

# MDRT ANNUAL TRENDS REPORT

2020



**MDRT**

The Premier Association  
of Financial Professionals®



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# EXECUTIVE SUMMARY

The MDRT Annual Trends Report provides insight into the most impactful trends that will continue to influence individual planners, advisory firms and the clients they serve to prepare for the year ahead. Whether you've just started out in the industry, been aspiring for the next level or are empowering your advisors to achieve unlimited success, consider how MDRT membership will elevate your ambitions.

Through the MDRT Annual Trends report, stay in touch with the evolution of the industry and learn how you can take action to respond to the challenges and opportunities this year has presented. You'll walk away with the ability to:

- Compete with disruptive technologies by having open conversations with clients about an integrated approach going forward
- Be a source of comfort in uncertain, volatile times with proactive strategies
- Evaluate your approach to diverse audiences

Join us as we explore 2019 so you can prepare for what's next in 2020.

*The report analyzes trends uncovered in proprietary research conducted by MDRT in addition to trends identified by MDRT's industry experts and other credible third parties in recent surveys and news coverage. Trends in the report were compiled based on analysis of proprietary research conducted by MDRT in 2019.*

# THE DIGITAL ERA

## Top Advisors Blend Technology and Financial Advising

“

Q:

Can fintech and financial advisors coexist? As alternative planning tools like robo advisors become more prevalent, do you find yourself asking if you can coexist with this technological “counterpart”? As an MDRT member and top advisor, you know you have a great deal of expertise and professionalism to offer, but do your clients also value the human touch?

A:

Research conducted by MDRT in 2018 found that 85% of Americans would prefer to work with a human advisor over a robo advisor, yet recognize that there are some benefits of working with robo advisors, such as the minimized risk of human error (49%). Incorporating technology to better serve clients is key to your continued success considering 7 in 10 Americans (71%) believe financial planning should be managed by a mix of people and technology-based tools.<sup>1</sup>

Insurance professionals in particular are adopting a blended approach within their claims and underwriting processes. According to an Oxford Economics and Accenture study, nearly all insurance executives envision a digitally transformed industry in five years, and 90% of insurers have a long-term plan for technology innovation across their company.<sup>2</sup> What’s next for you?

*“Though robo advisors have become more prevalent in the financial advisor industry, it’s vital to note that the majority of clients still desire human interaction and communication,” said Ross Vanderwolf, CFP, MDRT Immediate Past President. “This means that we, as financial professionals, should make every effort to cultivate client relationships in order to further promote the benefits of working with a human advisor.”*

**85%**

of Americans would prefer to work with a human financial advisor rather than a robo advisor.

**36%**

would trust a robo advisor to effectively manage their financial plans.

<sup>1</sup> MDRT, FinTech Study

<sup>2</sup> Oxford Economics, Digital Transformation: Remaking an Industry



# Integrating Digital Access and Automation

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Stay ahead of the game: The industry is catching up with the use of technology in financial planning as it becomes more user-friendly and familiar. In other areas of their lives, consumers can access information with the touch of a button and constantly have resources available at their fingertips. Consumers have evolving expectations for their advisors to be tech-savvy and provide digital access to plans, signaling you need to keep tabs on cutting-edge technology to stay ahead of the curve. A Capgemini survey of high-net-worth (HNW) individuals indicates there's a significant opportunity to meet and exceed client expectations: 85% want more digital interaction when accessing portfolio information and less than half state they are satisfied with current mobile and online platforms.<sup>3</sup>

Leading advisors like you recognize and respond to consumer expectations by using technology and data to offer clients a seamless, personalized experience such as offering virtual meetings to align to new communication preferences. Automating many of the more manual tasks enables you to expand your client base and focus time on providing value-added strategic services.

When speaking with clients, don't shy away from technology as a disruptor. Engage them in conversations to learn their pain points and preferences with digital tools and acknowledge that they have an alternative to working with you. Don't assume they already recognize the value you deliver that a robo advisor cannot – emphasize how a human connection is vital since financial planning is largely emotion-driven. Consider walking through the following questions:

What is your comfort level with technology and finances? Any past experiences – positive or negative – you'd like me to be aware of?

*"This study suggests Americans have not outgrown human advisors; instead, their preference lies in combining the personal and trustworthy touch of an advisor alongside cutting-edge technology," said Regina Bedoya, CLU, ChFC, MDRT President. "An integration of tradition and tech will provide Americans an even brighter financial outlook. By keeping advisors abreast of client desires and technology's ever-increasing capabilities, MDRT stands poised to assist advisors in ushering in the future."*

What are your main concerns regarding working with a robo advisor?

Would you trust a robo advisor with your financial future? Or are you more comfortable with a blended approach?

Did you know my firm uses software to model financial outcomes to ensure human error is minimized and cloud technology to keep your data secure?

What types of technology do you use on a regular basis?

What is the benefit of working with me over a robo advisor? Do you have any concerns about working with a human as opposed to technology?

<sup>3</sup> Capgemini, 2019 World Wealth Report



## TECH GIVES ADVISORS AN EDGE

Consumers who work with a human financial advisor find it at least somewhat important that their advisor uses...

94%



Software to model financial outcomes

48%

80%



Cloud technology for storing/accessing client plans

28%

72%



An internet platform for scheduling appointments

32%

71%



E-newsletters/social media to increase communication

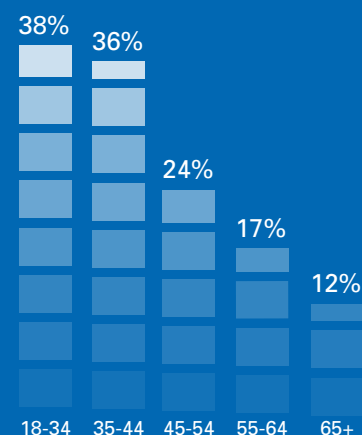
33%

However, only the following percentages of them say their advisor uses these tools

## THE MILLENNIAL OPPORTUNITY

38%

of millennials (ages 18-34) feel robo advisors can completely replace the role of human advisors in financial planning.



GENERATIONAL COMPARISON OF THOSE WHO AGREE

Looking to enhance your digital capabilities and connect with other tech-savvy individuals? Check out the MDRT Resource Zone videos and articles below to show you're anything but traditional and fast-track yourself to the next level of success:

- When the right tech tools aren't available
- 10 steps to take when creating an app
- Algorithms, bitcoin, roboadvice
- Virtual office help
- Conduct client meetings via Skype
- 6 tech tools that help you stay on track
- Tips & Technology

Mark J. Hanna, CLU, ChFC, 2017 MDRT President, recently shared his insights with [AdvisorNews](#) about the value of a human advisor in the digital era. "As a financial advisor, relationships are at the core of all success," said Hanna. "It sounds obvious, but one of the best ways we can differentiate ourselves from robo advisors is by channeling our human experiences and emotions."



# ECONOMIC STORM

## Consumers with Advisors Experience Smooth Sailing

### BREAKING NEWS:

*"U.S. 30-year bond yield falls to record low under 2% as global recession fears grow" – CNBC, Aug. 28, 2019*

*"Fed raises key rate to range of 2% to 2.25%, keeps forecast for 4 hikes in 2018" – USA Today, Sept. 26, 2018*

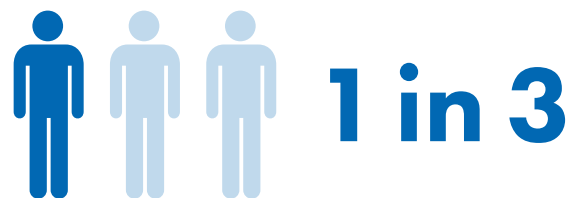
*"Market uncertainty is back" – CNN, May 30, 2018*

*"Senate passes tax bill in massive step forward — here's how it all went down" – Business Insider, Dec. 2, 2017*

One financial shock after another kept hitting Americans the past three years. Just as consumers were adjusting to news of a tax reform, they were confronted with periods of market volatility. Then, the Fed threw consumers another curveball by implementing interest rate hikes. To top it all off, 2019 brought news of an impending recession with the yield curve inversion.

The top financial advisors know that proactive communication will keep client financial confidence in check during times when the future of the economy seems uncertain. Understanding the general consumer sentiment and fears that exist will help you effectively interact with your clients and prospects. To help its members explore trends related to these financial

events and keep skills up-to-date, MDRT stays at the forefront of industry hot topics by conducting research among consumers. The findings of recent MDRT studies will show how your position as a source of trust and reassurance during times of economic uncertainty will set you apart from your peers.



**Americans with advisors say their dependence on their advisor would increase during a recession.**



**of Americans are nervous they will be impacted by a recession in 2020**



### Looming Recession<sup>4</sup>

A recent study conducted by MDRT in late 2019 shows the majority of Americans are nervous they will personally be impacted by a recession in the next year. High tensions and a split in understanding the financial implications mean financial advisors can use the general consumer sentiment as an opportunity to inform their planning and client communication strategies. Financial advisors boost confidence:

- 32% of respondents with a financial advisor said their dependence on their advisor would increase during a recession, and 56% of respondents said their dependence would stay the same.

Clients want advisors to offer proactive guidance if a recession occurs in the near future:

- 53% of Americans with an advisor want their advisor to reach out with tailored advice by **phone** or **email**
- 51% of Americans with an advisor want their advisor to proactively **meet** with them in **person**
- 21% of respondents with an advisor want them to **share news articles and resources**

<sup>4</sup> MDRT, [Recession Study](#)

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*“In times of economic uncertainty, advisors are sources of reassurance and should use this as an opportunity to support their clients,” said Regina Bedoya, CLU, ChFC, MDRT President. “By proactively reaching out with actionable strategies to prepare for a recession such as increasing savings, they can help calm the nerves often induced by the financial news cycle.”*



## Tax Reform<sup>5</sup>

A 2018 study conducted by MDRT found many Americans are confused by the implications of recent tax regulation. As a result, consumers are turning to financial advisors to better understand changes and create strategic and protective financial plans.

**42%** of survey respondents indicate they are not at all comfortable explaining the reform's implications to others, while 13% say they haven't even heard of the reform.

**72%** with financial advisors said they would work with their advisor for 2018 tax strategies.

Although changes to the law will affect returns filed in the 2019 season, 39% of respondents mistakenly believed returns filed in 2018 would be impacted.

Aurora L. Tancock, FLMI, CFP, a 19-year MDRT member, recently shared her insights with *Producers eSource* about helping clients with tax planning. "When you meet with your clients, always discuss tax implications associated with any actions or plans and refer them to their tax accountant where necessary," Tancock said. "Taxes should not cross clients' minds only once a year during tax season. Review retirement plans that take into account all their goals to make sure clients can enjoy a high-quality life after retirement and are not burdened by tax obligations that could have been avoided."

## Market Volatility<sup>6</sup>

A 2018 study conducted by MDRT surveyed consumers during a week of market volatility to understand investment behaviors and the potential role of financial advisors. Results show that many respondents would make adjustments to their investment portfolios based on various indicators during a week of market volatility.

<sup>5</sup>MDRT, Tax Reform Study

<sup>6</sup>MDRT, Market Volatility Study

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*“Major updates to tax laws are a once-in-a-generation change that will have a direct and lasting impact on consumers’ financial future,” noted James D. Pittman, CLU, CFP, 2018 MDRT President. “Clients should look to advisors for guidance and tactics to successfully navigate these changes. Methods to reduce pre-tax income or invest tax returns can make a substantial impact on wealth and retirement throughout the course of their career.”*



**MORE  
THAN  
HALF**

of consumers with advisors say the relationship increased understanding of appropriate actions to take during volatility.

**74%**



of consumers with financial advisors indicate that their advisor shared **best practices** for responding to market volatility.



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*“As many experts anticipate sustained periods of market volatility, it is important that advisors continue to educate clients to deter them from emotionally-based decisions regarding their portfolios,” said James D. Pittman, CLU, CFP, 2018 MDRT President. “Savvy advisors are providing clients with solutions that help their portfolios withstand market volatility while delivering peace of mind during turbulent market conditions.”*

Gregory B. Gagne, ChFC, a 20-year MDRT member, recently shared his insights with [Life & Health Advisor](#) about structuring client portfolios to withstand volatility. “If advisors can encourage appropriate client behavior during market volatility, they can withstand turbulent market conditions and maintain a strong portfolio,” Gagne said. “Clients have worked hard to secure necessary financial assets for use in retirement, and it is your responsibility as an advisor to ensure unpredictable market activity does not undermine their efforts.”

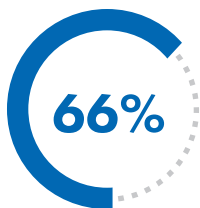
#### **Interest Rates<sup>7</sup>**

A 2018 study conducted by MDRT revealed that advisors who communicate how changes in interest rates will affect clients’ short- and long-term financial plans will help meet clients expectations and calm their nerves.

Only **55%** of Americans without an advisor feel at least moderately comfortable explaining the implications of higher interest rates compared to **76%** of Americans with a financial advisor.

<sup>7</sup>MDRT, Interest Rates Study





Two-thirds of consumers with financial advisors indicate this relationship has increased their understanding of interest rate hikes.

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Thomas J. Henske, CFP, ChFC, an 18-year MDRT member, recently shared his insights with *California Broker* after news of interest rate hikes. “Interest rate changes have a substantial impact on a client’s overall financial health,” Henske said. “As a trusted partner, it is important that financial advisors make sure they understand how changes impact their plans, and to augment as needed to minimize risk.”

Discover how you can effectively advise clients during economic uncertainty. Join MDRT for access to exclusive resources to elevate your ambitions:

- **The bucket plan: Protecting and growing assets for a worry-free retirement**
- **Thriving through change in a regulatory environment**
- **Medical crises don't stop during economic downturns**

*“While interest rate hikes can have both positive and negative effects, it is important that advisors communicate how these changes will affect clients’ short- and long-term financial plans,”* said Ross Vanderwolf, CFP, MDRT Immediate Past President. *“Financial advisors have the opportunity to leverage current events to encourage strong financial literacy among their clients as they educate and help them prepare to reach financial goals.”*

# MILLION DOLLAR MILLENNIALS & FEMALE FRONTRUNNERS

## Diversify the Financial Services Workforce and Clientele

Diversity matters: The industry is experiencing a mass change in financial advisor demographics. With an aging workforce, firms will need to recruit younger, more diverse advisors to support their existing client base and appeal to new prospects. According to the Center for Financial Planning, there are currently more financial professionals over the age of 70 than under the age of 30.<sup>8</sup> Next-gen advisors have an opportunity to amplify their voices in the industry and elevate their ambitions as the current workforce transitions into retirement.

Reflect the diversity of future clients by seeking out ways to diversify the workforce:

- Although baby boomers (51-69) still retain the majority of the wealth, Cerulli Associates notes that over the next 25 years they are expected to transfer \$48 trillion to their heirs and charities, primarily members of Generation X and millennials (younger than 51).<sup>9</sup>
- Roughly 57% of assets are expected to be transferred to Generation X households, helping Gen Xers replace baby boomers as the generation with the greatest wealth.<sup>10</sup>

Women and Latinos are set to become an emerging marketplace in financial planning over the next few years. However, women make up only 23% of CFP professionals.<sup>11</sup>

- The Economist Intelligence Unit found that in 2015, women held 30% of all wealth controlled by individuals or families and they're expected to control 32% of wealth (or \$72 trillion) by 2020.<sup>12</sup>

- The Economist Intelligence Unit found 72% of high-net-worth millennial women are the primary decision makers for financial planning. However, only 37% of high-net-worth millennial women say that financial advisors are a major influence on their financial planning decisions, suggesting there is room for advisors to expand their influence with this demographic.<sup>13</sup>
- Median household incomes for Latinos increased 6.1% between 2014 and 2015 alone, based on a CFP Board analysis of Bureau of Labor statistics.<sup>14</sup>

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*“By getting involved in the MDRT Mentoring Program, our members with a strong history in financial services will be able to pass on a meaningful legacy to the next generation of advisors,” said Regina Bedoya, CLU, ChFC, MDRT President. “The mutually-beneficial mentor-mentee relationship will help advisors blend traditional ideals with modern approaches in their businesses and appeal to a diverse client base.”*

<sup>8</sup>CFP Board, [CFP® PROFESSIONAL DEMOGRAPHICS](#)

<sup>9</sup>Cerulli Associates, [HNW Transfer of Wealth](#)

<sup>10</sup>Cerulli Associates, [HNW Transfer of Wealth](#)

<sup>11</sup>Center for Financial Planning, [CFP Professional Demographics](#)

<sup>12</sup>The Economist Intelligence Unit, [The New Face of Wealth](#)

<sup>13</sup>The Economist Intelligence Unit, [The New Face of Wealth](#)

<sup>14</sup>Center for Financial Planning, [Diversity in Financial Planning](#)



Put a plan in place for business growth and continue to seek out a diverse set of clients who are receptive to receiving financial advice. Although younger generations may not have fully reached their wealth potential, financial advisors can begin building relationships by helping them with challenges they are tackling now. Millennials are more open to financial advice than we may think, and many are looking for an advisor who can meet them face-to-face while also incorporating digital financial tools. They have several financial goals including paying off student loans, traveling and making sure their aging parents are taken care of.

To help you break into these rising markets, consider reviewing the below resources with proven strategies from your MDRT peers:

- **PODCAST:** [How to talk to millennials about retirement](#)
- **BLOG:** [10 reasons why millennials want to be your client](#)
- **TOOLKIT:** [Millennial Milestones survey: Client presentation](#)
- **FOCUS SESSION:** [Women in the industry; Success strategies of the female advisor](#)
- **RESOURCE ZONE:** [Working with female clients](#)

## Above and Beyond

### Empower Clients with Expanded Planning

Reach new heights: Aim for the Top of the Table by anticipating the evolving needs of clients and consider the opportunities to restructure and offer a variety of new services. A recent study from Charles Schwab found increasing numbers of RIAs introduced family education, charitable planning, bank deposit services and more between 2014 and 2018. These added services allow advisors to differentiate themselves and drive growth while adapting to clients' ever-evolving needs.



Not only are RIA firms offering more services, but individual advisors are providing those services to a larger number of clients. Charles Schwab found that the number of clients per advisor increased by roughly 13% between 2014 and 2018. The number of hours advisors spent per client on client service (34 hours) remained consistent, but advisors managed to save time by cutting the number of hours spent on operations and administration.<sup>15</sup>

### Consumer Debt

With consumer debt approaching \$14 trillion after the second quarter of 2019, according to the New York Federal Reserve, consumers experience consistent growth in home, auto, student loan and credit card debt.<sup>16</sup> The latest Survey of Consumer Finances, conducted by the Federal Reserve in 2016, found the highest debt averages among consumers aged 35-54.<sup>17</sup> Some of these individuals may resort to seeking loans from family to manage their regular financial obligations and pay off debt and could benefit from targeted, yet comprehensive financial planning.

Brenton D. Harrison, a five-year MDRT member, recently shared insights with [AdvisorNews](#) about serving as a resource for clients with student loans. "We love when our clients find success in their careers, but we cannot disregard the significant investment they've made to get there," Harrison said. "It's on us to invest in our skills and knowledge in student loans so we can plan for our clients' futures without allowing the debt to drag them backwards."

<sup>15</sup>Charles Schwab, [RIA Benchmarking Study 2019](#)

<sup>16</sup>Federal Reserve Bank of New York, [Quarterly Report on Household Debt](#)

<sup>17</sup>Federal Reserve, [Survey of Consumer Finances Charts](#)

<sup>18</sup>Federal Reserve, [Distribution of Household Wealth in the U.S.](#)



### Retirement and Wealth Decumulation

On the other hand, baby boomers and the silent generation (born 1928-1945) control roughly 75% of the \$107 trillion in total household wealth in the United States and must now plan for wealth decumulation.<sup>18</sup> Advisors who elevate their expertise in retirement planning, withdrawal strategies and tax optimization are likely to pull ahead of others to serve this rising planning need.<sup>19</sup>

Making changes to serve evolving client needs has helped firms maintain growth, which is essential since firms are finding that new client assets are five times larger than net assets from existing clients.<sup>20</sup> By helping clients put their well-earned money toward planning needs and financial goals through value-added services, financial advisors can empower clients to achieve financial dreams.

### Impact Investing

Investors' growing interest in impact investing suggests it is more than a passing fad, so advisors are continuing to learn and incorporate it into their services. In fact, research from Investment News found that 49% of boomers and 56% of Gen Xers express interest in impact investing.<sup>21</sup>

As impact investing opportunities become available to investors across all asset levels, help your clients invest in what is significant to them.

Brandon Green, ChFC, CLU, a nine-year MDRT member, recently shared his insights with [InsuranceNewsNet](#) about advisors shifting mindsets to advise clients on wealth decumulation. "Many advisors only focus on wealth accumulation, helping their clients get to the top of the mountain, but don't discuss how to de-cumulate client portfolios through retirement" Green said. "Re-focus your clients' frame of mind from just accumulating some numerical balance in an account and reaching retirement to actually living through retirement with planning that addresses the three eroding factors of wealth: taxes, fees and market volatility."

Damon Scott Winter, LUTCF, CFS, a 13-year MDRT member, recently shared insights with [AdvisorNews](#) about faith-based investing. "The days of separating financial security from upholding personal values are coming to an end," Winter said. "To provide the best possible services to our clients, we must offer them chances to literally put their money where their mouth is and help them have the impact they want to on the world through their investments."

<sup>19</sup> Advisor Perspectives, [The Decumulation Dilemma](#)

<sup>20</sup> Charles Schwab, [RIA Benchmarking Study 2019](#)

<sup>21</sup> Investment News Research, [Opportunity Knocks](#)



# The Future of the Financial Services Industry

The complex challenges and opportunities faced in 2019 will help advisors implement solutions for the year ahead. In this quick-paced industry, new regulations are already taking effect, such as the SECURE Act or Regulation Best Interest, which will continue to drive changes for MDRT members. To keep pace and evolve alongside them, consider virtually attending the below 2020 MDRT events or engaging with member resources to help anticipate how your business, clients and profession will be impacted.

- At the [2020 MDRT Virtual Event](#), MDRT's community will leverage technology for an experience not limited by travel and come together to explore global trends and tailored solutions.
- Join us virtually at [2020 MDRT EDGE](#) for workshops in small group settings, leading to personalized solutions and intimate connections.
- The [2020 MDRT Top of the Table](#) Annual Meeting features world-class speakers and networking opportunities, leading to more defined business focus.

- The [MDRT Resource Zone](#) provides members a comprehensive digital library, stocked with podcasts, videos and articles so you can swiftly apply unique, proven solutions to your practice for increased growth.
- Better position yourself as an MDRT member when working with clients and prospects using the [MDRT Toolkit](#). The toolkit includes news releases, advertisements and logos for you to use to promote your MDRT membership in your community.
- MDRT's exclusive [podcast](#) series features members' tips for increasing business efficiency, appreciating clients, adding value to your practice, confronting frequently encountered challenges and more personal success stories.
- With new posts every week, visit the award-winning [MDRT Blog](#) to find useful and up-to-date content on the latest industry trends and topics. Members can access proven strategies to best advise clients, run a practice, achieve work-life balance and more.

## WHAT'S NEXT FOR YOU?