RETIREMENT
INVESTMENT ADVISORS, INC.

3001 United Founders Blvd.
Oklahoma City, OK 73112
(405) 842-3443
(800) 725-4530

2952 Via Esperanza
Edmond, OK 73013
(405) 246-0404

9300 John Hickman Pkwy.
Suite 504
Frisco, TX 75035
(972) 377-2850

www.TheRetirementPath.com

left to right: Joe Bowie, Andrew Flinton, Brenda C. Bolander, Carol Ringrose Alexander, Randy Thurman, and Chad Rudy

Financial Briefs

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Start Longevity Planning Now

Just because we are living longer doesn't mean we're going to remain healthy throughout our longer lives. In the past, seniors who lived long lives tended to be healthier in their senior years, which meant they had lower medical bills. But while some credit goes to more active, health-conscious, smoke-free lifestyles, it's safe to say that today's seniors owe more to prescription drugs and medical advances for lengthening their lifespan.

And as we all know, health care costs money — lots of it. In fact, Fidelity Investments found in its 2016 *Retiree Health Care Costs Estimate* study that a 65-year-old couple retiring this year with Medicare coverage will still need $260,000 to pay for medical expenses throughout retirement, excluding nursing-home care.

And with a longer life comes the greater likelihood of needing assisted-living or long-term care. According to the Genworth *2016 Cost of Care Survey*, assisted living averages $44,000 a year and nursing homes average more than $82,000 a year — per person. For a couple, this kind of care could cost far more than their annual household income during their highest earning years.

Some of the things you can do to plan for a long life come down to repositioning your assets — as well as your approach toward life.

For example, lifestyle factors can contribute significantly to both how long you live and the quality of

Continued on page 2

The DOL Fiduciary Rule: What You Need to Know

After six years of obtaining feedback from the public, consumer groups, and the financial industry, the Department of Labor (DOL) finalized the Fiduciary Rule in April 2016.

What Is the Rule?

The fiduciary rule more clearly defines a fiduciary and the difference between education and advice. Under the new rule, advisors who provide investment advice for retirement accounts, including individual retirement accounts (IRAs) and employer-sponsored retirement plans, will be required to follow the fiduciary standard. This standard requires the advisor and the company to make prudent investment recommendations without regard to any interests other than the customer, charge reasonable compensation, avoid any misleading statements about fees, and avoid conflicts of interest. Advisors will also need to acknowledge their status as fiduciaries.

How Is This Different?

Currently, there are two standards for investment advisors: the fiduciary standard and the suitability standard. The suitability standard simply requires an advisor have a "reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer based on the information obtained through reasonable diligence." The law now requires that anyone providing investment advice on 401(k) plans and IRAs meets the fiduciary standard. This will ensure advisors are working toward the same goal as the customer and certain investments or commissions aren't driving recommendations.

How Will the Rule Affect the Average Investor?

The fiduciary rule should positively impact the average investor because it aligns the interests of the investor and advisor in terms of recommendations and decisions. The expectation is that investors should see their costs decrease over time and their trust in advisors

Continued on page 3

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Start Longevity Planning

Continued from page 1

life you lead. Areas where most of us could easily pay more attention include lower caloric intake, higher vegetable and fruit consumption, a higher fiber diet, lower body fat, and regular exercise.

Furthermore, research has revealed that as you age, learning new skills can help protect the brain against age-related memory decline and dementia. This is particularly important during retirement when you no longer have the day-to-day cognitive challenges that kept your mind active. Effective brain-stimulating activities include doing crossword puzzles, playing video games, learning a new skill such as cooking or ballroom dancing, or learning a foreign language.

Studies have also found that people who feel the most socially connected are four times less likely to develop serious illnesses.

Finances

This is a good time to think about your priorities and align your assets to support your personal goals (not just your financial aspirations). In fact, you may need to reposition your assets to accommodate a longer life with fewer assets than you previously thought.

When we talk about reevaluating and establishing financial goals, it shouldn't just be about seeking a 10% average annual return on your investments over the next five years. You should consider what you actually want to do with your money. What is the purpose of it — to live out your life comfortably and secure, or to live in luxury, entertain, and travel extensively? The latter lifestyle may no longer be your priority, so before you determine what changes to make in your finances, it's important to establish what you want from your life.

Even in retirement, your portfolio may need to be positioned for both growth and security. Growth to meet the challenges of a long life and the impact of long-term inflation and health care, but also sources of secure income to ensure that your daily essential-living expenses will be met.

Insurance

During this continuing era of slow economic growth, remember that one of the key components to managing wealth is managing risk. In addition to the traditional sources of retirement and estate planning, consider today's popular insurance options, such as annuities, long-term care, and life insurance policies.

A Lifelong Plan

Life is long, and it's getting longer with each generation. They say that life gets in the way of even the best-laid plans, and it's true. Every plan — even a financial plan — requires tweaking and adjusting periodically to account for current events. However, your personal goals may well remain the same for the rest of your life. So if you establish the purpose of your money — what it is that you want out of life — then you can reposition your assets to help you reach those goals.

Please call if you'd like to discuss longevity planning in more detail.

Your 401(k) Plan Has Some Hidden Gems

Tax-deferred contributions and employer matches make 401(k) plans a valuable retirement planning tool, but there are other features that most people are unaware of that can make it even more valuable. Check with your 401(k) plan administrator to see what other gems may be hiding in your plan.

Investment Advice — Most people would readily admit that they don't have the knowledge or skills to manage their own investments, but they do not take advantage of the various advice options that may be available through their 401(k) plan. Almost 40% of plans offer online advice for investment recommendations, but only 6% of plan participants utilize these online advice tools. And while about 25% of plans offer managed account advice and 68% offer professional financial advisor services, only about 10% of participants use them.

Investment Customization — A wide range of investment options are available to provide participants with choices based on their investment tolerance. On average, 401(k) plans offered 18 different funds in 2016, yet half of plan participants contribute to only one fund.

Changing Investments — While investment selections can be changed in your 401(k) at any time, only 9% of plan participants actually traded within their plan in 2015. On a quarterly basis, you should review the investments in your 401(k) to determine how they are performing in meeting your investment objectives.

Roth 401(k) Plans — In 2015, the Roth 401(k) was available in almost 60% of plans but only 15% of participants saved with this option. The benefits of investing after-tax contributions in a Roth 401(k) is that contributions may be drawn tax free in retirement. While there are rules around how much you can invest in a Roth 401(k) plan, tax-free income in retirement is a great way to reduce your tax liability. Additionally, if you roll your Roth 401(k) funds into a Roth IRA, there are no required minimum distributions at 70½, giving you more flexibility in managing your disbursements.

Catch-Up — About 97% of 401(k) plans offer the option to make catch-up contributions to those 50 and older, but only 16% of eligible participants take advantage of this option. The maximum annual contribution to a 401(k) in 2017 is $18,000, but the catch-up feature allows a participant to contribute an additional $6,000. If you haven't been making the max contribution and you're over 50, this is your opportunity to make the most out of your 401(k) with the time you have left.

DOL Fiduciary Rule

Continued from page 1

increase due to a more transparent fee and compensation disclosure. Additionally, investors will also know their advisor is held to a legal standard to put the investors' interests before his/her own.

There are still many good lower-cost options for investors who don't meet the minimum account requirements for a traditional investment advisor. These investors may want to consider working with a financial advisor who charges a flat hourly, monthly, or annual fee instead of an asset-based fee.

How Do I Know If My Investment Advisor Is a Fiduciary?

Just ask your advisor and it should be in writing. Personal financial advisors who are already acting as fiduciaries include Registered Investment Advisors (RIA), fee-only professionals who are members of the National Association of Personal Financial Advisors (NAPFA), and CERTIFIED FINANCIAL PLANNER™ (CFP®) professionals who offer financial planning advice.

Will the Rule Impact Fees?

The DOL estimates that the fiduciary rule will save investors up to $40 billion in fees over the next 10 years. The rule expects that fiduciaries acting in the best interests of their customers will recommend lower-cost investments to their clients. For example, when a customer is presented with multiple investment options that meet their goals, the fiduciary would recommend the investment with the lower cost.

What Isn't Considered Investment Advice?

The fiduciary rule also clarifies what is not considered fiduciary advice. Specifically, it states that "education is not included in the definition of retirement investment advice, so advisors and plan sponsors can continue to provide general education on retirement saving without triggering fiduciary duties." Following are examples of what is not considered investment advice:

- General communications, including large circulation newsletters, publicly broadcasted commentary, conference presentations, marketing materials and market research, where the purpose is for general public distribution that no reasonable person would view as investment recommendations.
- Platform providers that make available an automated advisory platform of investment alternatives without regard to the individualized needs of the plan, its participants, or beneficiaries. The providers must represent in writing that they are not providing impartial investment advice or giving advice in a fiduciary capacity.
- Communications and transactions with independent plan fiduciaries with financial expertise are exempt if the advisor reasonably believes that the independent fiduciary is a licensed and regulated provider of financial services or has responsibility for the management of at least $50 million in assets.
- Swap and Security-Based Swap Transactions including communications and activities made by advisors to ERISA-covered employee benefit plans that do not result in the advisors becoming investment advice fiduciaries to the plan if certain conditions are met.

Are There Exemptions to the Fiduciary Rule?

Under the rule, advisors who provide fiduciary investment advice to plan sponsors, plan participants, and IRA owners are not permitted to receive payments that create conflicts of interest without a specific prohibited transaction exemption granted by the Secretary of Labor.

The Best Interest Contract Exemption (BICE) allows firms to continue to rely on current fee structures and compensation practices, as long as they follow certain rules to alleviate conflicts of interest and provide investment advice that is in the best interests of their customers. Therefore, they must follow a basic fiduciary standard and disclose any potential conflicts of interest.

Proper disclosures under the rule will require that a firm must develop and maintain a website that clearly defines the firm's business model, provides a written description of the firm's policies and procedures, and discloses compensation and incentive agreements with its advisors.

This exemption is important because it provides legal recourse against advisors who do not work in the best interests of their clients. The advisor must enter into a contract with the participant or IRA account holder stating they will:

- Attempt to act in his/her best interest
- Disclose all potential conflicts of interest
- Provide a detailed breakdown of his/her collected commission

The principal transactions exemption will allow advisors to buy or sell certain recommended debt securities or other investments from their own inventories to or from plans and IRAs. Doing so will require they adhere to a fiduciary standard similar to that under the BICE and obtain the best execution available under the transaction circumstances.

The PTE 84–24 exemption allows advisors to receive compensation for recommending fixed-rate annuity contracts to plans and IRAs. These simpler, lifetime income products feature a much more streamlined set of requirements than the BICE.

The DOL has developed a phased-in approach for the implementation of the rule. Firms will have one year from April 2017 to implement the definition of fiduciary and will be able to use the BICE with simplified conditions for compliance. The full requirements of the rule will go into effect January 1, 2018.

While many expect President Trump to delay implementation dates, make modifications, or even repeal the rule, no changes have been made at this time.

Please call if you'd like to discuss this in more detail.

News and Announcements

From the Alexander Household

I recently received a summons to serve on jury duty. A few days later, I was talking to a client who lives in Canada about the challenges of clearing my work and personal schedules when she reminded me that I should be glad I live in a country where we have the privilege to serve on a jury!

At the courthouse on Monday morning, I was the first person called for jury selection. It was a criminal case involving domestic violence in Judge Ray C. Elliott's courtroom. Judge Elliott mentioned that he teaches a university class which was reflected in his thorough approach that gave us a hand-on civics lesson.

After all evidence had been presented, Judge Elliott gave us extensive written instructions that we could take into deliberations. The group dynamics of the process to reach a verdict and determine sentencing were fascinating. After presenting the verdict, Judge Elliott dismissed everyone and took time to answer questions from the jury. We learned even more about how our judicial process truly functions. I'm grateful to have had this opportunity — and for clients who remind me that it is a privilege to be called to do my civic duty.

Carol Ringrose Alexander,
CFP®, AIF®, CDFA™

From the Rudy Household

Every year around Christmas, I look forward to a family gathering with my grandma (my mom's mom) and all the relatives from that side of the family. Uncles, aunts, and cousins travel from Kansas, Oklahoma, and Texas and meet in the very small town of Clonmel, Kansas, just outside of Wichita. It's usually a cold and snowy day when we drive to Kansas, but we all love the tradition of traveling to spend time with family.

My mom is one of seven children, and I am the oldest of 40 grandchildren (yes, 40!). I hate to admit it, but I have lost count of the number of great-grandchildren. Every year, there is always a new baby or two. Needless to say, it is a very large group.

When I was a kid, the day was all about playing with my cousins and the gifts. Now, it is about reconnecting with family that I do not see as frequently as I would like. We start with a large feast followed by many retold stories and the occasional new story. We then participate in a small gift exchange prior to our goodbyes.

We are just a couple months into 2017, and selecting a mutual date that works for most families has already been initiated. I hope it lands on a date I am able to attend so I can keep up with my lifetime of perfect attendance!

Chad Rudy, CFP®
Executive Vice President

From the Bolander Household

Wow! The New Year has started with a bang. Frigid cold, snow then ice…between balmy 70-degree days. Ah, that's the Oklahoma I love.

Speaking of love, we celebrate a lot of birthdays and anniversaries in February. In fact, my parents are celebrating 60 years of wedded bliss this year, but they have told us no parties; and if we try to do anything, they will leave town…end of discussion. I guess that's okay, if that's how they want it. We'll just catch them some other time when they least expect it. My sister is great at planning things like that.

On the birthday list is our granddaughter, Stella, who is turning six this year. We will celebrate by going to the ballet *The Sleeping Beauty*. It's the perfect event for donning princess gowns and tiaras — for Stella and her cousin, of course! (Our daughter, Allison, is the finance director at the Oklahoma Arts Council, which allows her to keep up with all the great things going in the art world around here.) According to the OKC Civic Center website, the music is Tchaikovsky's original score presented by the OKC Philharmonic. I will love that, too.

Wishing you a great month filled with the people and things you love!

Brenda C. Bolander,
CFP®, CPA/PFS