The Future of Financial Services: Delivering Advice to All

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This is a unique moment in the history of financial advice.
You are likely responsible for your retirement, and you want advice.

*Participants covered by plan type*

- Defined Benefit Plans: 69%
- Defined Contribution Plans: 7%

*Investors want advice...*

- 83% of plan participants want advice

*but advice is expensive...*

- $10,000 average annual cost/client for fiduciary advice

*if you can even access it.*

- 0.2% mass market with fiduciary advisors
Financial advice is evolving, adapting to our times.

Accessible | Aligned | Intelligent
Accessible

Aligned, intelligent advice will be available to everyone
There is a massive opportunity to make investment advice accessible.

**Assets by household wealth**

- $28T, 85% of assets
- $17.4T
- $10.8T
- $5.2T

**Households by wealth**

- 118 mm, 99% of households
- $10mm+
- 2.2mm
- <$2mm
- $10mm+
- 0.2mm
- $2 - $10mm
- <$2mm

Customer expectations around aligned, holistic advice has expanded into other markets.
Customers are migrating to mobile, and they expect to be able to do more than check their balance.

### Smartphone Ownership
Highest Among Young Adults, Those With High Income/Education Levels

<table>
<thead>
<tr>
<th></th>
<th>% of U.S. adults in each group who own a smartphone</th>
</tr>
</thead>
<tbody>
<tr>
<td>All adults</td>
<td>64%</td>
</tr>
<tr>
<td>Male</td>
<td>66%</td>
</tr>
<tr>
<td>Female</td>
<td>63%</td>
</tr>
<tr>
<td>16-29</td>
<td>86%</td>
</tr>
<tr>
<td>30-49</td>
<td>79%</td>
</tr>
<tr>
<td>50-64</td>
<td>64%</td>
</tr>
<tr>
<td>65+</td>
<td>27%</td>
</tr>
<tr>
<td>White, non-Hispanic</td>
<td>61%</td>
</tr>
<tr>
<td>Black, non-Hispanic</td>
<td>70%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>71%</td>
</tr>
<tr>
<td>HS grad or less</td>
<td>52%</td>
</tr>
<tr>
<td>Some college</td>
<td>69%</td>
</tr>
<tr>
<td>College+</td>
<td>78%</td>
</tr>
<tr>
<td>Less than $30,000/yr</td>
<td>50%</td>
</tr>
<tr>
<td>$30,000-$49,999</td>
<td>71%</td>
</tr>
<tr>
<td>$50,000-$74,999</td>
<td>72%</td>
</tr>
<tr>
<td>$75,000 or more</td>
<td>84%</td>
</tr>
<tr>
<td>Urban</td>
<td>68%</td>
</tr>
<tr>
<td>Suburban</td>
<td>66%</td>
</tr>
<tr>
<td>Rural</td>
<td>52%</td>
</tr>
</tbody>
</table>

Combined analysis of Pew Research Center surveys conducted December 4-7 and 10-21, 2014.

**Pew Research Center**
These are the early days for the changes we see coming.

Total U.S. consumer financial assets
$34T

Total non-pension financial assets
$22T

Citi’s projection for robo-advisor market in a decade
$5T
Customers and regulators will push for aligned business models
Intelligent

Holistic advice and planning will put power in the hands of investors
Customers are saving for multiple goals and expect tailored advice for each of them.

Safety Net
3 year horizon

- 40 / 60 Stocks / Bonds

This account is designed to ensure you have a prudent emergency fund on hand without giving up potential growth over time. The allocation is designed to manage volatility.

Retirement
15 year horizon

- 81 / 19 Stocks / Bonds

This is a long-term investment account. We offer both taxable and tax-advantaged retirement accounts. Our advice customizes an asset allocation and suggests a monthly deposit according to your retirement age.

Build Wealth
25+ year horizon

- 90 / 10 Stocks / Bonds

This is a general account designed to grow your wealth over time. We provide a recommended allocation according to the number of years you want to stay invested. The allocation can be customized to any timeline.
Customers are being educated to look for the best long-term, post-tax returns.

Additional Returns with Tax Loss Harvesting+

Backtested performance with tax savings reinvested, 2000-2013

+ $45k gains
+ 0.77% returns

Excess return due to TLU+ calculated using IRR. Both scenarios assume initial deposit of $50k on 1/1/2003, a constant 70% stock allocation, and twice monthly deposits that start at $750 and increase annually by 5%. Performance is net of Betterment’s fees (0.25% when balance is below $100k, and 0.15% thereafter). Tax rates are assumed as applicable to CA resident earning $100,000 annually: 28% federal income tax, 15% long-term capital gains rate, and 9.3% state tax. Harvested losses are offset against ordinary income up to $3,000, and the excess, if any, against long-term capital gains outside the portfolio. While the chart stops at 12/31/13, the annualized returns and gains factor in the taxable liquidation of 50% of the portfolio on 1/1/14. Not actual client performance. For more on how we backtest, see here: www.betterment.com/returns.
Personalized tools will increasingly help customers plan how much to save and if they’re on track.

How much do you plan to spend in retirement?

To determine how much you need to retire, we need to know how much you plan to spend to live on in retirement. An estimate is fine, and don’t worry about adjusting for inflation, we’ll do that. We’ll even guess for you.

We estimate you will need **$178,723/year**, which is $443,335/yr in future dollars. This is based on:

- Your current total annual income of $450,000
- Average living expenses for your zip code 28277
- Annual raises of 1% (above inflation of 3%)
- Typical spending patterns for your income level

**IN RETIREMENT**

I plan to spend $**178,723**/year.
Tools will become more powerful, providing more personalized advice.
Through behavioral data and analytics, automated advice will increasingly manage customer behavior.

Tax impact preview has prevented 62% of tax-costly transactions, curbing behaviors that lead to long-term underperformance.