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RETIREMENT PLAN ADVISER: BLOCKCHAIN TO UPEND 401(K) BIZ **PAGE 12**

InvestmentNews®

MARCH 25-29, 2019

THE LEADING INFORMATION SOURCE FOR FINANCIAL ADVISERS

M&A IS TRANSFORMING THE ADVICE INDUSTRY

AS OLDER ADVISERS RETIRE, NEW MEGA FIRMS ARE TAKING OVER THE RIA SPACE

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TOP NEWS

ACCURACY / EXCELLENCE / FAIRNESS / IMPARTIALITY / INDEPENDENCE

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Cover: Dongyun Lee

Women to Watch
Takeaways from a recent event honoring top women in the advice industry.
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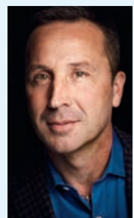
ONLINE
10 social media stars you're not following yet, but should be
InvestmentNews.com/socialstars

EDITOR'S NOTE

Seismic shift taking place in RIA space

Clearly, the M&A party is just getting started.

This week's cover story looks at the trend we're seeing in mergers and acquisitions involving registered investment advisers. It also looks at the future of M&A activity in the RIA space, and by all accounts that future looks bright — like get-out-your-sunglasses-and-don-the-SPF-65 bright.


FRED GABRIEL

There are a variety of factors fueling the impending M&A boom, not the least of which has to do with simple demographics. The average age of a financial adviser right now is 57, which means more advisers will soon be looking to get out of the business.

"We know the demographics for financial advisers are skewed toward the older end, and right now we're not seeing enough deal volume to just clear the retirement dynamic of this industry," David DeVoe, managing director at investment bank DeVoe & Co., told *InvestmentNews* senior columnist Jeff Benjamin in this week's story. "We should be seeing 200 to 250 advisers selling their firms annually just for succession, and I think the flood gates will open over the next five-plus years."

Interests from private-equity firms is also driving M&A activity. Indeed, PE firms have already taken ownership stakes in major consolidator firms like Carson Group, Mercer Advisors, Focus Financial and HighTower Advisors.

As our cover story makes clear: We are in the nascent stages of consolidation among RIAs. Soon the RIA industry will likely look vastly different than it does today. Not only will there be fewer firms, but existing RIAs will likely be significantly bigger.

InvestmentNews will be covering this seismic shift in every way, shape and form.

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Huge DC deal in works?

BY GREG IACURCI

THERE WOULD be a new behemoth among record keepers of defined-contribution plans if Principal Financial Group were to follow through on a reported deal to acquire Wells Fargo & Co.'s retirement-plan unit.

The deal — which could fetch more than $1 billion, according to Reuters — would be among the industry's largest ever, and more than double Principal's retirement plan assets under administration.

Wells Fargo oversees $364 billion in retirement assets for institutions — $239 billion in DC-plan assets and the remainder in pension plans. Wells Fargo oversees nearly 3,500 defined-contribution plans with 3.4 million participants.

KEY POINTS
- Reported deal has Principal buying Wells Fargo's retirement-plan business.
- Wells Fargo oversees $364 billion in retirement assets.
- DC-plan leader is still Fidelity.

Principal, meanwhile, has $206 billion in retirement assets — $187 billion of which comes from approximately 38,000 defined-contribution plans. Its total number of participants is unclear.

The combined retirement unit would put the insurer in the same league as TIAA, Vanguard Group, Empower Retirement and Alight Solutions, each of which has several hundred billion dollars in retirement assets under administration and are among the largest service providers to DC plans, behind front-runner Fidelity Investments.

MORE
Wells productivity and settlement.
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WELLS FARGO

Thinning units good for Wells

Wells Fargo & Co. appears to be paring back on its businesses, and that could be a good thing for the 14,000 financial advisers and registered reps who work under the roof of its brokerage and advisory subsidiary, Wells Fargo Advisors.

After all, fewer business units at Wells Fargo could mean more focus on banking and financial advice. Those are the core businesses of the ailing franchise, which has been operating under storm clouds since September 2016, when the company revealed its employees, under pressure from management, created millions of fake customer accounts.

TOUGH CONVERSATIONS

Since then, some Wells Fargo advisers have had to deal with uncomfortable conversations with clients regarding why they continue to work at a firm connected to such sor-

BRUCE KELLY
ONADVICE

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Ameriprise offloads $1.7B in annuities

BY GREG IACURCI

AMERIPRISE Financial Inc. has offloaded $1.7 billion in fixed-annuity liabilities to Global Atlantic Financial Group, representing roughly 20% of the company's fixed-annuity account balances, the firm announced last Tuesday.

Commonwealth Annuity and Life Insurance Co., a Global Atlantic subsidiary, is reinsuring the annuities on the books of Ameriprise subsidiary RiverSource Life Insurance Co., which will retain account administration and servicing.

In a reinsurance transaction, one firm contractually accepts the risk of another company. There are several reasons a company might enter into a reinsurance agreement. Ameriprise, for example, is shifting its business mix toward less capital-intensive lines and has generated $200 million of deployable capital from the transation.

REDUCING EXPOSURE

Other potential reasons include transferring certain types of risk, such as longevity or investment risk, exiting a certain business line, increasing the profitability of an insurance product, and reducing an insurer's exposure to large claims, according to the Society of Actuaries.

Global Atlantic was the No. 4 seller of fixed annuities last year through the third quarter, having sold $5.6 billion in products over that period, according to Limra, an insurance industry group.

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Finra budget keeps member fees steady in 2019

BY JEFF BENJAMIN

THE FINANCIAL Industry Regulatory Authority Inc. will not raise member fees for the sixth straight year, but depending how much it takes in through fines and market performance, the broker-dealer regulator could draw up to $186 million from its cash reserves this year.

That aspect of the 2019 Finra budget summary released last Thursday was a sticking point to some critics of the strategy.

While Finra members might appreciate the fee news, Todd Cipperman, principal at Cipperman Compliance Services, said members should be wary. The potential budget shortfall of $185.8 million, up from $138.1 million a year ago, is "problematic for members," Mr. Cipperman said.

CLOSING BUDGET SHORTFALL

"Finra has a significant financial incentive to bring enforcement cases and impose fines in order to close its budget shortfall," he said. "In 2017, Finra assessed over $170 million in fines, an 82% increase over the prior year. Finra needed these fines to close a significant funding gap."

Finra's 2018 report is not yet final, but in the 2019 summary it cited the example of a 2017 potential reserve reliance of $142.8 million, that ultimately resulted in a net income of $41.6 million for the period.

$186M
FINRA'S POTENTIAL BUDGET SHORTFALL IN 2019

A Finra spokesman confirmed that the potential reserve reliance line item in the budget is a projected budget shortfall that assumes no change in the value of Finra's $1.7 billion cash reserve.

Adam Gana, attorney at Gana Weinstein, disputes the claim that Finra would seek fines to balance its nearly $1 billion budget.

"Finra should be motivated to bring enforcement proceedings based on the actions of its membership and its stated goal of investor protection," he said. "I disagree that there is any evidence that Finra is motivated to act based on its own pecuniary gain. Sounds like nonsense."

But Daniel Nathan, partner at Orrick Herrington & Sutcliffe and a former Finra vice president and director of regional enforcement, also cited the potential incentive to rely on fines for revenue.

"There appears to be some inconsistency," he said. "On one hand, they say they are excluding fine monies from budgetary needs, but on the other hand Finra's stated guiding principles are that the fines will be used to promote compliance and improve markets. It does appear to create an incentive to collect fines, notwithstanding their claims otherwise."

'CONSERVATIVE METHODOLOGY'

Mr. Nathan's perspective is in reference to the budget summary text detailing that it "continues to reflect the intentionally conservative methodology we adopted last year, which assumes there are no fine monies available to support capital initiatives, and that there are not investment gains or losses on our financial reserves."

Finra's budget shows projected 2019 operating expenses of $922.5 million, up from $889.6 million last year. The 3.7% increase is attributed to compensation and technology expenses, the report states.

Operating revenues, projected at $846.9 million in 2019, have remained relatively steady.

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FPA, Kitces butt heads over revenue

BY JEFF BENJAMIN

THE FINANCIAL Planning Association was forced into scramble mode March 15 after a blog post from Michael Kitces alleged that the organization was responsible for nearly $8 million worth of "missing" revenue over the past decade.

Mr. Kitces, partner and director of wealth management at Pinnacle Advisory Group and co-founder of XY Planning Network, drew his conclusion by comparing audited FPA financial statements from 10 years ago with data provided during a January webinar to FPA members.

Mr. Kitces, who acknowledged in his blog that it could be a simple mistake, homed in on a webinar chart showing revenues and expenses that were out of sync with financial statements from 2007 through 2009.

MICHAEL KITCES

For it's part, the FPA spent most of March 15 working with accountants and auditors to try to "understand where he's drawing his conclusions," according to an FPA spokesman.

Later that day, the FPA sent an email to its chapters that charged Mr. Kitces with "attacking FPA volunteer leaders and staff for alleged financial mismanagement of FPA's resources, going so far as to imply the possibility of fraud and embezzlement."

The FPA email, sent with the subject line "Response to Michael Kitces Blog Post," went on to rebut and explain specific charges by Mr. Kitces regarding the FPA's financial statements.

ACCOUNTING CHANGE

Turns out, the explanation for the $7.7 million gap highlighted by Mr. Kitces was due to an accounting change instituted in 2013 that was presented retroactively in the January webinar slide, which showed the revenues to be lower than were presented in audited statements for years prior to 2013.

The issue, according to FPA president Evelyn Zohlen, related to the way the FPA since its inception had been counting membership dues as revenue and the varied rebates back to chapters as expenses.

That changed starting in 2013, when an external audit by CapinCrouse said

CONTINUED ON PAGE 34

Fidelity sued again for 401(k) fee

BY GREG IACURCI

FIDELITY Investments has been sued by 401(k) participants from three different retirement plans who allege the firm charged an "illegal and undisclosed" fee to certain business partners, resulting in higher costs and reduced retirement savings for investors.

The allegations are similar to those in a separate lawsuit filed last month by a 401(k) plan participant, sparking investigations by the Labor Department and Massachusetts' Secretary of the Commonwealth, William Galvin, into the Fidelity fee and the firm's disclosure of it.

They also come at a particularly litigious time in the retirement market, which has seen an increase over the past few years in the number of lawsuits filed against plan sponsors and service providers.

'SUBSTANTIAL' AMOUNT

The latest Fidelity lawsuit — Gina Summers et al v. FMR LLC et al. — claims that Fidelity, since 2016, has charged investment companies a "substantial" fee as a condition of offering their investment products to 401(k) investors.

Plaintiffs claim the fee, which Fidelity characterizes as an "infrastructure fee," increased fund expenses and wasn't disclosed to 401(k) clients. That represents a breach of the Employee Retirement Income Security Act of 1974, which requires disclosure to plan sponsors of such marketing and distribution fees, according to the lawsuit, filed March 18 in Massachusetts district court.

Fidelity spokesman Michael Aalto said the company denies the allegations and intends to defend itself "vigorously."

"Fidelity fully complies with all disclosure requirements in connection with the fees that it charges, and any assertion to the contrary is not only misleading but simply false," Mr. Aalto said.

COSTLY SERVICE

He also defended Fidelity's practice of charging an infrastructure fee to fund firms, saying the systems and processes required for record keeping, trading and settlement, communications, and support for customers over the phone and online is costly to maintain. The fee, Mr. Aalto said, is not charged to plan sponsors or participants.

The three plaintiffs in the case are Gina Summers, a participant in the Rock Holdings & Associated Companies 401(k) Savings Plan; Cynthia Eddy, a participant in the Cadence Health Matched Savings Plan; and Kayla Jones, in the Blue Shield of California Tax Deferred Salary Investment Plan.

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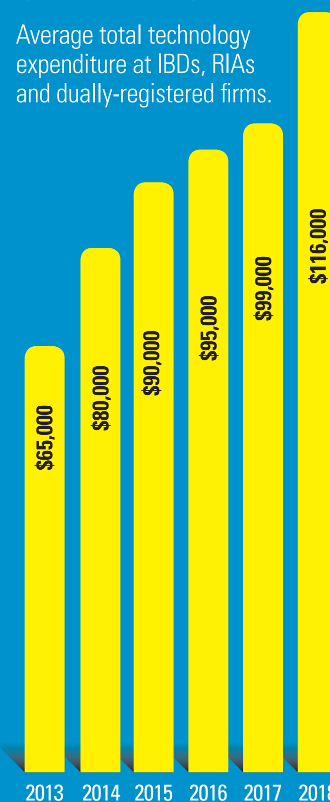
TECH SPENDING ON THE RISE

Average total technology expenditure at IBDs, RIAs and dually-registered firms.



Source: 2019 *InvestmentNews* Adviser Technology Study

Meet our new retirement columnist

GUESTBLOG
JAMIE HOPKINS

Most nights I go to bed thinking about retirement planning. Sometimes I dream about retirement planning. And typically, I wake up thinking about retirement planning.

To be honest, I have become a bit obsessed with personal financial planning and the retirement period of one's life.

Retirement income planning — the process and practice of turning a client's assets into a sustainable lifetime of income to meet their needs — is what brought me into the profession.

In 2012, professor David Littell was spearheading the development of a new retirement income education program at The American College of Financial Services that would later become the retirement income certified professional, or RICP, designation. He was looking for a professional to help him build out the program, specifically someone with a top-level degree who had experience with ERISA and taxes. I checked those boxes, but the next qualification was a bit harder to explain: Mr. Littell wanted someone who was passionate about retirement income planning. I was 28 at the time.

When Mr. Littell and I spoke, I believe I made a passionate and convincing case for why retirement income planning intrigued me. I say "I believe" because he did eventually hire me. I showed this passion because I saw the need for such planning, given my own life experiences.

NO 401(K)S OR PENSIONS

My parents did not graduate from college and did not have 401(k)s or pension plans. My mother and father worked for themselves in the construction business. While they provided for my sisters and me and gave us amazing opportunities, I know that personal finance and retirement planning weren't their strongest areas.

I also like to observe the world. What I saw was news article after news article focused on baby boomer retirement, and TV commercial after TV commercial pushing different retirement products and planning. If you opened your eyes, retirement planning was all around — but shockingly, I realized people

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Blucora to buy another B-D with tax focus

BY BRUCE KELLY

TAX PREPARATION software company Blucora Inc. said last Tuesday it intends to continue to add to its wealth management and tax preparation business and will pay $180 million in stock for 1st Global Inc., an independent broker-dealer that focuses on taxes and CPAs.

It is the second such acquisition in the past 3½ years by Blucora; in October 2015, the company announced its purchase of HD Vest Financial Services Inc. for $580 million from private-equity owners.

1st Global's 850 advisers control close to $18 billion in client assets. The transaction is expected to close by the end of June; at that time, the two broker-dealers will have a combined 4,500 advisers with close to $60 billion in client assets.

Blucora also said last Tuesday it intended to buy back $100 million of its shares. Shares of Blucora rose nearly 19% by noon and were trading at $33.78.

CHANGES IN MANAGEMENT

HD Vest has recently seen some changes in its senior management. CEO Bob Oros left the firm in November and opened the year as CEO of HighTower Advisors, the RIA consolidator. Todd Mackay is now the firm's CEO.

1st Global specializes in working with large accounting firms

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[1] Survey of 202 financial professionals who sold a Brighthouse Financial product in the past 12 months. MMR Research, Inc. and Brighthouse Financial, September 2018.
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OPINION

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Don't write off ESG investments out of habit. The demand is real

OPPORTUNITIES IN THE financial services industry rarely look as inviting as the current market for investments focused on environmental, social and corporate governance factors.

At around $12 trillion, which is up 38% from two years ago, ESG strategies now make up about a quarter of all U.S. assets under professional management.

The growth is driven largely by people under age 50, especially women, who have become faithful proponents of ESG-related investments.

Yet the majority of investors, who do most of their investing through company-sponsored retirement plans, have very little access to ESG strategies.

As senior columnist Jeff Benjamin reported in last week's cover story, it's estimated that fewer than 8% of company-sponsored retirement plans offer even a single ESG fund in their investment lineups.

Stack that against a recent Natixis survey showing that 74% of plan participants want access to ESG funds in their retirement-savings plans, and it looks like a no-brainer for the financial planning industry.

In baseball parlance, this kind of opportunity might even be referred to as a hanging curveball waiting to be hit out of the park.

Companies that sponsor retirement plans may have shied away from such funds in the past because of their cost and performance, as well as uncertainty about the regulatory environment.

But while ESG funds have had a reputation as expensive underperformers, recent data from Lipper suggest that's not the case.

For example, Lipper shows ESG equity funds have returned 3.92% on average annually in the five years through 2018, which is the same as the five-year return on non-ESG equity funds. ESG bond funds averaged 2.22% over that period, while non-ESG bond funds averaged 2.32%.

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

Even higher fund expenses, once seen as a reality of investing for a good cause, no longer hold up as a reason to avoid ESG funds.

EXPENSES ON PAR

To be clear, for the sake of simplicity, we're comparing big broad averages of more than 23,000 non-ESG funds with a more concentrated mix of 870 ESG funds. But, according to Lipper, the average expense ratio of ESG equity funds is 1.03%, which compares to 1.12% for non-ESG equity funds.

On the regulatory front, the Department of Labor provided guidance in 2015 that said taking ESG considerations into account when selecting plan investments was within the bounds of a sponsor's fiduciary duties. But last April, additional DOL guidance said the screening of funds should be the same for ESG and non-ESG investments.

That latest round of guidance doesn't mean the DOL is standing in the way of plan sponsors who want to include ESG funds on plan menus though. As Mr. Benjamin reported in his cover story, plan sponsors and the financial advisers working with them should just keep in mind that the evaluation of funds for consideration on a retirement plan menu needs to be consistent.

THERE IS APPETITE FROM 401(k) PARTICIPANTS, AND OPTIONS TO FEED THEM.

For financial advisers already helping sponsors manage their retirement plans or those who want to get a foot in the door to that potentially lucrative market, a focus on ESG strategies could be advantageous.

The appetite from employees is there, the products and strategies will pass through most screens, and the regulators are not blocking the path.

Nobody expects a company to exercise a clean sweep of its retirement-plan investments menu and convert to an all-ESG lineup.

But a savvy financial adviser would add a lot of value by offering some ESG funds and underscoring the benefits to employers of using them as a tool for recruiting and retaining employees.

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out of 697 Allocation – 50% to 70% Equity Funds as of 12/31/18

FORTY FUND (JCAPX)

★★★★

Overall Morningstar Rating™
out of 1246 Large Growth Funds as of 12/31/18

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FULL SPEED AH

THE PACE OF M&A IS EXPECTED TO PICK UP AS BIG FIRMS SEEK TO GET EVEN BIGGER AND OLDER ADVISERS LOOK TO CASH OUT

BY JEFF BENJAMIN

THE STEADY increase in merger and acquisition activity in the registered investment advisory space over the past six years might seem impressive to some, but for industry players like Ron Carson, the party is just getting started.

"I used to say, we're at the first pitch of the first inning, regarding consolidation in the RIA space, but now I believe it's more like the game hasn't even started yet," said Mr. Carson, founder and CEO of Carson Group, an $8.4 billion firm that has made mergers and acquisitions a foundation of its growth strategy.

"In seven years or less, you will see a third less firms than we have today in this industry," he said.

Mr. Carson, who says he has 17 acquisition deals in the works, is not alone in his view of a rapidly consolidating financial planning industry. While an aging adviser population looking for an exit strategy is still believed to be one driver of M&A, experts say the desire for economies of scale and the availability of capital from private equity are also major factors. And although the rise and fall of the stock market will continue to affect M&A activity, few believe that it will have any long-lasting effect on the trend toward consolidation.

One reason is because so little consolidation of the industry has taken place.

"Despite the record-level M&A activity, there's still not a lot happening given the size of the industry," said David DeVoe, managing director at the investment bank DeVoe & Co.

In some ways, tracking M&A activity in the RIA space is more art than science, because most of the deals involve privately owned firms, and the data collectors each have their unique criteria for calculating market activity.

But regardless of how the data are measured, the trends illustrate steady M&A growth.

Mr. DeVoe's calculations of RIAs registered with the Securities and Exchange Commission with at least $100 million under management count 97 acquisitions last year out of 5,000 SEC-registered RIAs.

That total is up from 89 in 2017 and 36 deals in 2013, but is still just scratching the surface of pent up deal potential, according to Mr. DeVoe.

Deals are not only becoming more plentiful, they also are getting bigger.

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EAD

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Mr. DeVoe reports that $513 billion in assets under management changed hands last year.

The 10 largest transactions in 2018 constituted $391 billion in AUM, which was nearly 24% more than the $316 billion top 10 total of 2017, and more than five times the $69 billion top 10 total of 2016.

'FLOOD GATES WILL OPEN'

Despite all of the rosy numbers, Mr. DeVoe said M&A activity is still relatively small.

"We know the demographics for financial advisers are skewed toward the older end, and right now we're not seeing enough deal volume to just clear the retirement dynamic of this industry," Mr. DeVoe said. "We should be seeing 200 to 250 advisers selling their firms annually just for succession, and I think the flood gates will open over the next five-plus years."

The reasons for M&A activity have changed over the years.

"It used to be the vast majority of deals were done because somebody was exiting the industry, but over the past few years we're seeing more deals done to achieve scale and for strategic reasons beyond succession planning," Mr. DeVoe said.

$391B

AUM OF THE 10 LARGEST RIA MERGERS IN 2018, A 24% INCREASE OVER 2017

A subdriver of M&A activity is the growing influence of private-equity investors that is fueling deal activity by taking ownership stakes in major consolidator firms like Carson Group, Mercer Advisors, Focus Financial and HighTower Advisors.

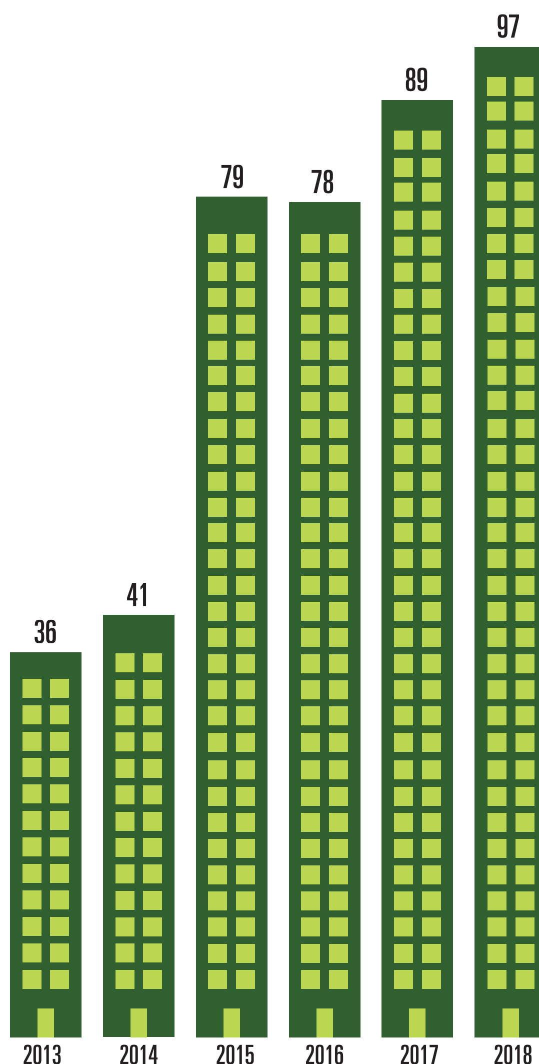
"Private equity has helped to accelerate the pace of consolidation, but it didn't create consolidation in the RIA space," said David Barton, vice chairman at Mercer Advisors, a $15 billion, PE-backed firm that made eight acquisitions in each of the past two years and has completed two deals already this year.

"It's a competition issue," he said. "Smaller firms realize the larger firms can offer more services in addition to investment management and financial planning, so for them it's 'build it or join it.'"

While Mr. Carson and Mr. Barton cite the benefits of PE support, the flip side is seen as sometimes short-term and overly aggressive money.

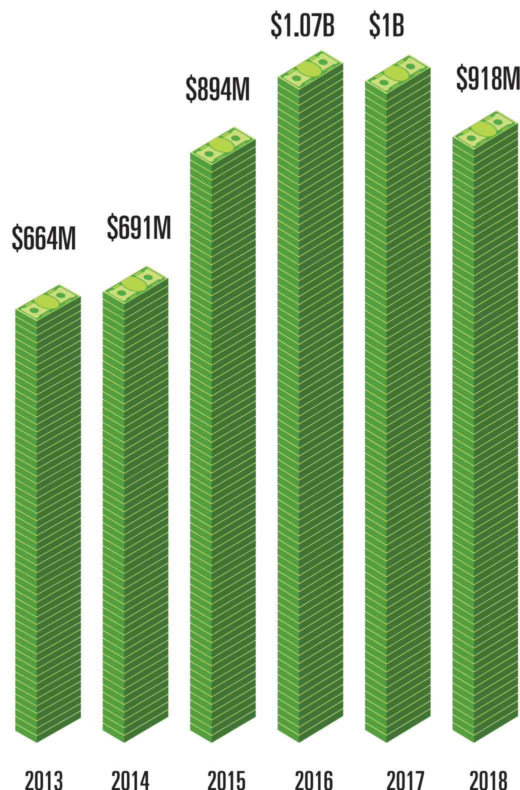
"Private equity in many cases is not patient money," said Tom Haught, founder of Sequoia

RIA TRANSACTIONS BY YEAR



AVERAGE AUM OF RIA SELLERS

(INCLUDES ONLY RIAS WITH BETWEEN $100M AND $5B)



Source: DeVoe & Co.

Financial Group, a $5 billion firm that has made three acquisitions in the past two years without the help of PE money.

Scott Slater, vice president of practice management and consulting at Fidelity Clearing & Custody Solutions, believes the stock market is playing a part keeping a certain amount of M&A activity at bay.

"I don't think there's enough activity yet," he said. "I think a lot of owners still like what they're doing, but there are dynamics that could change. Look at the [independent broker-dealer] world where they are not as valuable as they used to be."

Mr. Slater recalls the peak-valuation period of 2007 leading into the financial crisis and thinks some advisory firm owners could be at risk of riding the seller's market a little too long.

MARKET VOLATILITY

Even though it might be easier to postpone succession planning when the equity markets are strong, Mr. Slater said evidence of the market's influence on deal activity popped up briefly during the 20% market correction at the end of last year.

"I do think we appear to be potentially at a time of peak valuations, and market volatility could drive more discussions," he said. "A good example is during the volatility of last year, more advisers were having more serious conversations about selling."

The main reason the bull market for stocks has driven up RIA valuations and put sellers in the driver's seat is that most advisory firm revenues are based on AUM.

A stock market pullback is seen as a potential disruptor to the pace of M&A activity, even if it's a temporary one.

"I think sellers can and have commanded better deals and better terms, and the stock market cycle has everything to do with it," said Peter Raimondi, an industry veteran who recently founded Dakota Wealth Management, a $700 million firm that has made three acquisitions in its first eight months.

TABLES WILL TURN

A down market cycle for stocks, he added, is where the tables will turn in favor of the buyers.

"You have RIAs who have not experienced what it's like to have profits disappear for any period of time," Mr. Raimondi said. "A bear market will shift this to a buyer's market because the RIAs will feel like they have to sell."

Kurt Miscinski, president and chief executive of Cerity Partners, believes a stock market slowdown could slow the pace of M&A activity, but he doesn't believe the larger trend is going away.

Cerity is a $10 billion PE-backed firm that has made seven deals in the past 10 years.

"Acquisitions are a great way to bring together advisers and clients, and develop a geographic presence," he said. "We will continue to make acquisitions."

Good times or bad, a major consolidation driver will continue to be the pursuit of scale, according to Rush Benton, senior director of strategic wealth at Captrust, a $315 billion firm that he describes as "active as hell" in acquisitions.

"THERE'S DEFINITELY SOME FEAR OF BEING A SMALL HARDWARE STORE AND HAVING A HOME DEPOT OPEN ACROSS THE STREET."

— RUSH BENTON, SENIOR DIRECTOR OF STRATEGIC WEALTH, CAPTRUST

"The sellers want to benefit from the scale of better technology, better senior management and better back-office support," he said, emphasizing that even succession-plan acquisitions typically involve the seller sticking around for three to five years after the deal is complete.

Mr. Benton also believes sellers are at least partially motivated by the fear of missing an opportunity to be a part of something bigger.

"If you don't get on the train, there's an opportunity cost," he said. "And there didn't used to be trains to get on, the way there are today."

As more mega firms form and continue to expand, Mr. Benton still sees a place for the sole proprietor RIA or even small regional firm, but the challenges will be greater.

"There's definitely some fear of being a small hardware store and having a Home Depot open across the street," he said. "The bigger you get as an industry the more you become a real business, and Home Depots happen in real businesses."

Carolyn Armitage, managing director at the investment bank Echelon Partners, fully appreciates the drivers toward size and scale in the RIA space, but said "boutique firms can still have a terrific niche, and I don't see them going away."

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RETIREMENT PLAN ADVISER

BLOCKCHAIN WILL UPEND THE 401(K) MARKET

The technology has the potential to change and improve how advisers do business

BY GREG IACURCI

Blockchain technology is poised to completely upend the retirement market and the way 401(k) advisers do business.

The technology, while nascent among record keepers of defined-contribution plans, promises to boost cybersecurity, increase efficiency (thereby decreasing overall 401(k) plan costs), and vastly improve data sharing between advisers and record keepers.

"There's a lot of curiosity around it," said Tim Rouse, executive director of the Spark Institute, a nonprofit trade group for retirement plan service providers. "It's a very new technology, but it has a lot of potential for our

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Will the technology disrupt plan advisers?
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Greater use of such products are squeezing out fund managers.
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Technology can help broaden this offering's appeal to employees.
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Technology
This component is key to running a strong business.
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Could BlackRock's pivot to technology be the blueprint for other asset managers?

Use of managed accounts and new products threatens to squeeze fund managers out

BY RYAN W. NEAL

The retirement asset management business is feeling the pinch.

Fred Barstein, founder and CEO of The Retirement Advisor University, recently pointed out that asset managers are seeing margins shrink. The increasing use of managed accounts and index strategies instead of target-date funds, as well as record keepers rolling out their own investment products, threatens to squeeze fund managers out of the defined-contribution marketplace.

"Record keepers are in control," Mr. Barstein said. "They have the access, the data, they're client-facing and have all the accounts. They know when someone is rolling over, and they're interfacing with the plan sponsor."

But don't expect the asset managers to just roll over. As Dr. Ian Malcolm said in "Jurassic Park,""Life finds a way." With 90 million investors and trillions of dollars up for grabs, expect firms to find new ways into the DC market.

INVESTING MORE

What could this pivot look like? One possibility is asset managers investing more in technology.

Look no further than what the industry's leader in assets under management has been up to. In December, BlackRock announced a partnership with Microsoft to develop what they call a "next-generation retirement platform."

The companies aren't yet sharing details, likely because the project is still early in development, but the general idea is to combine Microsoft technology with "next-generation investment products" created by BlackRock.

Mr. Barstein sees the investment in technology as an opportunity to distribute investment products directly to plan participants without working with an adviser. It also taps into the market made up of the millions of people who can't afford to work with a traditional financial adviser.

INCREASED CUSTOMIZATION

Technology could also position BlackRock to meet plan sponsors' demand for increased customization, managed accounts and better digital experiences in DC plans.

The underlying products aren't as important any more, said Neil Bathon, founder and partner of Fuse Research Network; the winners in the retirement market will be the firms that can use technology to improve plan participants' engagement, outcomes and retention.

"You used to be able to get a big plan sponsor to engage with you if you had better education, or a more thoughtful glide path for a target-date fund," Mr. Bathon said. Nowadays, everyone has the same basic investment offerings. "It's what you can do for the participant that will determine the winners."

Microsoft is far from BlackRock's first foray into consumer-facing technology. The asset manager was an early investor in the digital advice company Personal Capital and has a stake in micro-investing robo-advice app Acorns and a product partnership with Betterment.

"Competitors are locked somewhat into a mindset that they can't compete directly with advisers," Mr. Bathon said. "BlackRock has a willingness to go direct."

> **"RECORD KEEPERS ARE IN CONTROL."**
> FRED BARSTEIN, FOUNDER AND CEO, THE RETIREMENT ADVISOR UNIVERSITY

BlackRock hasn't avoided the adviser space, either. Earlier in December, the company integrated its iRetire income calculator with eMoney Advisor, potentially getting BlackRock's retirement solutions in front of the 50,000 advisers who use the financial planning platform.

The asset manager also acquired a 4.9% equity stake in fintech giant Envestnet (which, by the way, has a new digital annuities marketplace) in November, and is providing risk analytics software to Morgan Stanley's new adviser technology suite. In 2015, BlackRock acquired FutureAdvisor, which now powers digital advice platforms at banks and broker-dealers.

BlackRock declined to comment on the strategy driving all of its investments, but it's not hard to see where it's all heading. Whether an investor is saving for retirement or investing in a brokerage account, is self-directed or working with an adviser, BlackRock will be there, happy to provide investment products.

"They are buying and building services that let them compete across all channels," Mr. Bathon said.

WILL OTHERS FOLLOW?

The question now is whether product-focused DC asset managers will follow suit. Several firms have joined Envestnet's Insurance Exchange, but haven't said much about investments in consumer- or adviser-facing technology.

"We don't have a lot of examples yet," Mr. Barstein said. "The most we can do is speculate."

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Levering tech for financial wellness

As this benefit becomes more common, employers should ensure their programs have smart defaults and employee touch points

When employees struggle financially, their employers struggle. Recent research on short-haul truck drivers conducted at the University of Pittsburgh shows that when employees' financial stress rises, companies experience a $1.4 million increase in costs due to preventable accidents, according to a report, The Cost of Financial Precarity. Intuitively understanding this, more and more employers are offering workplace financial wellness programs.

Unfortunately, many current wellness programs are ineffective. They focus primarily on providing information or access to additional resources, such as personal financial management apps, financial advisers or financial coaches. Because all three require significant time and effort, they are rarely accessed by employees and are rarely paired with actionable steps.

We suggest another strategy for workplace financial wellness programs that works across the employee lifecycle to leverage the tremendous power of existing human resources digital platforms.

DAY ONE

New employees make many of their most important financial decisions during company on-boarding. As they traverse the HR setup, they choose a retirement plan, set up paycheck direct deposit and decide on health insurance.

The first leg of any good financial wellness program for employers should be to pay close attention to the platform defaults. For instance, is the retirement savings program opt-out? Ninety-two percent of new employees choose to participate in their employer's 401(k) program when the program is opt-out, or automatic enrollment, compared to only 47% when it is voluntary enrollment, according to a report published last year by Vanguard Group

ANDREA DINNEEN

Do contribution rates increase automatically with pay raises? Auto-escalating contribution rates lead participants to increase their retirement savings contributions from 3.5% to 13.6% over 40 months, according to the book "Save More Tomorrow" by Shlomo Benartzi (Penguin Group, 2012).

MARIEL BEASLEY

Finally, are employees encouraged to set up paycheck direct deposits to both checking and savings accounts? An estimated 93% of employees who split their direct deposit report saving every month — yet only 21% of employees currently split their direct deposit into multiple accounts, according to the Electronic Payments Association. Companies should work with their HR platform providers to ensure good financial choices are the default option.

PROMOTIONS, JOB CHANGE

Promotions or job changes are another good area for financial wellness programs to focus on, since it's at these key moments that employees should reset their defaults.

While one-on-one coaching can work at these moments, it's expensive to implement. Again, technology can help.

We are working with a national network of financial coaches to reduce costs by automating appointment scheduling, defaulting follow-up appointments and being deliberate about what data are shared with the coach ahead of the first meeting so in-person time is as efficient as possible. Further, digital coaching programs like MoneyMap or Ayco are high-tech, high-touch solutions that service a higher number of employees at a lower cost during these transitions.

Fully integrated coaching programs can also be proactive in reaching out to employees during critical life events like the addition or removal of a spouse or dependent, a location transfer, job promotion or a drop in job performance.

OPTIMIZE SCHEDULING

Employers can also produce positive results for workers on a more regular basis.

Employees with more predictable schedules fare better economically, according to the Center for WorkLife Law. They don't have to pay the babysitter more when they need to work late or take an unanticipated taxi when their shift changes. Working a similar number of hours every week makes budgeting easier and allows part-time employees to confidently pick up second jobs.

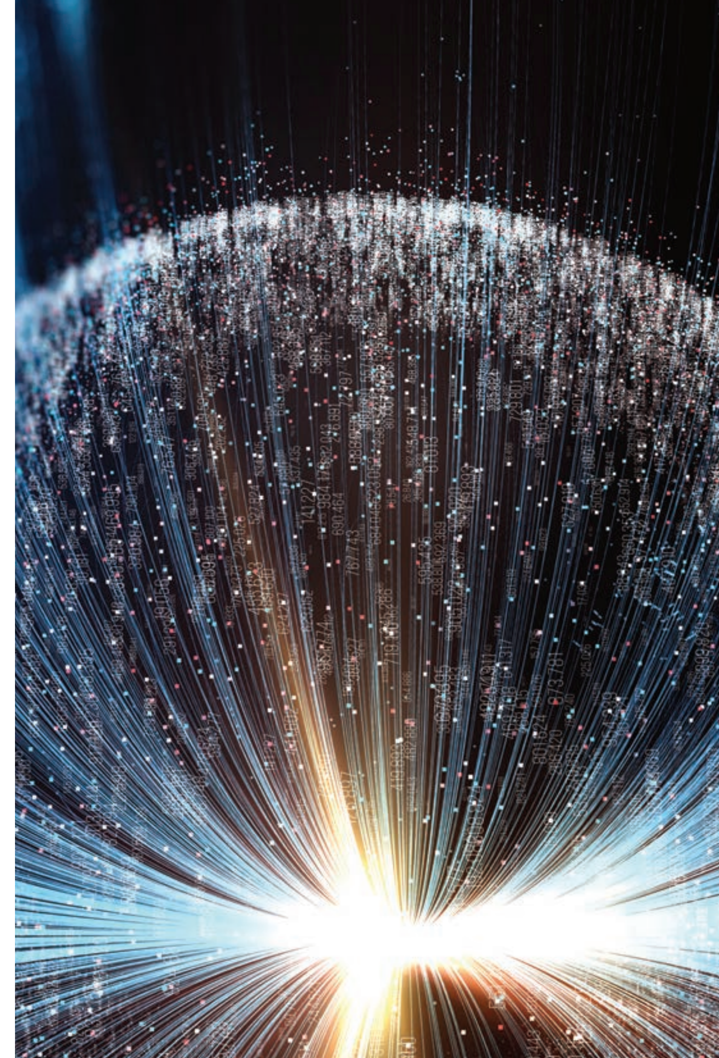
Despite this, as of 2016, 17% of the U.S. workforce had an unstable work shift schedule and 45% said they had no control over their work schedule, according to the Economic Policy Institute. Financial wellness programs can make an impact by advocating for more predictable work schedules.

In our work with Homebase, a scheduling platform for small to midsize businesses, we found most shift worker schedules were posted only three days before a schedule goes into effect. We created a simple default button that allows employers to quickly and easily copy and post prior schedules. We are testing whether interventions like this are an easy way to get managers to post key scheduling updates earlier — an essential part of creating greater predictability for employees.

An estimated 83% of large employers offer financial wellness programs, and an additional 14% say that they plan to offer such a program in the next one or two years, according to research from Prudential Financial Inc.

As wellness programs become a standard part of benefits packages, we encourage employers and their advisers to think broadly about their own touch points. Fight for a system with smart defaults, technology-augmented coaching at times of change, and scheduling predictability to more effectively move the needle on financial health.

Andrea Dinneen is senior behavioral researcher at Duke University's Center for Advanced Hindsight. Mariel Beasley is a co-founder of Duke University's Common Cents Lab and a senior applied researcher at the Center for Advanced Hindsight.



Technology is essential component of growth

Retirement plan businesses that ignore this necessity will be left behind

As the defined-contribution practices of financial advisers grow, so do the challenges. But advisers and their staffs are not properly equipped or trained to deal with many of those challenges. They include running a business rather than only a practice, which entails managing people and operations. But a growing component of being a successful and effective retirement plan business involves managing and leveraging technology.

Most plan adviser firms are not tech-savvy and cannot hire the right staff. Yet incorporating technology to manage a retirement business and help plan sponsors and participant clients is not a luxury — it is a necessity. Those who ignore that necessity will be left behind, as will their clients.

There are three areas where technology affects plan advisers and their clients

- Financial literacy and wellness
- Plan administration and cybersecurity
- Internal operations

FRED BARSTEIN

HUGE SOCIAL EXPERIMENT

The entire DC industry is a huge social experiment. The concept of retirement is relatively new, having started in earnest after World War II, when people began living long enough after leaving the workplace to care about it.

Retirement initially meant relying mostly on corporate pensions, if the retirees were fortunate enough to have one, and Social Security. DC plans like 401(k)s, which have grown dramatically at smaller firms since the 1990s, shift the liability to individual workers, who are ill-equipped to handle it. Most small to midsize employers have not stepped up, leaving providers and advisers to help.

But of the almost 90 million DC participants, 87 million cannot afford an adviser because they do not have enough assets. Yet DC plans offer a huge opportunity because not only are these 87 million investors aggregated, with data about them readily available, they are now expecting to get their financial needs taken care of at work.

Enter technology-enabled solutions offered by the employer, record keeper, adviser or fintech company. Financial wellness is all the rage and is seeing a great demand from employers, but most solutions have not proven to change behavior. And until someone is willing to pay for it, how can it

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Cybersecurity poses strain between plan sponsors, record keepers

Vendors reluctant to provide details on cyberdefenses

Data security breaches are an unfortunate part of our increasingly digital world. For plan sponsors, this means a responsibility — a fiduciary obligation, some say — to ensure the protection of their employees' personal data. So plan sponsors ask the record keepers that administer employee benefit plans to prove their cybersecurity capabilities are capable and robust.

This naturally results in plan sponsors asking more questions regarding cybersecurity as they evaluate potential vendors. Plan sponsors want to know what firms are doing and want more transparency into how vendors prevent data breaches.

Gartner Inc. predicts that vendors will spend $124 billion on information security worldwide in 2019. According to Netscribes, a global market intelligence provider, the global spend for cybersecurity in the financial services market is expected to expand by 9.81% and top $43 billion by 2023.

$124B
AMOUNT VENDORS WILL SPEND ON INFORMATION SECURITY WORLDWIDE IN 2019

Although vendors recognize the threat and are making the investments to protect data, tensions have grown between plan sponsors and plan administrators.

Two issues create the cybersecurity strain between plan sponsors and record keepers:

The proliferation of cybersecurity questions. If cybersecurity is a concern for advisers, it is understandable that they and their clients will ask a lot of questions. The number of unique cybersecurity questions plan sponsors ask their record keepers has risen from several dozen a decade ago to almost 1,500 today. The average record-keeper request for proposals has almost 300 questions dedicated to cybersecurity.

The intimacy of the cybersecurity questions. Not only are plan sponsors asking more questions, they are asking questions that record keepers regard as very sensitive, because the questions get at the core of how they defend against cyberattacks. Answering these questions could provide potential hackers with a road map into a vendor's system. As a result, vendors are refusing to answer such questions.

NO DISCLOSURE

For example, advisers and clients almost certainly won't learn from most record keepers the areas where they're protected and where they fall short. Nor will record keepers disclose the products, processes or methods used to protect data. As a hacker, if I know these things, I have a head start on how to breach your defenses.

TIM ROUSE

Record keepers also won't share data around penetration tests, which are intentional attacks on a system to learn where it might be vulnerable. Clearly, this is not information that can (or should) be disclosed, yet clients have requested these results in the past.

Policymakers are beginning to take more notice. The issue

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of cybersecurity in the retirement industry recently reached the attention of two members of Congress: Sen. Patty Murray, D-Wash., and Rep. Bobby Scott, D-Va. These lawmakers asked the Government Accountability Office to study cybersecurity for retirement plans and answer a series of questions related to how effectively plan sponsors are monitoring security of their plan's data. Many policy makers and regulators are beginning to view plan data as a plan asset that incurs all of the same fiduciary duties as other plan assets.

Clearly plan sponsors have a right and an obligation to check on the cybersecurity capabilities of their vendors, but vendors also need a certain level of secrecy around the means they employ to provide that security. If a vendor provides answers to sensitive security questions to one client or prospect, it would be unjust not to provide the same to all clients and prospects, great or small. Eventually this information would be disseminated to the point where it is public knowledge and ends up in the hands of cybercriminals.

DISCONNECT WITH CLIENTS

In short, there is a disconnect between what advisers and their clients want — even need — to know in order to carry out their fiduciary obligations, and what record keepers are willing to disclose.

To help solve this dilemma, the Spark Institute worked with record keepers and plan advisers to develop a new industry standard on how companies can communicate their data security capabilities in a reliable and consistent way.

The new standard consists of the 16 critical data control objectives most frequently cited by plan sponsors, including areas such as risk assessment and treatment, security policies, organizational security and asset management. The standard requires record keepers to use an independent third-party auditor to attest to the controls implemented.

For plan sponsors and their advisers looking to gauge a vendor's data security, the Spark standard provides a solid means to measure them. An adviser can request these reports from record keepers and compare one vendor to another in an apples-to-apples way.

Record keepers and plan advisers hope these new standards will enable plan sponsors to meet their fiduciary duty and better protect plan data from cybercriminals. The standards should encourage a virtuous cycle of constant improvement among record keepers, which will benefit the entire industry.

Tim Rouse is executive director of the Spark Institute.

BLOCKCHAIN

CONTINUED FROM PAGE 12

market."

Blockchain was invented about a decade ago and came into the public eye when bitcoin, a cryptocurrency underpinned by blockchain technology, gained prominence.

The technology provides financial firms with a new way to execute and record transactions. Think of a block as a record of new transactions; these blocks of data are bound together in a "chain" using cryptographic principles, according to Blockgeeks.

Unlike traditional financial records, however, information on the blockchain network is in a shared database without a central location. Data on the blockchain are updated instantly and exist simultaneously on millions of computers, making the data much more difficult to hack.

The financial sector has taken note. Worldwide, the industry invested $552 million in blockchain technology last year, around 37% of the total $1.5 billion spent, according to International Data Corp. Overall spending is estimated to increase nearly eightfold, to $11.7 billion, over the next three years, led by the financial sector, according to IDC.

$2B
AMOUNT OF CRYPTOCURRENCY STOLEN SINCE 2017

In October, for example, Fidelity Investments announced the launch of a new company to offer custody and trade execution of cryptocurrencies. Intercontinental Exchange, owner of the New York Stock Exchange, just months earlier said it was starting a new bitcoin market exchange.

401(k) record keepers are beginning to enter the fray. ICMA-RC, a record keeper focused on retirement plans for public institutions, said it is "proactively exploring" blockchain technology and joined the Government Blockchain Association last year.

"While we don't have immediate plans to leverage this emerging capability, we are evaluating potential intersections of our public-sector-client and operational needs," said Karla Gill, chief information and innovation officer at the company, which administers roughly $54 billion in retirement assets for more than 1 million investors. "We have begun proofs of concept and are leaning into our vendors, who are also exploring the technology."

SS&C Technologies Inc., a software vendor that provides the tech backbone for some record-keeping platforms, also has been experimenting with various blockchain applications. DST Systems, which was acquired last year by SS&C, leases its TRAC record-keeping technology to companies such as Lincoln Financial Group and covers 7 million total participants.

The Spark Institute, whose members include the largest DC-plan record keepers, is conducting a blockchain research project this year at the behest of member firms, Mr. Rouse said, in order to better understand the technology's potential applications and benefits.

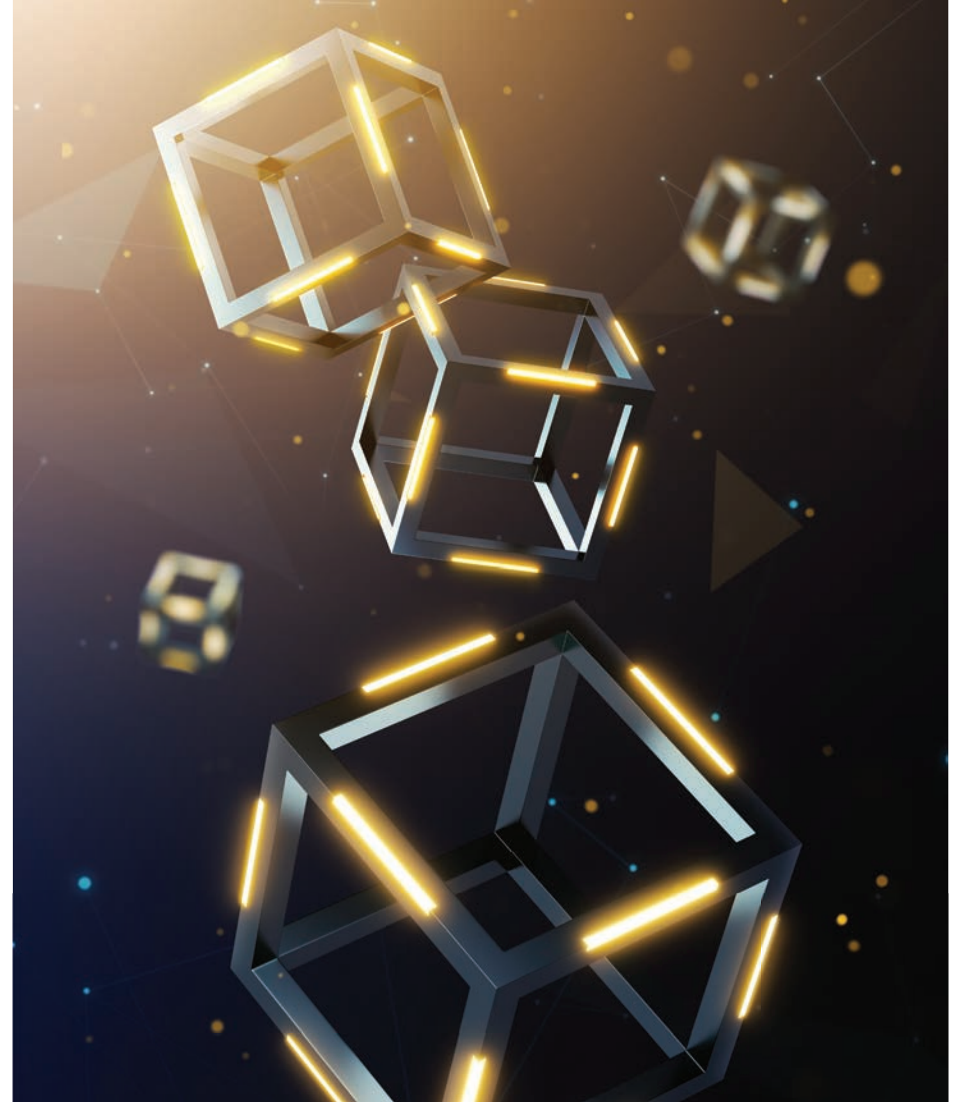
CYBERSECURITY

And the benefits could be vast. Cybersecurity, for one, would be greatly improved, which would be a welcome development in an era of massive data breaches hitting Marriott, Yahoo, Equifax and other large companies, exposing the sensitive data of hundreds of millions of people. Record keepers, pointing to the surge in cyberfraud, have begun instituting guarantees that they will refund money to 401(k) participants that was lost to unauthorized transactions.

Blockchain is much more challenging to hack than current systems, given its decentralized structure. With all data updated simultaneously on each provider's platform, a hacker would need to hack into each system at the same time to get access to the data, Mr. Rouse said.

"From a fiduciary adviser standpoint, I love the data security aspect," Philip Chao, principal and chief investment officer at Chao & Co., said of blockchain.

Hackers appear to have successfully penetrated blockchains in a few circumstances — nearly $2 billion worth of cryptocurrency has been stolen since the beginning of 2017, mostly from exchanges, according to MIT Technology Review. But while the technology isn't necessarily "unhackable," experts said it's much more secure than traditional systems.



Record keepers have been loath to share participants' data with advisers under the current regime, largely because of cybersecurity issues, Mr. Rouse said. If data accidentally fell into the wrong hands and were exposed, the record keeper could be held responsible. With blockchain, record keepers could enable constant access to certain information for advisers.

There's another massive draw for financial firms: increased efficiency. Blockchain would effectively cut middlemen out of transactions — institutions wouldn't need to verify money transfers or take a cut of transactions, according to experts.

"Imagine two entities (e.g., banks) that need to update their own user account balances when there is a request to transfer money from one customer to another. They need to spend a tremendous (and costly) amount of time and effort for coordination, synchronization, messaging and checking to ensure that each transaction happens exactly as it should," William Mougayar, author of "The Business Blockchain: Promise, Practice, and Application of the Next Internet Technology" (Wiley, 2016), wrote in a blog post.

This dynamic could substantially drop the price of 401(k) record-keeping services by eliminating layers of human intervention, advisers said, and make rolling over assets from one 401(k) plan to another 401(k) or to an individual retirement account a seamless operation, as opposed to the convoluted process that currently exists.

Nick Doyle, director of new business development at DST Systems, expects that it likely will be at least two or three years before record keepers replace their core technology with new blockchain tech.

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ESSENTIAL TECHNOLOGY

CONTINUED FROM PAGE 16

be considered real?

It's more likely that artificial intelligence, which assigns people solutions based on their needs, will be the answer, just as the auto-plan is improving participation and deferral rates. But AI requires big, clean data, setting up a battle between record keepers and advisers over who owns the data, while potentially opening the door for new entrants like Amazon and Facebook that are able to get data directly from participants or through other sources.

ANTIQUATED SYSTEMS

Record keepers and TPAs have done a fairly good job of managing complex ERISA plans with lots of smaller accounts. Gone are the pretenders, with another wave of record-keeper and TPA consolidation about to force out fringe providers. The main issues are antiquated systems that are difficult to manage and update, and unable to spit out relevant, clean participant data.

Advisers need to know which providers will survive and which ones are truly capable of protecting client data from hackers, which is a growing issue for plan sponsors. They also need to know which providers are managing data so that it can be used by AI technology and which ones are willing to share. Finally, 360-degree payroll, in which data from record-keeping systems, such as changes in deferral rates, automatically upload to payroll, may seem mundane, but not all providers can offer it, which is a huge impediment for automatic features.

ADVISERS NEED TO KNOW WHICH PROVIDERS ARE MANAGING DATA SO THAT IT CAN BE USED BY AI TECHNOLOGY.

PARTICIPANT OUTCOMES

Research indicates that elite plan advisers are currently focused on improving customer relationship management systems and better leveraging outside tools, especially mobile technology. They also intend to find ways to use technology to measure participant outcomes, which entails, in part, getting access to participant data from record keepers.

Advisers are already leveraging technology for the basics, like investment due diligence, record-keeper fee benchmarking and requests for proposals, as well as for benchmarking their own fees. They appear to be successfully getting plan-level data from record keepers.

Incorporating robo-advisers or creating a client-centric dashboard are not high on their radar. Nor are they likely to use technology to automate compliance or prepare for an audit, or to adopt financial wellness apps or calendaring software.

Advisers realize that they must hire people with complementary skills, such as those who have social media and content marketing experience or who are tech-savvy. Yet until firms get to critical mass, it might not be possible to hire full-time people, which means that they must find credible and dependable third parties to help, which can be hard to find and even harder to manage.

But ignoring technology is not an option for firms that want to stay competitive and keep up with client expectations.

Fred Barstein is the founder and CEO of The Retirement Advisor University and The Plan Sponsor University.

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1. Source: Morningstar®, 2/28/19. Morningstar Ratings measure risk-adjusted returns. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Fund's Advisor Class was rated against 474, 374 and 262 Allocation—30% to 50% Equity funds and received a Morningstar Rating of 5, 3 and 5 star(s) for the 3-, 5- and 10-year periods, respectively. Morningstar Rating™ is for the named share class only; other classes may have different performance characteristics. **Past performance is not an indicator or a guarantee of future performance.** © 2018 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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$135.50 STANDARD PREMIUM MOST OF MEDICARE'S 60 MILLION BENEFICIARIES PAY PER MONTH IN 2019.

Baseball, taxes and retirement planning

MARY BETH FRANKLIN

ONRETIREMENT

My husband is a huge baseball fan. Me, not so much. But I always appreciate it when he forwards articles about his favorite pastime that are relevant to my passion for retirement planning.

Case in point: Bryce Harper's decision to sign a record-setting 13-year, $330 million contract with the Phillies was partially based on taxes, according to a recent article by Los Angeles Times sports writer George Skelton. Competing offers from the L.A. Dodgers and the San Francisco Giants couldn't overcome the burden of California's top state income tax rate of 13.3% compared with Pennsylvania's low flat rate of 3.07%.

KEY POINTS

- How taxes affect clients' net income can have a significant impact on their retirement lifestyle.
- For retirees who have paid off their mortgage or live in lower-tax states, standard-deduction is a no-brainer.

Mr. Harper's agent, Scott Boras, said the tax savings from signing with the Phillies rather than a California team "could be almost a full year's compensation."

While most clients' income is a fraction of Mr. Harper's, keeping an eye on how taxes affect their net income can have a significant impact on their retirement lifestyle.

In the past, only a small percentage of Americans relocated in retirement, and the primary drivers have been better climate, a lower cost of living and proximity to family. But Mr. Harper's story made me wonder whether the recent federal tax law changes, which nearly doubled the standard deduction and capped the itemized deduction for state and local taxes at $10,000 a year, will influence people's decision to relocate in retirement.

In 2018, the standard deduction for a married couple under age 65 is $24,000; that rises to $26,600 when both spouses are 65 or older. The standard deduction for a single individual under 65 is $12,000 and $13,600 if the person is 65 or older.

Therefore, it would make sense for a senior couple to itemize if their total tax deductions exceeded $26,600. With the total deduction for state and local income taxes and property taxes capped at $10,000 per year, a senior couple's deductible mortgage interest and charitable contributions would have to top $16,600 to choose itemizing deductions over the standard deduction.

Many residents of high-tax states such as New York, New Jersey and California pay well above the new $10,000 limit on SALT deductions. This year marks the first time they are feeling the pain of the limited SALT deduction. And every year they remain in a high-tax state will cost them money in the form of higher federal taxes compared with living in a lower-tax state.

For retirees who have paid off their mortgage or live in lower-tax states, choosing the standard deduction is a no-brainer.

Even before the new tax law took effect, high-tax states in the Northeast were losing residents to other parts of the country, particularly to the warmer and lower-cost South.

But before clients load up the moving van, they should review the overall tax picture of their potential new home, including property and sales taxes, and consider how states that have an income tax treat different forms of retirement income.

Seven states — Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming — have no income tax. Two states, New Hampshire and Tennessee, tax only dividends and interest. But states that don't tax income often make up the revenue shortfall with higher property and sales taxes.

Most states with an income tax offer some type of retirement income exclusion. For details, see the latest Kiplinger retiree tax map.

As more and more retirees choose the standard deduction on their federal returns, where they live and how much they pay in overall state taxes could have a significant impact on their net retirement income.

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

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Indexed life insurance hot streak builds

BY GREG IACURCI

INSURERS SOLD indexed universal life insurance policies at record levels last year as consumers sought a measure of protection from stock market volatility and more insurers offered the product.

Indexed life insurance sales of $2.1 billion last year bested their previous record, set in 2017, by 11%, according to Wink Inc., a market research firm.

IUL is a type of universal life insurance that offers an insurance benefit paired with a cash account that can be used to pay policy premiums. In an indexed product, the cash portion is tied to a stock market index like the S&P 500. Insurers credit interest to consumers based on market performance; interest is capped on the upside, but insurers can't give less than 0% interest in the event of a down market.

11% AMOUNT BY WHICH INDEXED LIFE SALES BESTED 2017 RECORD

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Use nondeductible IRA contributions correctly

TAXPLANNING TIM STEFFEN

Back in the day, being a good financial adviser meant building a portfolio that provided investors with a maximum return for the minimum level of risk. Now the role of an adviser has evolved to offering thoughtful advice and guidance on a wide variety of financial issues, and that's a good thing for clients.

Take contributions to an individual retirement account. After maximizing savings to an employer retirement plan, if one is even available, the next-best savings vehicle is often an IRA. However, the tax deduction for a traditional IRA contribution is only available for those who are not participating in an employer plan or whose income falls below a certain threshold. For higher-income clients, a Roth IRA isn't an option, either.

That brings you to the nondeductible IRA contribution. Sure, there's no immediate tax benefit, but the tax-deferred growth is still valuable, and when investors withdraw the contribution later in life, it will come out tax-free.

Unfortunately, though, that's not the end of the story. Good advisers need to make sure their clients not only make the contribution, but avoid common tax mistakes that can complicate things later in life.

Even though investors are not able to claim a tax deduction for their IRA contributions, that doesn't mean they can ignore the contributions altogether when it comes to preparing their tax return. The IRS requires nondeductible IRA contributions to be reported on Form 8606 for the year of the contribution.

THE PRO RATA RULE

Another common situation is an investor who opens a new IRA specifically to hold these new nondeductible contributions. In the investor's mind, separating these new contributions from any other IRA funds makes it easier to keep track of their taxable and after-tax retirement savings.

Later in retirement, that same investor might begin withdrawing from the "nondeductible" account first, figuring they'll save by reserving the taxable IRA for later in life. If only that were true.

There is an IRA provision that says that any withdrawals from an account must come from both the taxable and nontaxable portions of the IRA on a pro rata basis. However, what some forget is this pro rata rule applies across all IRAs owned by a taxpayer.

Having a new IRA for these contributions may help manage different strategies or provide a form of mental accounting, but from a tax standpoint, it means nothing.

Here again, Form 8606 applies, as it's used to track how much of each withdrawal comes from the taxable and tax-free portions of the IRA, as well as providing a running tally on how much "basis" remains.

Good advisers will not only help their clients find the best solutions to meet their goals, they'll also make sure clients follow through and implement advice the right way.

Tim Steffen is director of advanced planning for Baird. Follow him on Twitter @TimSteffenCPA.

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CHLOE MCKENZIE, FOUNDER AND CEO, BLACKFEM AND ON A WEALTH KICK

LPL's record recruiting year comes at high cost

BY BRUCE KELLY

LPL FINANCIAL LAST month reported a record amount of assets recruited to its platform last year. In a recent filing with the Securities and Exchange Commission, the firm revealed that those assets came with a cost — recruiting bonuses on its books soared to $233.3 million in 2018, a 46% increase over the year before.

> **KEY POINTS**
> - LPL recruiting bonuses soared to $233.3 million in 2018.
> - Firm reported it had recruited $27.3 billion in brokerage and advisory assets last year.

Recruiting bonuses are typically called "forgivable loans" in the brokerage industry; while they are structured as loans, the adviser does not pay the firm back out of his pocket. Rather, he works the loan off over time by meeting certain productivity goals and, in exchange, the firm "forgives" the loan.

The loans are forgiven over a three-to-eight-year period, provided the adviser remains licensed with LPL Financial, according to the firm's 2018 Focus report, an annual audited financial statement that is filed with the SEC.

LPL's increase in forgivable loans is significant as the firm last year ratcheted up its recruiting efforts. At times it offered one of the best deals in the recruiting market, and midyear it hired a new head of recruiting, Rich Steinmeier, from UBS Global Wealth Management.

At the start of last month, LPL reported it had recruited $27.3 billion in brokerage and advisory assets in 2018.

'SHIFT' FROM CASH

"The increase [in forgivable loans] correlates to the record-breaking year we had in recruiting," noted Mr. Steinmeier in an email. "And it also reflects a shift from providing mostly cash to mostly loans to align with advisers' preference."

"That amount of assets is a staggering number, so the amount of forgivable loans is not surprising," said Jodie Papike, president of Cross-Search, a recruiting firm. "LPL said it was going to make a big push in the market and be aggressive."

Last April, LPL said it was focusing recruiting on advisers at select firms, and the offer was in the form of a three-year forgivable loan that pays an adviser 50 basis points on assets transferred to LPL, a potentially far more lucrative structure for the adviser than traditional recruiting deals.

Like other independent broker-dealers, LPL traditionally offered advisers a standard recruiting package of 25 to 35 basis points based on the previous year's production of fees and commissions.

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Florida RIA managing $1B joins Colony

INVESTMENTNEWS

STEINBERG GLOBAL Asset Management, a Boca Raton, Fla.-based registered investment adviser managing just over $1 billion in assets, is joining The Colony Group, a national RIA firm based in Boston whose AUM before the transaction stood at $6 billion.

Richard Steinberg, who founded the firm with Norman Steinberg in 1993, will become Colony's chief market strategist. He will also co-chair its investment division and become a member of its executive team.

Colony is a partner firm of Focus Financial Partners.

Top 10 firms based on client satisfaction

These 10 firms topped the rankings for overall investor satisfaction in the J.D. Power 2019 U.S. Full Service Investor Satisfaction Study. Each score is out of a possible 1,000 points.

10. Wells Fargo Advisors
Score: **829**
Wells Fargo made it into the top 10 this year after taking 16th place last year.

Tied at 9. Fidelity and Raymond James
Score: **836**
Raymond James and Fidelity are tied with scores that are just one point above the industry average.

7. Ameriprise
Score: **838**
Ameriprise is another firm that didn't make the top 10 last year.

6. UBS
Score: **840**
UBS improved its showing, having come in at No. 8 in 2018.

5. Charles Schwab
Score: **842**
Schwab, which had occupied the top spot on the list for the last three years, fell to fifth place as its score dropped 25 points.

4. Morgan Stanley
Score: **844**
Morgan Stanley advanced to fourth place from 15th last year.

3. Advisor Group
Score: **846**
Advisor Group made the most dramatic advance this year, jumping from 18th place last year as its score shot from 800 to 846.

2. RBC
Score: **848**
RBC jumped to second place this year from fourth place last year.

1. Edward Jones
Score: **853**
The St. Louis-based giant rose to No. 1 from No. 2 last year and No. 3 in 2017, even though its score declined from 866 last year.

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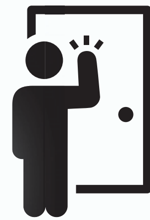

TPSU is Making "House Calls"

TRCE Service

After more than 400 TPSU programs attended by over 5,000 DC plan sponsors, we have recognized the need to bring the same high-level education to Retirement Committee members who may be unable to attend our TPSU programs.

Plan sponsors can pay $395 to gain access to 3 online courses which includes an educational session delivered by a trained advisor who holds the C(k)P Designation from The Retirement Advisor University, a collaboration with UCLA Anderson School of Management Executive Education. The online and in-person courses, which carry CE credits along with a "Certificate of Completion", cover:

- Why DC plan sponsors should have a Retirement Committee
- How to form and empower the Committee
- Who should sit on the Committee
- What are their functions and responsibilities
- Best practices

Marketing Efforts

An elite group of educational recruiters will market to and leverage over 5,000 TPSU plan sponsor alumni and 60,000 401kTV subscribers to set-up education sessions with Retirement Committee members.

Trained Retirement Committee Educators (TRCErs)

To conduct TRCE education sessions, advisors must receive training and either hold the C(k)P Designation or be enrolled to attend C(k)P Training within 12 months. Advisors can purchase a $10,000 (minimum deposit of $5,000) "block" of educational sessions priced by plan size starting at $1,000 up to $5,000.

The number of TRCErs will be limited within a geographic area — at least one educational session will be set within three months of the initiation of service and completely fulfilled within 6 months.

A limited number of advisors are being trained with the TRCE service. If you are interested or to learn more, please contact: **jeff@trauniversity.com** or **855-755-4015 x120**.

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Finra panel dismisses $100M Merrill stock case

BY MARK SCHOEFF JR.

A FINRA ARBITRATION panel has dismissed a $100 million claim by the estate of a former Merrill Lynch broker in a case involving losses tied to the sales of mortgage-based securities during the financial crisis.

Three Financial Industry Regulatory Authority Inc. arbitrators ruled in a March 14 decision that Christina Billington, the trustee for the James A. Billington Trust, brought her case too long after Mr. Billington sold his Bank of America stock at a substantial loss in January 2009. Merrill Lynch & Co. was acquired by Bank of America in the midst of the financial crisis in 2009.

The claim was filed on June 23, 2017. The arbitrators said a claim cannot be filed more than six years after the events that caused the claim. Mr. Billington died on Sept. 7, 2014.

"Any damages [Mr.] Billington allegedly sustained became fixed upon the sale of his BAC stock in January 2009," the arbitrators wrote.

An attorney for Ms. Billington criticized the decision.

"There are glaring problems with the award that was issued," said Mike Taaffe, partner at Shumaker Loop & Kendrick. "They appeared to take factual findings based on argument, not testimony or evidence."

Mr. Taaffe said he and his co-counsel, Paul W. Thomas, could try the case in court or file in court to vacate the arbitrators' dismissal.

Bill Halldin, a Merrill Lynch spokesman, declined to comment.

HIGH-PROFILE CASE

Ms. Billington's case is one of the highest-profile of more than six dozen involving former Merrill executives who claim they lost about $400 million in their brokerage accounts when the stock of Merrill Lynch & Co. took a nosedive in 2007-08.

Merrill reached a $17 billion settlement with the Department of Justice in 2014 and admitted wrongdoing in the original case. Plaintiffs argue the Finra statute of limitations should begin in 2014 rather than 2009.

So far, 15 arbitration panels have denied Merrill's motions to dismiss, while four have granted it. More cases will be heard this summer.

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Captrust acquires 2 firms and $2.9B AUM

INVESTMENTNEWS

CAPTRUST FINANCIAL Advisors, a Raleigh, N.C.-based wealth management and retirement plan advisory firm, has acquired Watermark Asset Management of San Ramon, Calif., and Rogers Financial of Harrisonburg, Va.

Watermark, a registered investment advisory firm headquartered outside San Francisco, specializes in serving individuals and manages $400 million in assets. It has close to 400 clients. The firm has five advisers, including founder Mark Miller, and three staff members.

Rogers Financial is an institutional advisory firm that advises on more than $2.5 billion in assets for 35 retirement plans. Founded in 1994, the firm is run by Ken Rogers, who will join Captrust with adviser Jenifer Nesselrodt.

Captrust now advises on more than $300 billion in assets. It has 174 advisers at 39 locations nationally.

Wells' latest challenge: low staff productivity

BLOOMBERG NEWS

WELLS FARGO & Co.'s leaders have repeatedly assured the public its aggressive sales culture is gone after quotas led workers to foist unwanted products on clients. Now another problem is festering: low productivity.

The bank, which employs more people than any other in the U.S., generated about $330,000 of net revenue per employee last year, sliding behind most major peers. By the end of last year, Wells Fargo ranked 15th among the 24 companies in the KBW Bank Index, which tracks big U.S. commercial lenders. Five regional banks have surpassed Wells Fargo by that measure since the company scrapped sales targets and incentive programs in 2016 that fueled both growth and abuses.

"I would almost guarantee that the people running it would like to improve those numbers," said Bill Smead, chief executive of Smead Capital Management, which owns 1.3 million Wells Fargo shares.

10%

POTENTIAL PORTION OF JOBS TIM SLOAN MENTIONED CUTTING OVER 3 YEARS

The situation helps explain why Wells Fargo is working to pare its workforce of 259,000. CEO Tim Sloan announced plans in September to trim as many as 10% of jobs within three years to help meet customer needs "in a more streamlined and efficient manner."

Public pressure on Wells Fargo was on full display March 12 as Democrats and Republicans took turns chastising Mr. Sloan at a hearing on Capitol Hill. At least five members of the House Financial Services Committee grilled Mr. Sloan on whether the firm has done enough to unwind programs that underpinned its push to sell more products.

"It's my job as CEO to make sure things change, and they are changing," Mr. Sloan assured lawmakers. A Wells Fargo spokesman declined to comment for this article.

Wells Fargo's high headcount comes at a cost. Its compensation ratio, a measure of how much the bank pays to employees as a percentage of revenue, is the highest among the 10 biggest commercial U.S. banks.

Judge puts off approving settlement

BLOOMBERG NEWS

A FEDERAL JUDGE said he's not ready to sign off on Wells Fargo & Co. collecting $240 million in insurance payments from 20 bank officials in connection with the lender's unauthorized-accounts scandal — even though the settlement was touted as the largest-ever of its kind.

That came just hours after Federal Reserve chairman Jerome Powell reiterated last Wednesday that the regulator won't lift its growth ban on Wells Fargo until problems are addressed, specifically related to the bank's risk-management approach.

LEGAL EXPOSURE

While the attorneys who drafted the lawsuit settlement said its total value is $320 million because it includes corporate governance reforms, the San Francisco judge said he can't determine whether the accord is fair to the shareholders who sued the bank's officers and directors without knowing how much legal exposure they would face if the case went to trial.

He directed the shareholders' attorneys to file more information by April 11 and postponed a settlement approval hearing.

The comments from Mr. Powell echo sentiments made public by the Office of the Comptroller of the Currency during Wells Fargo CEO Tim Sloan's hearing in front of the House Financial Services Committee on March 12. OCC spokesman Bryan Hubbard said the office is disappointed with the bank, citing an "inability to execute effective corporate governance and a successful risk management program."

Rebukes from two of Wells Fargo's most important regulators in as many weeks show that Mr. Sloan is not yet convincing the right people that he's turned the bank around.

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Investment News is honoring female financial advisors and industry executives who are distinguished leaders at their firms. These women have advanced the business of providing advice through their leadership, passion, creativity and willingness to help other women along the way.

As a proud sponsor of the Sparkling Reception, Envestnet would like to acknowledge the 20 honorees and the Alexandra Armstrong and Rising Star Award winners.

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When you succeed, we succeed

Congratulations to Nadia Allaudin for being named to the *InvestmentNews* 2018 Women to Watch.

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WOMEN TO WATCH | MARCH 14, NEW YORK

22 women honored for outstanding work in advice

BY RYAN W. NEAL

INVESTMENTNEWS honored 22 women for their outstanding work in the financial advice industry March 14 at the fourth annual Women to Watch luncheon.

Every woman recognized has made a lasting impact on the industry. They are not only distinguished leaders at their firms, they have also demonstrated a commitment to help next-generation financial advisers, especially women, follow the trail they have blazed.

Karen Schaeffer, co-founder and managing member of Schaeffer Financial, accepted the Alexandra Armstrong Lifetime Achievement Award for playing an integral role in shaping the financial planning business into what it is today.

American Financial Consultants recruited Ms. Schaeffer away from her job as a paralegal in 1979, a time when there were plenty of brokers, CPAs and insurance salesmen, but no model for building a financial planning business.

Six years later, Ms. Schaeffer launched her own firm with her husband, Richard. She has since served as the chairwoman of the Financial Planning Standards Board and the Certified Financial Planner Board of Standards Inc., where she was instrumental in moving the organization from Denver to Washington, D.C.

MATT GREENSLADE

As part of the award, *InvestmentNews* donated $5,000 to the CFP Board's Center for Financial Planning, the charity of Ms. Schaeffer's choice.

FILLING THE PIPELINE

"The Center for Financial Planning recognizes that, wait a minute, there are these women who have had these awesome careers and there aren't women coming up behind them," Ms. Schaeffer said. "There are people of color who need competent, ethical financial planning and advice and there is nobody to give it to them."

For the second year, *InvestmentNews* also recognized a "Rising Star,"

Financial literacy could make advice more broadly accessible

BY RYAN W. NEAL

BEFORE *InvestmentNews*' Women to Watch awards luncheon on March 14, several of the women recognized gathered with previous award winners and other industry leaders to hold a think tank on the role financial literacy plays in making the advice industry more diverse and inclusive.

As reported in a recent *InvestmentNews'* investigation, only 57% of American adults are financially literate, ranking 14th among all nations despite having the world's largest economy. The issue is even worse among women and women of color, explained Chloe McKenzie, founder and CEO of BlackFem and On A Wealth Kick.

"Wealth inequality is real, it's crippling and it's distributed heavily along racial and gender lines," Ms. McKenzie told the think tank.

CAREER PATH

Improving financial literacy cannot only help close the wealth gap, it can introduce financial advice as both a resource and career path to young women. But how can advisers help?

Ms. McKenzie said financial literacy programs need to begin by considering which communities they are trying to reach, and how

Lifetime achievement: Karen Schaeffer accepts Alexandra Armstrong award for helping shape the planning profession.

an emerging leader and role model for younger advisers. This year's award went to Rachel Moran, a senior financial planner at RTD Financial Advisors, who became a shareholder in the firm at just 29 years old.

Working with Rianka Dorsainvil, the 2017 Rising Star Award recipient, Ms. Moran co-founded a mentoring program for women graduating from Virginia Tech's financial planning program. She serves as a leader for the Financial Planning Association's NextGen initiatives, and works with millennial investors.

Before the luncheon, all the 2018 honorees, as well as some Women to Watch alumni, discussed the importance of improving financial literacy to make the financial services industry more inclusive and how to raise awareness of the advice industry as both a resource and profession for future generations.

Chloe McKenzie, founder and CEO of BlackFem and On A Wealth Kick, shared her inspiring story of creating organizations dedicated to improving financial literacy and building wealth for women of color.

Though people often ask why she focuses on young girls and not boys, the fact is women, particularly women of color, are at a greater disadvantage, Ms. McKenzie said. And the financial advice industry has a unique opportunity to do what's right while also creating new business.

"Right now, the market is wide open for providing girls and women of color with financial advice and financial products," she said. "If you do your part to close the wealth gap, you're also doing your part to create a completely new client base."

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to make the information relevant to them. She suggested programs begin by introducing financial concepts to young children so that they grow up with a basic understanding of finance and can help teach other family members.

"With younger kids, vocabulary acquisition is probably the best cognitive way to engage them," Ms. McKenzie said.

The think tank participants agreed that firms of all sizes should consider how they can make an impact in their community.

Michelle Taylor, adviser with Luma Wealth, said her firm is considering a program to support girls interested in financial planning.

"We are looking at partnering with a girl's school where we can take a high school girl all the way up through college and into an internship," Ms. Taylor said.

Advisers also need training, perhaps through a digital portal with resources and materials such as BlackFem's lesson plans. One group suggested including training for firms looking to expand their reach into minority communities.

"WEALTH INEQUALITY IS REAL, IT'S CRIPPLING."

CHLOE MCKENZIE, FOUNDER AND CEO, BLACKFEM

"A common theme I hear among advisers is, 'We want to help, but we don't know how or we don't want to say the wrong thing,'" said Rianka Dorsainvil, founder and president of Your Greatest Contribution. "Key is to have different representation."

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Congratulations to all the Women to Watch Honorees

And an especially warm congratulations to our clients, Carina Diamond, Yonhee Choi Gordon, Sabrina Lowell, Angela Ribuffo, Teri Shepherd and Jania Stout.

We honor the women who are shaping the future of financial advice for your exemplary role as leaders and role models. BNY Mellon's Pershing is committed to the advancement of financial literacy and proud to be a sponsor of the *InvestmentNews* Think Tank and Women to Watch Awards.

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Congratulations to our woman to watch, Heather Hunt-Ruddy

Heather Hunt-Ruddy
Managing Director
Head of Client Experience and Growth

Heather consistently illustrates what it means to be a truly inclusive leader at Wells Fargo Advisors. From mentoring team members and working in the community to holding her fellow leaders accountable and setting expectations at the highest level, Heather consistently reinforces her commitment to the empowerment of clients, advisors, and team members of all genders. Thank you for leading by example, and for your dedication to building a legacy of inclusion and representation in our industry for years to come.

Together we'll go far

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— SCOTT HANSON, CO-CEO, HANSON MCCLAIN ADVISORS

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Get rid of old tech that doesn't 'spark joy'

One of the biggest cultural touchstones so far in 2019 has been the Netflix reality show "Tidying Up with Marie Kondo."

It stars Japanese organizing consultant Marie Kondo as she helps families clean up their homes using her KonMari method. Ms. Kondo goes through items one-by-one to decide which really "spark joy." If it doesn't spark joy, it has to go.

RYAN W. NEAL

ONTECHNOLOGY

It got me thinking — could the same methodology help advisers improve their technology?

As advisers have tried to modernize their practices over the past decade, many have assembled a Frankenstein monster of various third-party technologies and legacy platforms. Firms have picked out a CRM, financial planning software, a portfolio manager and maybe a few other tools for reporting, research or marketing, and bolted them onto whatever system their back office relies on.

While David Edwards, president of Heron Wealth, is proud of the efforts he's made to integrate technology and get it all to work, he still has problems with onboarding.

"We signed a new client 10 months ago and still don't have the assets on board," he said. "Time and again we are [deemed not in good order] by the custodian."

Firms that don't spend the time or money to integrate everything can have even more trouble.

"Most of the tools never get used," said Adam Holt, CEO of Asset-Map.

NEW TOOLS, NO TRAINING

Some advisers, while thrilled by the possibilities of a new tool, may never take the time to learn how to use it, train staff or integrate it with existing workflows. So that expensive new technology now collects dust.

It's "just like that cool shirt in the back of the closet that never gets worn and no longer fits," Mr. Holt said.

If your firm plans a spring cleaning of your technology, maybe a Kondo-esque approach would help.

Start by taking an inventory of every single piece of technology your firm uses, then methodically go through each tool while asking yourself, "Does it spark joy?"

Or as Heeren Pathak, chief technology officer at Vestmark, puts it, "Under what condition is the technology [you're] looking at truly giving you a competitive edge?"

Most firms probably only need three or maybe four core technologies.

Mr. Pathak and Mr. Holt both said firms are finding the most value from CRM, financial planning or another core sales tool, and portfolio management.

For other tools, firms need to be honest about how much they are being used and how well each integrates with their core systems. Do clients interact with the tool? And if so, what do they think about it?

"For the things that aren't really core, that aren't going to give you a competitive advantage, look at the overall system that provides you the best flexibility and value and long-term growth," Mr. Pathak said. "Don't worry about this one thing

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that has this one feature unless that feature really matters. People need to find that right balance."

A piece of technology might be helpful, but maybe there's a more cost-effective solution out there. Or maybe it's time to get rid of the technology all together.

So take that piece of software you bought back in 1998, thank it for everything it's given you, and kindly say goodbye.

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Independent firms plan to up digital marketing budgets

NUMBERSGAME
JAMES GALLARDO

Over the past 10 years, independent advisory firms have slowly integrated new technology solutions into their business models. Most firms now have their core tech stack in place: 85% use a CRM system to manage customer relationships; 83% use financial planning software to devise investment plans that meet their clients needs; and 69% use portfolio management tools.

While these investments are nearing universal adoption rates, many firms are increasingly thinking about products used less frequently, particularly digital marketing solutions.

InvestmentNews fields a biannual benchmarking study measuring technology management, spending, usage and strategy trends among independent advisory firms. This year, our focus is on best practices for building a better client experience through improved digital touch points and a sound technology strategy.

For the first time, we gauged usage and spend projections for digital marketing products. The results are indicative of expenditures that firms plan to make this year.

While less than a third (29%) of firms currently use stand-alone digital marketing technology, a quarter (25%) plan to add a solution soon. In fact, digital marketing is the top new solution that firms plan to add in 2019.

ROSY PROJECTIONS

While these rosy projections are partially a result of low current usage rates, they also speak to the utility advisers have found in these tools and the perceived role they play in long-term growth strategy.

The optimism is also apparent among firms that currently use digital marketing tools. Half of these firms plan to increase these budgets in 2019, and hardly any of them plan to cut spending. While firms plan net increases in spending across every category measured, no other category has projected increases in spending as drastic as those for digital marketing.

25%

PORTION OF FIRMS THAT PLAN TO ADD A DIGITAL MARKETING SOLUTION SOON

Why the optimism? According to advisers, it could be the fact that few expenses link more closely to the bottom line. When firms match solutions with their perceived benefits, 43% say the top benefit they get from digital marketing solutions is "increased profitability/add value to the business." No other tech solution has profitability as a top benefit.

Advisers are also likely realizing that communicating with prospects and clients online is critical to sustain momentum and achieve long-term growth.

After all, younger investors are reaching their peak earning years and are used to interacting with brands much differently than the customers to whom advisers have traditionally marketed.

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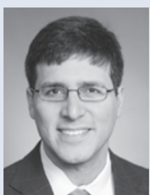
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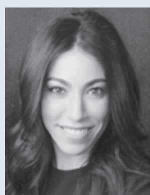
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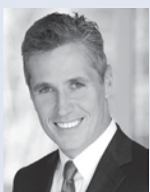
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SUCCESSION

Cancer battle speeds up transition plan

BY JEFF BENJAMIN

THE STORY OF Benjamin Tobias' succession plan is proof that having a good plan in place can help a firm endure and evolve through even the worst of circumstances.

Mr. Tobias, 67, had been grooming two advisers to take over his Plantation, Fla.-based advisory firm, Tobias Financial Advisors, about three years from now.

That plan took an abrupt turn in 2016, when Mr. Tobias' wife's fight against cancer intensified, involving eight hospital stays that year.

"In 2016, it got really bad," Mr. Tobias said. "I was a basket case and unable to work."

Barbara Tobias, who has been battling a form of blood cancer since 2010, is a former elementary school teacher who had become the firm's office manager.

Mr. Tobias already had a plan in place that involved Matt Saneholtz, who joined the firm in 2005, and Marianela "Nela" Collado, who joined in 2015.

The original plan was for Mr. Saneholtz and Ms. Collado, who together owned 25% of the firm in 2016, to gradually build up a 75% ownership stake by 2021, when Mr. Tobias will turn 70. From there, the plan was for Mr. Tobias to gradually reduce his ownership and workload while heading toward full retirement at age 75.

Mr. Tobias, who now describes himself as a "24/7 caregiver" for his wife, said it became clear in 2016 that his succession had essentially already happened.

25%
PORTION OF FIRM OWNED BY SUCCESSORS AHEAD OF TIME

'NEVER MISSED A BEAT'

"Matt and Nela kept everything going, and never missed a beat," Mr. Tobias said. "At end of 2016, I said, 'You're really running the business already so let's move up our plan.'"

Mr. Tobias, who is still featured as the founder on the firm's website, had to give up his planned 25% ownership stake, which was originally designed for sale to a third generation of owners. The financing arrangement through the Small Business Administration required that Ms. Collado and Mr. Saneholtz finance the remaining 75% that they didn't already own.

Meanwhile, Mr. Tobias is standing by his promise to the new owners to be there if needed.

"If Matt or Nela weren't there, I would not have had any choice; I would have had to get with one of the consolidators to make a sale," he said.

George Tamer, managing director of strategic relationships at TD Ameritrade Institutional, said having a plan that could be executed put Mr. Tobias in the minority.

New beginning: Benjamin Tobias, center, is transferring ownership to Matt Saneholtz and Marianela Collado.

"In our most recent FA Insight People and Pay Study, we found that nearly two out of three advisory firms didn't have an adequate succession plan," Mr. Tamer said.

The succession plan looks just as bright to Ms. Collado, 41, now the firm's chief executive and senior financial adviser, and Mr. Saneholtz, 39, who is president and senior financial adviser.

Mr. Tobias started the business in 1980 as an accounting firm, but by 1988, when he earned his certified financial planner designation, it had morphed into a financial planning firm. In 1990, he sold the accounting business, and five years later he became a fee-only planner.

Ms. Collado, who also has an accounting background, saw the firm's CPA origins as a common bond.

"They presented an opportunity to be part of Ben's succession plan, and what an opportunity it is to take a solid company and build on its reputation," she said.

Read the full story at InvestmentNews.com/Tobias.

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Connect with next gen early on

FINANCIAL LITERACY
LAWRENCE D. SPRUNG

When working with clients, it is important to think about connecting with the next generation, their kids. In most instances, they will be the beneficiaries of the wealth, and it is easier for you to continue as the family's adviser rather than looking for a new client if they should leave. It is important to begin making headway early on and develop your relationship with them over time.

Starting and maintaining relationships with the next generation can present challenges, but when done right it can cement your place with the family for decades to come. It is important to find out how the kids want to communicate and approach them in the way they feel most comfortable.

IT IS IDEAL IF YOU CAN HAVE THEIR PARENTS BRING THEM TO A REVIEW MEETING.

This usually starts with a conversation with the parents to see if whether it's best to call, email or text their children to open the dialogue. It is ideal if you can have the parents bring them to a review meeting, introduce them to the firm and set up a plan on how you can stay in touch going forward.

Beyond the communication hurdle, we find there are several other challenges that exist when trying to work with clients' children. Sometimes parents simply do not want their kids to know about their money, how much they have or even how it is invested. This presents the greatest challenge to the adviser and one that may never be overcome.

The best way to try and connect with the children of these clients is to get an introduction to them and begin working with them on their own finances. You will want to educate them on the importance of saving, diversifying and having a plan, while engaging them to do this for themselves. Maintaining the confidentiality of the parents here is paramount and it also will allow you to build that connection with the next generation.

SANDWICH GENERATION

In certain families, it is difficult to get the kids involved in their parents' finances. This is an obstacle to connecting with the next generation.

It is not uncommon these days to find the kids being pulled in many directions. In addition to their jobs, they are busy attending to the needs of their kids and their parents, too. This is your typical sandwich generation and it leaves them with little time to be concerned and involved in mom and dad's finances.

When a family dynamic like this presents itself, we find that keeping them involved, even in the smallest way, will help to start and build a relationship.

Simple gestures like sending the kids an overview of meetings we held with their parents and action items that need to be addressed go a long way. This will simply require written permission from the parents acknowledging you can share information with the children. It allows them to be involved, not take too much time out of their day and away from their other responsibilities, and they can provide input by responding back if needed.

As the parents age and it becomes more difficult for them to handle their finances alone, the children's relationship with the adviser will become even more important. This also provides the advisor with an opportunity to be introduced to the next generation and start a relationship.

It is paramount to most advisory practices to establish, build and maintain relationships with the next generation.

Lawrence D. Sprung is president of Mitlin Financial.

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Technology Integration:
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- Where is the puck headed in fintech?
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Lori Hardwick
Co-Founder & Board Member
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Mark Magnacca
President & Co-Founder
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Tim Bonacci
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Luma Financial Technologies

James Gallardo
Associate, Research & Data
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THINNING UNITS

CONTINUED FROM PAGE 2

did practices.

According to recent reports, Wells Fargo is getting ready to jettison certain unessential businesses.

In a March 17 story, Reuters, citing people familiar with the matter, reported that Principal Financial Group was in advanced talks to buy Wells Fargo's retirement plan services businesses, in a deal that could exceed $1 billion and be announced by the end of the month.

The report noted that the company last year also announced deals to sell 52 branches across the Midwest and its Puerto Rico auto finance business.

Such a flurry of activity led one adviser at Wells Fargo Advisors to raise the possibility of more deals for Wells' non-core businesses.

The adviser noted that Kristi Mitchem, the former head of the bank's asset management group, left earlier this year to lead the global asset management unit at BMO Financial Group, a sign that more changes might be coming.

WELLS FARGO IS INVESTING IN THE ADVICE BUSINESS WHILE IT CONSIDERS DUMPING OTHER LINES.

"Is asset management the next up on the list of divestment," asked the adviser, who did not want to be identified.

When asked about the bank's retirement plan services and asset management businesses, a spokeswoman, Shea Leordeanu, said the company did not comment on market rumors, and that a pair of co-CEOs was running Wells Fargo Asset Management.

CUSTOMERS FIRST

Ms. Leordeanu also pointed to an 18-month-old statement on the company's website regarding Wells Fargo's goals that listed "customer service and advice" as first up on a list of areas where the company wants to lead the financial services industry.

And why shouldn't Wells Fargo focus on financial advice and advisers as it looks to atone for its series of embarrassing and serious mistakes in the way it treated its customers?

It is clearly focused on trying to stop the exodus of advisers at its brokerage units and position itself to begin growing again.

And why not? Wells Fargo Advisors, despite losing hundreds of advisers since the report of the 2016 bank scandals, still packs a financial wallop. In a recent filing with the Securities and Exchange Commission, Wells Fargo Clearing Services, the official name of Wells Fargo Advisors, said it plans this month to pay a $2 billion dividend to its parent company. It is the first such dividend since 2015, when the firm paid three such dividends for a total of $1.2 billion.

14K
NUMBER OF WELLS REPS AND ADVISERS

Since the start of the year, Wells Fargo Advisors has made a series of moves to hang onto experienced advisers and attract new talent.

Those include: 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 of those advisers who are retiring; broadening its platform to allow its reps to work as distinct registered investment advisers, a move its wirehouse competitors have not yet made; and currently offering one of the most lucrative recruiting deals in the retail wealth management business.

So, it's clear that Wells Fargo is investing in the financial advice business while considering dumping other lines of business. And it's clear that Wells Fargo Advisors is generating the cash flow to pay significant dividends up the corporate ladder.

What is not clear is how the financial advisers will regard the company's effort. Will they embrace the strategy, particularly the attractive compensation and the broader platform, or will more seek to flee?

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HUGE DEAL?

CONTINUED FROM PAGE 2

"This could change the landscape quite a bit," Ellen Lander, principal and founder of Renaissance Benefit Advisors Group, said of the potential deal. "We're talking about two of the top 10 record keepers."

Principal is in "advanced talks" to buy Wells Fargo's retirement business, according to a Reuters report published March 17 citing anonymous sources familiar with the matter. A deal could be announced later this month, the report said.

A Bloomberg report from November said Wells Fargo was considering a sale of its retirement-plan-services business. The firm has been offloading business lines recently amid an enterprise-wide review prompted by a string of consumer scandals.

Spokespeople for Principal and Wells Fargo declined to comment on the potential deal.

Consolidation of record-keeping businesses has been a fairly steady force in the retirement industry since its early days. A decade ago, there were approximately 400 to 450 record keepers, spanning big national players to smaller regional and local firms, according to data from consulting firm Sterling Resources Inc. That number today is around 160.

The deals in recent years have gotten larger, though, as firms seek to gain scale to combat a continued reduction in fees.

"Certainly, it would be consistent with the general feeling that you need large scale to be efficient and therefore profitable in the retirement industry, especially with fee compression," said Peter Demmer, CEO of Sterling Resources, of a potential Principal-Wells Fargo deal.

Great-West Financial's purchase of JPMorgan Retirement Plan Services in 2014 was the largest deal of the past few years, adding $167 billion and 1.9 million participants to Great-West's retirement unit (which has since been rebranded to Empower). Prior to that, ING's acquisition of CitiStreet in 2008, and its $262 billion in assets under administration, represented another blockbuster deal.

"I continue to be one of those advisers who finds this worrisome," Ms. Lander said of the consolidation trend. "You have the record-keeping landscape dominated by a handful of major players."

OTHER DEALS

Other insurers have closed on smaller but notable deals within the past few years, such as John Hancock, which bought New York Life's business in 2015, and Transamerica, which bought Mercer's that same year.

If Wells Fargo ultimately exits the market, Bank of America Merrill Lynch would be the only remaining bank with a large record-keeping business.

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FPA, KITCES

CONTINUED FROM PAGE 3

the member dues and rebates were pass-through transactions that should not be counted as revenues or expenses.

NOTHING WRONG

Gordon Yale, principal at the forensic accounting firm Yale Forensics, found nothing out of the ordinary about the FPA's practice of retroactively removing the membership revenues and related expenses for the purpose of consistency in its January webinar to members.

"You will often see when there's an accounting change the prior periods will be recast to reflect that, and it looks like the FPA was just trying to make the chart consistent with the accounting changes," he said. "I don't find it particularly misleading."

After reviewing the FPA's 2013-2014 financial statement in which the accounting change is explained, Mr. Yale said, "The blogger raised doubts that had a rational explanation. And if he didn't accept the propriety of the accounting, he should have talked to FPA's auditors or to an accountant who could have explained the differences to him."

Mr. Kitces, in an email response to *InvestmentNews* last Monday, described it as "bizarre" that the FPA would focus on a point that "was literally mentioned once, in a single sentence, in the latter half of the article …"

'FALSE ASSUMPTIONS'

In its March 15 email to chapters, the FPA called out the prolific blogger and industry influencer for "making false assumptions," adding that Mr. Kitces' statements are "based on incomplete data."

"We offered to clarify and correct his assertions to ensure his post was accurate, as a professional journalist would have wanted, but were told he could not wait for a clarifying response from FPA due to publishing deadlines."

Mr. Kitces said the more important part of his March 14 blog "was about the FPA's already-published audited financials, which are supposed to be the final record of the FPA's financial reporting to members. Which means the FPA is complaining that I didn't contact them to ask if there was a super-secret second set of books that they were keeping on the side, that had never been disclosed to members, never been published, and never acknowledged in the FPA's own webinar."

While Mr. Kitces said he is "relieved" to hear the explanation for the discrepancy, "it doesn't change the fact that restating financials after the fact on an undisclosed basis is a major embezzlement risk."

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NEW COLUMNIST

CONTINUED FROM PAGE 4

knew very little about it.

That lack of knowledge about retirement and income planning would become clearer over the years, as my research led me to test near-retirement-age Americans' literacy on the topic. The results, perhaps, were not surprising, but they were concerning. Only about 25% of the people queried could pass our retirement income quiz.

The main takeaway from this: Most Americans don't have the knowledge base to easily do their own retirement income planning.

So what can Americans do if they aren't equipped to plan out their own retirement income strategy? Well, they can delegate that to an adviser. But that assumes all advisers are prepared for this type of planning, right? Sadly, my experience has been a resounding no.

I've said it before and I'll say it again: I think I would hire roughly 70% to 80% of the attorneys I know, but only about 5% to 10% of the financial advisers I know. It's not because one group is more well-meaning, tries harder or is made up of fundamentally better people. It comes down to education. Attorneys, doctors, accountants and other professionals typically go through rigorous education programs. Financial advisers may have never taken a single course on financial planning let alone retirement income planning.

IMPORTANT WORK

This is why the work of the CFP Board of Standards Inc., The American College, Texas Tech and other education providers is so important. It is also how I try to model myself. I really view myself as a professor and teacher, even though I have moved on from The American College and now work for Carson Group.

I want to educate advisers, consumers and the entire industry in an effort to make this profession more trusted. It is also why *InvestmentNews* asked me to write a column twice a month on retirement planning. I want to help educate its readers the best way I can.

So, if you want to read about a specific topic, reach out to me. If you want to converse, reach out. I want to be a resource and educator for the profession.

I came into the industry because I saw a real need consumers have for better retirement planning. Advisers can deliver that need, but only if we commit to learning, growing and developing.

Jamie Hopkins is director of retirement research and vice president of private client services at Carson Group.

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Block seeks to avoid prison

BY BRUCE KELLY

CONVICTED OF securities fraud almost two years ago, Brian Block's fight to stay out of prison turned the page last week as he lost his bid for a new trial in federal court, but appealed to a higher venue for another attempt to prove his innocence.

Mr. Block was the former chief financial officer of American Realty Capital Properties Inc., a real estate investment trust founded and run by real estate investor Nicholas Schorsch. In June 2017 after a three-week trial, he was found guilty of six counts of fraud and later sentenced to 18 months in prison and fined $100,000. The charges against Mr. Block relate to his fraudulent preparation in 2014 of financial statements for ARCP, which has since changed its name to Vereit Inc.

NEW NOTICE OF APPEAL

Mr. Block has not yet begun serving his sentence. After losing the trial, he appealed his conviction, which occurred before Judge J. Paul Oetken of the U.S. District Court of the Southern District of New York. Last Tuesday, the judge denied Mr. Block's motion for a new trial. Last Thursday, Mr. Block's attorneys filed a new notice of appeal to the U.S. Court of Appeals, Second Circuit.

Michael C. Miller, Mr. Block's attorney and a partner at Steptoe & Johnson, declined to comment. A spokesman for the Department of Justice, Nicholas Biase, also declined to comment.

Mr. Block's appeal for a new trial centered on DOJ attorneys' failure to disclose evidence that the defense claimed could have impeached the testimony of a witness, Ryan Steel, according to court filings.

Mr. Steel was ARCP's director of financial reporting in July 2014 when Mr. Block carried out his alleged scheme to manipulate financial results. He testified against Mr. Block in the June 2017 trial.

Mr. Oetken in November held an evidentiary hearing to hear Mr. Block's claim and the federal government's defense.

The undisclosed evidence was a conversation between Mr. Steel and another former ARCP executive about potentially sharing a Securities and Exchange Commission whistleblower award years before the trial. The federal government attorneys first learned of the conversation during the trial, but after Mr. Steel testified, according to the order to deny the motion.

Mr. Oetken concluded that the undisclosed evidence, while impeachable, resulted in "no reasonable probability that its disclosure would have made a difference in the verdict," according to the order.

"The government's cross-examination of Block on his explanation of the changed numbers was devastating, irrespective of any testimony by Steel," according to Mr. Oetken's order.

One securities attorney said Mr. Block's appeal would likely fail.

"Because he testified in his own defense, Brian Block probably punched his own ticket to imprisonment," said Brandon Reif, managing partner at the Reif Law Group. "The ruling earlier [last] week reflects the principal that courts won't disturb jury verdicts unless there is a serious violation of the law, none of which existed here."

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TOPNEWS

Securities America hit with $18M suit

BY BRUCE KELLY

SECURITIES AMERICA INC. is dealing with the fallout from a rogue broker it fired last year, who was later charged with running a Ponzi. The firm now faces a lawsuit alleging that a family suffered $18 million in losses after working with the adviser since 2001.

In December, the broker, Hector A. May, pled guilty in federal court to running a Ponzi scheme. He faces up to 25 years in prison. According to his BrokerCheck profile, Mr. May was fired by Securities America one year ago after he was accused of stealing client assets.

The Jamieson family filed the complaint against Securities America, one of the largest independent broker-dealers in the industry, and Mr. May in U.S. District Court of the Southern District of New York on Feb. 26.

Securities America disclosed the complaint and its claim of $18 million in compensatory damages in the annual audited financial statement it filed at the start of this month with the Securities and Exchange Commission.

Securities America did not respond to a request for comment.

According to the complaint, Mr. May ran the Ponzi scheme with his daughter, Vania May Bell. Over 17 years, Mr. May, with the assistance of his daughter, "stole millions from the Jamieson family and repeatedly provided investment advice designed to make it easier for him to steal more," the complaint says. "The only reason May and Bell were able to perpetrate a fraud that was breathtaking in scope — the Jamieson family was not the only victim — and duration was the abject failure of Securities America to perform its duties." The firm failed to supervise the broker properly and ignored "stark red flags" that would have exposed the scheme in 2003, at a time when Mr. May had stolen only $750,000 from the family, according to the complaint.

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BLUCORA

CONTINUED FROM PAGE 4

with more than one partner, and HD Vest focuses primarily on turning individual tax preparers into financial advisers, the company said in announcing the deal.

OVERLAP IN BUSINESS

Both HD Vest and 1st Global are based in the Dallas area, and there is clearly overlap in the businesses. While merging the two firms was not addressed directly in a press release or presentation to investors, Blucora executives see opportunities for some form of consolidation in the future.

"Combined, we believe that the fact that this is a consolidating, scale-building acquisition with geographic and vendor overlap, lowers the relative risk of the transaction and should make integration, cost savings and synergies easier to achieve," said Blucora's president and CEO, John Clendening, according to comments posted on the firm's website discussing the acquisition.

Anthony "Tony" Batman is the CEO and majority owner of 1st Global. A former chairman of the industry trade group Financial Services Institute, Mr. Batman worked at HD Vest until he branched off in 1992 to launch his own firm.

28% DECLINE IN THE NUMBER OF IBDs FROM 2005 TO 2015

One adviser who moved to HD Vest last fall from Robert W. Baird said Blucora's announced acquisition of 1st Global was indicative of the firm's focus.

"The deal speaks to Blucora's commitment to be the No. 1 tax and wealth management firm on the Street," said the adviser, Evan Guido. "The firm is putting dollars behind key assets."

The acquisition and consolidation of independent broker-dealers like HD Vest and 1st Global has been steady for the past several years.

The number of IBDs has declined 28%, with 904 open for business in 2015, compared with 1,255 firms that were up and running in 2005, according to a 2017 report. And with increased regulation pressuring profits, broker-dealer operating margins dropped from 12% in 2006 to just 3% in 2016, according to Fidelity Clearing & Custody Solutions, which completed the research for the report.

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