Unified Managed Households and the Future of Wealth Management

White paper research from Pirker Partners

Pirkerpartners

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Executive Summary

MyVest engaged Pirker Partners to research the current state of householding and the **Unified Managed Household (UMH)** approach to managing investment portfolios, including what role UMH is likely to play in the future of wealth management. This paper summarizes the findings of that project.

Over the past decade, growing numbers of wealth managers have embraced the **holistic advisory model**. At the core of this model is comprehensive financial planning—a process by which advisors evaluate client households' assets, liabilities, and goals and develop a plan for spending, saving, and investing that optimizes each household's ability to meet its goals with the resources available to it.

For most wealth managers, holistic advice has unfortunately not delivered fully on its promise. This is mainly for two reasons: (1) **portfolio construction remains disconnected** from the financial plans that portfolios are meant to support, and (2) wealth managers' focus on creating **scalability in their business models** is preventing them from providing the level of personalization needed to deliver truly holistic advice.

The UMH approach to managing portfolios solves both of these problems, and thus has become a critical component of successfully providing holistic advice. Despite the importance of UMH, most wealth managers have implemented it only partially—if they have implemented it at all—because of obstacles to full implementation. That said, however, even **partial implementation has created significant value** for them and enabled them to achieve numerous goals, including creating a more consistent advisory experience, managing client tax exposures, and executing trades more efficiently.

Although only a small percentage of firms have fully implemented UMH, there is a compelling reason to think that this will change in the coming decade. As greater numbers of

Executive Summary

broker-dealers, RIAs, and private banks adopt the holistic advisory model, the means of **competitive differentiation** is shifting away from just investment performance towards managing clients' portfolios to optimally support their broader financial plans. Given this shift, wealth managers are quite naturally beginning to explore how to transition to a full implementation of UMH—a transition that is being accelerated by ongoing advances in technology.

The shift toward full adoption of UMH in the years ahead will open up a new world in which firms' ability to deliver investment strategies optimized for clients' financial plans takes center stage—strategies **personalized** for each client's unique combination of assets, liabilities, and goals. This is what the future of wealth management will look like.

Methodology Summary

Interviews

RIAs | Broker-dealers | Private banks | TAMPs

Research and secondary literature

CERULLI ASSOCIATES | EY | InvestmentNews | NATIXIS GLOBAL ASSET MANAGEMENT | CAPCO a wipro company | MONEY MANAGEMENT INSTITUTE | FRANKLIN TEMPLETON

See full methodology at end of paper.

Introduction

This white paper reports on a MyVest-sponsored research project* that interviewed wealth management leaders to examine the **state of householding** and its evolving role in the delivery of holistic advice. For this project, householding was defined as a process by which an advisor creates a "household" (typically two spouses or partners), identifies the investment accounts owned by the individuals in the household, and then manages the household's collective investments as a single multi-account portfolio.

While wealth managers have long utilized versions of the householding approach for their wealthiest clients, it is only in the past two decades that advances in technology have enabled wealth managers to explore the possibility of implementing householding approaches with their core high-net-worth and mass affluent clients. In industry parlance, the householding approach is often referred to as the **"unified managed household" (UMH)** process.

*See end of paper for a description of the research methodology.

Although householding is currently employed by only a minority of wealth managers, our research found that given the industry's embrace of holistic advisory models, householding must play an increasingly important role in the future of wealth management.

Steps in the householding process

Create a household by assigning individuals to it

Identify all accounts and tax entities belonging the household

Build client profile, including goals, tax profile, and personalization preferences

Construct an investment strategy for the household

Utilize asset location across accounts to fulfill the household portfolio

Manage the portfolio in a tax-optimal way

The promise—and challenge—of holistic advice

Over the past decade, growing numbers of wealth managers have put the **holistic advisory model** at the center of their client value proposition. Indeed, most wealth managers today position themselves as holistic advisors. This is not only because of the value it creates for clients—firms also see holistic advice as improving their own economics. Specifically, **holistic advice improves** client satisfaction, makes relationships stickier by enmeshing clients in a web of services, and helps advisors gather new assets and deepen share of wallet.

While most wealth managers today do provide holistic advice, their implementation of this advice in clients' investment portfolios has unfortunately been suboptimal. The foundation of holistic advice is the financial plan. Only through planning can advisors understand clients' goals, the resources available to fund those goals, and what trade-offs clients are willing to make if their resources are insufficient. Wealth managers may be thorough in the planning process, but more often than not the complexity and nuances that they uncover in the plan with respect to issues such as client goals, tax profile, and risk capacity are not reflected in client portfolios. Why is this so?

The challenge with portfolio construction

The main reason for the disconnect between clients' financial plans and their portfolios is that firms have not evolved how they manage client portfolios. **Portfolio construction is still primarily driven by risk tolerance questionnaires**, which define risk in terms of the discomfort clients say they would feel in different market downturn scenarios. The output of the risk questionnaire is a recommended investment strategy that doesn't fully take into account issues uncovered in the plan. Inertia is a factor here as well: "orthodox" practice is to manage investments account by account and changing this means fighting long-standing practices that have become institutionalized and that are ingrained in advisors' approach.

The challenge of holistic advice: the scalability problem

A second reason for the disconnect between financial plans and the portfolios that are meant to support them is that in recent years wealth managers have increasingly focused on making their **business models more scalable**.

This focus on scale has led wealth managers to abandon the traditional approach to building portfolios that are personalized for each client. In its place, they have created a "scalable" portfolio management process: advisors place each client into a fixed investment strategy that they select from a menu of five or more standardized models. Increasingly, the product fulfillment in each model is also standardized, typically a mix of ETFs, mutual funds, and separately managed accounts.

Once the advisor selects a strategy for a client, the strategy is implemented in each of the client's accounts, with little or no personalization, regardless of the tax characteristics of each account and regardless of expected changes in the client's liquidity needs and/or savings rates as identified in the financial plan. Such an approach gives wealth managers "scale," but shortchanges their clients.

Interviewee quotes about the importance of scale

- **Executive at a large bank wealth manager:** "We know the client cohorts and can go from there. Advisors shouldn't spend time asking clients lots of questions."
- **Executive at top-10 private bank:** "The challenge is how to make this [i.e. UMH] scalable. Anyone can do it manually."
- **Executive at a leading TAMP:** "Large firms are pushing the productivity of their advisors. So why would they give them a tool [i.e. to achieve greater personalization of portfolios] to slow them down?"

Closing the gap between planning and portfolios: the role of householding

Although wealth managers' adherence to traditional portfolio construction techniques and their focus on introducing scale into their business models has created a gap between clients' financial plans and their portfolios, there is a relatively straightforward solution to this issue. Moreover, this solution—if combined with the right technology—can support wealth managers' efforts to create more scalable advisory processes.

Today most wealth managers treat a client's accounts in an undifferentiated fashion, applying an identical investment strategy to all of them. To close the gap between plans and portfolios, wealth managers simply must (re-)introduce some **personalization** into how they manage a client's accounts. The most effective way to do this is through the process of "**householding**" (also called the UMH approach), as defined in the Introduction. In the householding approach to managing portfolios, rather than applying an identical investment strategy to each account in a client household, advisors customize the strategy across the accounts through a process called **asset location.** In this process, advisors select the optimal account for each security within a household's portfolio. This method places securities with the highest estimated tax burden in tax-advantaged accounts, and vice versa for taxable accounts. Most advisors want to do this, but are challenged to do so consistently because of the manual effort required. Not only does asset location achieve significant tax benefits for the client, but it also enables advisors to adjust the investment strategies of certain accounts to reflect how the client intends to use the assets in those accounts.

Bridging the gap between plans and portfolios

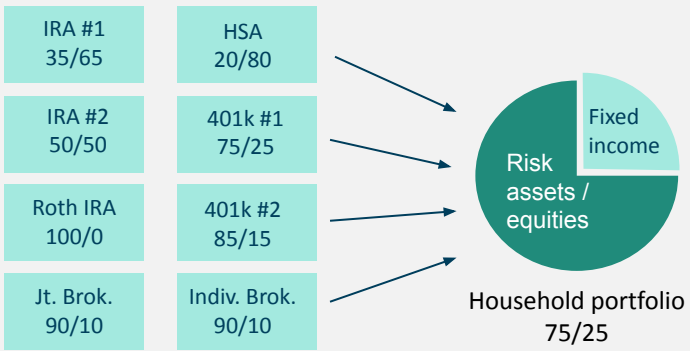
Why UMH is challenging

The executives interviewed for this white paper acknowledge that the UMH approach to managing portfolios is ideal. Yet they agreed that the percentage of firms that have fully implemented UMH is likely in the single digits. How can this be?

The simple answer is that managing portfolios by UMH is quite complex. Consider, for example, a "typical" mass affluent household. Such a household might consist of two spouses with the accounts shown in the graphic opposite. The UMH approach for this simple household requires significant personalization: locating assets across eight accounts, rebalancing across individual accounts, managing tax impact via tax-loss harvesting and deferrals, managing contributions and withdrawals in a tax-efficient way, and avoiding wash sales and managing concentration across accounts.

Since managing this process manually is a non-starter for almost all wealth managers, then they must either find a way to leverage technology to reduce the complexity of UMH or they must forgo full implementation of UMH. Many wealth managers who say they have adopted UMH have actually taken a middle road—**a partial implementation** that achieves some but not all the benefits of a comprehensive UMH approach.

Sample UMH: Hypothetical investment strategies for a typical mass affluent household



Obstacles to UMH

Executives interviewed for this project described several obstacles preventing their firms from overcoming the complexity of UMH in order to fully implement the approach.

For large wealth managers, the main obstacle is their **legacy technology** systems. UMH requires the integration of data from several different systems and custodians, and the legacy technologies of most large firms are still poorly integrated with one another. Exacerbating the challenge of integration is that definitions of data fields are often inconsistent across systems.

A second obstacle is that many firms believe householding places excessive **demands on advisors' time,** thus hindering the "scalability" they already built into their business models. Firms justify this view by pointing out that because few clients are asking for householding, there is little to no ROI to a full UMH implementation.

A third obstacle preventing firms from adopting UMH is competing for funding within **limited technology budgets**. Today, wealth managers' initiatives are focused on artificial intelligence, automating workflows, and the ongoing "digitization" of user experience. These initiatives are all viewed as having significantly higher ROI than technology projects that support UMH.

Finally, r**egulation and compliance** are potential obstacles, where compliance departments are stuck in a legacy account-by-account view of the world in which they expect each account to operate in isolation. They struggle to adapt to a multi-account portfolio guided by a single comprehensive investment strategy.

Chief obstacles to implementing householding

Compliance of acct-by-acct orthodoxy	Difficulty integrating legacy systems
Householding reduces scalability	Competition for scarce tech dollars

The state of UMH today: broker-dealers

Because of the significant obstacles to UMH, few firms that have adopted UMH have implemented it in a comprehensive fashion. Instead, firms have focused on **partial implementation**, utilizing UMH in areas where they think the approach can create significant value and—as one executive commented—deliver a "high return on effort."

One leading broker-dealer, for example uses its proprietary UMH platform primarily to ensure that its FAs deliver a **consistent advisory experience** to clients in fee-based accounts. The platform ignores asset location, instead applying a uniform investment strategy to all client accounts. For this firm, there is little interest in full implementation of UMH due to its complexity. The value of UMH for this firm is that it ensures "a single process for all advisory clients" in which all FAs follow "a guided engagement process" for their clients.

A second broker-dealer interviewed for this project is implementing UMH as a means to migrate FAs out of rep-as-PM programs into a new fee-based advisory program. For this firm too, there is little appetite for full adoption of the UMH process, and it says it has "no plans currently to build out asset location functionality." Rather, the firm has simply adopted the elements of UMH that best support its strategic shift toward an advisory business built around centrally managed UMAs.

Benefits of partial implementation of UMH

The state of UMH today: RIAs and private banks

At RIAs and private banks, the focus has also been on partial, rather than full, implementation of UMH. One private bank interviewed for this project, for example, has implemented a UMH platform solely for the purpose of **executing trades** in client SMAs that are managed by third parties. The bank puts little effort into achieving the most significant benefit of UMH—that is, executing against clients' financial plans in a more efficient manner. ``For us,'' one of the bank's investment executives said, ``UMH solves the problem of outside traded assets. This is where we get the most value from our UMH platform."

A large RIA that was interviewed is in the process of building a proprietary UMH platform. The firm's primary focus in building the platform is to enable more efficient **management of clients' tax exposures**, with a secondary focus of utilizing the data collected by the system to **deepen share of wallet**. The firm makes no attempt to use UMH to ensure that clients' portfolios optimally support their financial plans; such an undertaking is not appealing to them because they believe "it is so bespoke that it is 'unautomatable'."

Although most wealth managers have implemented UMH partially, it is noteworthy that the small minority of firms that have fully implemented UMH believe the approach creates significant value as a means of **competitive differentiation**. One RIA that was interviewed and that has fully implemented UMH reported that UMH has enabled the firm to demonstrate **tangible value** to clients. The firm has built a tool that measures the value created by UMH, and for most clients it equals if not exceeds the advisory fees they are paying. As the example of this RIA demonstrates, making the effort to address the obstacles to UMH and pursue a full implementation can truly be a "high ROI" proposition because of the beneficial impact on competitive differentiation.

The state of UMH today: Progress on implementation, goals, and obstacles

The extent to which wealth managers have implemented UMH—and their goals in implementing it—varies significantly across the industry.

- **Large broker-dealers** are most advanced in adoption and use UMH mainly to facilitate their shift to fee-based advisory models.
- **Smaller broker-dealers and RIAs** are in a less mature state, in part because of their smaller technology budgets.
- **Private banks** are least advanced in adoption, hindered both by smaller technology budgets and complex legacy systems.

See full summary of findings table on the next page.

The state of UMH today: Progress on implementation, goals, and obstacles

Segment	Maturity of implementation	Principal goals	Chief obstacles
Large broker-dealers	Advanced/near-full implementation for their fee-based business	Focus on achieving a scalable advisory model, consistency of client experience; increase share of wallet and revenue per client	Legacy technology systems, reluctance of FAs to accept restrictions on how they work with clients
Small and mid-sized broker dealers	Partial implementation for their fee-based business	Create consistent model for fee-based business; introduce scalability into advisory model	Advisor education, change management
RIA aggregators	Partial implementation transitioning to advanced	Create operational consistency and scalability across affiliate RIAs	Migrating affiliate RIAs to unified technology platforms
Small and mid-sized RIAs	Partial implementation transitioning to advanced	Deliver truly holistic value proposition; support goals-based wealth management	Cost of vended solution
Private banks	Selective implementation	Introduce efficiencies into investment management model	Legacy technology systems

The future of wealth management is UMH

Although most wealth managers today present themselves as holistic advisors, few have changed how they build portfolios to reflect their new advisory approach. However, as the table on the previous page shows, this is now slowly starting to change.

As greater numbers of wealth managers adopt the holistic advisory model, the means of **competitive differentiation** is shifting away from investment performance toward managing clients' portfolios to optimally support their financial plans. In this new environment, skills such as managing a client's tax exposures through asset location and tax-loss harvesting and constructing an investment strategy optimized to fund clients' unique sets of goals are becoming increasingly important differentiators.

With the means of differentiation shifting in this fashion, wealth managers are quite naturally beginning to explore how to transition to a full implementation of UMH. For without fully implementing UMH, it is not truly possible for wealth managers to understand which goals clients' resources can and cannot fund, nor is it possible for them to adequately explore tradeoff decisions with their clients.

The shift toward full adoption of UMH will open up a new world in which firms' ability to **deliver investment strategies optimized for clients' financial plans** takes center stage—strategies personalized for each client's unique combination of assets, liabilities, and goals. This is what the future of wealth management looks like.

While there are challenges to implementing UMH, current advancements in technology (including AI) offer wealth managers a clear path to solving these challenges. Wealth managers that prioritize tackling these now will be best positioned for success.

Advice for wealth managers

Wealth managers that understand the value of UMH and wish to start a path to implementation face a number of strategic long-term choices with regard to technology, scale, and value proposition—choices that are best made only after a firm has some initial experience with UMH.

For this reason, a "big bang" approach to implementing UMH is often a non-starter. Instead, wealth managers should implement in a **deliberate and gradual way**, both to manage risk and to gather learnings that will ensure the appropriate design of a larger rollout when the time comes. Our research uncovered six pieces of advice from firms that are well down the UMH road regarding how to take the initial steps toward a successful implementation:

(1) Begin to lay the technology foundation. Firms should identify all the systems containing data fields needed for a full UMH implementation, and begin design of a data architecture that can integrate all required data feeds into a single database that can ultimately serve as the source of record for the UMH approach. They can also begin to develop compliance reporting and relationship to help their compliance personnel understand multi-account portfolios.

(2) Start with a pilot. Starting with a small pilot group of a dozen or so advisors helps demonstrate the power of the UMH approach while providing the firm ample learning opportunities for what it must do when UMH is extended beyond the pilot.

(3) Lay a foundation for operational support. Because UMH requires such extensive change, successful implementation requires strong operational support. Firms that have implemented UMH effectively highlighted two key factors in their success:
(a.) Utilizing senior, well-respected advisors as "UMH advocates" who could influence other advisors in their offices; and
(b.) Their establishment of a centralized team of UMH subject matter experts that functioned as a "SWAT" team available to support any advisor on their UMH issues.

Advice for wealth managers

(4) Gradually transition advisors and portfolios. Once UMH has been proven by a pilot group, begin a gradual transition of the next groups of advisors and portfolios, starting with those situations that are simplest and that will have the cleanest implementation. It is best that the broad rollout be implemented in several discrete stages, with different groups of advisors being transitioned in each stage. Such a deliberate approach will ensure that advisors receive adequate training and that the centralized team of subject matter experts has sufficient bandwidth to support the newly transitioning advisors.

(5) Obtain and promote buy-in from senior management. Given that full implementation of UMH involves significant change management, it is critical from the beginning to gain buy-in from senior management, and for senior management to regularly communicate to advisors the strategic importance and benefits of the UMH approach.

(6) Don't overlook your broader communication strategy. Regular and forceful communication is a key component of effective change management. Firms that have successfully implemented UMH cited their communication initiatives as key to helping advisors see the value of UMH. One firm, for example, won over advisors by promoting specific UMH success stories to the field through a regular monthly UMH newsletter.

Methodology

MyVest engaged Pirker Partners to research and produce a white paper on the current state of wealth managers' adoption of householding and the UMH, and on the role of UMH will play in the future of wealth management.

In conducting research for this project, Pirker Partners interviewed 11 senior wealth management executives at leading broker-dealers, private banks, RIAs, and TAMPs. In addition, Pirker Partners reviewed secondary literature on the topic and numerous strategy and research studies by major wealth management consulting organizations.

This research was supplemented by the professional experience of the white papers' authors, who have more than 50 years experience within wealth management and advising wealth managers globally.

About MyVest

MyVest powers tomorrow's wealth management firms, today. Driven by a vision for client-centric advice, we are a pioneer in enabling firms and advisors to deliver personalized portfolios at scale. We are headquartered in San Francisco.

MyVest serves broker-dealers, banks, RIAs, and service providers via a SaaS-based model. MyVest's Strategic Portfolio System™ automates the entire process, from proposal, through model-based portfolio management, monitoring, tax-aware rebalancing, OMS, reporting & billing.

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About Pirker Partners

The mission of Pirker Partners is to support decision makers across the wealth management ecosystem through a flexible, ongoing engagement model by delivering focused, strategic advice and thought leadership on current themes relating to business and technology innovation, and to act as a platform for dialogue between the various parties involved.

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