutions. We help professional wealth managers, institutional investors, and private investors create and manage wealth – and enable their long-term success – by providing solutions that are both comprehensive and innovative.

A Market Leader
- Manages $249 billion assets\(^1\)
- Administers $363 billion in client assets\(^1\)
- Processes 1.7 million investor accounts\(^2\)
- Leading global provider of Bank Trust technology
- Relationships with trust departments of 9 of the 20 largest U.S. banks\(^2\)

A Successful Company
- Founded in 1968, a public company since 1981 (NASDAQ: SEIC)
- 2013 revenues: $1.13 billion\(^2\)
- 2013 net income: $288.1 million\(^2\)

A Global Company
- 2,748 employees worldwide\(^1\)

SEI Advisor Network
- 20 years of experience in providing outsourced solutions to independent advisors
- Over 5,700 advisors using SEI’s solution\(^1\)
- $45.4 billion in advisors’ AUM\(^1\)
- SEI is the #1 U.S. Advisory Third-Party Managed Account Provider\(^3\)
- One-stop accountability with SEI Private Trust Company
- Significant 2013 growth
  - 1,145 new advisors
  - $9B in cash receipts – Largest in past 10 years

\(^1\)As of September 30, 2014
\(^2\)As of December 31, 2013
\(^3\)Cerulli Associates, 1Q 2014
Disclosures

Information provided by SEI Advisor Network, a strategic business unit of SEI. Services provided by SEI Investments Management Corporation, a wholly owned subsidiary of SEI.