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Speaking Up to Prevent a Client's Mistake

by Zack Anchors

The accomplished professor in her late 60s was in many ways the embodiment of financial responsibility.

While living a frugal lifestyle, she saved a large portion of her income and held a workplace retirement plan as well as an IRA with enough to support her retirement.



Holmes Osborne

But Holmes Osborne, principal at Osborne Global Investors in Santa Monica, Calif., saw that the woman—who had been his client for a few years—was so frugal that she was about to make critical mistakes that would affect her retirement: Despite being nearly 70, she had yet to take Social Security benefits and she also had no plans to take required minimum distributions from her IRA.

"She's a brilliant, very busy woman and she just doesn't care about keeping track of money," says Mr. Osborne, whose firm manages about \$100 million for 100 clients. "She has other things on her mind that she's more concerned about."

The trouble was that Mr. Osborne felt it wasn't his prerogative to discuss her retirement plans. She had hired him solely to invest a small portion of her assets in municipal bonds, not to provide comprehensive financial planning.

"I always talk with clients about their overall financial situation and I encourage them to take important steps, like writing a will or setting up a trust," he says. "Usually, it's enough to make people aware of these issues."

But with his client nearing the critical age of 70, Mr. Osborne decided he had to speak up and explain the risks the woman was taking. So at a recent meeting, he broached the topic by asking about her plans for Social Security and required minimum distributions. Her response, Mr. Osborne recalls, was that she just didn't need the money.

He continued the discussion by laying out the potential costs of her inaction: He estimated that she would ultimately pay thousands of dollars in penalties if she failed to take required minimum distributions. Moreover, failing to file for Social Security by age 70 would lead to a loss of roughly \$26,000 per year in income.

Finally, he explained how wasting this enormous amount of money undermined her years of frugality and saving. And while she might not need Social Security income in the short term, failing to use those funds made it more likely she would burn through her retirement savings if she lives a long life. Given her commitment to fiscal responsibility and a conservative investment approach, the safest thing she could do was prepare for a long retirement by taking action immediately.

That message got through to the professor. She agreed to adopt a plan for Social Security and required minimum distributions, including a strategy to effectively use the money she will receive. "She said that she wants to meet again and go through all her accounts and discuss this in more detail," says Mr. Osborne. "The ball is really in her court now."

To Mr. Osborne, the situation is a reminder that many important financial decisions in clients' lives are ultimately in their own hands. But that shouldn't stop advisers from speaking up when they feel strongly they can help with those decisions.

"Social Security is usually a large part of a person's financial life in retirement, but advisers typically don't get paid for dealing with it, and they often don't talk much about it," he says. "But some clients really need help with these things, and an adviser is in a position to offer it."