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Merrill grapples with 'the elephant in the room'

Study of Americans' complicated financial lives leads wirehouse to rethink the adviser-client relationship

By **Joyce Hanson** | Nov 18, 2013 @ 12:10 pm (Updated 3:13 pm) EST

New research into the complexities of Americans' financial lives is driving **Merrill Lynch** Wealth Management to change the way its financial advisers work with clients.

Released on Monday, Merrill's study, "Family and Retirement: The Elephant in the Room," looks at the uncomfortable behavioral issues that American families encounter in their financial lives as they deal with divorce, aging, adult children and blended families.

"Historically, advisers needed to know client's time horizon and tax status, but now we're training and positioning our advisers to ask very different questions," Andy Sieg, head of Global Wealth and Retirement Solutions for Bank of America Merrill Lynch, said during a conference call on Monday. "There are profound implications here for the wealth management industry and what advisers do in the financial marketplace."

Merrill Lynch advisers are now urged to get personal with clients and ask questions such as: Are you the "family bank" at the expense of your own retirement plans? How much money have you given to your adult children? Are they divorced? Do you worry about becoming a burden to your children as you age? Who initiates honest conversations about financial topics in your family?

"We think that by asking these questions, our financial advisers and others in the wealth management industry can not only help clients but more broadly address issues this country is facing," Mr. Sieg said.

Merrill's new approach to the adviser-client relationship comes as it moves toward a business model that focuses more on holistic, goals-based financial planning. As the wirehouse continues to work on **regaining customer trust** that it lost during the 2008 financial crisis, and possibly facing imposition of **a fiduciary standard on brokers**, Merrill is rethinking its fee structure and how advisers are paid.

Already, it has **conducted a major revamp of its managed-account platform**, with pricing calculated at the household level.

Conducted August 2013 in partnership with research firm **Age Wave**, ”The Elephant in the Room” surveyed 5,400 respondents of all ages about challenges that baby boomers 47 to 67 face in balancing their own retirement plans with family members' needs.

One of the study's major findings was that American families often have one member who assumes the role of “family bank” and gives money to those in need. Six in 10 people over the age of 50 provide this financial support, either on a one-time basis or in a series of payments over the course of many years.

Over the past five years, financial assistance given to family members averaged nearly $15,000, the survey found.

Yet the elephant in the room is that few of these family bankers will speak honestly to adult children, grandparents or grandchildren about how their own retirement is threatened by their generosity.

“I thought I would be supplementing my grandchildren's college funds. It turns out I was the college fund,” Mr. Sieg quoted one family banker as saying.

Advisers will likely find that the role of the family banker is often assigned to those who saved and invested responsibly, and that advisers often find themselves juggling the role of keeping the family bank is well-capitalized while trying to safeguard the client's retirement savings, Mr. Sieg said.

Those who help other family members financially rarely expect future payback even though they are risking their own financial security, the study found.

Indeed, those older than 50 were found to be 20 times more likely to say that they are helping because “it is the right thing to do” than because “family members will help them in the future.”

Half those surveyed over 50 said that they would sacrifice their own retirement to help a family member. Yet those same people said that the prospect of being a burden on their family worried them just as much as the idea of running out of money when they get older.

Meanwhile, the Merrill study found a dangerous absence of communication and planning as people navigate family interdependencies. The majority of parents and their adult children didn't discuss net worth, where to live, wills or inheritance plans, or how to pay for long-term care.

“If you don't sit down with your family and talk about what you want to do about long-term care, the irony is that you will become a burden on your family,” said Age Wave founder and chief executive Ken Dychtwald during the call.