A FEE-BASED ADVISORY RELATIONSHIP: WHY 2021 IS THE YEAR TO CONSIDER IT

There are some financial truths that everyone knows to be correct. Before you rely on them to secure your financial future, let's look at a couple of them. And then, let's consider whether an on-going fee-based advisory relationship with your financial advisor can help you steer clear of these mistakes.

Congress can't get anything done – it is too divided.

Since 2000, Congress has passed into law 34 major pieces of legislation impacting your financial future. These include several tax law changes, retirement plan modifications, changes to employee benefits, and changes to student loan programs. It also includes two different swings at economic stimulus in 2020 alone . Should you think that the changes all came when one party or another was in control, the only two years when nothing changed was in 2000 and 2013.[1&2] Assuming Congress won't act, can cause your financial future damage, especially, when you aren't aware of the needed adjustments arising from any new legislation.

You should defer paying taxes today since you'll be in a lower tax bracket when you retire.

This one has been on the scene for a long time. It is the underpinning of such deferral plans as 401k and 403b, as well as many IRA accounts. For many of us though, it may not be true. For example, the relatively low rates we are experiencing under the Tax Cuts and Jobs Act are due to expire in 2026. At that point, the tax rates revert to 2017 level brackets which are higher. A person retiring in 2025, for example, could have the same amount of income in 2026 but be taxed at a higher rate. The current administration is looking at the national debt and deficit, along with the cost of new programs. In response, they have proposed a tax bill of its own. The way to hedge against tax rate movement is to become tax diversified with your income being taxed as a mix of ordinary income, capital gains, and tax free. Is tax diversification part of your planning now?

What can you rely upon?

Developing your own Wealth Strategy, along with a trusted advisor who understands you, your family, your goals, and objectives, is critical. The fee-based advice model allows you and your advisor to discuss, thoroughly, your situation, your tax picture, investments, and personal timelines. A typical fee-based advisory relationship has you and the advisor scheduling specific times to discuss your plan and any updates.

During those scheduled sessions, a regularly renewed financial planning document will be used

as a touchpoint. Under this approach the “plan” becomes less about the book of numbers and more about the advice being offered. Having that cornerstone updated regularly allows you to make changes to your planning in an efficient fashion. The scheduled meetings should also lead to a greater communication and integration of your changes with other advisors such as your CPA and attorney.
An on-going fee-based advisory relationship can cover such topics as investment allocation, the need for tax diversification, tax efficiencies, college funding, retirement, the value of Roth accounts, and estate planning to mention just a few. You will be able to freely discuss your concerns over a changing landscape and integrate new advice and recommendations into your program.

Don’t accept truisms and cliches as a basis for the financial security for you and your family. Instead consider a fee-based relationship with your advisor based on your facts and circumstances.

Contact your advisor to determine if the fee-based advice approach is right for you.

Sources:

1. https://www.taxpolicycenter.org/laws-proposals/major-enacted-tax-legislation-2000-2009

2. https://www.taxpolicycenter.org/laws-and-proposals/major-enacted-tax-legislation-2010-2019

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