Distributions While Out of Office [Episode 61]

Full Episode Transcript

With Your Hosts

Matthew Jarvis and Micah Shilanski

The Perfect RIA Podcast with Matthew Jarvis and Micah Shilanski

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This is The Perfect RIA, in case you didn't know. Bringing you all the strategies to help your business grow. Are you happy? Are you satisfied? Are you hanging on the edge of your seat? Sit back and listen in while you feel the beat. Another myth bites the dust…

Matthew Jarvis: Hello everyone. Welcome to another awesome episode of the Perfect RIA podcast. I'm your cohost, Matthew Jarvis, and with me as usual, the man, the myth, the legend, Micah Shilanski. Micah, how are you, buddy?

Micah Shilanski: I'm doing excellent, Jarvis, and you're right. It is another amazing episode. Granted, we haven't done it just yet, but it will be. That is our commitment during this is to make it an amazing episode for you, our nation, our listeners.

Matthew Jarvis: Yeah, that's about visualizing, and this actually is not the topic of our podcast, but earlier in my career, I would actually have an alert. I still have the alert, excuse me, 15 minutes before a meeting, but I would then turn off all of my devices, turn off my computer, all those things, and I would sit and I would visualize the entire client meeting, especially prospect meetings, if I had any anxiety going into it. Okay, I think they're going to say this and I'm going to say that and I visualize it going well and I visualize them saying yes to me. Even though I think ... sometimes I thought that stuff was hokey, and maybe it is, it made a difference. It really got my head in the game, especially with objections. If I thought a prospect was going to come in or a client was going to come in concerned about that, for me to walk through it out loud just with my door closed made a huge difference. So I am visualizing the success of this episode of the podcast, Micah.

Micah Shilanski: I love it. Even with that, and we've got to get on our topic too, but even with that kind of concept, though, what I love is that by shutting things off before your meeting and yeah, I do the same thing, is you're spending the time and attention on that client, where you're not going into the client meeting still unwinding from all the stuff that just happened. You're focusing down on that particular event that's going to be there, which means you can bring your A game, which means you can bring the best value in that relationship that's there. So that's ... Hey, it's already been an awesome episode. Look at that. Boom.

Matthew Jarvis: Action items here. Visualize before your meetings.

Micah Shilanski: That's right. Done in three minutes. You are welcome.

Matthew Jarvis: Yeah, that'd be sort of an interesting podcast. We'll just keep them to nine minutes instead of 30. Our topic today actually comes from one of our loyal members of the TPR nation, Benjamin in North Dakota, who is just a super awesome guy if you ever have the chance to meet him. Benjamin has a really great lifestyle practice. He really spends a lot of time with his family, but a question he asked was, "When I'm out of the office, right, and I want to be totally unplugged, right? I want to be really with my family. How do I handle distribution requests?" In Benjamin's office, he just has one team member not licensed. So his concern is, boy, if a client calls in with a distribution request and I'm gone, how do we handle that in some way other than calling me on vacation or texting me on my cell phone? Micah, why don't you kick us off here? How do we handle ... maybe let us know how you handle distribution requests right now when you're out of the office, because I know you take a day off, time-to-time, every now and again, but also rewind the clock for us before you had a big team that can handle these things. How did that work?

Micah Shilanski: Well, the first thing that comes to mind when I hear this question, and I'll get back to what you were asking to, Jarvis, though, is how often is this really happening? Right? I think the first thing I say to Benjamin is let's do a little fear setting with this and kind of go through, but also really look at the numbers behind this and say, "Is this a real issue that's coming up or is this a once in a blue moon?" and sometimes it's going to happen, right? Sometimes when I'm off, there are things that come up that I need to address and it's just going to happen while I'm gone. So, I would really want to know the numbers because the number one thing with distributions is setting expectations with your clients, right? This is the key that's there. When are they going to get money? How can they access the account? Understanding the difference between an investment account and a checking account, right?

Micah Shilanski: I know this sounds silly between us, but this is a very important distinction. When they retire, this is not a bank account that they can access for their pleasure, whatever they want to do. It's designed to provide them a stream of income. So, how do we set those expectations with clients? How do you go through those things? That will be the number one thing, Benjamin. I guess the second thing. First thing is how much has this happened? Then I would say, "All right, let's make sure you're setting expectations with clients." Now-

Matthew Jarvis: If I can jump in just one second.

Micah Shilanski: Yeah.

Matthew Jarvis: I want to just highlight that point you said about making sure you know how often this has really happened. We're notorious, I think just as human beings, of saying, "Well, it happens all the time," but it happens frequently with all these kind of non quantifiable things. I recommend literally going back and looking at your history of distributions and your custodian can tell you, give you a list of all the distributions that weren't systematics. How many ... Are those two a month? Is it two a day? Is it the same client calling in all the time? You really need to have a strong pulse on when is this happening, regardless of when you're on vacation or not.

Micah Shilanski: This is one of the things in our office. Whenever we're going to make a system change, the first thing we do is go pull the data, right? Because there is one aspect that's emotional, this is the way we feel about it. That could be something, and that could be worth making a change for because of that, sure, but I want to know the data behind this so that's a really good point to make sure you do that.

Micah Shilanski: So, in our office, when a client calls in and does a distribution, it's going to fit into one of two categories, a known or unknown distribution. Right? So a known distribution is, I met with a client or we've talked to them at some point. I always ask a client in our meeting, any big expenses coming up? So we're getting an idea of the next 12 to 24 months, where they're going to spend money. So, it could be the new car. "Yeah, Micah, we're looking at a new car. It might be like 30 grand. We're kind of looking, maybe at the end of the year we're going to buy it or blah blah blah." Okay, great. I'll put that in my notes and I'll put that in our system and we'll put a dollar amount in it. If the client calls in and then generally we'll earmark those monies, right? Because if we know a client is going to spend money within the next three years, we want to have that earmarked. We want to have that out of the stock market, and so we'll earmark that money that's for that distribution.

Micah Shilanski: So if a client calls in and needs it, well, then the client doesn't need to talk to me. It's already been approved in the system. We've already earmarked the money. It's set aside. The personnel can confirm that distribution with the client and they can send that money out. No licensed activity had to take place. The team member did not have to place any cells. They didn't have to do any trades. They didn't have to make any recommendations whatsoever. We had the money sitting and we were able to send it out to the client request. Not really something that I need to get involved with.

Matthew Jarvis: Now, let's touch on this because our process is quite similar, right? We keep any money that clients need over the next couple of years is either in cash, money market, or in a bond fund that we can easily liquidate. Sometimes advisors get hung up about not wanting to have money in cash. Micah, I'd be curious your thoughts on this, but I'll explain mine, right? So we could sort of say, "Hey, the money was a 100% invested, be that in the market or in a bond fund, right? We might squeeze out an extra couple of dollars interest maybe over the course of whatever period of time," but the problem that comes up is if 100% of their money's invested all the time, nevermind the market going down, but if they call in and want to make a distribution request, now only a licensed person can handle that. So, in our office we just agreed a long time ago, RMDs are example of required minimum distributions. We keep all of our RMDs 100% in cash because they're going to come out sometime during that calendar year. So look, this is ... all processes are connected to all your other processes. Your process for handling distributions needs to be tied to your process for investment management.

Micah Shilanski: Yeah, 100% agreed. We do it the exact same way. So, that's a known distribution, right. So again, it's had been queued up, it's been in the system. We have a couple other steps that we go through as well. A little teaser out there, we're going to be rolling out our backstage pass very soon and if you are a member of our backstage pass, then you'd be able to jump on our website and actually get these processes that we're talking about as we bring out an episode. So just going to throw that out there for future release.

Micah Shilanski: If it's an unknown distribution, so a client calls up randomly and needs money out of their account, then what's going to happen with that process is now maybe the advisor has to get on the phone. Now, the question is, how much is it right? Are they just going to increase their dollar amount a little bit and we have the money in cash, It's not that big of a deal? Or is this, "Hey Micah, I need to pull out 15% of my portfolio because we're going to do X, Y, and Z?"

Micah Shilanski: Well, if a client's going to do that, I want a phone call with them. I don't want the team member, licensed or unlicensed, just to send them that money that's going to be out there because what do they need this for? Maybe this isn't the best use of the money. Maybe we need to find something else. Maybe they're going to totally hose their retirement plan. So, if it's really an unknown distribution of any sizable amount, maybe it triggers that phone call that says, "You know what? You got to talk to

Micah. Let's get you on the calendar." We have those times, even when I'm away, that the team can book return phone calls and I can chat with the client. So sometimes you're not going to get away 100% from it, but this is going to get away from 99.8% of issues while you're traveling, handling distributions, if most of them are known, and you've got the money set aside for your team.

Matthew Jarvis: Yeah, I think that's really important. On our process, our one pager, which again will be part of the backstage pass, we've got a script in there for the team. "Hey, before we can do this distribution, you'll need to talk with Matthew because your money is all invested and hard at work." By the way, these are the exact words I have my team use. "Your money is all invested in hard at work. Matthew is on vacation this week with his family. He would, however, be glad to call you tomorrow morning or if you can wait until he comes back from vacation," depending how long that is, "That would be ideal, but which would you prefer, Mr and Mrs client?" Most of the ... nine times out of 10, actually 99 times out of a 100, they say, "Oh, Matthew's on vacation. Yeah, this can wait until next week. I was just had it on top of my mind," but to Micah's pointed, if they said, "No, I have to have this money today because of" fill in the blank, one, we have this big expectations problem that we need to talk about, but yeah, I'll pull out of vacation for that, but I'm not going to get a call or a text or an email every time a client calls in with a distribution. That's not how the system works.

Micah Shilanski: One of the things too that we do on this, so we're talking about distributions, is we never allow electronic requests for distributions. Well, our custodian may, if the client is set up in that capacity. If a client shoots us an email or electronic message that says, "Hey, we need to pull X amount of money out of our account," we never do that. We always pick up the phone and call our clients. I like the touch point with our clients about this. I also like the security side of it as well. We are confirming with our clients. Anytime we're putting in a distribution, we have talked with the clients. We explain it and we throw it in there as an extra level of security for them to make sure we're taking care of them and the clients like that.

Matthew Jarvis: Yeah, that is a nice touch. I'll confess that we're not consistent with that. If it's standing instructions linked to their bank account and if it's an expected distribution, then we'll just do it via electronic, but I like the extra touch of calling to say, "Hey, we got it. The money will be there on Thursday. If you have any questions, let us know. How's your health? How's your Uncle Jane?" Whatever the case ... It would be Aunt Jane, I suppose.

Micah Shilanski: Following up with that, though, what's your followup process with the distributions? So, your team needs to set a reminder after they send out a ... not a recurring, right? Not if they're getting three grand a month, but if you do a different distribution, you need to have a followup with that, either a phone call or email, just touch base with the client. "Hey, just want to make sure you got the money. We show it was deposited in your account. Let us know if you have any questions with that." Most of the time, it's just quick, little, "Yep, got it. Thanks," but think what you did with the client's end that's ... There were two things had to happen. One, you had to follow up with this to make sure it was done and that's on our process. The team has to follow up to make sure the process was complete, but this goes back to my dishwasher theory. If you're going to do something, might as well get a little credit for it, so if you're going to follow up on that distribution that's going to be there, then send out that note to the client to let them know that you followed up on it, to make sure they got the money, and to make sure everything is good. It's a sweet little value add.

Matthew Jarvis: Yeah, and that really needs to be a template, right? Whether it's an email template or a phone script template, and it's an opportunity to deliver massive value. For example, we know that when we have Fidelity as our custodian, but when money comes out of the IRA accounts, it doesn't say Fidelity on the client's bank statement. It says like NFS via Chase Bank and some confusing things, so we just let them know, "Hey, it's not going to say Fidelity. It's going to say like NFS something or other. That's Fidelity, but also just keep in mind, Mr and Mrs client, this is a $50,000 distribution. Your bank will likely hold these funds for three to five days before they'll let you write a check against that, so just be warned that your bank will probably do that." That's a massive value, right?

Matthew Jarvis: Let's say that we do a $50,000 distribution, the client writes the check the same day they see it and the check bounces or it gets held for some reason. Who are they going to be angry at? Well, they're going to be angry at everybody. Yeah, it's going to be my ... I'm the first person they can get ahold of. "Matthew, what happened?" But if I had just warned them, and again I'm pointing the gun at the bank, I'm saying, "Hey, listen, your bank's probably going to hold this money for a couple of days. That's just what banks do. They forget whose money this is." I make kind of a joke about it. Again, now I've preempted an issue and I'm delivering massive value.

Micah Shilanski: This all goes back to that ... I think that second thing that we brought up of things to do is setting expectations, right? You have to be in front of this. If you're not in front of this, you got to get in front of this. Okay? What I mean by that is when we onboard clients, we go through a communication exercise. Well, not exercise, but we talk about our communication experience, what that's going to look like. When we start transferring money, we go through this. What is it going to look like when you're transferring money? How does it look to take money out? What is our timeline that's going to be there? I always say it takes three to five days to take any type of distribution out of your account. Reality, it's 24 to 48, but it happens. If it happens sooner, great, the client is super happy. If I told them it happens in in two days and one day happens to be a banking holiday, and it happens in three, the client's irritated because they thought it was going to be in three days.

Micah Shilanski: I know this is a simple thing, but this is very important to articulate to the client, making sure you're setting up those expectations that are going to be there, whether it's "Your bank may hold the money that's there" or whatever that timeline is going to be, so it's a successful transaction. Again, and this goes back to the aspect with the client, they shouldn't need the money in the next three to five days. They shouldn't, because they got a bank account, right? Between a bank account and credit card, they should be fine with anything coming up for the next several months, so it shouldn't be an issue if this takes a couple of days to come out of their accounts.

Matthew Jarvis: Yeah, and we, at least once a year, in our client newsletter or in our client letters or anything like that, we reestablish that expectation. "Hey, distributions from your

Fidelity account take three to five days if we're expecting the distribution. If we're not unexpecting it, it can take as much as a week to do that," right? Micah, to your point, if they called me on December 24th and we needed to trade in the account, it could easily take a week before they see those funds, if there's not a bank link set up for some reason. So we want to ... but we have to just reset those. I tell clients ... Micah, I'd be curious what you tell them. I say, "Mr and Mrs client, how much interest is the bank paying you on your bank account?" They say, "Oh geez, Matthew, I don't think they're paying anything. I got like three pennies last year." "I know, I know, but the nice thing about that is you can pull money out of that anytime you want without restriction. That's totally awesome. Your Fidelity account or Schwab or TD or whomever you're using, we have that money hard at work for you. Look at last year, you got X, whatever off of that, but one of the trade offs of that is we have to plan ahead for distributions. We need to know when they're coming."

Matthew Jarvis: One of the things I also like to mention, Micah, I always say "Murphy's Law of Investing is, when you need money, the markets will be down and the more you need the money, the further down the markets will be," so we don't want to do unexpected distributions. We don't want to find ourselves needing money from the market.

Micah Shilanski: Yeah. I always say the only time you're going to need money out of your account is when it's down. That's it. So that's the line that I say with clients and they laugh and they know it. This is why we talked about distributions. This is why we talk about cashflow. It's always one of the first things I talk about in client meetings, we talk about our distribution planning. Getting ahead of these distributions and setting the tone with the client on good spending habits is just really important for success in this retirement plan.

Matthew Jarvis: These are discussion ... I know you're listening to the podcast so you're not seeing Micah's facial expression or mine, but these are discussions that are done with a big smile. They're done with a nod, with with a ... because you don't want clients to feel like you are lecturing them about money or that you're their parent telling them, "Well, you can only spend $12 this week. That's your allowance." We're just helping them manage expectations like, "Hey, this is how the system works. I want to be the one to let you know how it works. I'm not really setting these rules. That's just how it is." It's important to have that relationship with clients that it doesn't ever feel adversarial or you're the one laying down the law, even though you do need to lay down the law.

Micah Shilanski: You've got to find that balance, right? So I'll push back on that one a little bit, because there's times that you got to come back and come back with the hard no, where they come up with an idea and sometimes it can be hard because we want to please people, we want their money to work for them, we want to do these things. They come up with this idea and they're very excited about it, but you got to step up and say, "No, you can't take out that extra money." Or "If you do this, you're going to put your retirement account in jeopardy, right? So what's your plan with this? So, if we take out this money and the market corrects, now what are you going to do if there's a big unexpected distribution that's going to happen? Helping kids and grandkids buy their first home or go through college or these other big expenses that are going to be there?"

Micah Shilanski: These are things that we frequently asked about and we got to go through. What I always do with those, and Jarvis, I'd love to know your thoughts. I jump back and say, "Hey, well, the way that we look at it is we always want to prioritize your goals first, and so what I had you guys down for, what we wanted to make sure we did," and I kind of list their top three goals. "Is this still our primary thing that we want to go for? Is it still our most important things that we want to address?" "Yes it is." "Okay, great, so we got to make sure we take care of those first, and if there is extra money, then we want to help out with the kids and grandkids' education." "Yes, that's the case." I always reset their goals whenever ...

Micah Shilanski: This is my soft no, right? So if I'm going to tell a client no, here's my why, these are their goals. I said, "Now, if you want to change your goals, if you want to change your direction, if you want to change your spending to make this happen, then let's do that. We just need to have that goal conversation again. Let's talk about that again. Let's reset these goals, and then maybe there's some extra money that we could talk in a distribution," but you got to be able to pull it back to the client's desires so they know, again, to your point, while you're telling them no, it's no, because why?

Matthew Jarvis: Micah, when does that soft no become a hard no? So you go through ... I love that exercise, by the way. "Hey, if I recall correctly, your top three priorities were never running out of money, always having $5,000 a month, whatever they are," and they say, "Yep, those, Micah, those are my goals, but I still need $100,000 for Junior to help him buy a house." Those are now in direct conflict. How does that soft no become a hard no? Or does it become a hard no and you just say, "Well, I guess we'll hope the markets go up."

Micah Shilanski: It depends on where they are. If this is going to jeopardize their plan, where I cannot sleep at night, this is my rule, right? Maybe I need to put more numbers behind this, but if it's going to take enough money out where I am now worried about them being able to retire in their late eighties or nineties, my answer's, "No, sorry, you've got to go find somebody else. I won't process the distribution. Call Schwab. Schwab will do it, but I'm not going to have my hands on this that's there because I ... this is so bad for your finances. It's not going to work." I rarely go to that. Right? I rarely have to draw that line.

Matthew Jarvis: Internally, I tell myself I won't be the captain of a sinking ship because that's who's liable for the sunken ship, but that's not what I would tell a client. The line I often use with clients is "Mr and Mrs. Client, whenever I'm meeting with you, I'm always imagining us meeting together 10 or 15 years from now," and then I kind of smile and I say, "Don't worry, we'll meet in between then, but I sort of picture you and I meeting together in 15 years and I want us to look back on this decision and say with all the information we had available, we made the best decision that we could." That's when I could say, like Micah said, "Hey, I'm worried that if you go this way, we're going to meet together in 15 years and be out of money or be in a really bad bind and say we shouldn't have done that, and I don't want to be there."

Matthew Jarvis: To Micah's point, my soft no will turn into a hard no. It will turn into, "I'm going to have to resign this account. I can't help you destroy your retirement. Maybe this won't destroy your ... In fact, I hope that this doesn't, but I'm too worried that it will. I can't be part of it. Here's Fidelity's direct number. We're going to resign from your account this month. We'll refund our last quarter's fee as a gesture of good faith. I wish you all the best. Call Micah Shilanski at 555.

Micah Shilanski: But that also goes out with a termination letter to them, right? You're summarizing that in writing, whether it's email or a letter, you're summarizing that to them closing off that account, that of why and documenting that in your own system. Correct?

Matthew Jarvis: Totally. Yeah, it's all got to be documented.

Micah Shilanski: That's so, so important.

Matthew Jarvis: Perfect. Well, should we jump into some action items for Benjamin here and of course for the entire TPR nation?

Micah Shilanski: Absolutely. Let's go ahead and talk about this. A couple of things before we get into our action items because I know those are so important. A couple things out there we'd still love our TPR nation to do. There's a bunch of you that have jumped online and taken the TPR quiz at theperfectria.com. We'd love everyone to. Our goal is to get at least 50% of our listeners to fill out this TPR quiz. Right now I think we're close to kind of that 20 to 30% number, so we still got some growth to be there. We would love for 50% because where we get ideas for these podcasts and these topics and understanding how to grow practices is knowing where you're at and starting with the quiz, starting with some metrics to know where are you at today versus where you're going to be in the future. This all happens with starting off with that TPR quiz, so jump on there, the perfectria.com, make sure you get that filled out.

Matthew Jarvis: That's awesome. Of course, if you haven't given us five stars yet, do that, send us a picture on social media so we can get you that t-shirt out. Those of you who've already done it, the t-shirts got a little revamp this year.

Micah Shilanski: They're in the mail?

Matthew Jarvis: They're in the mail.

Micah Shilanski: They're coming.

Matthew Jarvis: They're coming.

Micah Shilanski: There'll be there.

Matthew Jarvis: By the time this comes out, they should be in the mail.

Micah Shilanski: They should be there.

Matthew Jarvis: So you should be good.

Micah Shilanski: All right, action items for Benjamin and anybody else who's listening on the TPR nation. Everyone else, that's a lot of people now. The very first thing I would say is you need to manage expectations with your clients around distributions. You need to own that, right? There's our Jocko Willink here. Take extreme ownership. If clients are calling haphazardly asking for small amounts, large amounts, you need to own that you haven't set those expectations correctly and expected that that's going to take time. This is not just a one time mention. This is an ongoing thing.

Micah Shilanski: Yeah, I love it. I would also say, anytime you're going to make a decision or make a change to procedures that you have in place, get data behind this. It's not an emotional thing. Get actual data. So, if the fear is that when I go on a vacation, all these people are going to request distributions. Awesome. How often does that actually happen? Right? If the fear is my phone is going to ring and I'm not going to be able to answer it, if ... whatever that case is, get actual data behind it so you can make an informed decision. So, put that in your policies and procedures. Any time that you're going to make a change, you stop, get the actual data for how often does this happen. I don't like making a policy for everything, so if this is a once in a blue moon thing, I'll deal with it when the blue moon comes up. I'm not going to make a whole policy and go through training with my team for something that happens once every now and again.

Matthew Jarvis: I would say another action item, make it easy, easy for your clients, easy for yourself. There's nothing, there's no virtue that goes to martyrs. For example, you have a client who's calling in every quarter for money, set them up on an automatic distribution every quarter. This is actually something we're implementing, Micah. We'll have to have a whole nother podcast on required distributions. We ended up this year with about a dozen clients that are waiting to the very last minute ... excuse me, in 2019, waited to the very last minute to process that required distribution, so here in 2020, as we're setting clients up for that, we're telling everyone, on December 1st we are distributing any undistributed RMDs immediately. We're not going past December 1 for required distribution. So, if you want to send it to charity, if you want to take it some other way, let us know because December 1, it all goes out. That's just ... we could say, "Hey, that's making it more difficult for clients." We're just setting expectations.

Micah Shilanski: Yeah. We do ours by March. So, I want these things down at the beginning of the year. Yeah. So I tell clients about it, I was like, "The RMD doesn't change between now and then." Right? So, yes, you could have an argument about where it's invested for that time and blah, blah blah, but I'm like, "No, we want to get these things done." So I'm all about escalating that timeline because you get near the holidays and then you can be on the phone for hours trying to do Roth conversions or distributions or anything with your custodian because they're getting swamped at year end stuff. So no, I love it.

Micah Shilanski: The only other thing I want to add on to kind of our fourth action item for our listeners, processes. This is such a key. If you are a member of our backstage pass, you're going to see our process that we have in this, but having a system to make sure your team can follow through with what you talk about with clients, and that also sets expectations with your clients. Your process sets those expectations with clients or fulfills them, right? So those go hand in hand, setting expectations and having a solid process to go through that you can follow up with to make sure things get done. Really, really important to have that in place.

Matthew Jarvis: I like that, I like that. Well, to Benjamin, you're doing a great job on your practice. Keep it up. To the rest of the TPR nation, until next time. Happy planning.

Micah Shilanski: Happy planning.

Hold on before we go. Something that you need to know. This isn't tax, legal, or investment advice. That isn't our intent. Information designed to change lives. Financial planning can make you thrive. Start today. Don't think twice. Be a better husband, father, mother, and wife. The Perfect RIA. The Perfect RIA.

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