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InvestmentNews®

MARCH 18 - 22, 2019

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401(k) PLANS SLOW TO EMBRACE ESG INVESTING

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TOPNEWS

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MARCH 18-22, 2019

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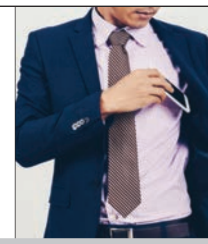

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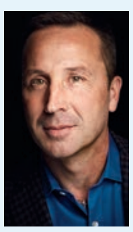
EDITOR'S NOTE

Supply not meeting demand for ESG

Whether it's due to reports of heat waves or polar vortexes, or the realization that businesses that are good stewards of the earth also tend to be responsible with investors' capital, the demand for socially conscious investment products has never been greater.

Financial advisers can attest to that demand — especially as it relates to younger investors. Millennials expressing a high level of interest in strategies that focus on environmental, social and governance issues jumped from 26% in 2017 to 35% a year later, according to a joint research report released in November by *InvestmentNews* and Calvert.



FRED GABRIEL

The report also found that 26% of ultra-high-net-worth investors have a high level of interest in ESG investing, advisers say, up from only 10% in 2017. (To download a free copy of that report, go to InvestmentNews.com/esgreport.)

So why are ESG options underrepresented in company-sponsored retirement plans? That's a question we asked ourselves when *InvestmentNews*' senior columnist Jeff Benjamin embarked on this week's cover story. Read his story. I think some of the answers might surprise you.

GROW YOUR PRACTICE

InvestmentNews is committed to providing more editorial coverage, events, webcasts and other content around ESG. Our goal is to arm advisers with everything they need to grow their practices and meet the demands of their clients through ESG investing strategies.

In December, we're joining forces with the United Nations to put on a two-day Impact Forum. The forum, which will run Dec. 4-5, will provide advisers, asset managers, broker-dealers and other industry professionals with a valuable place to exchange ideas and learn practical tips on incorporating impact investing into client portfolios.

We'll also be featuring a series of short films aimed at promoting ESG through storytelling.

Stay tuned for more details in the weeks to come.

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College scams don't surprise advisers

BY JEFF BENJAMIN

KEY POINTS

- Financial advisers have seen clients desperate to get their children into good schools.
- The news of cheating and bribing for admissions reflects larger problems in higher education.

THE COLLEGE admissions scandal in which dozens of wealthy parents are accused of various forms of cheating and bribery to get their children into elite universities is generally viewed as outrageous but not surprising by the financial planning community.

"I haven't seen anybody do anything like this, but I do see the sense of desperation from parents about getting their kids into college, even if the kids are getting the best grades," said Blair duQuesnay, financial adviser at Ritholtz Wealth Management.

"Every wealthy parent I know with a kid in high school has hired a consultant to help their kids get into college," Ms. duQuesnay said. "I never thought that it might turn sinister in some way."

The sinister efforts to get kids into college were made public last Tuesday when 33 parents, including celebrities and high-profile executives, were charged with bribing college coaches and admissions personnel to help their kids get accepted to college.

In addition to paying bribes and claiming that nonathletes were athletes, the wealthy parents also allegedly conspired to help their children cheat on college entrance exams.

FORMER PIMCO CEO CHARGED

Among the big names and Hollywood celebrities, the former CEO of Pacific Investment Management Co., Douglas Hodge, was charged with paying hundreds of thousands of dollars to get two of his children admitted to the University of Southern California as athletic recruits.

"I'd say they were just being cheapskates, because they could have just paid for a new

CONTINUED ON PAGE 22

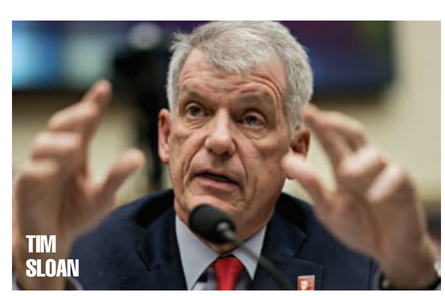
CEO Sloan gets bipartisan grilling

BLOOMBERG NEWS

MORE THAN TWO years after Wells Fargo & Co. erupted into scandals, chief executive Tim Sloan returned to Capitol Hill to lay out his efforts to clean up the mess. The bank has apparently made little progress in winning over lawmakers.

Democrats and Republicans on the House Financial Services Committee took turns grilling Mr. Sloan for more than four hours last Tuesday, with several expressing doubts that the three-decade insider should be running the firm. Committee chairwoman Maxine Waters was joined by some colleagues in her call to go further, raising the specter of a breakup by describing the bank as "too big to manage."

"You have not been able to keep Wells Fargo out of trouble," Ms. Waters said. "Why should Wells Fargo continue to be the size that it is?"



TIM SLOAN

The confrontation with lawmakers underscored how far Wells Fargo has yet to go to win back the public 30 months after it was fined for opening millions of bogus accounts for consumers. The bank has been working to address widespread abuses that have made it a target for both major parties and President Donald J. Trump, dragging on its stock and prompting the Federal Reserve to impose an unprecedented ban on growth.

During the hearing, the Office of

CONTINUED ON PAGE 22

Wells will pay higher bonus for succession

BY BRUCE KELLY

AFTER BLEEDING advisers for more than two years, Wells Fargo Advisors is changing its succession plan by offering a bonus to advisers who stay on until retirement, and giving financial help to young advisers acquiring the business from advisers who are retiring.

WELLS FARGO

Under the new program, Wells Fargo reps and advisers who are retiring and are eligible can receive a deferred bonus of 25% of their prior year's fees and commissions, known

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Envestnet buy to ripple across tech

Envestnet is acquiring PIEtech, the technology company behind the MoneyGuide financial planning software, for a reported $500 million.

RYAN W. NEAL

ONTECHNOLOGY

The deal consists of $295 million in cash and 3.185 million shares of Envestnet common stock.

Envestnet CEO Jud Bergman called MoneyGuide "the premier goals-based financial planning engine" and said it will play a central role in the company's vision of providing software for both wealth management and financial wellness.

The acquisition will help Envestnet deepen integrations between MoneyGuide and its other wealth management tools, such as Tamarac or Envestnet's new Insurance Exchange.

Over time, Mr. Bergman believes this will improve adviser productivity as technology shows advisers how products like annuities make sense for an investor's goals.

MASSIVE INFLUENCE

Envestnet and MoneyGuide are so large and have such influence over the financial advice industry, especially among registered investment advisers, that the collision of the two is going to be felt across the entire industry.

Envestnet counts 96,000 advisers across 3,500 firms as its customer base, including most of the largest banks, brokerages and RIAs. MoneyGuide says it is used by "tens of thousands of financial advisers" to create two million financial

CONTINUED ON PAGE 20

SEC to reap $125M from 79 firms for share class flubs

BY MARK SCHOEFF JR.

THE SECURITIES AND Exchange Commission announced last Monday that 79 investment firms agreed to return more than $125 million to clients to whom they had sold inappropriate high-fee mutual funds.

The restitution, most of which went to retail investors, is the result of an SEC initiative to crack down on firms that failed to disclose to clients that they had received 12b-1 fees for selling the funds. Over the last year, the agency has offered advisers incentives to turn themselves in.

"Consistent with the terms of the initiative, the commission has agreed not to impose penalties against the investment advisers," the SEC said in a release.

Under the SEC program launched in February 2018, advisers who came forward would avoid fines but would have to return money to investors. The SEC found that the advisers had failed to disclose to clients that they were receiving 12b-1 fees, or revenue-sharing payments, for the funds they recommended when a less expensive fund in the same share class was available.

EDITORIAL
Amnesty can benefit investors.
PAGE 6

VIOLATION OF FIDUCIARY LAW

The SEC said the 12b-1 payments were made to advisers "in their capacity as brokers, to their broker-dealer affiliates, or to their personnel who were also registered representatives." Failure to disclose conflicts of interest is a violation of the Investment Advisers Act, which requires advisers to act as fiduciaries.

The 79 firms settled with the SEC without admitting or denying guilt. Among those in the agreement: Cambridge Investment Research Advisors Inc., D.A. Davidson, LPL Financial, Oppenheimer & Co. Inc., Provise Management Group, Raymond James Financial Services, RBC Capital Markets, Robert W. Baird & Co. Inc. and Wells Fargo Advisors Financial Network.

SEC chairman Jay Clayton said advisers' duties of care and loyalty require them to disclose conflicts of interest, including financial incentives.

'LASTING BENEFITS'

"I am pleased that so many investment advisers chose to participate in this initiative and, more importantly, that their clients will be reimbursed," Mr. Clayton said in a statement. "This initiative will have immediate and lasting benefits for Main Street investors, including through improved disclosure."

The SEC asserted that its initiative has already increased the likelihood that investors will know when their advisers are taking 12b-1 fees.

In another recent share-class crackdown, the Financial Industry Regulatory Authority Inc. has offered incentives for brokers to turn themselves in for recommending unsuitable high-fee 529 college savings plans. The deadline on that initiative has been moved to April 30.

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10 funds with the largest holdings of Boeing stock

Boeing Co. has been hit hard since one of its Max 737 jetliners crashed in Ethiopia on March 10, the second instance of a fatal crash involving that type of plane in less than five months. Countries around the world decided to ground such planes last week, and Boeing's share price dropped.

These mutual funds and ETFs have the biggest investments in Boeing, according to Morningstar Inc.

10. ProShares Ultra Dow30 (DDM)
Portfolio weighting: **8.98%**
Assets under management: **$377.3 million**

9. ProShares UltraPro Dow30 (UDOW)
Weighting: **9.03%**
AUM: **$519.9 million**

8. Direxion Daily Aerospace & Defense Bull 3X ETF (DFEN)
Weighting: **9.27%**
AUM: **$55.4 million**

7. Industrial Select Sector SPDR ETF (XLI)
Weighting: **9.37%**
AUM: **$10.8 billion**

6. SPDR Dow Jones Industrial Average ETF (DIA)
Weighting: **10.57%**
AUM: **$21.7 billion**

5. Nuveen Dow 30 Dynamic Overwrite (DIAX)
Weighting: **10.58%**
AUM: **$650.8 million**

4. Fidelity Select Air Transportation (FSAIX)
Weighting: **11.73%**
AUM: **$306.8 million**

3. iShares US Aerospace & Defense ETF (ITA)
Weighting: **12.36%**
AUM: **$5.1 billion**

2. Vanguard Market Neutral Fund (VMNIX)
Weighting: **19.61%**
AUM: **$1.4 billion**

1. Fidelity Select Defense & Aero (FSDAX)
Weighting: **20.27%**
AUM: **$2.8 billion**

Maryland, Nevada rules on fiduciary stir action

BY BRUCE KELLY

THE STATE-LEVEL fiduciary question has raised its head and caused a stir among both the industry and investor advocates in recent weeks.

Opponents and proponents of fiduciary requirements testified before Maryland legislative committees last Wednesday to influence related bills. And Morgan Stanley has threatened to cease services in Nevada as a result of its proposed fiduciary rule.

"MORGAN STANLEY WILL BE UNABLE TO PROVIDE BROKERAGE SERVICES."

FIRM'S COMMENT LETTER ON NEVADA ADVICE RULE

In a recent comment letter about the Nevada advice rule, Morgan Stanley said parts of it were "far too narrow" for the firm to offer the state's investors cost-effective brokerage services.

The current proposal would end Morgan Stanley's ability to work in retail brokerage in the state, according to the letter, which is dated March 1 and signed by the firm's managing director and general counsel, Anne Tennant.

"Absent substantial changes to the proposal, Morgan Stanley will be unable to provide brokerage services to the residents of the state of Nevada," the letter states. "We hope to avoid this un-

CONTINUED ON PAGE 20

House Dems call for stronger Reg BI

BY MARK SCHOEFF JR.

HOUSE DEMOCRATS are calling on the Securities and Exchange Commission to strengthen its investment advice reform proposal.

In the first hearing about the measure since the party took over the House in last year's elections, Rep. Carolyn Maloney, D-N.Y., said the SEC's Regulation Best Interest, which is designed to raise broker conduct above the current suitability standard, falls short of needed investor protections.

"While the SEC's Reg BI may be an improvement on the status quo, it is still far too weak," Ms. Maloney, chairwoman of the House Financial Services Subcommittee on Investor Protection, Entrepreneurship and Capital Markets, said at a meeting of the panel last Thursday.

Unlike the now-defunct Labor Department fiduciary rule, Ms. Maloney asserted the SEC proposal relies too much on disclosure of conflicts of interest rather than their elimination. Sean Casten, D-Ill., indicated at the hearing he is working on a bill that would require the agency to conduct usability tests regarding disclosures to retail investors.

Ms. Maloney also said the SEC

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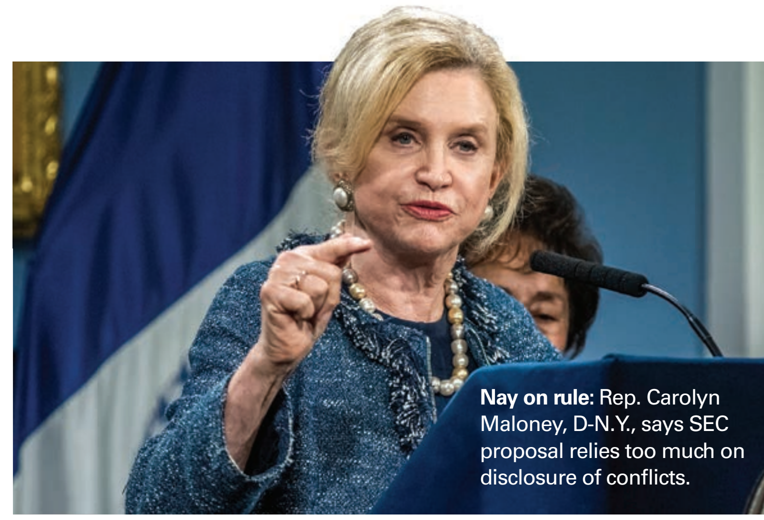

Nay on rule: Rep. Carolyn Maloney, D-N.Y., says SEC proposal relies too much on disclosure of conflicts.

SIPA USA VIA AP

Genworth LTC move could signal big shift

BY GREG IACURCI

GENWORTH FINANCIAL Inc.'s recent decision to halt sales of individual long-term-care insurance policies through brokers and agents and go directly to consumers could represent an emerging trend among insurers.

Genworth, the largest long-term-care insurer by number of policyholders, temporarily suspended sales of traditional, individual policies on March 11, citing falling sales through brokerage general agencies. Genworth also suspended sales of an immediate annuity that's medically underwritten and could be used to help cover long-term-care costs such as nursing home visits.

700K

NUMBER OF SALES OF LTC POLICIES AT THEIR PEAK IN THE EARLY 2000s

The only remaining outlet for individuals to buy coverage is the firm's internal Telesales group, which sells directly to consumers, or through group plans in the workplace, according to spokeswoman Julie Westermann.

Jesse Slome, executive director of the American Association for Long-Term Care Insurance, expects other insurers to do the same in order to mitigate "enormous" distribution expenses, which become untenable amid declining industry-wide sales.

'FORGING A NEW TRAIL'

"The direct-to-consumer trend is nothing new for many businesses," Mr. Slome said. "I look and say Genworth may be forging a new trail for the long-term-care industry."

Sales of traditional LTC poli-

CONTINUED ON PAGE 21

OPINION

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Regulatory amnesty opens advisers' eyes to past wrongs

THE SECURITIES AND EXCHANGE Commission and the Financial Industry Regulatory Authority Inc. are taking a new approach to enforcement — and the industry should pay attention. It just might save firms and advisers considerable sums of money, while at the same time satisfying the goals of the regulators.

Both agencies have recently instituted programs that waive penalties for brokers and advisers who come forward and self-report malfeasance. In exchange for acknowledging that they have overcharged clients and agreeing to make them whole, the regulators agree not to impose fines.

The SEC was the first of the two regulators to try such a process. Last February, it offered to waive fines for advisers who stepped up and admitted they had not disclosed to clients that they were being put in share classes that paid 12b-1 fees when other, less-expensive share classes were available. Just last week, the SEC reported the first results of the program: signing agreements with 79 firms that had agreed to refund $125 million to clients.

Finra announced a similar program more recently that will apply to 529 college savings programs. Brokerage firms that self-report overcharging clients by selling them inappropriate share classes and make restitution to those clients will escape a fine from Finra.

QUICK REMEDY

In both cases, the regulators see the amnesty programs as a relatively quick way to remedy a problem and get money back to investors in a timely fashion. Both agencies have limited resources, so if they can take some shortcuts and still get the same results for the public, they must see it as a cost-effective method of enforcement.

The alternative would be to bring enforcement actions on a case-by-case basis. Yes, the regulators would be able to extract their pound of flesh in the form of fines, but the process would take considerably longer — and in the meantime investors would be waiting to get their money back.

It should be noted that self-reporting programs are used regularly in other areas of society. For example, in an effort to get guns off the streets, cities have urged residents to come forward and turn in guns, no questions asked. Taxing districts, most recently New Jersey, often hold tax amnesty programs in which they waive penalties for taxpayers who come forward and pay back taxes.

In the case of Finra, the 529 amnesty program fulfills another one of its goals: to take a more cooperative approach to regulation that seeks to protect the interests of investors without placing an unduly heavy financial burden on brokerage firms in the process. In the past, small brokerage firms complained that Finra was too heavy-handed when it came to enforcement and was more interested in collecting big fines than helping firms comply with the agency's regulations.

> **SEC, FINRA SHINING SPOTLIGHT ON PROBLEMS THAT CAN NO LONGER BE OVERLOOKED.**

The big question in both these self-reporting programs is whether they will work.

THE REAL TEST

Critics may say the regulators are letting the offending firms off easy by waiving penalties. But let's put that issue aside, since the real test of any enforcement program is whether it will effectively deter bad behavior in the future. We won't know that until some time has gone by and the regulators can discern whether advisers and brokers are playing by the rules.

In the meantime, it seems that both amnesty programs are putting a much-needed spotlight on areas that advisory firms and brokers may have overlooked but to which they should have been paying attention. Some have suggested that in the past, share class decisions were simply not a priority in the industry. Now there will be no excuses for not toeing the line and putting customers' interests first.

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ESG OPTIONS SCARCE IN 401(k)S

RELUCTANCE TO ADD FUNDS THAT TAKE INTO ACCOUNT ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS PERSISTS, DESPITE GROWING INTEREST AMONG PLAN PARTICIPANTS

BY JEFF BENJAMIN

By virtually any measure, the demand for socially conscious investment products has never been greater. Thanks in large part to support from women and young investors, investment strategies that focus on environmental, social and governance issues reached $12 trillion last year according to US SIF. That's a quarter of all U.S. assets under professional management going into ESG.

Yet when it comes to the primary way in which younger generations invest, through company-sponsored retirement savings plans, their desire to match their investments and values is falling on deaf ears.

The exact numbers are difficult to pinpoint, and some progress is being made, but most calculations estimate that less than 8% of company-sponsored retirement plans include even a single ESG fund option on the investment menu. This is despite data such as a Natixis survey showing that 74% of plan participants want access to ESG funds in their retirement savings plan.

ATTRACTIVE BENEFITS

But that is likely to change as the unemployment rate drops and employers seek to differentiate themselves with attractive benefits programs, said Steve Ulian, head of sales and relationship management at Bank of America.

"If you're going to attract talent, you will need to add ESG funds on your retirement plan menu, because people are choosing their employers now based on [benefit programs] to a fairly significant degree," he said.

However, Mr. Ulian admits that Bank of America didn't add the first ESG fund to its plan menu until last year.

CONTINUED ON PAGE 10

529s also miss the boat

If ever there was a market ripe for ESG investments, it would seem to be the 529 college savings program, which turns 20 this year.

Even though most contributors to college savings plans are young parents who tend to be more conscious of environmental, social and corporate governance causes, the 529 plan market has yet to adjust to what is likely a healthy appetite for ESG products and strategies.

Paul Curley, director of college savings research at Strategic Insight, said only 10 states, plus Washington, D.C., offer even a single ESG fund on their 529 plan investment menus.

In those plans, just 2% of assets have been allocated to ESG funds.

To get a sense of the growth or lack thereof to date, the current number of states offering ESG funds is up from nine in 2013, when just 1% of assets were allocated to ESG funds.

But Mr. Curley believes the tide is slowly turning. He expects more states will soon make ESG options easier to access for those saving for college.

"Right now, the ESG offerings tend to be stand-alone options, while about half the assets in 529 plans are allocated to age-based strategies," Mr. Curley said. "But the investment lineups are becoming more diverse, and the industry recognizes and realizes the target market and demographic is shifting."

One sign of the shifting dynamics in the 529 space is a steady decline in adviser-sold plans as more savers do it themselves.

According to Mr. Curley, adviser-sold assets represented 43% of total 529 plan assets in 2018, down from 62% in 2003.

— Jeff Benjamin

CONTINUED FROM PAGE 9

When it comes to availability in retirement plans, the momentum ESG investing is experiencing is often lost in a fog of regulatory and legal uncertainty, with a bit of misperception mixed in, too.

The first roadblock that keeps ESG funds from finding their way onto retirement plan menus involves plan sponsors bending over backward to avoid violating their fiduciary duties while operating under the often vague guidance from the Department of Labor's interpretations of the Employee Retirement Income Security Act of 1974.

"The whole retirement-plan industry is very lawsuit-averse, so if you're trying to deliver some outside nonfinancial benefit, it may not be within the fiduciary boundaries that a plan sponsor has to stay within," said Jon Hale, head of sustainable investing research at Morningstar.

CONFUSING GUIDANCE

The DOL "has been somewhat ambiguous," Mr. Hale said, citing guidance from the DOL in April 2018 that some think complicated DOL guidance issued in October 2015. The earlier guidance essentially said including ESG considerations when adding funds to a plan was squarely within the boundaries of fiduciary duty. But the more recent guidance said the screening of funds needs to be consistent for ESG and non-ESG funds — and that muddies the waters to some.

Some interpreted the two sets of guidance as political, considering that one came under President Barack Obama and the other under President Donald J. Trump.

But Pete Swisher, senior vice president at the retirement planning and fiduciary outsourcing firm Pentegra, described the guidance as a "very consistent pattern of long-term interpretations of ERISA by career DOL employees."

"The 2018 guidance was just to clarify that it wasn't a free pass for ESG funds, and that the evaluations of funds included in plans need to be consistent," Mr. Swisher said.

That means that it's OK to have funds using ESG principles as long as the fund-screening process is driven by uniform financial criteria, he said.

COST, PERFORMANCE

Issues of cost and overall performance — or perceptions about these — also limit the ESG choices employees ultimately find in their 401(k) investment lineups.

For decades, ESG funds have been considered expensive, which causes a drag on performance, and which by itself is a factor that could keep many ESG funds off retirement plan menus.

But these days, even though the 870 ESG funds tracked by Lipper are overshadowed by the more than 23,000 non-ESG funds, many of the ESG strategies are holding their own in terms of both performance and fees.

While it's not a perfect comparison to measure the performance of ESG funds against a much more diverse group that is more than 26 times larger, the Lipper data show the five-year average return of ESG equity funds through 2018 was 3.92%, which was exactly what non-ESG equity funds averaged over that period.

For bond funds over the same period, ESG funds averaged 2.22%, while their non-ESG counterparts averaged 2.32%.

In the mixed-asset fund category, ESG funds averaged 3.59%, while non-ESG funds averaged 3.36%.

In terms of fees, the expense ratios of ESG equity funds average 1.03%, which compares to 1.12% for non-ESG equity funds, according to Lipper. For bond funds, ESG funds average 74 basis points, compared to 86 basis points for non-ESG funds, and for mixed-asset funds the average expense ratios were equal for ESG and non-ESG funds.

"In order to have competitive returns, the ESG providers know they have to maintain lower average expense ratios," said Tom Roseen, Lipper's head of research services.

However, a large part of the adviser community still thinks ESG underperforms, experts said.

Mitchell Kraus, a partner at the advisory firm Capital Intelligence Associates, has made socially conscious investing a trademark of his financial planning. He said across industries, too many business owners are stuck in an old-school mentality that ESG funds underperform and therefore set the company up for a potential lawsuit from employees.

"Lots of businesses are owned by old white men who don't understand the appeal of ESG investments by younger people and women," he said. "Employees need to let their employer know this is important to them."

Mr. Kraus said that for the 10 401(k) plans that he manages, he brings up ESG funds during every investment review and "slowly but surely" is seeing companies adding ESG options.

"I drive an electric car, I have solar panels on my house and I bring up ESG investing with all my clients," Mr. Kraus said. "It's the fastest-growing part of my business."

However, other advisers have found clients aren't as willing to put their money behind their social or environmental beliefs.

"We started developing our own ESG asset allocation portfolio about four years ago, thinking we had at least a handful of clients that would really embrace it," said Robert Alexandrovic, director of client services at Tedstrom Wealth Advisors. "Even some of the clients that we thought would be a slam dunk have pushed back."

Mr. Alexandrovic said he rarely sees ESG funds offered on clients' retirement plan menus, and if he does, it's just one or two funds.

"You can't build a diversified portfolio with two funds," he said.

Another sticking point is found at companies where the person charged with building out the plan options is often not up for the job, said Rob Thomas, president of Social(K), a private-label 401(k) record-keeping platform focused on ESG investing.

"I can't tell you the number of people who run companies promoting sustainability and community commitment and environmental causes and blah blah blah, and their retirement plan offers Vanguard funds," Mr. Thomas said. "At some companies, ESG is a foreign language that no one understands, in a department where they're supposed to get it. Even people who get it don't want to do the extra work to add investment options because 401(k) money is very sticky, so people don't want to touch the plan."

"AT SOME COMPANIES, ESG IS A FOREIGN LANGUAGE THAT NO ONE UNDERSTANDS."

ROB THOMAS
PRESIDENT
SOCIAL(K)

NEW PLANS

Mr. Thomas said the growth he sees in ESG investing largely comes from the startup of new retirement plans.

Peter Lazaroff, co-chief investment officer at Plancorp, said he has seen similar apathy when it comes to making the effort to step outside the comfort zone and push for some ESG investment options.

"We always see an appetite for learning about ESG investing, but we see very few plans that demand ESG funds," he said. "The goals of a plan sponsor are to make it easy and inexpensive. If you're a plan sponsor and nobody is clamoring for ESG funds, adding another fund just adds confusion."

Anthony Eames, director of responsible investment strategy at Eaton Vance, said there's still a lot of education needed around ESG investing.

"If you think about how retirement plans come together, involving the senior management of a company and an adviser or consultant, they might not have the most current information on ESG investing," Mr. Eames said. "But we do know through our research that when ESG funds are added to the plan, the participants' view of their employer improves. As a result, the employee is more likely to recommend the company as a good place to work, and it also increases the participation rate of the retirement plan."

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$3.5M AMOUNT OF BROWN UNIVERSITY SETTLEMENT IN LAWSUIT ALLEGING THE SCHOOL MISMANAGED ITS RETIREMENT PLAN

RETIREMENT / SOCIAL SECURITY / INSURANCE / TAX / MEDICARE / COLLEGE / TRUST & ESTATE / PHILANTHROPY

Gen X thinks about Social Security

I often get questions from people who were born in 1960 or later about whether it would make sense for them to delay claiming Social Security benefits beyond their full retirement age of 67. My usual answer is I don't know. Much of that decision will be tied to the interest rates prevailing at that time.

MARY BETH FRANKLIN

ONRETIREMENT

Delaying benefits has been a very valuable decision for many retirees. They were able to accrue delayed retirement credits worth 8% per year for every year they postponed collecting their benefits beyond their full retirement age, up until age 70.

Someone entitled to a full retirement age benefit of $2,000 a month at 66 could increase their benefit by 32% over four years, to $2,640 per month, if they waited until 70 to claim the benefit.

In reality, their future benefit would be even larger because all the intervening cost-of-living adjustments from the time they became eligible for Social Security at age 62 until they actually collected them would be added to their base benefit amount. And many married couples and eligible divorced spouses were able to claim benefits on their spouse's or ex-spouse's earnings record between ages 66 and 70 while their own retirement benefits continued to grow.

SMOKING-HOT DEAL

But the big reason delaying benefits until age 70 proved to be such a smoking-hot deal was that the 8%-per-year delayed retirement credit far outperformed all other risk-free investments in the near-zero interest-rate environment that has existed over much of the past decade.

The Federal Reserve's targeted interest rate slid to a record low of 0.25% in December 2008 and remained near that level through 2015. Although the Fed began tightening monetary policy in 2016, real interest rates remain near zero, with the latest fed funds target of 2.25% to 2.5% about the same as the current rate of inflation.

But that was not always the case. Interest rates climbed to a record high of 20% in 1980. Three years later, the Bipartisan Commission on Social Security Reform recommended that delayed retirement credits, which had been 3% per year, gradually be increased to encourage Americans to wait to claim larger Social Security benefits in an era of increasing longevity.

> **KEY POINTS**
> - Much of the decision to delay benefits depends on interest rates.
> - A volatile market and low interest rates make delayed benefits attractive.

The first year that the 8%-per-year delayed retirement credit took effect was 2009. A volatile stock market and record low interest rates made the 8% per year credit appear even more attractive, particularly as many baby boomers decided to remain in the workforce after watching their 401(k) accounts plummet.

Will delaying Social Security benefits always make sense? Maybe not. Between 1971 and today, interest rates averaged 5.69%, according to Fed data. If rates reach that level again, it may make more sense to claim benefits at full retirement age, even if you don't need the money, and bank the benefits, rather than risk dying before claiming them.

TWO REASONS TO DELAY

Meanwhile, future retirees ponder future claiming strategies in a low-interest-rate environment.

"I was born in 1960, was the higher wage earner and I am waiting until 70 to max out my SS benefit," a reader from Florida wrote.

"My wife was born in 1962 and has her own Social Security benefit that is greater than the spousal amount. When should she begin taking her benefit?" he asked. "Should she wait until 70?"

"There are two reasons to delay claiming Social Security until 70: to maximize a retirement benefit and to provide the largest possible survivor benefit," I responded. "I generally think it makes sense for one spouse — particularly the one with the higher benefit — to delay claiming until 70. However, the other spouse may want to claim at full retirement age or earlier to bring some money into the household while the other spouse delays. If nothing else, it will pay for your Medicare premiums."

(Questions about Social Security? Find the answers in my ebook at InvestmentNews.com/MBFebook.)

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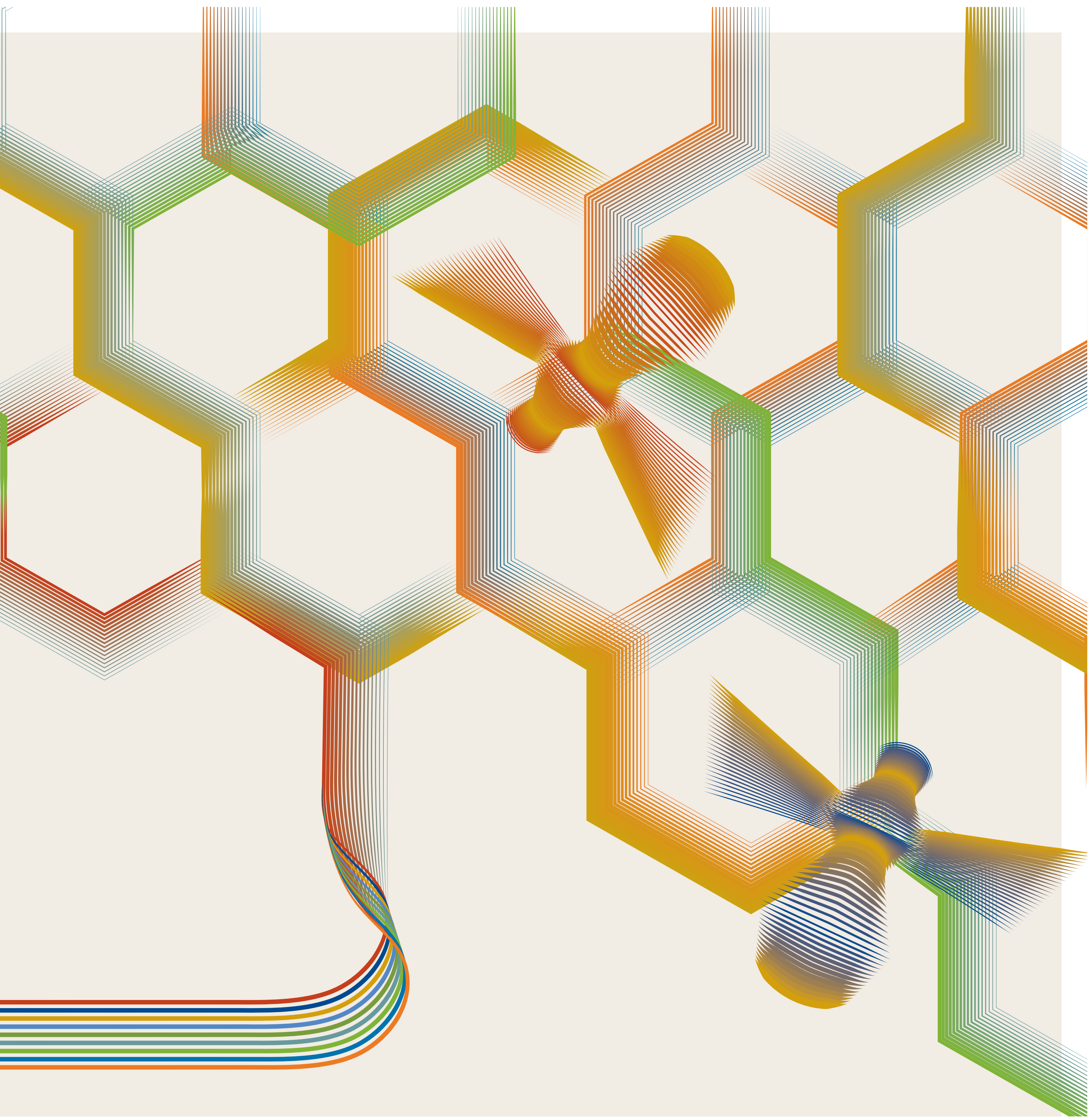

Household planning is wave of future

BY RYAN W. NEAL

THE NEXT BIG thing for advisers isn't robo-advice startups or cryptocurrency, it's advisers managing all of a household's financial accounts from banking to investing to insurance, across all life stages, in a single platform.

The average investor today owns five or six accounts with a range of registrations and product types, commonly managed by two or three advisers, according to a new report from the Money Management Institute,

This makes it difficult for investors to save efficiently for various goals, manage taxes or optimize withdrawals in retirement. It's also challenging for advisers to offer investors the kind of personalized experience they are increasingly accustomed to with companies like Amazon or Netflix.

But the shift away from product sales in favor of holistic financial planning reveals the opportunity for advisers to offer what MMI calls "optimized, household-level wealth management."

"IF [ADVISERS] ARE NOT PLAYING IN THE GAME ... THEY ARE GOING TO LOSE FUTURE BUSINESS."

CRAIG PFEIFFER, PRESIDENT AND CEO, MMI

With tightly integrated technology and data integration, advisers could easily and efficiently create a financial plan, customize financial advice, make data-driven investment decisions and become a true "one-stop-shop" for all of a person' s financial needs.

Not only will this help advisers increase their share of an investor's wallet, it will deliver improved client outcomes, said Jack Sharry, chief marketing officer at LifeYield and co-chair of MMI's committee on digitally enhanced advice.

"If they are not playing in the game that's being played today, they are going to lose future business," said MMI president and CEO Craig Pfeiffer.

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When RMDs reach 100%

Can it ever be the case that an individual retirement account's required minimum distribution, or RMD, for a year equals the entire IRA balance? Yes, but that only happens if there is no designated beneficiary.

IRA ALERT
ED SLOTT

A designated beneficiary means an individual beneficiary named on the IRA beneficiary form. Often there is no designated beneficiary, either because no beneficiary was named on the beneficiary form or the named beneficiary is not an individual but instead is an estate, charity or nonqualifying trust.

Even if the IRA eventually goes to an individual beneficiary, if it gets to that beneficiary through the estate for example, then there is no designated beneficiary.

The 100% RMD occurs when there is no designated beneficiary and the IRA owner died before his or her required beginning date (April 1 of the year following the year the IRA owner reaches age 70½).

In that case, the entire inherited IRA must be paid out under the so-called "five-year rule," which says an IRA must be withdrawn in full by the end of the fifth year after the year of the owner's death. Unlike a stretch IRA, where withdrawals are taken ratably over many years, under the five-year rule no distributions are required during the first through fourth years after the owner's death. But whatever is left in the inherited IRA in the fifth year must all be withdrawn in that year. In this case, the fifth-year RMD is 100% of the account balance, and that RMD will be taxable all in one year (unless this is an inherited Roth IRA).

EXAMPLE

Josie never named a beneficiary on her IRA, so when she died in 2013 at age 65, her estate became her beneficiary by default.

Because the estate was the beneficiary and Josie died before her required beginning date, the five-year rule applied. This means that Josie's entire IRA had to be emptied by Dec. 31, 2018.

Josie's will named her two sons, Len and Ben, co-executors of her estate. Len and Ben fight about everything. As a result, in 2019, Josie's IRA is still sitting there. The estate will owe the 50% penalty for 2018 on the total balance of Josie's IRA for 2018 because that was the year the RMD was 100% of the IRA. If Len and Ben do not take a total distribution in 2019, the 50% penalty will apply for that year too and for every year the RMD — the total amount in the IRA — remains undistributed.

50%
PENALTY TO IRA BENEFICIARY IF DISTRIBUTIONS NOT TAKEN IN FIVE YEARS

If the beneficiary neglects the 100% RMD for even a few years, the 50% penalty can actually exceed the amount of the total IRA balance. Advisers need to react quickly to recognize the problem and to have penalties waived.

To have the penalty waived, the beneficiary must take the missed RMD and then file Form 5329 [Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts]. The form must be filed for each year there was a missed RMD. There is no statute of limitations if this form is not filed, so the 50% penalty will never go away unless the waiver is requested.

This 100% RMD situation hits inherited Roth IRAs harder. When there is no designated beneficiary on a Roth IRA, the inherited Roth funds will always be subject to the five-year rule, no matter when the Roth IRA owner died.

Roth IRA owners are not subject to RMDs during their lifetime, so there is no required beginning date for a Roth owner. This means that whenever a Roth IRA owner dies without a designated beneficiary, that inherited Roth will be subject to the five-year rule.

The 100% RMD will be tough for an adviser to explain to a beneficiary when this outcome could be avoided just by checking IRA beneficiary forms to make sure intended beneficiaries are named.

Ed Slott, a certified public accountant, created the IRA Leadership Program and Ed Slott's Elite IRA Advisor Group. He can be reached at irahelp.com.

RMDs

Workers over 70 stung

BY MARK SCHOEFF JR.

WHEN RON STROBEL was an investment adviser in Seattle, many of his clients were Boeing engineers. They loved their jobs and wanted to keep working as long as they could.

But when they reached age 70½, they had to take required minimum distributions from their individual retirement accounts. They didn't like it.

"RMDs are the No. 1 complaint I hear" from people of retirement age, said Mr. Strobel, founder of Retire Sensibly. "I am seeing more and more clients work into their 70s either because they have to or because they just like working. It's ridiculous that the IRS forces them to begin withdrawing from their IRAs when they don't want to or don't need to."

LONGER LIFESPANS

Earlier this month, the Insured Retirement Institute released its federal retirement security blueprint, and one of the items calls for updating RMD rules to reflect longer lifespans.

In an executive order released last August, President Donald J. Trump told the Treasury Department to examine RMD life expectancy and distribution tables and determine whether they should be updated.

The executive order set a 180-day deadline. It's not clear whether the agency has completed the study. A Treasury spokesperson was not immediately available for comment.

A recently introduced bill, the Family Savings Act, would not require RMDs for retirement accounts that don't exceed $50,000.

Late last year, Sens. Rob Portman, R-Ohio, and Ben Cardin, D-Md., introduced a bill, the Retirement Security and Savings Act, that would have increased the RMD age from 70.5 to 72 in 2023 and to 75 in 2030. The senators said the RMD age was set in the 1960s.

The measure died in the previous Congress. It would have to be reintroduced.

One of the challenges of changing RMD policy is that contributions to IRAs are tax-deferred. The distributions are taxed as ordinary income. If the RMD age is pushed back, the government would have to wait even longer for their tax revenue.

"It will have to get paid for," Paul Richman, IRI chief government and political affairs officer, said during the rollout of the group's policy agenda. "We'll see how Congress decides to do that."

Mr. Strobel acknowledged the dilemma.

"There's a conflict that exists there, and I don't think siding with the government is the best thing to do," he said. "The government gets their money eventually."

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401(k) stretch match constricts use

BY GREG IACURCI

EMPLOYERS AND their retirement plan advisers frequently employ a particular 401(k) feature called a "stretch" match to get employees to save more money.

KEY POINTS

- Stretch matches offer the same company match but over a larger contribution rate.
- Vanguard finds firms that use stretch matches had lower participation than those with 100% matches.

But new research shows that the technique could actually have the opposite effect.

According to Vanguard Group research, savings and plan participation rates among low- and middle-income employees declined — sometimes substantially — when employers used a stretch match as opposed to a traditional 100% match.

"It is counterintuitive," said Jean Young, senior research analyst at Vanguard. "Beware of unintended consequences."

Many advisers consider the stretch match to be a best practice in 401(k) plans that use voluntary rather than automatic enrollment. It's a behavioral trick to get participants to save more money while not increasing the employer's overall expense.

Rather than match 100% of an employee's 401(k) contributions up to 3% of their total income, for example, an employer might stretch to match up to 6% but at a 50% rate. While it costs the employer the same amount of money, to get the entire match employees have to double their savings contributions.

However, that's not what's happening, at least for non-highly-compensated employees (those making less than $120,000 a year), according to Vanguard.

Plans with a 100% match had participation rates from 20% to more than two times higher than plans stretching an identical match value to a higher threshold, according to Vanguard's research, which used data from 2016 for voluntary-enrollment 401(k) plans.

Further, the research found that overall contribution rates — employee plus employer contributions — declined by 25% to 50%.

NO EFFECT ON HIGHLY COMPENSATED

Stretch matching, which began appearing broadly about a decade ago, doesn't appear to have an adverse effect on the savings behavior of highly compensated employees, Ms. Young said.

The study doesn't suggest a reason for these outcomes, but does imply that 100% matching formulas are the best option in voluntary-enrollment plans. However, automatic enrollment "trumps anything else," Ms. Young said.

More than half of 401(k) plans today, about 52%, use a stretch match (the most common being 50 cents on the dollar), although the number has fallen over the past decade; in 2007, roughly two-thirds used a stretch, according to the Plan Sponsor Council of America.

Meanwhile, automatic enrollment is on the rise. More than 60% of 401(k) plans automatically enroll participants, up from 40% a decade ago, according to the PSCA.

Chad Larsen, president and CEO of advisory firm MRP, hasn't witnessed a deterioration in savings behavior as a result of stretch matching among his clients. He guesses that any adverse behavior is primarily a function of poor communication to employees, rather than a shortcoming with the strategy itself.

"I can see people misunderstanding, misinterpreting and making poor decisions," he said.

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"IF I WERE JUST STARTING OUT, OR EVEN IF I'D BEEN AN ADVISER FOR A WHILE AND HAD HIT A WALL, I WOULD ABSOLUTELY OUTSOURCE THE INVESTMENT MANAGEMENT PORTION OF MY PRACTICE."
— SCOTT HANSON, CO-FOUNDER AND A SENIOR PARTNER, HANSON MCCLAIN ADVISORS

INVESTMENTNEWS.COM/HANSONOUTSOURCE

Wealthy not impressed by brokerage apps

BY RYAN W. NEAL

MOBILE APPS ARE now consumers' preferred way to engage with many of the companies and services they use — but not wealth management customers.

Utilization of wealth management apps is among the lowest of all industries, according to a J.D. Power study evaluating apps from 15 of the largest brokerage firms. Only about a quarter of clients use their firm's mobile apps, whether they are self-directed investors or in a full-service relationship with an adviser.

That's significantly less than the more than 50% of bank customers who use their bank's mobile app, and the more than a third of credit card customers who use their credit card company's app.

Investors criticized wealth management apps for being too text-heavy, lacking visuals, and having an overall look and feel that is dated. Basic tasks like reviewing a portfolio, researching investment options, checking performance and transferring funds are often challenging.

Among high-net-worth individuals, in particular, wealth management apps rated poorly for their navigation and available services, especially compared to banking and credit card apps, which received high marks in consumer satisfaction in addition to their high adoption rates.

> **KEY POINTS**
>
> - Unlike banking and credit card apps, wealth management apps are unpopular.
> - Apps received poor grades for navigation and services.

"Those two are related to each other," said Michael Foy, J.D. Power senior director of wealth and lending intelligence. "They are struggling to navigate through apps to get to the services they want to perform."

DATA SECURITY CONCERNS

A general concern about data security is another factor keeping clients from using mobile apps to manage financial information. Forty-five percent of clients gave their app a failing grade on cybersecurity.

Interestingly, investors who work with an adviser tended to be more satisfied with a firm's apps than investors who did not. Mr. Foy suggested this could be the result of different expectations.

"If I have an adviser that I'm really happy with that is doing a lot for me, the needs or expectations I have in terms of the digital experience will probably be less than a person who is actively involved in managing their portfolio," he said.

That doesn't mean firms should abandon their mobile apps. Across industries, a positive mobile experience tends to correlate with higher consumer satisfaction and engagement, Mr. Foy said.

Firms also need to keep in mind the next generation of investors, who are more digitally savvy and will demand a user experience in line with what they get from banks.

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diversity&INCLUSION

3 opportunities to add benefits of diversity

Northern Trust Asset Management team

As the investment management and financial advisory industry seeks to attract and retain a more diverse mix of talent, a consensus has emerged on the importance of early engagement, pipeline building, mentoring and development of contemporary employee benefits.

There is evidence that discussions are richer, insights are deeper and decisions are stronger when we have diversity of thought.

How does an industry full of organizations with established, often storied, cultural legacies and norms enable diversity and inclusion to drive these more informed insights and lead to better business outcomes?

Unlocking the benefits of diversity and inclusion starts with leaders adopting an inclusive mindset. Three examples of areas that offer opportunities to embed the benefits of diversity into company culture include: procured services, corporate engagement and product development.

CONSCIOUS CHOICES

Procured services are elements that the firm directly controls, such as brokerage, legal and accounting firms. We can make conscious and deliberate choices about procuring services from those who exemplify and see the value of diversity and inclusion.

In 2018, Northern Trust Asset Management acted to increase equity security trading commissions with minority brokers, setting and achieving targeted commission amounts in our largest fund range. We broadened the scope of our engagement with minority brokers toward utilization of sell-side research.

A second area is corporate engagement that leverages quantitative and qualitative research to identify investments that can generate long-term value for our clients.

Enhanced financial performance has been correlated with companies that enbrace diversity and inclusion. Asset managers must create space in their research processes for engagement with corporations that invest in diversity and inclusion issues.

At Northern Trust Asset Management, our proxy committee has developed a policy that recommends we vote in favor of shareholder proposals requiring women and minorities be included in any pool from which board nominees are chosen.

Third is product development.

THIS STORY IS part of an ongoing initiative by *InvestmentNews* to cultivate a financial advice profession in which diverse perspectives are welcomed and respected, and industry best practices are shared across organizations.

In choosing new and innovative offerings to bring to market, product developers are considering how

GUESTBLOG
SHERI B. HAWKINS

diversity and inclusion show up beyond discrete portfolio holdings.

Many of Northern Trust Asset Management's investors told us they seek managers that exhibit investment excellence and a demonstrated commitment to diversity. Thus we created the Northern Engage360 Fund (NENGX), which is focused on both, regardless of the company's size or ownership status.

CONCRETE STRATEGIES

Intentions are good, but it's also critical to have concrete strategies. Let's ensure that new and existing employees experience a culture that is alive with activity inspired by the best practices and behaviors of diversity and inclusion.

Sheri B. Hawkins is head of strategic product management at Northern Trust Asset Management.

$1.5B AMOUNT GPB CAPITAL SAYS IT HAS RAISED, INCLUDING THROUGH FINANCIAL ADVISERS, TO BUY PRIVATE COMPANIES. THE FIRM IS UNDER INVESTIGATION BY THE FBI.

JPMorgan offers cheapest-ever ETF, until they too are undercut

BLOOMBERG NEWS

JPMORGAN CHASE & Co. is trying to make a buck while selling one of America's cheapest exchange-traded funds.

The bank plans to charge just 20 cents for every $1,000 invested in a new stock fund, undercutting all 2,000 existing U.S. ETFs, a regulatory filing showed last Monday.

At least until an announcement last Tuesday that Salt Financial, which currently runs one $10 million ETF, plans to woo buyers with a fund that will temporarily pay them to invest, according to regulatory filings. During the first year, holders will receive 50 cents for every $1,000 in a new low-volatility stock ETF. When it grows to $100 million, the cash-back benefit will be capped and shared with all investors. The rebate is until at least April 2020, when a $2.90 management fee could kick in.

> **KEY POINTS**
> - JPMorgan wil charge just 20 cents for every $1,000 invested in a new stock fund.
> - Salt Financial will actually pay people to invest in its ETF.

"The distribution channel for newer products is inhospitable for new issuers," Salt Financial's Tony Barchetto wrote in a comment letter to the Federal Trade Commission in January. "The most common 'gates' that new funds face are based on assets under management, liquidity or time since the fund launched."

JPMorgan's move and others going low-cost is a wake-up call for BlackRock Inc. and Vanguard Group, which have built multitrillion dollar businesses on the back of cheap indexed funds. Newer issuers like JPMorgan, which sold its first ETF in 2014, have taken note and are increasingly prepared to sacrifice intermediate fee revenue in order to make a splash in the $3.7 trillion market.

"If you lower it, they will come," said Eric Balchunas, an ETF analyst at Bloomberg Intelligence. "We've seen time and time again that even one basis point cheaper can move the needle on flows."

More than 97% of flows into ETFs last year went to funds that charge $2 or less, data compiled by Bloomberg show. Of the 11 ETFs that JPMorgan started in 2018, eight charge less than $2. Those funds have lured more than $10.5 billion, doubling the firm's ETF assets to $23 billion.

> **97%** AMOUNT OF FLOWS INTO ETFs IN 2018 THAT WENT TO FUNDS THAT CHARGE $2 OR LESS

Social Finance Inc., the online lender known as SoFi, is helping start two new ETFs that won't charge a management fee for at least their first year, regulatory documents showed last month. The company is, however, waiving its fee rather than making the funds permanently free. Vanguard meanwhile recently cut the cost of more than 10 ETFs to as little as 30 cents.

Alongside its 20-cent BetaBuilders U.S. Equity ETF (BBUS), JPMorgan plans to charge 50 cents for an aggregate bond ETF, the filings showed. That's in line with the fee on BlackRock's iShares Core U.S. Aggregate Bond ETF, the largest bond ETF with $58 billion under management.

Growth stocks to grow in anemic economy?

BLOOMBERG NEWS

THE ECONOMY IS showing signs of stress. Do you buy or sell U.S. growth stocks? That depends on which gigantic investment bank you ask.

Both Goldman Sachs and Morgan Stanley cite an anemic economy, but they are building opposite cases for companies that have shown the ability to deliver faster growth in either revenue or profits. At stake is a decade-long winning trade that has consistently beat a competing strategy known as value that touts stocks with the cheapest valuations.

On the bullish side of the argument are Goldman strategists led by David Kostin, who recommend investors buy the 50 companies with the best growth potential, such as Amazon.com, SVB Financial Group and Adobe. Growth is so scarce now that these rare finds will pay off, they say.

"With economic growth slowing and firms struggling to maintain margins, investors should focus on 50 firms that are expected to deliver the fastest 2019 sales growth," the strategists wrote in a note March 8.

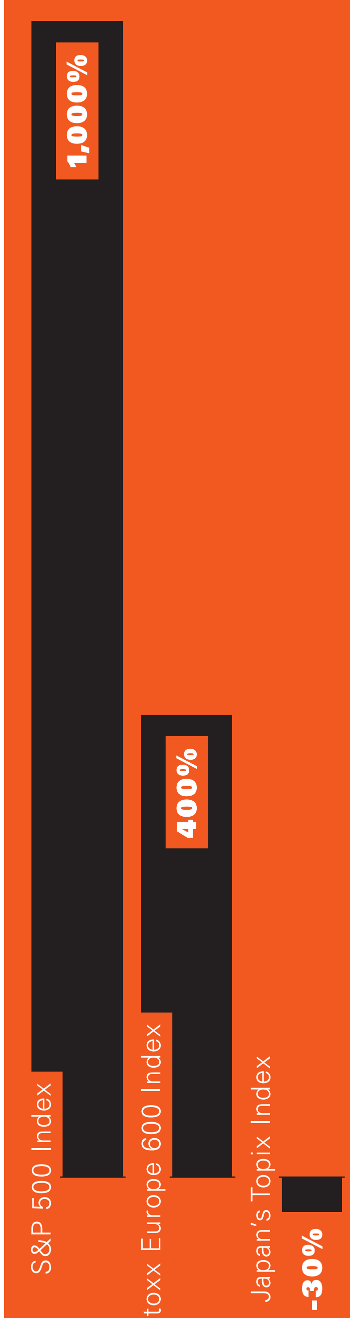
To Lisa Shalett, chief investment officer at Morgan Stanley Wealth Management, slowing global growth and declining earnings estimates are precisely the reason to steer clear of growth stocks. No one would be spared during this slowdown, making these darlings particularly vulnerable, she said.

"Growth style's dominance may be peaking," Ms. Shalett wrote in a note last Monday. "Consider replacing U.S. passive index exposure with active stock-pickers and with a bias toward value and quality factors."

After beating growth for the first time in two years in the fourth quarter, value stocks have dropped back again in 2019, rising about 10% versus their counterparts' almost 13% rally, indexes compiled by Russell show.

30-year index performance

Returns of these stock indexes have varied widely since 1989, which DoubleLine Capital chief investment officer Jeffrey Gundlach says proves stocks don't always go up over the long term.



Source: Bloomberg News

Pairing 401(k), student debt benefits

BY GREG IACURCI

AN INCREASING number of employers are adopting programs that pair 401(k) savings with student loan repayments, as the nation's cascading college debt has some workers deciding between paying off loans or building a retirement nest egg.

The Travelers Companies Inc. recently announced it will implement a program next year to help address the challenge. The firm, through its Paying It Forward Savings Program, will make a matching contribution to the 401(k) accounts of employees paying down student debt.

The property casualty insurer, which has 30,000 employees, will match what the employee is paying off in loans, up to 5% of their salary or $6,500 annually, and put that into a 401(k) account for the employee. It will make the contributions even if an employee isn't contributing to the company 401(k) plan.

Abbott Laboratories, a healthcare company, recently instituted a similar program. The firm requested, and received, a private letter ruling from the Internal Revenue Service blessing the employer's approach. Abbott makes a 401(k) match of up to 5% to employees that pay at least 2% of their compensation toward student loans.

Both firms have huge 401(k) plans: Abbott's has roughly $8 billion and 32,000 participants, and Travelers' has $6.4 billion and 38,500 participants, according to BrightScope Inc.

John Lowell, partner at October Three Consulting, said there's a lot of interest among employers around student debt repayment.

"I expect a reasonable number will end up adopting programs like this," Mr. Lowell said.

Student loan debt in the U.S. has more than doubled in the last decade to $1.5 trillion. Over half of young adults who went to college took on debt for their education, according to the Federal Reserve.

Some vendors such as Fidelity Investments, SoFi and Student Loan Genius have debuted products that allow employers to help employees pay down student debt, but they aren't tied to company 401(k) plans.

CONGRESSIONAL ACTION

Congress also has introduced bills that would make it easier for employers to pair student loans with retirement savings by clarifying certain compliance rules, or provide favorable tax treatment to employers contributing money directly toward employees' student debt.

"Loan repayments are a major blockade to people being able to put enough money in their 401(k) plans," said Michael Montgomery, managing principal of Montgomery Retirement Plan Advisors.

Some employers have been wary of pairing student loans and retirement savings due to "contingent benefit rules," which limit the ability of employers to link certain types of workplace benefits together. Abbott Laboratories' private letter ruling states that its program does not violate these rules; however, other companies can't rely on this ruling as a defense.

Employers also are concerned such programs may adversely affect their non-discrimination testing, Mr. Lowell said. Or, Mr. Montgomery said others are concerned employees may get complacent with their retirement savings — if they can take advantage of a 401(k) match without contributing to the retirement plan, they may not see a reason to do so themselves.

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ENVESTNET BUY

CONTINUED FROM PAGE 3

plans a year.

According to survey data from Technology Tools for Today producer Joel Bruckenstein, MoneyGuide controlled 26% of the financial planning market. Following the purchase, Envestnet MoneyGuide will own 42% of that market. The other big player, Fidelity's eMoney, has a 32% share.

"The competitive landscape in the retail advisory tech space clearly just got much smaller and more concentrated," said Rob Foregger, co-founder of fintech firm NextCapital. "The MoneyGuidePro acquisition will certainly put pressure on the broader financial planning market, especially as Envestnet more tightly integrates MoneyGuidePro."

The deal could make things even more difficult for smaller companies like Advicent, which has struggled to earn market share in recent years despite having once been one of the biggest names in financial planning. Mr. Bruckenstein put Advicent's share of the market at 3.75%. Advicent did not respond to a request for comment.

Mr. Bruckenstein's data show a pretty big gap between the top two financial planning technologies and the rest of the market, although figures may hide the number of white-label partnerships Advicent has with financial institutions, for example.

But it's that race between the top two — MoneyGuide and eMoney — that will be particularly interesting.

With connections across channels via Yodlee, Envestnet has access to far more data than eMoney's owner, Fidelity.

If Envestnet can successfully integrate MoneyGuide as it plans to, the technology will take a massive leap forward.

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Ameriprise to add bank, expand product offering

BY BRUCE KELLY

AMERIPRISE FINANCIAL Inc. is moving closer to launching a retail bank, which would add to the suite of products its close to 10,000 financial advisers can sell and recommend to clients.

Among those products are likely to be mortgages, according to one Ameriprise adviser, who asked not to be named. He said discussions inside the firm indicate that Ameriprise will soon make its entrance into retail banking, perhaps as early as this summer.

Banking is becoming increasingly important in the financial advice industry. In 2017, Ameriprise said it was buying an independent broker-dealer, Investment Professionals Inc., that focused on the market for independent reps operating in banks and credit unions. Large firms, including Merrill Lynch, have incentives in place for advisers to sell banking products.

One industry observer noted that it was clearly a positive move for Ameriprise.

"It strikes me that Ameriprise is addressing a hole in what they offer, and advisers are talking to management about it," said Danny Sarch, an industry recruiter. "Ameriprise needs to offer lending as a wealth management firm. Clients want their advisers to address both sides of the balance sheet."

An Ameriprise spokesperson, Kathleen McClung, said Ameriprise has no intention to open physical bank branches. She also pointed to several recent earnings calls in which the firm's CEO and chairman, James Cracchiolo, gave some outline of the plans.

Ameriprise recently applied to convert its national trust bank, which does not offer retail products, to a federal savings bank. Mr. Cracchiolo said in January that Ameriprise was waiting for approvals from regulators and could be up and running in the second quarter.

"We think the banking business will generate a very good margin that could be complementary," he said, according to a transcript of an earnings call posted on investor website Seeking Alpha.

On earlier calls, Mr. Cracchiolo said the bank offering will focus on wealth management products and cited secured lending, home equity lines and mortgages as the types of loans the firm could offer.

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STATE FIDUCIARY

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fortunate result, which we believe is not what the Nevada legislature intended.

"We support strong conduct standards for broker-dealers and investment advisers that will protect investors, while at the same time preserve investor access to a variety of advice and service models," the letter states.

The Nevada Securities Division released the fiduciary proposal in January to implement a law enacted in 2017 that requires brokers to meet a fiduciary duty when working with their clients.

Comments by Morgan Stanley and other firms were reported last Tuesday by the website Law360. Other firms, including Wells Fargo & Co., Charles Schwab & Co. Inc., Edward D. Jones & Co. and TD Ameritrade Inc., said in their comment letters they might cut back on investment options available in Nevada under the current advice rule, according to Law360.

MARYLAND BILLS

The Maryland House Economic Matters Committee and the Senate Finance Committee held hearings last Wednesday on bills that would impose a fiduciary duty on brokers and insurance sales professionals in the state, requiring them to act in their clients' best interest without regard to their own financial gain.

Waves of witnesses gave short testimony before Maryland legislators, with most of the discussion focusing on the fiduciary provision — even though it comprises less than a full page of the 50-page legislation designed to protect financial consumers.

Most of the people participating in the hearings urged Maryland lawmakers to put the brakes on, and warned state action could be preempted by a federal rule.

Lisa Bleier, managing director and associate general counsel at the Securities Industry and Financial Markets Association, tried to assure lawmakers that the centerpiece of the SEC's rule package would require brokers to disclose *and* mitigate conflicts of interest.

"Mere disclosure is not enough under the proposed Regulation Best Interest," Ms. Bleier said.

But Knut Rostad, president of the Institute for the Fiduciary Standard, praised the Maryland bill, saying it would provide better investor protection than the SEC proposal.

"The SEC is virtually certain to fall short of a true fiduciary standard," Mr. Rostad said.

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STRONGER REG BI

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measure would allow brokers to take their own financial interests into account when working with clients.

"Taken together, these shortcomings mean the SEC's rule will still leave retail investors dangerously exposed to substantial losses caused by advice from hopelessly conflicted brokers," Ms. Maloney said.

The highest-ranking Republican on the panel backed the SEC proposal.

"The proposed regulation significantly raises the standard of care by formally establishing the customer's best interest as the overarching standard of care," said Rep. Bill Huizenga, R-Mich. "Consumers will be able to make more-informed decisions about the types of financial professionals who would be able to meet their needs, and allows investors greater choices and access to the products and services they require."

With Democrats in control of the subcommittee, the hearing was dominated by witnesses who questioned the SEC rule.

"Unless the commission is prepared to adopt substantial improvements to Reg BI ... it is likely to do more harm than good by misleading investors into expecting protections that the rule simply does not provide," Barbara Roper, director of investor protection at the Consumer Federation of America, told lawmakers.

PITT PRAISES CLAYTON

Former SEC chairman Harvey Pitt was the only witness who defended the SEC measure. He praised current SEC chairman Jay Clayton for putting advice reform on the table — an issue that has long flummoxed the agency.

"In only two years, the commission has come forward with a very substantial, thoughtful proposal," said Mr. Pitt, chief executive of Kalorama Partners. "The proposed regulation should be seen as an initial step, not as a final step."

Ms. Roper said the measure should be improved by defining the term "best interest," requiring that brokers recommend the best available investment and by requiring that firms implement policies and procedures designed to prevent brokers from putting their interests ahead of their clients' interests, among other steps.

"There is a positive message here," Ms. Roper said in an interview. "It is fixable. There's still time."

Rep. Brad Sherman, D-Calif., asked witnesses whether the SEC proposal was better than the status quo. Everyone except Mr. Pitt answered "no."

"[Having] no rule is better than this rule," said Susan John, chairwoman of the Certified Financial Planner Board of Standards Inc. "The rule undercuts what existed before."

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GENWORTH

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cies have fallen more than tenfold since their peak in the early 2000s, when consumers were buying about 700,000 individual policies, according to AALTCI.

Only a half-dozen insurers remain in the market for traditional LTC insurance, Mr. Slome said, including Massachusetts Mutual Life Insurance Co. and New York Life.

The largest LTC insurers have stopped writing new business entirely, including Continental Casualty Co., a subsidiary of CNA Financial Corp.; John Hancock Life Insurance Co.; MetLife; and Unum Group.

Genworth — which covers roughly 1.2 million policyholders, according to the National Association of Insurance Commissioners — is the exception, though its recent announcement represents a pullback.

"There are fewer and fewer carriers we have the ability to offer folks coverage," said Gregory Olsen, partner at Lenox Advisors Inc.

BROKERS CUT OUT

If more insurers turn to direct-to-consumer sales, brokers would find themselves cut out of transactions. The National Association of Independent Life Brokerage Agencies said it was "deeply concerned about [Genworth's] course of action."

Genworth officials said the suspension, which is indefinite, is primarily due to the company's low credit ratings, which advisers use to assess the probability a company will be able to pay future benefits. The decision reflects both "the realities our company is facing today as well as our efforts to retool our business for the future," said Ms. Westermann.

Some states appear poised to shake up the long-term-care market even more. Washington State lawmakers are pushing legislation that would create a universal, taxpayer-supported long-term-care plan. If states begin adopting these sorts of programs, the LTC market could morph into one selling supplemental insurance products, Mr. Slome said, similar to supplemental Medicare plans that cover additional costs beyond Medicare coverage.

"Sometimes industries need to undergo a seismic shift in order to reemerge," Mr. Slome said. "Often that shift takes quite some time."

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COLLEGE SCAM

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building to get their kids accepted instead of resorting to illegal activity," said David Mendels, director of planning at Creative Financial Concepts.

As the mother of four teenage daughters, Catherine Valega, vice president of wealth management and communications at Sapers & Wallack, can relate to the competitive nature of college admissions, but she said parents shouldn't be discouraged by these "gross and disgusting examples of cheating."

"I can see how it might add to the panic when you see even wealthy people have to pay to get their kids into schools," she said. "But if your kids are hardworking and well-rounded, there are plenty of schools that will be a fit for them and you financially."

While last Tuesday's news centered on clients of The Key, a college admissions consulting business that allegedly took in at least $25 million from parents seeking to get their children admitted to top colleges, some see the allegations as just the tip of the iceberg.

"It's shameful, and it's worth pointing out that these illegal activities are discriminating against talented students," said Mark Kantrowitz, publisher and vice president of research at Savingforcollege.com.

NOT ENOUGH VERIFICATION

"This is just the tip of the iceberg, and the problem is the colleges don't do enough verification," he said. "I would do more statistical analysis to detect fraud, have some automated fraud detection and have a manual review."

Doug Boneparth, president of Bone Fide Wealth, agreed that there are obvious gaps in the system, but he also thinks there's a larger problem with the way Americans view and value college.

"We've convinced the American public that they need a college degree to participate in accumulating wealth, and this could be the top of the market in terms of how backwards this is starting to become," Mr. Boneparth said. "Because there is an increase in demand and because the cost of college has increased around 6% per year, we've created this situation where not only are we seeing wealthy parents willing to do anything, but we've also created a situation where everybody else has to borrow huge sums of money to get a degree that might not even provide a return on investment."

Ms. duQuesnay also sees a need to step back and readjust the focus on higher education.

"Going to a top-level school definitely helps with that first job and it also gives you access to a community of alumni, but beyond that you're on your own, based on your abilities," she said. "I have long told even wealthier clients that there's nothing wrong with starting at a community college and then transferring to a university where you want to graduate."

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SLOAN GRILLING

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the Comptroller of the Currency issued a statement, saying it continues to be "disappointed" with the bank and "its inability to execute effective corporate governance and a successful risk management program."

STIFFER RULES

Meanwhile, lawmakers suggested regulators and other authorities should be harder on the firm, potentially forcing out more executives or bringing criminal charges. They demanded the company do more to make customers whole and advocated stiffer rules for the entire industry. Rep. Brad Sherman, D-Calif., yelled at Mr. Sloan to end forced arbitration and support overdraft protection legislation.

Andy Barr, R-Ky., said "the issue within the institution was not a matter of size, it was a matter of culture."

Mr. Sloan, who took the helm weeks after the first scandal emerged in September 2016, remained calm as he fielded questions. He argued the lender isn't too big to manage and categorically denied assertions in a recent New York Times article that cited Wells Fargo employees who said its culture hasn't changed and that misaligned sales incentives still exist.

"It's my job as CEO to make sure things change and they are changing," he said. He said repeatedly that although he can't promise perfection, he's the right person to lead the company.

The board has credited Mr. Sloan with for rooting out and fixing past problems, addressing regulators' concerns, tightening internal oversight and taking other steps to improve earnings.

Wells Fargo's scandals have been wide-ranging and costly. Following the revelation that employees opened millions of accounts without customers' permission to meet sales goals, issues have emerged in the consumer lending, wholesale and wealth management units. The company forced unnecessary insurance policies on auto-lending customers, charged borrowers improper fees to lock in mortgage rates and foreclosed on struggling home buyers who could have had debts modified.

Last year, the bank paid $1 billion to federal regulators to settle allegations it mistreated consumers. In December, it settled with 50 states and the District of Columbia for $575 million. The abuses led the Fed to bar the bank from growing total assets beyond their level at the end of 2017 until lapses are fully addressed.

WELLS SUCCESSION

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as the "trailing 12" in brokerage industry parlance. That means a retiring adviser could receive a total valuation of 225% of his annual fees and commissions.

The new bonus has a five-year vesting period, according to the firm. The new plan is an additional part of Wells' current succession program for its close to 14,000 reps and advisers.

In turn, when a current adviser is buying the book of business of a retiring adviser, Wells Fargo Advisors is stepping into the transactions as a sort of underwriter in the deal and will provide up to 100% of the "trailing 12" that the younger adviser is purchasing from the retiree. That is significant because it is standard practice for the younger adviser, after the firm finances the acquisition of the retiring advisers' clients and assets, to pay the firm back over several years' time.

"This is a big deal," said one Wells Fargo Advisors rep who asked not to be named. "I do believe this could be a deal changer to keep retiring advisers at the firm by having Wells Fargo provide a significant incentive that challenges what an adviser can get if he moves his book to another firm and gets a bonus."

There is a catch, the adviser noted. Reps getting the added compensation under the new plan, dubbed the Summit Program, work under a three-year nonsolicitation agreement.

"I think it's an interesting idea," said Louis Diamond, an industry headhunter. "Wells Fargo is changing two things. First, there is the 25% bonus to enroll in the program. Next, the firm is putting real money into succession buyouts, totaling almost half of maximum value of the buyout.

"It's a form of a retention deal for the older advisers, and the firm putting up real money is a way to hang on to younger advisers buying book," he said.

"The nonsolicit helps to protect the financial investment the buying [financial adviser] is making in the transaction," said Kim Ta, director of planning and succession programing at Wells Fargo Advisors. "It also protects sellers' payment stream in retirement, and to protect the significant financial investment that WFA is now making to both parties."

'MASSIVE TRANSFER'

The new retention and retirement plan required years of planning, according to one firm executive.

"It's no surprise we have a demographic of advisers who are considering retirement," said John Alexander, head of advisor-led business for Wells Fargo Advisors. "In the next five to 10 years there's going to be a massive transfer of clients from one generation to the next and we want to ensure the transition for clients is as seamless as possible."

The new program for retiring advisers at Wells Fargo, which takes effect in April, comes on the heels of other significant moves by the firm to bolster its ranks.

Wells Fargo Advisors kicked off the year by touting one of the most lucrative recruiting deals currently offered in wealth management.

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> **"THE FIRM PUTTING UP REAL MONEY IS A WAY TO HANG ON TO YOUNGER ADVISERS."**
> LOUIS DIAMOND, INDUSTRY HEADHUNTER