Why You Should Include Risk Capacity in Your Client's Retirement Planning

For most Americans, their retirement portfolios make up the majority of their financial savings. This means that most of your clients are relying on those funds to support their lifestyles once they quit working. Because of this, advisors need to protect these accounts with the utmost care while still maximizing returns.

Link: https://news.northwesternmutual.com/planning-and-progress-2021

Understanding the relationship between their retirement accounts and risk is the best way to keep them safe and secure. It ensures their portfolios reflect the life factors that influence how risky or conservative their asset allocation should be.

Internal link: DTC Risk and Retirement Portfolio article (not posted yet)

As an advisor, you've probably used target-date and model funds to help your clients with their retirement goals. The purpose of these funds, as we know, are to diminish risk as the client approaches their desired retirement date.

In conjunction with a target-date or model fund, you have assessed their risk tolerance so that you can prevent clients from overreacting during downturns in the market. Once portfolios are established, you conduct annual reviews of the clients' risk tolerances so you can adjust their asset allocations according to any changes in feelings about risk.

As discussed in our article on the pitfalls of traditional risk tolerance questionnaires, assessing risk tolerance alone falls short of best serving your clients. At Totum, we believe risk capacity should also be included in this yearly assessment as well. Clients' life factors such as dependents, income, health, and expenses change over time. Any change in clients' life factors affects their ability to take on risk. Moving to a new area, for example, will change their cost of living which will, in turn, influence the amount of risk they can actually withstand.

Link: Why Traditional Risk Tolerance Questionnaires Lead to Inaccurate Risk Appetite - Totum (totumrisk.com)

Even just one year of misaligned portfolios can lead to investment losses at inopportune times or missed gains that could secure your clients' futures. When years of mismatched portfolios are compounded, so are the results. Knowing your clients’ risk capacities takes advantage of their ability to be more aggressive when they are financially able and provides more protection when they are not.

The Totum platform evaluates all of these factors in a short, user-friendly questionnaire. It integrates with various broker-dealer and fintech platforms, making annual reviews of both risk capacity and tolerance easy.

Internal link: Partners - Totum (totumrisk.com)

Integrating a financial planning tool, like PlanIQ, can also help you realign investment portfolios as clients’ life factors change. PlanIQ was designed by a team of wealth managers, investment professionals and technologists to address investors’ immediate questions and acute pain points. It captures the information you need during clients’ critical lifecycle events, so you take action through our user-friendly platform. Our conversational AI technology helps build trust and move prospects to action.

Learn how Totum and PlanIQ can help you grow your business. Schedule a free demo with Totum and PlanIQ today.

1st Link: Totum by TIFIN - Online Risk Tolerance Questionnaire Platform (totumrisk.com)

2nd Link: Grow Your Practice - For Advisors - PlanIQ