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0:04

JIM: Welcome. We have a great program today. As a matter of fact, the organization NAIFA, National Association of Insurance and Financial Advisors, which is the largest association of financial and insurance professionals in the country, somewhere north of 40,000 members, and, today, we are fortunate to have the president of that organization, which is pretty significant because it’s 125 years old this year, and we have the first woman president and I’m proud to say she’s from my home State of Wisconsin, it’s Juli McNeely. I’ve known her for many years. I consider her a great friend and a great friend of the industry and welcome, Juli, I’m so glad to have you.

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JULI MCNEELY: Thank you very much, Jim. I’m excited to be here with you as well.

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JIM: Today, we’re going to talk about a subject that usually is something we don’t talk too much about with our clients and that’s regulations. The Department of Labor is getting ready to enforce or create some regulations that are going to affect everybody in the industry. When you look at it on the surface, it just seems like it’s just common sense, we should have this stuff, but, if you peel back the onion a little bit, I think it’s going to have unintended consequences that are going to hurt a lot of Americans and the reason that we’re doing this at this time, they’re getting ready to close the book on his chapter and then it’s going to be hard to undo it once they do it but it has to do with fiduciary and it also has to do with what’s called the best interest contract. Every advisor is going to have to have a best interest contract with their clients and, on the surface, well, of course, they should have their clients’ best interest at heart but, Juli, share with our audience. I’m sure if I’m listening, yeah, I want my advisor to keep by best interests at heart when they’re giving us advice but, if we peel it back, what are going to be some of the challenges here and how is it going to impact the average person getting advice from an advisor?

1:53

JULI MCNEELY: Well, thanks, Jim. I think that, as you said, if you peel back the onion, sometimes those unintended consequences, we don’t even realize what they are until it’s already too late. Advisors really have an opportunity when they meet with their clients to sit down and talk about different ways of being compensated and what’s really, I think, great about that is you have the ability to choose which model fits you best and, if you don’t like the model that your advisor happens to use, you can seek advice from another advisor. We currently have really two models that are being utilized and one is a fee-based model or is also called a fiduciary model where you get charged a flat fee or a percentage of your assets and then the secondary model we have is a commission model or what’s also called a suitability model and that really is where the advisor chooses the most suitable product based upon your needs and then is compensated directly from the vendor itself. What could potentially happen and what I fear, to be honest, Jim, is that individuals that have smaller accounts are going to no longer potentially have the ability to work with an advisor simply because the smaller account would preclude them from a fee-based or fiduciary-based model and it also would hinder them from working with a commission-based model or a suitability model because the individual advisor wouldn’t necessarily be able to take on the extra liability that is incurred and so the fear is that we would disenfranchise individuals who are middle income or have small accounts and, from my perspective, those are individuals who really do need the advice of a good advisor regardless of which way they choose to practice their business.

3:30

JIM: Now, I know you’re a volunteer President of NAIFA, our audience may not have known that, but your practice is in Spencer, Wisconsin, so I know you deal with a lot of corporate America, right?

3:41

JULI MCNEELY: No, Jim. Actually, I’m about as Main Street as they come. Spencer, Wisconsin is 1925 people and our firm has been in practice for 45 years so I would say about 85% of my practice is very main street, middle income, small accounts, and it’s exactly the way I want it to be.

3:58

JIM: And my office is actually on Main Street in Kewaskum but I’m in a booming metropolis of 4004 and I’m dealing with the same people and what’s kind of frustrating for me is seeing these choices taken away because I deal with a lot of people with small accounts. I usually can tell who’s a strictly fee-based advisor when they come on the radio commercials and they say, well, if you’ve got $250,000 or more or if you’ve got $500,000 or more. I mean some of my best clients don’t even have that much money over time but I work with a lot of the kids trying to get them started and I’m licensed and I think you are, too, Juli, to do both fee-based planning and commission-based or suitability planning, and I look at it, I’ll tell you what. I think I’ve heard from somewhere that the Supreme Court can’t even rule what a fiduciary is because it’s a best interest contract and how do you define best interest and I think this is where it’s going to cause such a problem. I mean, if anybody has opened an account recently, there’s so many different regulations. When I started in the business, to open up an account, it was half a page. I had four boxes to check, the client signed two signatures, one on their investment check and one opening the account, and, now, I have literally 50 or 60 signatures that have to be compiled in order to open up even the smallest of accounts and I think this is just going to make it unattainable for these people because most of the fiduciary type accounts and looking at registered investment advisor accounts that I’ve seen, minimums are $50,000 per asset and I don’t know how that could be in the best interest of a client if you’re going to be limited to just one account that you can put in and you’ve got to save up $50,000 before you get in. What have you seen? Am I catching this right?

5:39

JULI MCNEELY: You are catching it right. For some reason, I think that paper somehow has begun to equate consumer protection and it really isn’t. I have many clients who have said I’ve got to sign another 10 pages of paper and they don’t feel more protected. Their personal information is on, like you said, 50 or 60 pages and they know that there is a certain amount of paperwork that needs to be completed to complete the sale but it doesn’t make them feel any more secure or any more protected. They are truly building a relationship with an advisor that they trust and they have shared, in some cases, Jim, deep dark secrets. I mean we know a lot about our clients and we are there for them every step of the way and so that relationship that’s built and there’s trust that built, the paper isn’t really providing any more security for individuals so you’re absolutely right about the minimums. I mean many broker-dealers have $50,000 minimums for any sort of fee-based account. I’ve heard even recently that some may be looking at raising that to $100,000 or even $250,000 so that would definitely disenfranchise individuals who have smaller accounts and who are trying to save for a future, for retirement, for college, whatever it might be. We have to have a way to continue to serve individuals no matter what their asset base is.

6:54

JIM: And, you know, I’ve had a lot of grandparents setting up college savings accounts for their grandchildren and the reason that they’re doing it is because their kids are strapped. They can’t even get started because most of the college savings accounts, there was a day where I could open up an account for a couple hundred bucks and, now, the minimums are $1000. Most people with newborn kids, young families, don’t have $1000 to start the account so a lot of times I’m having the grandparents set it up and then they can start adding $50 here, $50 there. Well, that’s just going to wipe out this wonderful tool and I look at the situation right now, it’s approaching a trillion dollars or whatever it is in student loans, I mean it’s insane, and they’re taking away the tools for the people that need the help the most. Let’s talk a little bit more about the best interest contracts and let’s talk about what our listeners can do if they’re concerned ab out this or what resources are available to get more informed because I always believe in keeping the best interest of the clients always come first but I think the regulators are looking at some serious unintended consequences but we’re going to take a short break. Please stay tuned.

8:03

BREAK

8:21

JIM: Welcome back as we continue to visit with Juli McNeely who has a practice in a booming metropolis of 2000 people in Spencer, Wisconsin, deals with a lot of average mom and pop and Main Street America. Many of you are probably in that same boat. She is the 125th Anniversary Edition of the President of the National Association of Insurance and Financial Advisors. We’re so proud to have her here. Juli, again, thanks for being here. We talked about this best interest contract. Basically, it’s a contract where an advisor enters into a contractual relationship with their client that they’re going to keep their best interests at heart. Now, I’ve been in the business for 30 years. I try to keep my clients best interests at heart but I don’t have a crystal ball and what makes me nervous about this, I carry malpractice insurance, basically errors and omissions insurance with the regulations I’ve seen. I remember, years ago, I used to pay something like $140 a year in premium and, now, it’s exceeding $10,000 a year and they tell me it’s because of the regulations. I look at a best interest contract that’s so subjective and I see those lawyers on TV at night that say, hey, if you are part of this group, jump on the bandwagon, you might be entitled to compensation, and they’re professional litigators that I don’t think they’re looking for people necessarily that have been hurt, they’re just looking for people where they might have a shot at getting some money. I’ve seen the awards of a lot of those class action lawsuits, the vast majority seems to go to the attorneys where they get millions and everybody else gets $10, $12, whatever it is, so if we have these best interest contracts, what’s that going to do to further help the client or hurt the client?

10:01

JULI MCNEELY: Well, that’s a good question. I think that’s yet to be determined, Jim, because we have not yet heard the definition of a best interest. I assure you that I know lots of advisors, certainly lots of NAIFA members, and, always, their intention to put the best interest of the client first. Sometimes, however, you are precluded from using a product if you have a certain basket of products that you’re allowed to use from whichever company your affiliated with and so, most of the time, you’re sort of tied if you’re in that type of a situation. However, individuals who do have a vast array of products could still violate this contract simply because they didn’t look to the end of the earth and find something better. My fear, to be perfectly honest, Jim, is that it’s not necessarily going to be the product that gets questioned, it’s going to be the performance. It’s no necessarily going to be the fees that were charged by that product, it’s going to probably be the performance. Now, most consumers, that’s what they focus on is the performance and rightly so. They’re motivated to make sure their investment is growing and so this best interest contract is a contract between the client, the advisor, and the vendor, whoever that vendor might be, whether that’s a broker-dealer, which is where the investment business is processed, or an insurance company. It’s a three party contract and all three parties have to sign the contract. The concern is that, for certain size of investments, it’s not going to be worth the liability to sign that contract and, so, we are really, at this point, NAIFA is working very hard to try to shed a light on this best interest contract to the Department of Labor to make them see that this may not be the best avenue, the best choice, to make sure that clients are protected.

11:45

JIM: I’ll use the analogy of a car. Let’s say we have a car that passes the best crash test, they have the best results, and they’re $15,000, and I’m probably a little low with car prices these days, but let’s just say that’s $15,000 to get the best, most safe vehicle. Then, we look at an electric vehicle. It’s the beset vehicle as far as emissions and maybe that one is $17,000. Then, you’ve got another vehicle that can only drive 50 miles an hour but the client needs to get to work in a certain amount of time and its $3000. How do you decide what’s the best vehicle? If we look at, for example, I just look at fixed annuities, which you get a declared interest rate and you have a declared renewal rate over time and many insurance policies offer it. It’s like a savings vehicle through an insurance company and, if you use one of these fixed annuity contracts, if you go with a company that has the best financial ratings and they’re offering 2.5% because they’re investing more conservatively and that’s one of the reasons they have these good financial ratings. Then, you have another company that maybe invests a little bit more aggressively. They don’t quite have the same strong financial ratings but they’re offering 3%. What’s the best one and, really, it’s hindsight is 20/20 because if the one that invests more aggressively does it successfully and the clients earn that much more interest, well, maybe that was best for them but, if the company has financial issues down the road and the client has reduced access to that contract, what was best for them? I just look at those things. I just see it as being a nightmare and I, as an advisor, I mean I really want to help my clients, I want to help their kids, because if they don’t get started early, they’re going to be a financial mess when they get toward retirement or the time to pay for the kids’ college or whatever it might be, and if they never have access to getting started, how many Americans are going to be hurt by this? I just shake my head. It’s going to be mind-blowing because I look at the vast majority of my clients would be hurt by this.

13:45

JULI MCNEELY: Well, and I will also say, Jim, I think that client situations change. I mean when I meet with clients, and I’m sure you do the same thing, we talk about their situation today and we try to anticipate their future and so we plan accordingly based upon what we believe will happen. Well, we know things can change very quickly but that’s the whole purpose of having an advisor that you can touch base with on a regular ongoing basis so that they can help you tweak your plan as needed and, as a situation changes, we shift and maybe use a different type of product or one that has more liquidity or less liquidity, a higher return or a lower return and less risk, so we’re constantly manipulating sort of the product that we use but it’s purely based upon the situation of the client and, again, that is one of the biggest reasons why you want to have a great relationship with a great advisor who can constantly be helping you reassess where you sit for today and, hopefully, continue to reassess where you think you might be in the future. An advisor is going to probably help you see things that you would not necessarily see yourself, what are risks, what risks are coming at you for the future, why would you want more in liquidity or why would you want some guaranteed income. There’s lots of things that an advisor can sort of help you talk through. If we allow the process to continue as it is, I believe we have a much better chance of really meeting the clients’ needs where they’re at both for today and for the future.

15:07

JIM: I mean I look at suitability, whether or not the right thing was done, I mean that’s also somewhat subjective but, when you have fiduciary and you have a signed contract that says all this, I just look at it, it’s just going to remove access for a lot of people to the products and services. As a consumer that might be listening to this, you’re probably thinking, oh, who cares. Do I really need to bother with this? What would you say to the average consumer because they’re the ones, ultimately, that are affected by this? If they don’t have access or their kids or grandkids won’t have access to just basic products and services that can help them be financially secure in their future, what would you say they need to do and what’s happening, when are the deadlines, what are the dates, when is this going to be an issue?

15:50

JULI MCNEELY: I would say it’s definitely something the consumer should be concerned about. If you want to have access to someone who can assist you with your financial health, then you want to pay attention to what’s going on. No different than, you know, I don’t try to prescribe medication or diagnose problems I’m having, I go to a doctor to do that, and so a financial advisor is your financial doctor, so to speak. The reason you want to pay attention is because this is happening very quickly. July 21 is the end of what they’ve called a comment period where we’re able to make comments regarding the rule, shed some light to the regulators as to what the unintended consequences might be, so NAIFA members, we’re encouraging consumers to share their concerns with the Department of Labor prior to that date. There will be an open hearing, a public hearing in August, the 11th, 12th, and 13th, and that will also be another opportunity where we will be able to shed some light with the Department of Labor and talk additional concerns with them. The plan or the hope from the Department of Labor and what they’ve indicated is that they want this to be in place by the beginning of 2017 or at the end of 2016 so it seems like that’s a far way away yet but it is certainly going to come quickly and our opportunity to really make any impact or make changes is really now in the next few months.

17:11

JIM: Juli, if I’ve got a consumer listening out there, does NAIFA have a consumer spot where they could go to to find out what the issues are and if they wanted to reach out to the Department of Labor, do they have contact information on how to do that?

17:25

JULI MCNEELY: We do not currently have a consumer place but we probably will. At this point, we’re calling all of our NAIFA members to reach out next week, which would be the first full week in July, directly to the Department of Labor through our normal system that we have and there may be a point where we’ll call on consumers to do the same. If you have an advisor that you work with, my suggestion is that you talk to them about this issue. Make sure that they’re aware of it and then, also, if you feel inclined, communicate with your advisor so that they can share the story that you have of how you think it might impact you. I think that having real examples from real clients makes a tremendous impact when it comes to communicating with regulators.

18:07

JIM: All right, Juli, well I really appreciate you sharing your knowledge and perspective on this issue. I know, I mean, I haven’t seen anything in the general media about this. If I weren’t involved in NAIFA and in the industry, it would have been a void and I’ve shared my concerns about this with some of the fellow advisors that I run into. It’s scary how many of them don’t even have a clue that this is happening so it is something that’s going to impact a vast percentage of Americans. Especially, I look at the young people starting out. It’s hard to find an advisor that’s willing to sit down and spend the time for somebody just starting out. I see this as just eliminating. Maybe I’m being an alarmist, maybe I don’t have to worry about it or whatever, but I know from personally working with a lot of younger people and how we’re able to have access to services for them, I know how the fiduciary standard is, I just see there’s no way I could really perform as a fiduciary for someone who wants to start putting away $50 a month. Our products and services and access to that stuff is going to be limited and I know in the fee-based arena I’m not aware of an account that I have access to where I can start someone with less than $50,000 and, typically, that’s limited to just one strategy. I’m normally diversifying people between four or five different types of investments, which means you need $250,000, so thanks again, Juli, and I look forward to having you back real soon.

19:26

JULI MCNEELY: You’re welcome, I appreciate it. Thank you, Jim.

19:28

JIM: Thanks for joining us this week and tune in again next week as we explore another phase of the Real Wealth process and, remember, if anything you heard in today’s show you’d like to get more information about, contact your Real Wealth advisor. Also, if you feel that any of this information would be helpful to a friend or family member, just click the Forward to a Friend button.