This increasing client risk will change advisor practices. Here's why

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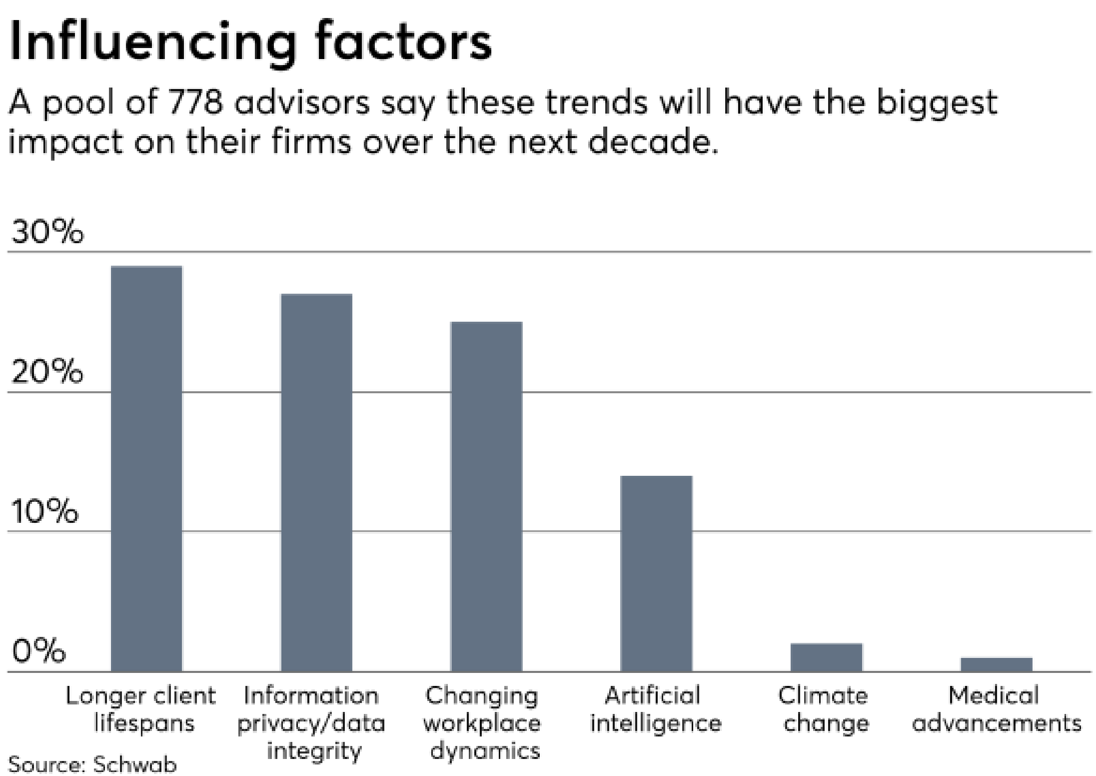
When asked what's the biggest impact on their practice, advisors didn't point to artificial intelligence, robos or even climate change. Instead, they're fixated on longevity risk.

Clients' ever-increasing lifespans are challenging assumptions about spending rates, savings and more, say advisors, who singled out longevity in a survey released last month by Schwab Advisor Services.

In the survey, 29% of participating advisors identified longevity as the leading macro trend that is shaping their firms. Within that group, 44% of advisors expect that longer client life spans will significantly impact their businesses over the next decade and 57% cite the challenge of ensuring that their clients' assets will last throughout their lifetimes.

Discussions on this topic can be difficult with clients expressing skepticism and uncertainty. “When you put forward an age of 90, most clients tell you they don’t believe they’ll even make it that far,” says Mindy Cleaveland, a financial advisor at Modera Wealth Management.



“Nonetheless, the prospect of having more life to live, leaves RIAs with the task of ensuring that a client’s money supply, will continue to complement their lifestyle,” says Cleaveland.

The three areas, most strongly affected by increased client longevity, according to the surveyed advisors, will be portfolio management, asset allocation (74% of respondents); advice (67%); and firm growth (47%).

Average life expectancy in the United States stands at 78.69 years, according to a 2016 report by the Center for Disease Control, up from 77.69 years in 2006. The increased longevity will influence future planning strategies. Cleaveland says that RIAs will become increasingly reliant on randomization techniques.

Cleaveland adds that “as clients are living longer, asset allocation is a must. It’s about striking that balance between risk and conservative behavior.”

Kelly Henning, a wealth manager at Modera, says that the detailed tracking of spending behavior has a tremendous impact on successfully dealing with the revised time frame longevity provides. “We notice that our clients usually retire during their sixties and tend to spend more during the beginning of their retirement,” she says, adding that by noting these financial patterns, RIAs can assess a client's level of risk aversion and act accordingly.

The advancement of medical care ranked last on the study with a mere 1% of respondents claiming that it will affect advisor firms. Nevertheless, such advancements have contributed to longevity — so much so that advisors estimate that a greater degree of attention will be given to insurance and medication expenses.

Dr. Steven Podnos, a medical doctor, financial planner and principal of Wealth Care, explains that with longevity, comes various health setbacks, including the development of degenerative illnesses such as dementia which will incur higher health costs. Podnos highlights the importance of modifying safe withdrawal rates as well as mapping out alternative scenarios that would account for uncertainty.

Irene Giman, senior financial planner at RTD Financial Advisors, adds that a client’s personal situation would also modify future planning strategies. “Clients with a disability or dependents with disabilities would in turn be presented with a lower life expectancy and place long-term care insurance as a top priority,” says Giman.

The Schwab study also cited “changing workplace dynamics” and “information on privacy/data integrity” as other leading factors that advisors felt would be pertinent to their businesses over the next decade. Privacy/data integrity was seen as negatively impacting firms, as breaches of confidential information at the hands of hackers remains a viable threat.

Sixty-two percent of advisors did, however, see upsides to ever increasing longevity, namely that client-advisor relationships would last longer.