



EBOOK

The Cash Opportunity for Advisors

Flourish™

Welcome to *The Cash Opportunity for Advisors,* which takes a deep-dive into the cash sitting in your clients' bank accounts.

With interest rates near historical lows for the past decade, investors and advisors alike could afford to ignore cash. But with rates climbing to their highest point since 2008, cash has entered the conversation again. Recent upheaval in the banking industry has dramatically underscored the importance of advisors being aware of clients' held-away bank exposure and FDIC coverage limits, bringing the subject of cash to the forefront. Cash presents a significant opportunity for advisors to better serve clients and grow their business. The timing has never been more right.

Even for those that wanted to help with held-away cash, however, advisors historically have lacked the tools that would allow them to do more than just recommend outside products that clients may or may not ever take action on. Enter Flourish Cash.¹ With the ability to offer clients a competitive rate and expanded FDIC insurance coverage through FDIC-member Program Banks² within an advisor-centric solution, as well as gain visibility into held-away assets, advisors no longer need to be in the dark.



Overview

In this ebook, we'll explore how focusing on cash can expand client trust, enhance the relationship, and build their business. We'll start by taking a look at:

- **What held-away cash is and why clients hold it**
- **Exactly how much money there is (the answer might surprise you!)**
- **The opportunity that held-away cash presents for advisors**

We'll then peel back the layers to understand client motivations and the driving forces behind holding cash:

- **Where cash comes from**
- **Why clients hold more than their advisors realize**
- **How cash elevates much more than just their account balance**

After looking at what held-away cash is and why people have it, we'll dive into the benefits available to advisors and clients when they bring cash into focus.



CHAPTER 1

Why advisors are blind to held-away cash

Understanding held-away cash

Held-away cash is simply the cash that sits outside a client's portfolio, outside the purview of advisors. "While it's often mentioned during the client onboarding process, advisors typically don't revisit held-away cash in any level of detail with existing clients," said Flourish President Ben Cruikshank. "Advisors intuitively know that clients keep some amount of cash in a bank account, but rarely take it into consideration when giving advice."

Many advisors have been comfortable disregarding held-away cash because it wasn't thought to be a major part of the client's overall net worth. However, research has shown that cash reserves tend to be significant and that advisors are often in the dark about the scale.

"When we ask advisors how much cash their clients hold, the most frequent answer we hear is 1-2%, by which advisors mean the 1-2% of the portfolio held in cash for purely operational reasons," said Cruikshank. "However, when you look at the data, it's clear that high net worth individuals hold significant amounts of cash away from their advisors."



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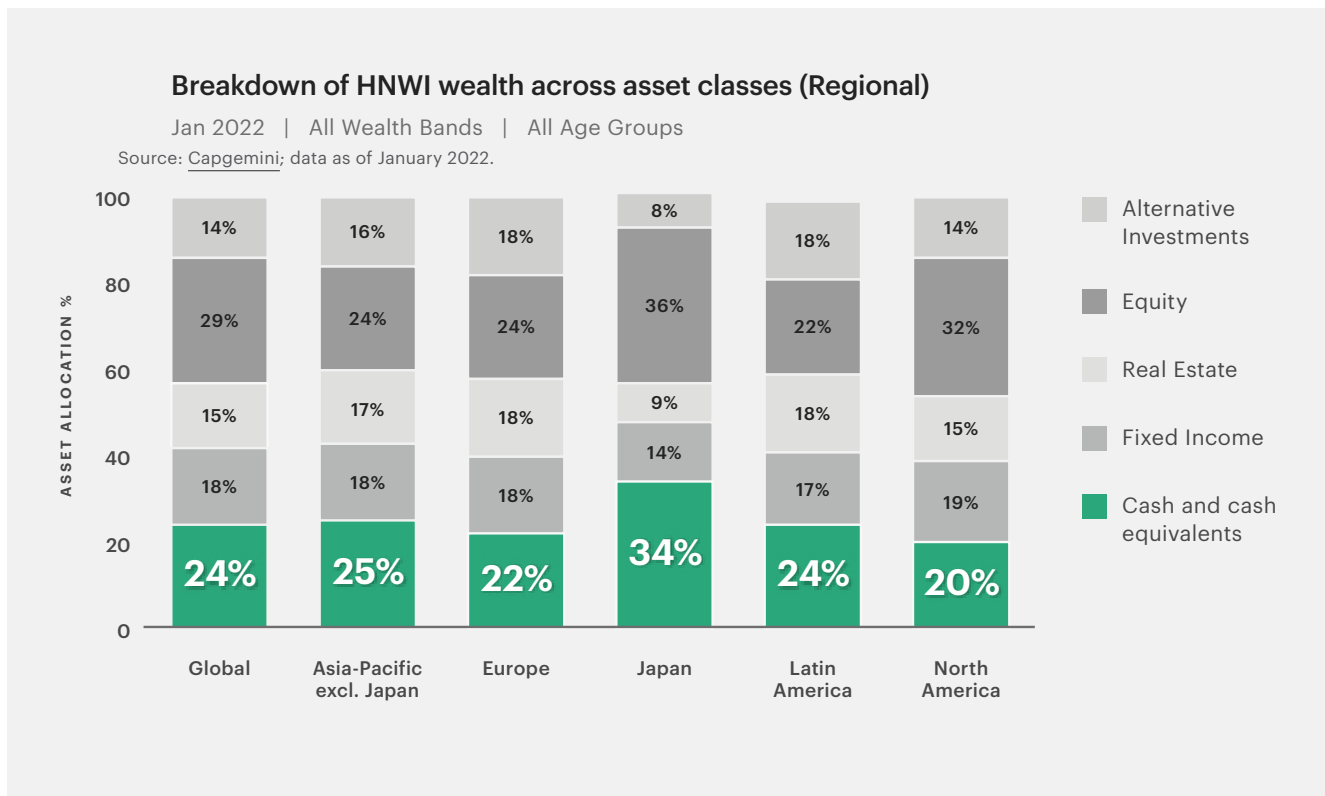
How much cash do clients actually hold?

According to a 2022 Capgemini World Wealth report, people with at least \$1 million in investable assets keep 20% of their net worth in cash.³

“When hearing this data for the first time, many advisors say ‘that may be true of other people’s clients, but certainly not for my clients’” said Cruikshank. “Ironically, many advisors have told us that while simultaneously admitting that they personally hold far too much in cash.”

To further understand how much cash the clients of RIAs actually hold, we took a look at data from Flourish Cash customers.

Across 500+ RIAs that represent \$1.5T in total end-client AUM and thousands of clients, we can see that households truly do have significant amounts of cash — and balances scale as net worth increases. Clients with a self-reported net worth of \$1-2MM hold an average of \$183,672 in Flourish Cash accounts, while clients with a self-reported net worth of \$5-10MM hold an average of \$363,831 in cash.⁴ And that’s just the money sitting in Flourish Cash.



So why are advisors blind to held-away cash? Cruikshank explained, “Advisors are great at managing things that sit inside the portfolio, under their visibility and control. Cash is different. Advisors often don’t even start the conversation about held-away cash because they can’t easily see it, manage it, or bill on it, and don’t have access to advisor-centric cash-management solutions.”

Recognizing the opportunity

Advisors who recognize that clients often hold significant amounts of held-away cash can turn this missed opportunity into an advantage.

Increased visibility into cash can help advisors provide more holistic advice to their clients, from better financial planning to ensuring that clients are taking appropriate risk in their portfolio, to helping clients earn a more competitive rate on their cash. After all, with an average household Flourish Cash account balance of \$183,672 for clients with a self-reported net worth of \$1-2MM, a client that earns our current rate of 4.4%⁵ ([click here for latest rate](#)) on their cash for a year would earn over \$8,000 in interest. For a household with \$1.5MM in the portfolio, that would offset almost 60% of average advisory fees.

While future rates are uncertain and there is no guarantee that clients will continue to earn those rates, now could be an optimal time to help clients think strategically about their held-away cash — particularly in a time of economic volatility when clients are looking to their advisor for solutions. And if advisors don’t start the conversation, they should be aware that other firms — from wealth managers at private banks to robo-advisors — may attempt to build a relationship with their clients by presenting them with opportunities for their cash.

The held-away cash that clients have outside the orbit of the advisor deserves a second look. Next, we explore the reasons why clients hold cash and how to take this understanding into conversations with your clients about opportunities to maximize the potential of cash.



CHAPTER 2

Understanding why clients hold cash

The source of held-away cash

Advisors know that having a complete overview of your clients' financial lives is essential to giving advice. As we've seen, however, it's easy for advisors to lose sight of the cash that sits outside the portfolio. These funds usually sit in checking and savings accounts at banks, often earning little to no interest. Advisors don't regularly discuss these funds with clients, integrate data about them into their tech stack, or look for opportunities to help their clients earn more.

Held-away cash can come from a sudden influx of funds, such as the sale of a business or property, an inheritance, or bonus. In other cases, the cash can be the result of a steady accumulation of funds over time.

The last few years have taken cash for a ride. The height of the pandemic saw a massive increase in savings, with the personal savings rate reaching 34% in April 2020, resulting in an abundance of cash in the bank. Although inflation has caused savings to take a backseat, with the personal savings rate at 2.3% in October 2022,⁶ HNW individuals now have unprecedented amounts of cash sitting in the bank. Whether from a windfall or slowly-accumulated savings, these funds are often set aside for a rainy day and forgotten — a lost opportunity for clients and advisors.



Client insight is really important. People care about how much cash they have and money will always have an emotional component.

Digging into the Why

While many advisors are initially in disbelief that their clients hold 10-20% of their wealth in cash, those numbers become understandable as soon as advisors look at the ‘why’ behind the statistics.

Speaking with clients every day, our Client Support Team frequently hears reasons why people hold cash, including:

- **Household liquidity:** cash on hand offers flexibility and convenience
- **Emergency fund:** typically 6-12 months’ living expenses
- **“Sleep at Night” money:** provides an additional sense of security beyond an emergency fund
- **Dry powder:** waiting for an opportunity to invest
- **Fear of entering the market:** the opposite of dry powder, more comfortable on the sideline
- **Short-term liabilities:** saving for down payment for home purchase, tax bills, or major purchase
- **Inheritance or windfall:** common advice is to wait 6-12 months in cash before making changes
- **Reduced overall volatility:** while advisors carefully manage risk in the portfolio, many clients – particularly new retirees – are fearful of volatility and keep extra on the side

Each client comes with their own unique story. “Client insight is really important,” said Flourish President Ben Cruikshank. “People care about how much cash they have and money will always have an emotional component. Advisors should make room for that in their client planning, understanding where the cash comes from and what it means to the client.”

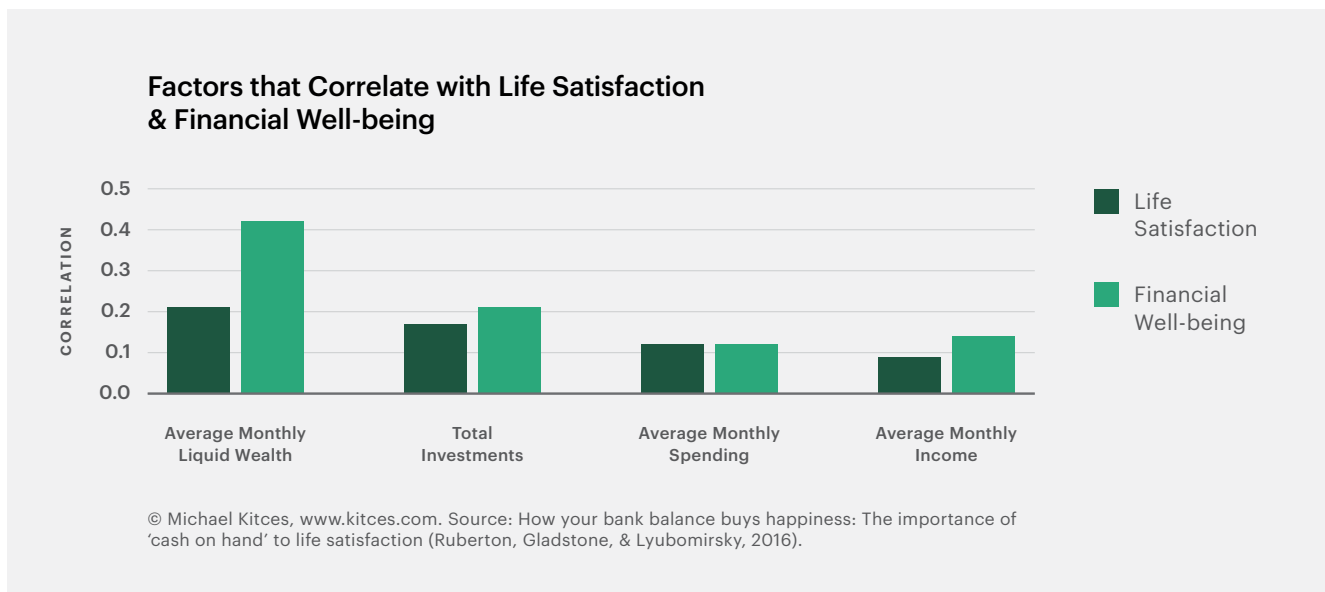
The mindset a person has towards money is shaped by past experiences and influenced by external factors. These can range from a parent’s spending habits or the culture in which they were raised, to living through a significant financial event such as the subprime mortgage crisis, graduating in a recession, or losing a job during the pandemic. Advisors who take the time to consider emotions, motivations, and money mindset will better understand a client’s goals and the financial advice needed to help reach them.

Cash increases happiness

Researchers at the National Science Foundation have explored the link between wealth and well-being.⁷ They found that individuals who have more cash on hand feel more confident about their finances and ultimately more satisfied with their lives. Instead of net worth, income, or investments, the driving force is cash in the bank.

Even HNW individuals with no debt and significant investments see their happiness increase when a portion of their wealth is easily accessible. As discussed in Michael Kitces’ Nerd’s Eye View, the research concludes that cash in the bank increases a sense of well-being regardless of how much a person earns, invests, or owes.⁸ Advisors have an opportunity to add value by helping their clients earn more on their cash and increase their happiness, while taking into account the reasons that they hold cash.

For clients who hold smaller amounts of cash, building a cushion through automated savings can put them on the path to increased happiness. Flourish Cash offers recurring transfers and SmartBalance, tools that automatically transfer money and enable clients to automate their savings with flexibility and control, while helping RIAs support them in the continued accumulation of cash. “Whether clients have a significant cash reserve, or are in the process of building one, advisors have an opportunity to expand the conversation, helping deliver more value — and maybe even happiness — to their clients. Bringing more assets into their orbit allows for better advice,” explained Cruikshank.



While the source of cash and the reasons individuals hold it are varied and layered, gaining visibility into held-away cash and considering it alongside the portfolio can have tangible benefits. Once advisors get clear on where held-away cash comes from and recognize that many clients may want to keep that cash in an accessible account, they then can deliver more value to clients by offering them the opportunity to optimize their held-away cash: increasing both the yield and their happiness.

Next, we'll take a closer look at how putting cash to work can be advantageous for clients, while making it easier to move cash into the portfolio for advisors.

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CHAPTER 3

The benefits of bringing cash into focus

Once advisors recognize the importance of cash and understand client motivations, then they can make the most of the advantages it offers. As we've discussed, there is a lot more cash out there than advisors realize and clients have significant reasons for keeping it close. Advisors might be wondering what the incentive is to bring cash into their practice if — so far — business has been fine without it. From conversations with hundreds of RIAs, we've identified three key reasons why bringing cash into focus can have substantial benefits for advisors and their clients.

1. Add client value

As we showed in the last chapter, clients have real reasons for holding cash, including for an emergency fund, for short-term liabilities, and to enhance their sense of security. While these cash reserves have typically been outside the advisor's realm, that no longer needs to be the case.



Particularly when faced with challenging market conditions, enabling clients to earn more on their cash gives advisors a new opportunity to help clients reach their goals.

Advisors who offer client access to a cash management solution with a competitive rate open the door to a variety of benefits:



Higher yield: Traditional bank accounts offer clients a low interest rate on their cash. According to the FDIC, a standard account earned 0.35% APY in February 2023, while competitive-yield accounts such as Flourish Cash often provide over 10x the returns.⁹ On a tactical level, we’ve seen how this plays out in terms of dollars and cents. Recall that clients with a self-reported net worth of \$1-2MM hold an average of \$183,672 in Flourish Cash accounts.¹⁰ At our current top rate of 4.4% APY,¹¹ (click here for latest rate) they are earning more than \$7,800 annually. In a standard account, that same cash balance would earn only \$642. At current rates, the extra yield earned could pay for an entire vacation or offset half of the typical client’s advisory fees.

Maintain liquidity: Unlike CDs and certain fixed income investments, cash remains accessible to clients. Advisors who can recognize a client’s internal motivations for wanting to retain liquidity will be in a stronger position to advise on the opportunities.

Increased happiness: Research has shown that people with larger cash reserves experience a greater sense of well-being.¹² Advisors have the opportunity to deliver more value to clients by helping them optimize their held-away cash: increasing both the yield and their happiness.

Help clients with their businesses: Many clients are deeply engaged with businesses and nonprofits, which typically sit outside the advisory relationship. Through support for corporations, LLCs, nonprofits and

A Tale of Two Rates:

Comparison	Account balance	APY	Annual yield
 Flourish Cash	\$150,000	4.4%	+\$6,600
 Average money center bank	\$150,000	Avg. national savings rate 0.35%	+\$525
Earnings clients miss out on:			\$6,075

partnerships, advisors can offer a value-add solution for another critical part of their clients' financial lives.

Particularly when faced with challenging market conditions, enabling clients to earn more on their cash gives advisors a new opportunity to help clients reach their goals. "Telling clients to do nothing and stay the course can be some of the hardest advice to give," said Flourish President Ben Cruikshank. "Now the story can be: 'We're not making any changes to the portfolio, but we've identified a major opportunity for you to reach your goals.'" Giving clients concrete steps to take can help them stay on track, while demonstrating that you're working hard on their behalf.

2. Bring assets into your orbit

Gaining visibility of held-away cash can lead to **better financial planning**. Visibility can result in better advice, particularly when it comes to understanding clients' needs outside the portfolio and helping them reach both their short- and long-term financial goals. Many independent advisors aim to offer clients holistic planning and taking held-away cash into consideration is an essential part of the picture.

In addition, bringing assets into your orbit can lead to **better investing**. Understanding how much cash your clients hold, and the reasons why, can help advisors gauge the right amount of risk to take in the portfolio, potentially increasing equity exposure when faced with larger than expected cash balances.

In the situation where a client is holding more cash than anticipated, advisors can open a conversation about client goals, fears, and needs. If, working together, advisors and clients determine that the client is holding more in cash than is needed, it can open up a conversation about **bringing excess cash into a fee-earning account within the**



While you may not lose a client due to cash today, in ten years it could be the difference between being a firm that is acquiring and a firm that is being acquired.

portfolio. Visibility is key to starting the conversation.

3. Defend against competitors

In a time of increasing competition, advisors need to deliver more to ensure client – and asset – retention. As Flourish CEO Max Lane said in his [year-end letter to advisors](#), “Critically important parts of your clients’ financial lives sit outside the portfolio, held away from you... Banks, startup trading firms, robo-advisors, lending platforms, crypto exchanges, and more are all attempting to win a portion of your client’s financial lives for themselves by focusing on these gaps.”

Bringing cash into focus helps advisors fill in the gap and protect their clients’ assets from the hands of their competitors. As Cruikshank explained: “In FinTech, companies such as Betterment, Robinhood, Personal Capital and SoFi are all racing to become the all-in-one shop and have introduced cash solutions in recent years. Banks such as Ally and Marcus have hired teams of CFPs and integrated cash with their advisory teams to cross-sell affluent investors with their advisory services. Cash is either inside your orbit, or it’s not. And if it’s not, it’s some other competitors’ opportunity to pick off.” Advisors need to deliver more for their clients — or someone else will.

In addition to client retention, defending against competitors requires client acquisition. “Most RIAs have high retention rates and don’t think they need to worry about competitive pressures,” said Cruikshank. “But the same RIAs often have low, single-digit organic growth rates. While you may not lose a client due to cash today, in ten years it could be the difference between being a firm that is acquiring and a firm that is being acquired.” Growth-minded firms are not only interested in serving the clients of today, but also bringing in the clients of tomorrow.

Building your business through cash

With the greatest generational wealth transfer on the horizon,¹³ advisors have an opportunity to secure their position by focusing on their clients’ holistic financial lives. Offering a suite of additional, exclusive products to clients can bolster your firm’s brand in a competitive market. Taking cash into consideration is low-hanging fruit. Access to a RIA-centric cash management solution offers clients tangible benefits while enabling advisors to gain essential visibility into their clients’ financial lives, offer more holistic planning, increase their level of service, and defend against competitors.

Conclusion

Rising interest rates and heightened awareness of FDIC limits has created a unique moment, offering advisors the opportunity to expand client trust, enhance relationships, and build their business. We believe that the solution is simple: to understand, to implement, and to integrate held-away cash into conversations with each and every client.

Our research shows that a significant majority of clients have extra cash that could be put to work, enabling advisors to add value to other areas of their clients' financial lives. Whether a client starts off with \$100 or \$100,000, bringing cash into the orbit of their advisor is a winning game for all.

Advisors who embrace the opportunity to welcome a new tool to their financial toolkit will discover an easy way to bring more value to their clients and improve their financial lives. As increased visibility gives the advisor expanded understanding of a client's financial situation and opportunities to potentially bring excess cash over to the portfolio, financial planning improves.

The opportunity for a firm to differentiate itself from competitors in a simple, tangible way has the potential to be a boon to business and create returns for years to come.

Interested in learning more?

Reach out to us at (883) 808-5700 or support@flourish.com to start the conversation.



About Flourish

Flourish builds technology that empowers financial advisors, improves financial lives and retirement outcomes, and delivers new and innovative investment options to advisors. Today, the Flourish platform is used by more than 500 wealth management firms representing more than \$1.5 trillion in assets under management. Flourish is wholly-owned by MassMutual. For more information, visit www.flourish.com.

- ¹ A Flourish Cash account is a brokerage account offered by Flourish Financial LLC. **Flourish Financial LLC is not a bank.** The cash balance in a Flourish Cash account will be swept from the brokerage account to deposit account(s) at one or more third-party banks that have agreed to accept deposits from customers of Flourish Financial LLC (Program Banks). The accounts at Program Banks will pay a variable rate of interest.
- ² The cash balance in a Flourish Cash account that is swept to one or more Program Banks is eligible for FDIC insurance, subject to FDIC rules, including FDIC aggregate insurance coverage limits. FDIC insurance will not be provided until the funds arrive at the Program Bank. Our current Program Banks can be found here. For additional information regarding FDIC coverage, visit <https://fdic.gov/> and <https://www.flourish.com/advisors>.
- ³ Capgemini Research Institute for Financial Services Analysis, 2022, Capgemini Global HNW1 Insights Survey, Jan 2022. <https://worldwealthreport.com/key-highlights.html>
- ⁴ Source: Flourish Financial LLC; data as of 01/01/2023, average balances calculated with respect to each household's non-zero Flourish account balances across all household accounts.
- ⁵ Flourish Cash currently has a tiered interest rate structure, as set forth in the rate tier summary. We deposit your cash first with one or more of the Program Banks in the tier with the highest interest rate, up to the maximum amount of deposits for that tier, and then continue depositing cash at Program Bank(s) in each successive tier until all cash has been deposited, subject to any Program Bank opt out elections you have made. Each annual percentage yield (APY) displayed here is effective as of 11/07/2022 and may change at any time. The rates of interest paid by the Program Bank(s) to Flourish Cash customers may be lower than the rate that could be earned by you opening a deposit account directly with such bank(s).
- ⁶ Field, S. (2022, December 1). Americans are saving less – while they spend up a storm. Marketplace (<https://www.marketplace.org/2022/12/01/americans-are-saving-little-while-they-spend-up-a-storm/>).
- ⁷ Kitces, Michael. "Buying Happiness and Life Satisfaction with Greater Cash-on-Hand Reserves." Nerd's Eye View. April 2017.
- ⁸ Ruberton, P. M., Gladstone, J., & Lyubomirsky, S. (2016). How your bank balance buys happiness: The importance of "cash on hand" to life satisfaction. *Emotion*, 16(5), 575–580.
- ⁹ Federal Deposit Insurance Corporation, National Deposit Rates: Savings [SNDR], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/SNDR>, 02/07/2023.
- ¹⁰ Source: Flourish Financial LLC; data as of 01/13/2023, average balances calculated with respect to each household's non-zero Flourish account balances across all household accounts.
- ¹¹ Flourish Cash currently has a tiered interest rate structure, as set forth in the rate tier summary, www.flourish.com/info/rates. We deposit your cash first with one or more of the Program Banks in the tier with the highest interest rate, up to the maximum amount of deposits for that tier, and then continue depositing cash at Program Bank(s) in each successive tier until all cash has been deposited, subject to any Program Bank opt out elections you have made. Each annual percentage yield (APY) displayed here is effective as of 02/07/2023 and may change at any time. The rates of interest paid by the Program Bank(s) to Flourish Cash customers may be lower than the rate that could be earned by you opening a deposit account directly with such bank(s).
- ¹² Ruberton, P. M., Gladstone, J., & Lyubomirsky, S. (2016). How your bank balance buys happiness: The importance of "cash on hand" to life satisfaction. *Emotion*, 16(5), 575–580.
- ¹³ Hall, Mark. Forbes. "The Greatest Wealth Transfer in History: What's Happening and What are the Implications." November 11, 2019.