InvestmentNews®

APRIL 8-12, 2019

THE LEADING INFORMATION SOURCE FOR FINANCIAL ADVISORS InvestmentNews.com $5.00 / $89 Year

NEWSPAPER | VOL. 23, NO. 14 |

2 MORNINGSTAR ALTERS BOND REPORTING

3 RETIREMENT BILL GETS BIPARTISAN VOTES

4 SCHWAB'S PRICING MODEL A THREAT?

23 TOP REASONS TO FILE A TAX EXTENSION

InvestmentNews®

APRIL 8-12, 2019

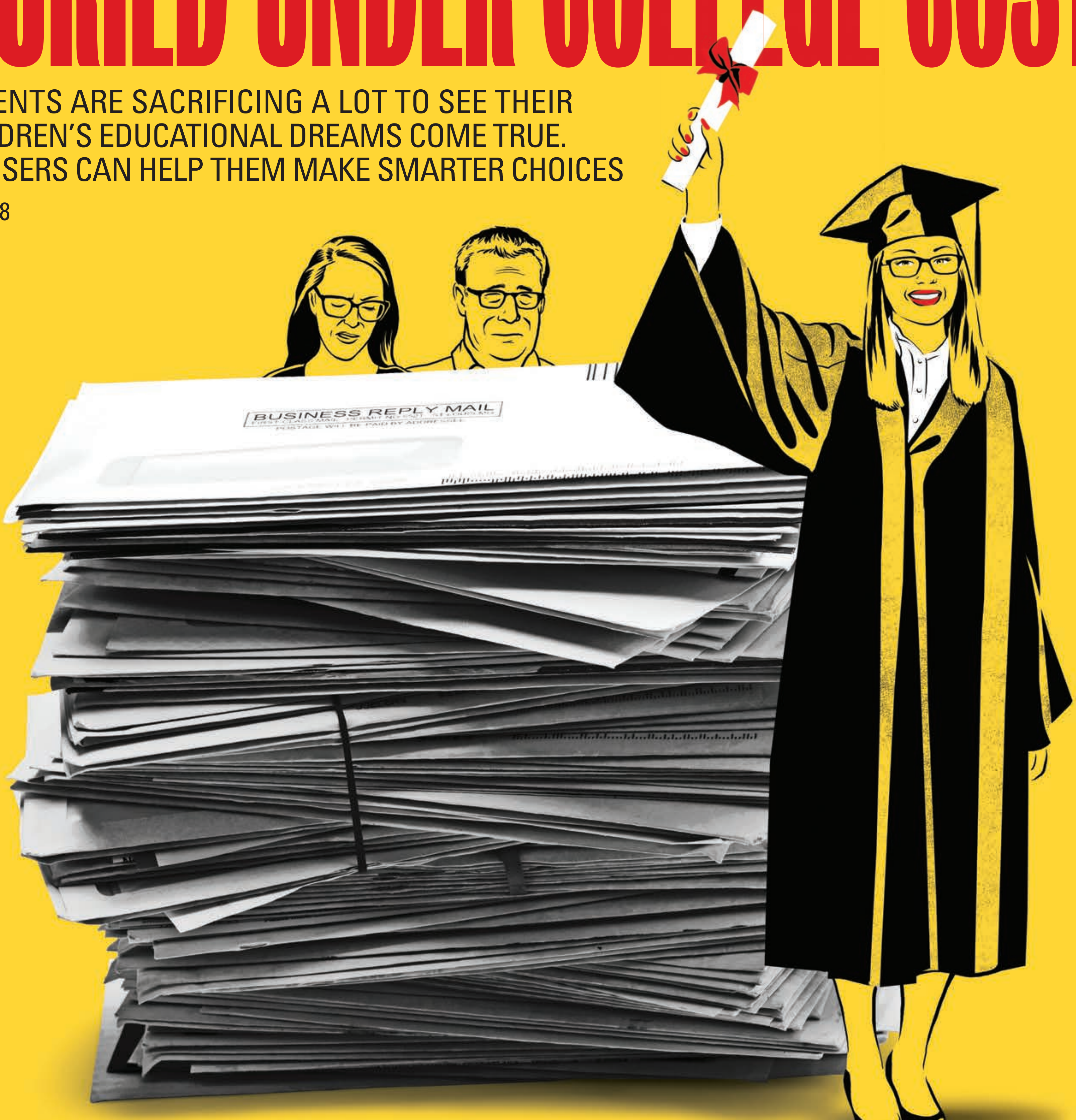
THE LEADING INFORMATION SOURCE FOR FINANCIAL ADVISERS

$5.00 / $89 Year

BURIED UNDER COLLEGE COSTS

PARENTS ARE SACRIFICING A LOT TO SEE THEIR CHILDREN'S EDUCATIONAL DREAMS COME TRUE. ADVISERS CAN HELP THEM MAKE SMARTER CHOICES

PAGE 8



TOPNEWS

ACCURACY / EXCELLENCE / FAIRNESS / IMPARTIALITY / INDEPENDENCE

INSIDE

APRIL 8-12, 2019

Cover: Rob Dobi

Technology priority
InvestmentNews study finds firms focused on productivity of tech versus its cost outperform.

Page 16

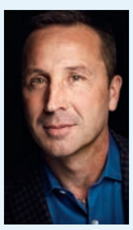
ONLINE
How one small town is improving financial literacy among high schoolers
InvestmentNews.com/literacy

EDITOR'S NOTE

Break out the Mylanta

This week's cover story makes me more than a little uncomfortable.

As the father of four teenage boys, one of whom is in his first year of college, I break into a cold sweat when I read about the amount of debt many parents take on to get their children through college. I reach for the Mylanta when I am reminded that three years from now I could very well have four children in college.



FRED GABRIEL

Trust me, I know how bittersweet it is when your child is accepted to college. First you share in his or her excitement over the prospect of learning and living independently. You imagine walking around campus on Parents Weekend in the fall, even buying yourself a sweatshirt that bears the college name.

Then you remember that college sweatshirts cost money, money you're unlikely to have when you're shelling out tens of thousands of dollars to keep your kid in college.

If there was ever a time financial advisers can improve the retirement outcome of their clients, it's when those clients are making tough decisions about funding their childrens' education. Too often, clients sacrifice their own financial futures for their kids.

I'm not saying parents shouldn't make sacrifices, but there are smart sacrifices and stupid ones. Advisers are uniquely positioned to help clients make the smart ones.

This week's cover story, written by senior reporter Mark Schoeff Jr., offers plenty of ideas for helping parents and students navigate this crucial period in their lives.

fgabriel@investmentnews.com
Twitter: @fredpgabriel

Morningstar to alter bond reporting

BY GREG IACURCI

MORNINGSTAR INC. is changing the way it reports fixed-income data for investors and financial advisers.

The switch relates to how Morningstar reports important fixed-income metrics such as duration and credit quality. Morningstar currently relies on self-reported data from asset managers, but it will start calculating the data internally as of July 31 for all fixed-income funds.

The goal, according to company officials, is to provide investors and advisers with increased transparency, objectivity and consistency in data reporting, which will help them compare funds in a more apples-to-apples way and more reliably construct portfolios.

The change also will bring Morningstar's reporting on bond funds more in line with its reporting on equity funds.

'VERY OPAQUE'

"In general, fixed income is a very opaque — and huge — part of the market," said Tricia Rothschild, chief product officer at Morningstar. "And yet there's not yet a standard way to compare across asset managers things that might seem obvious, like duration, because all of the calculations are done specifically by, and are unique to, the asset manager.

"You can maybe do it [to-

CONTINUED ON PAGE 24

SEC nominee's timing with Reg BI unclear

BY MARK SCHOEFF JR.

ALLISON H. LEE may not join the Securities and Exchange Commission in time to influence the agency's final investment advice reform rule.

Last Tuesday, the Trump administration nominated Ms. Lee, a former SEC enforcement official, to replace Democratic SEC member Kara M. Stein, whose term ended in December. Ms. Lee also is a former counsel to Ms. Stein.

If confirmed by the Senate, Ms. Lee would restore the SEC to full strength with five commissioners — three of whom were selected by Republicans (including chairman Jay Clayton) and two of whom were selected by Democrats.

Ms. Lee could arrive just as the SEC is finishing the advice reform rule package, which revolves around so-called Regu-

ALLISON H. LEE

lation Best Interest to raise the standard of conduct for brokers. Most observers expect a final rule to be released this summer.

But she may not have obtained Senate confirmation by then. The Senate Banking Committee would have to hold a hearing and advance Ms. Lee's nomination to the Sen-

CONTINUED ON PAGE 24

Contents © Copyright 2019 by InvestmentNews LLC. All rights reserved. Vol. 23, No. 14, April 8, 2019. **InvestmentNews** (ISSN 1098-1837) is published weekly except for the first week of January, the first, third and last week of July, the second and fourth week of August and the last week of December by InvestmentNews LLC. The agent is Crain Communications Inc., 1155 Gratiot Avenue, Detroit, MI 48207-2912. Periodicals postage paid at Detroit, MI and additional mailing offices. POSTMASTER: Send address changes to InvestmentNews, Circulation Dept., 1155 Gratiot Avenue, Detroit, MI 48207-2912. U.S. subscription price: $89 a year.

Massive retirement bill advances

BY MARK SCHOEFF JR.

Decision time: Chairman Richard Neal, left, speaks with ranking member Kevin Brady at House Ways and Means Committee hearing.

THE HOUSE WAYS and Means Committee unanimously approved sweeping legislation last Tuesday to increase retirement savings.

The bill would make it easier for small businesses to band together to offer retirement plans to their employees, provide legal protections for employers to include annuities in those plans, require benefits statements to include projections of lifetime income, and increase the age for required minimum distributions from 70½ to 72, among several other provisions.

It would also encourage auto enrollment in employer retirement plans and allow long-term, part-time workers to participate.

529 PLANS

One provision not related to retirement would expand 529 college savings plans to cover costs of apprenticeship programs and homeschooling, and allow funds to be used to pay student loans.

Separately, the committee approved a bill, the Taxpayer First Act, that would reform the IRS.

The retirement savings measure, Setting Every Community Up for Retirement Enhancement Act, incorporated provisions from previously introduced bills, such as the Retirement Enhancement and Savings Act and the Family Savings Act. It now goes to the House floor for a vote by the full chamber.

The legislation raises tax revenue to pay for itself in part by requiring most recipients of inherited individual retirement accounts and other retirement plans to take distributions within 10 years.

POVERTY THREAT

Ways and Means Committee chairman Richard Neal, D-Mass., said many Americans "face a retirement income crisis" and the prospect of sliding into poverty as they age.

"The SECURE Act goes a long way in addressing this problem by making it easier for Americans to save," he said before the panel vote. "This is landmark legislation."

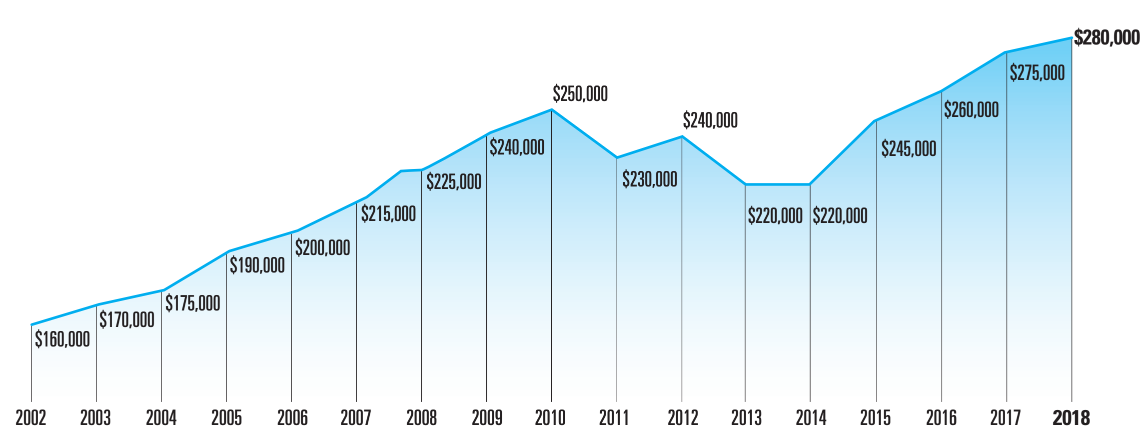
Mr. Neal said the bill could lead to approximately 700,000 Americans gaining access to a workplace retirement plan for the first time.

The bill would take advantage of the strong economy, said Rep. Kevin Brady, R-Tex., ranking member of the panel.

"With the economy growing at its fastest pace in years, now is the perfect time to help folks save more

CONTINUED ON PAGE 24

AMOUNT A 65-YEAR-OLD COUPLE COULD EXPECT TO SPEND ON HEALTH CARE THROUGHOUT RETIREMENT



Source: Fidelity Investments

Galvin proposal requires advisers to detail fees

BY MARK SCHOEFF JR.

MASSACHUSETTS investment advisers would be required to provide their clients with a one-page document listing their fees under a proposal released last Thursday.

Secretary of the Commonwealth William Galvin said the fee table, which would distill information from an adviser's Form ADV Part 2A, is meant to help investors understand increasingly complicated fees that go beyond charging a percentage of assets under management.

WILLIAM GALVIN

"It is not uncommon for consumers to pay different types of fees for advisory services, including retainer fees, subscription fees and third-party robo-adviser fees," Mr. Galvin said in a statement. "The fee table that my securities division is proposing is intended to address these new fee models by increasing transparency. The table is also intended to make fees and costs more understandable and to enable investors and savers to make informed comparisons between investment advisers."

TESTING ON CLIENTS

John Power, owner of Power Plans in Walpole, Mass., has tested the fee-disclosure document on his clients. He listed his flat fee for a financial plan, the percentage of AUM charged for investment management as well as third-party fees for investment management services.

"They like it universally,"

CONTINUED ON PAGE 24

STATE ACTION

Maryland kills fiduciary bill

BY MARK SCHOEFF JR.

A BILL THAT would have raised investment advice standards in Maryland suffered a likely fatal blow last Wednesday when it was rejected in committee.

The Maryland Senate Finance Committee voted down the Financial Consumer Protection Act, which included a provision that would have imposed a fiduciary duty on financial professionals in the state.

The bill has likely died because the legislature is scheduled to adjourn on April 8. An aide to one of its authors, Sen. James Rosapepe, D-College Park, was not immediately available for comment.

Maryland was one of several states pursuing advice reform while the Securities and Exchange Commission works on its own rule to raise the standard of conduct for brokers.

"This is the right outcome given the extraordinary regulatory activity on this issue by the Securities and Exchange Commission and the National Association of Insurance Commissioners," IRI chief legal and regulatory affairs officer Jason Berkowitz said in a statement.

The NAIC is working on a proposal to reform the suitability standard for annuity sales.

mschoeff@investmentnews.com
Twitter: @markschoeff

Schwab pricing to undercut RIAs?

BY RYAN W. NEAL

WHEN CHARLES SCHWAB announced it would switch to subscription pricing for its robo-adviser, some advisers saw new competition for retail assets.

For only $30 per month, Schwab Intelligent Portfolios Premium clients will get automated investing and unlimited access to a certified financial planner. For clients with at least $125,000 invested, that's even less expensive than the 28 basis points Schwab currently charges for the hybrid robo-adviser and far more affordable than the 1% fees many advisers charge.

"Schwab has outright acknowledged that they're going for mass-affluent investors themselves, implicitly in competition with their RIAs serving the same market," said XY Planning Network co-founder Michael Kitces on Twitter.

'HEAD-TO-HEAD COMPETITOR'

On his blog, Mr. Kitces said many RIAs thrive serving the mass-affluent market, making Schwab's robo "more of a head-to-head competitor with the typical RIA than the typical wirehouse."

This is hardly the first time Schwab has caught heat from advisers for decisions made in the retail brokerage business. Advisers bemoaned "increased competition" when Schwab launched its franchise business, as they did when it first announced its digital-advice platform in 2014.

For some RIAs, it's reason not to custody assets with the firm.

"Why would any RIA custody at Schwab?" tweeted Jorge Romero, senior wealth adviser with Carson Wealth. "Seems to me that out of the big four, they're the one who is most actively competing with their RIAs.

> **KEY POINTS**
> - Schwab robo clients get automated investing and access to a CFP for $30 per month.
> - Some advisers fear competition, other say they have to define their value better.

"Don't get me wrong, their new service is good for lots of investors, but don't think for a second that Schwab wouldn't undercut traditional RIAs by targeting mass-affluent, HNW clients," he said.

Kyle Moore, founder of Quarry Hill Advisors, argued advisers shouldn't feel threatened as long as they offer clients more value.

"Maybe I should feel threatened, but I don't. Just like how I don't feel threatened by the wirehouses," he said.

> **INVOICES** Readers weigh in on the change.
> PAGE 7

Schwab can offset the low cost of it's hybrid robo-service with revenue generated by cash sweeps and by using proprietary ETFs in portfolios. Traditional RIAs would have to be a significant size to meet Schwab on cost.

Julianne Andrews, co-founder and principal of Atlanta Financial Associates, estimates a CFP would have to serve 400 households to break even with compensation. Her firm, which uses Schwab as its sole custodian, is considering launching a digital-adviser, but Ms. Andrews is realistic about trying to compete with a giant like Schwab.

"We're going to have to be very clear about the value we bring to the table," she said. That means offering more interaction and higher quality services.

What concerns her more is how a product like Schwab's sets the value for CFP advice.

"We're going to have to make the distinction early that an 800 number to talk to a CFP you've never met is very different than working with [us]," she said.

Schwab senior communications manager Marianne Ahlmann said the firm isn't hearing many complaints from advisers, just questions.

"We view RIAs as the best solution for investors who have more complex, specialized needs and prefer an ongoing relationship," she said in an email.

Schwab also refers clients to RIAs if they need more sophisticated advice than the robo-platform can offer. Ms. Ahlmann said Schwab referred $11 billion in assets to RIAs in 2018, a 41% increase from the year before.

rneal@investmentnews.com
Twitter: @ryanwneal

Air Force vet clashes with First Command

First Command Financial Planning Inc. is an independent broker-dealer that recruits retired military personnel. But one of the firm's former advisers — a disabled Air Force veteran — is unhappy with how he was treated and last month filed a lawsuit against the firm and affiliated companies seeking $10 million in damages.

The complaint by the adviser, Joachim "John" Exner, alleges that he was terminated by the firm for refusing to sign over sales materials he developed and copyrighted while he worked as an affiliated adviser for First Command.

Mr. Exner joined First Command in 2003, after his military career was over. He is a financial planner for military veterans and their families. His eponymous firm is located in Fairfax Station, Va., a Washington suburb.

According to his lawsuit, which was filed last month in U.S. District Court in the Eastern District of Virginia, the conflict centers on who controls the copyright to a financial planning system Mr. Exner created called "The Consistent Client Experience."

In an interview, Mr. Exner claimed that First Command took the copyrighted materials and trained the firm's advisers to use his system.

According to his complaint, First Command began to falsely assert ownership of these copyright-protected works and tried

CONTINUED ON PAGE 24

State taxes

Here are the five states with the lowest state and local tax burden, and the five with the highest, based on what a median-income household pays, as compiled by WalletHub.

ALASKA
Total state and local tax rates: **5.7%**
Annual state and local taxes paid: **$3,309**
Compared to U.S. average: **-47.03%**

DELAWARE
Total state and local tax rates: **6.14%**
Annual state and local taxes paid: **$3,567**
Compared to U.S. average: **-42.9%**

MONTANA
Total state and local tax rates: **7.07%**
Annual state and local taxes paid: **$4,106**
Compared to U.S. average: **-34.28%**

WYOMING
Total state and local tax rates: **8.05%**
Annual state and local taxes paid: **$4,673**
How state differs from U.S. average: **-25.2%**

NEVADA
Total state and local tax rates: **8.2%**
Annual state and local taxes paid: **$4,762**
How state differs from U.S. average: **-23.77%**

NEBRASKA
Total state and local tax rates: **13.37%**
Annual state and local taxes paid: **$7,763**
How state differs from U.S. average: **+24.26%**

NEW YORK
Total state and local tax rates: **13.74%**
Annual state and local taxes paid: **$7,978**
How state differs from U.S. average: **+27.71%**

PENNSYLVANIA
Total state and local tax rates: **13.78%**
Annual state and local taxes paid: **$8,004**
How state differs from U.S. average: **+28.12%**

CONNECTICUT
Total state and local tax rates: **14.41%**
Annual state and local taxes paid: **$8,370**
How state differs from U.S. average: **+33.98%**

ILLINOIS
Total state and local tax rates: **14.9%**
Annual state and local taxes paid: **$8,653**
How state differs from U.S. average: **+38.51%**

How mid-cap growth funds owned Q1

BY JEFF BENJAMIN

THE OFTEN OVERLOOKED and under-allocated mid-cap growth fund category cranked out one of its rare high notes during the first three months of 2019, with an 18.4% return that beat the eight other equity style boxes.

Mid-cap growth's performance compares to the 13.6% gain by the S&P 500 Index during the quarter and an 11.3% gain for the large-cap growth fund category, as tracked by Morningstar.

What is most interesting about the first-quarter mid-cap performance is the way it led the rebound from the fourth quarter, when the S&P 500 lost 13.4%.

According to Tom Roseen, head of research services at Lipper., mid-cap growth funds last beat out all other domestic equity fund categories in the first quarter of 2018, when the category eked out a 24-basis-point return. Prior to that, mid-cap growth funds beat all other categories in the first quarter of 2016 with a 34-basis-point return.

> **18.4%**
> RETURN OF MID-CAP GROWTH FUNDS DURING THE FIRST QUARTER

Mid-cap funds, which typically invest in companies with market capitalizations of between $2 billion and $20 billion, are sometimes overshadowed by the much larger and higher-profile large-cap strategies and the higher-performing small-cap strategies.

Matthew Weatherbie, co-manager of the $451 million Alger SMid Cap Focus Fund (ASMZX), said he didn't do anything different on his way to leading funds in Morningstar's mid-cap growth category with a 31.3% first-quarter gain.

"We're trying to capture what we think are outstanding smaller-cap growth companies during periods of dynamic growth," he said.

Sticking to the process is likely what helped mid-cap managers recover so strongly from the category's average fourth-quarter decline of 17%.

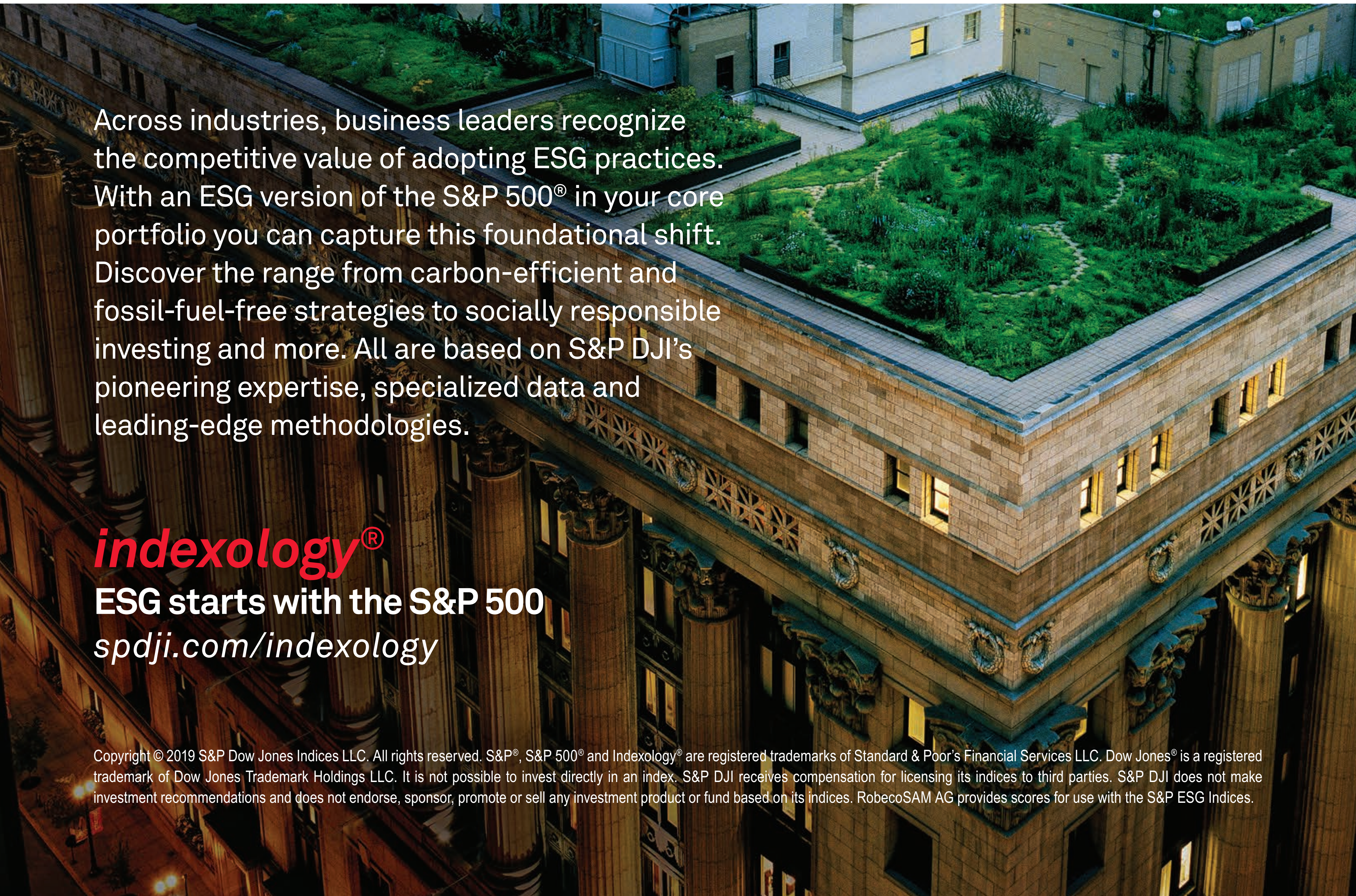
"The first quarter was almost the inverse of what happened in the fourth quarter, when it seemed like people thought the world was ending," said Donald Easley, co-portfolio manager along with Donald Peters of the $1.2 billion T. Rowe Price Diversified Mid Cap Growth Fund (PRDMX).

The fund gained 19.4% in the first quarter.

"What's great about mid-caps is they offer superior risk return versus both large caps and small caps. We've just always thought mid-caps offer the sweet spot of the market," Mr. Easley said.

jbenjamin@investmentnews.com
Twitter: @benjiwriter

S&P DJ I can ▶ ESG my 500



Want to keep good employees? Know what they value most

IF YOU RUN AN ADVISORY firm and have had trouble holding on to employees and attracting new ones, consider what workers are looking for in a job these days.

It's not just good pay and benefits, although those are important. And it's not just about maintaining a "fun" workplace, like having chili cookoffs and regular happy hours, although they don't hurt.

In addition to honoring firms that maintain superior workplaces, *InvestmentNews*' 2019 Best Places to Work for Financial Advisers awards, which were highlighted in last week's issue, provides data on the kinds of workplace programs and practices that are most valued by advisory firm employees.

By comparing employee surveys of firms that were chosen with those that weren't, the *InvestmentNews* research staff were able to identify certain traits that top workplace firms share and set them apart as "best places to work."

One area that differentiates top workplaces has to do with planning and execution. Does the firm take the time to plan for the future and then follow-through to implement those plans successfully? There is nothing more frustrating to employees than to hear about a great big program to improve operations only to watch those plans grow stale from lack of action. Management instantly loses credibility, and employees have trouble getting excited when plans for the next big project are unveiled.

Communication is another important area. Employees don't like to be surprised. They like to be in the loop. If you want employees to act like they are part of a team you have to treat them like teammates. Part of that has to do with regular communication. Do employees know what the goals and mission of the firm are and what the strategy is to accomplish them? Do they know how the firm is doing financially?

SHOWING RESPECT

Obviously, the most important communications revolve around employees' work functions, but communicating little changes are important, too. Management often makes changes that they assume are so minor they overlook letting workers know about them. Then comes the pushback: "How come nobody told me we were changing coffee vendors?" Think of it as another way of showing respect for employees. Have a formal way of communicating everything to workers, and the little things won't fall through the cracks.

Training and development are also important. Yes, the firm benefits from having workers improve their knowledge and skills, but employees also benefit. By investing in your employees, you are telling them that they matter, that they are valued, and you look forward to having them at your firm for years to come. Speaking about the future, it is also vital to have a succession plan in place that is communicated to the workforce, especially if there is an opportunity for them to participate as a partner or owner.

> **BY INVESTING IN YOUR EMPLOYEES, YOU ARE TELLING THEM THAT THEY MATTER.**

The bottom line is that it's easy to improve the social aspects of your workplace. Darts, anyone? But all of the little perks in the world won't make a difference if you are not taking care of the heavy lifting. What really matters to employees is doing work that is meaningful, being given a career path that will lead to advancement and having a vested interest in the success of the firm.

WE WANT TO HEAR FROM YOU. Send a letter to the editor with your thoughts about a story we've published, and include your name, title, company, address and telephone number for verification. Keep your letter under 250 words, and email it to Frederick P. Gabriel Jr. at fgabriel@investmentnews.com. All letters will be edited.

InvestmentNews
The Leading Information Source for Financial Advisers
InvestmentNews.com

CEO/Publisher:
Suzanne Siracuse
ssiracuse@investmentnews.com

EDITORIAL
Editorial Director: Frederick P. Gabriel Jr.
fgabriel@investmentnews.com
Deputy Editor: Robert Hordt
Managing Editor: Christina Nelson
Assistant Managing Editor: Susan Kelly
Special Projects Editor: Liz Skinner
Copy Editor: Anne Marie D. Lee
Contributing Editor: Mary Beth Franklin
Senior Columnists: Jeff Benjamin, Bruce Kelly
Senior Reporter: Mark Schoeff Jr.
Reporters: Greg Iacurci, Ryan W. Neal
Digital Content Producer: Ellie Zhu
Social Media & Engagement Editor: Scott Kleinberg
Director of Multimedia: Matt Ackermann
Senior Multimedia Manager: Stephen Lamb
Multimedia Project Manager: Audrey Rose Joseph
Special Projects Coordinator: Brittney Grimes

ART DEPARTMENT
Executive Art Director: Scott Valenzano
Associate Art Director: Pablo Turcios
Senior Graphic Designer: Kyung Yoo-Pursell

DIGITAL, CUSTOM AND RESEARCH
Managing Director, Associate Publisher:
Mark Bruno, mbruno@investmentnews.com
Director of Digital Products & Strategy:
Michael Palazuk
Senior Manager, Research and Data:
Matthew Sirinides
Research Associate: James Gallardo
Digital Operations Manager: Gillian Albert

ADVERTISING
National Sales Manager:
Senior Client Relationship Manager, Western Region:
Rich Kiesel, rkiesel@investmentnews.com
415-538-0206
Client Relationship Manager, Midwest Region:
Sarah Haase, shaase@investmentnews.com
312-504-8755
Client Relationship Manager, East Region:
Nicole Casement, ncasement@investmentnews.com
212-210-0167
Client Relationship Manager, SouthEast Region:
Kevin Reardon, kreardon@investmentnews.com
212-210-0476
Client Relationship Manager, NorthEast Region:
Lauren DeRiggi, lderiggi@investmentnews.com
212-210-0154
Strategic Project Sales Manager:
Julie Parten, jparten@investmentnews.com
952-495-0422
Manager US Event Sales:
Dan Rubinetti, drubinetti@investmentnews.com
212-210-0432
Account Manager, US Events:
Kelly D. Maier
KMaier@investmentnews.com
Reprint Manager: Laura Picariello,
lpicariello@investmentnews.com 732-723-0569
Ad Operations Manager: Letitia Y. Buchan,
lbuchan@investmentnews.com 212-210-0451

AUDIENCE, MARKETING AND EVENTS
Director of Audience and Analytics:
George Ortiz, gortiz@investmentnews.com
Audience Data Analyst: Amy Zhu
Director of Marketing and Communications:
Theresa Gralinski,tgralinski@investmentnews.com
Director of Events and Integrated Solutions:
Josh Brous, jbrous@investmentnews.com
Senior Operations Manager: Tara Means
Events and Operations Manager: Natalie Taylor
Events Marketing Manager: Alanna Guardino
Marketing Coordinator: Kate Arends
Marketing and Sales Coordinator: Madeline Terrell

Executive Assistant to the Publisher:
Irma Rodriguez, irodriguez@investmentnews.com
212-210-0430

PRODUCTION
Prepress/Production Director: Simone Pryce
Production Manager: Paul Vaccari

INVESTMENTNEWS OFFICES
Headquarters:
685 Third Avenue, New York, NY 10017-4024
Bureau office:
Washington:
601 13th Street, N.W. Suite 900 South
Washington, DC 20005

Advertising main number: 212-210-0451
Fax: 212-210-0117

BONHILL GROUP, PLC
Chief Executive Officer: Simon Stilwell
Chief Operating Officer: James Robson

Head Office:
Bonhill Group, Plc
14 Bonhill Street, London EC2A 4BX

For subscription information and delivery concerns, please e-mail customerservice@investmentnews.com or call 877-812-1589 (in the U.S. and Canada) or 313-446-0450 (all other locations).

Audit Bureau of Circulations

Please recycle this newspaper

QUESTIONING SCHWAB'S FLAT-RATE ROBO

The news that Charles Schwab is shifting how it charges investors for its robo-adviser services — from a fee on assets under management to a flat monthly charge — has sent ripples through the advice industry. Most reader comments on *InvestmentNews* reporter Ryan W. Neal's story about the move were negative, and questioned how much actual planning a client will receive under the new deal. Go to InvestmentNews.com/flatrate to read the full story and leave your own comments.

"The median salary for a CFP is $66,609. Add in payroll expenses and benefits and you're looking at $80,000+. Divide that by $360/year and each hired CFP would be doing financial planning for a minimum of 222 clients."

— Anthony Farella

"And the experience of that mean CFP will be just out of college for that salary level. And you'll get one to two conversations a year. That is not planning."

— Sabishop.STA

"The industry continues to go down this road, and I applaud it. The real focus of subscription-based planning should be on comprehensive planning. Why pay a fee like that when it only covers a sliver of their entire financial situation? Seems like a false sense of security."

— Home Brew Ed

"The next focus will be regulators cracking down on subscription fees where the client is not taking advantage of any planning."

— Michael

"[This] is about driving more and more individuals out of business. We all know the concept of Walmart in small towns."

— Don Quixote


DEBT

COLLEGE COSTS CAN SINK PARENTS, TOO

STUDENT DEBT IS OFTEN ASSOCIATED WITH YOUNG PEOPLE TAKING OUT LOANS AND PUTTING OFF RITES OF PASSAGE AFTER GRADUATION TO REPAY THEM. BUT MOM AND DAD OFTEN SACRIFICE MORE.

BY MARK SCHOEFF JR.

Beth Greulich, financial adviser at Abacus Wealth Partners, has seen parents' joy at having their child accepted to Brown University or the University of Southern California quickly turn to anxiety.

"Our child is in ecstasy, but where is the money going to come from?" Ms. Greulich said, recounting conversations she's had with clients. "It terrified me when I saw these families and the position it puts them in."

The solutions can cause pain. The difficult choices for financing college range from taking equity out of a home to significantly tightening the family budget. The other thing that can take a severe hit: plans for retirement. Visions of beach homes and other amenities quickly fade.

"Many of these dreams are gone because they would rather help their kids with their own financial stability," Ms. Greulich said.

Burgeoning student loan debt often brings to mind 20-somethings putting off marrying, buying a home or starting a family because they are struggling under the weight of loan obligations as they begin their careers. But when undergrads pile up debt, parents — and even grandparents — often jump in to help, putting their retirement security at risk.

Sometimes, it's not just the dreams of retirement that go by the wayside — retirement itself is put in jeopardy when college bills are due.

"I have two clients who have completely sacrificed their retirement for their kids' college education," said Jeffrey E. Edwards, president of Atlas Financial Planning.

The student debt crisis has become a structural weakness in the United States economy, and it's having a profound impact far beyond the young people at its core.

"Student debt is such a significant problem that it has reordered life for middle-class families," said Caitlin Zaloom, a cultural anthropologist at New York University and author of the forthcoming book "Indebted: How Families Make College Work at Any Cost" (Princeton University Press, 2019). "It is one of the central issues facing parents when they think about raising children and helping them succeed.

TUITION RISING

"They experience a powerful tension between their kids' futures and their own futures," Ms. Zaloom said. "That's a tension that didn't exist before the 1990s, because college education was much less expensive then."

The price of college has skyrocketed. Tuition at a public, four-year school averaged $10,230 annually in the current academic year, up from $3,360 in 1988-89, according to the College Board. Private school tuition this year averaged $35,830, compared to $17,010 30 years ago. And there are living expenses, books and

CONTINUED ON PAGE 10

CONTINUED FROM PAGE 9
other costs on top of that.

The magnitude of student loan debt is staggering, reaching $1.6 trillion at the end of 2018, according to the Federal Reserve. The Wharton School of Business at the University of Pennsylvania has tallied 44 million college graduates with student debt that averages about $37,000.

A national survey by College Ave Student Loans in April 2018 of 3,510 parents showed 36% would help their children pay back all or some of their loans. And debt levels don't include what parents had already pitched in from their own savings to cover costs.

A survey of 2,015 U.S. students, former students and parents released last week showed 31% of parents with children in school or recently graduated would have to work longer because they're helping pay for the kids' college. The study, commissioned by Discover Student Loans, also found that 31% of parents may not save as much for retirement as they hoped to because of it.

Soaring college costs have become one of the biggest threats to financial well-being just as clients are reaching their peak wealth-accumulation years. As children graduate from college, parents are often within a decade or so of retirement. The time lost in savings and compounding is difficult if not impossible to make up.

"If I do 10 financial plans, in four to six of them there will be some aspect of student loan planning," said Sidney Divine, owner of Divine Wealth Strategies. Worries about how to finance higher education rank "pretty high up there. I would say a close second to retirement," he said.

Scott Snider, owner of Mellen Money Management, said student debt is "at the top of the list of pain points" for many of his clients.

"It's preventing them from accomplishing other things financially," Mr. Snider said. "They're going to have to wait until they're 69 or 70 to retire because they've taken on a Parent Plus loan," referring to federal loans parents take out to cover the difference between the cost of attendance and the amount of financial aid granted. The loans have a fixed interest rate of 7.6%.

ADVISERS STEP IN

The extent to which financial advisers can help families cope with student debt depends in part on when they are brought into the picture.

If the kids are in college or entering soon, advisers urge clients to establish realistic budgets to increase cash flow.

Mr. Divine guided a client toward reducing annual dining-out costs from $20,000 to $8,000, and paying down credit card debt.

"I feel my job is [telling] them, 'Yes, you can do it; here's how you can do it,'" he said.

Ms. Greulich convinced one client with kids heading to expensive schools to cut back on vacation expenses. Going on more modest trips actually helped build family cohesion.

"It's about sharing experiences as a family rather than living a charade of a lifestyle they can't afford," she said.

Michael Troxell, financial planner at Modern Financial Planning, has advised clients helping their kids with student loans to work longer, delay taking Social Security, do a reverse mortgage and even move to a lower-cost area.

"But it's hard to tell somebody to move to Texas when their family's here" Mr. Troxell said, referring to his home base of Oakland, Calif. "There are only so many levers you can pull."

Karl Leonard Hicks, owner of Leonard Financial Group, said he has advised clients to take out a second mortgage and even loans from their 401(k) accounts to help their children pay for college. But there's no set formula.

"It comes down to looking at specific circumstances of the child and parent," he said.

Financial advisers can be more helpful if families start planning for their kids' education earlier. Of course, investing in tax-efficient 529 college savings plans is something parents can start when the child is born.

But thinking about where kids can afford to go to college is a process that should start in the eighth or ninth grade, Ms. Greulich said.

"It needs to involve setting proper expectations," she said. "Take off the rose-colored glasses and realize what's best for your child and your family as a whole. Kids don't have to have a private education. They can be just as successful anywhere. It's not about the status of the school."

Amelia Thomas, managing partner at Empire Capital Ventures, helps clients map out tuition and other costs to see what levels are reasonable. Most of her clients are African-American and have hopes of sending their children to historically black private colleges, such as Tuskegee University or Spelman College.

But the more cost-effective route could be to send the kids to state schools.

"We're looking at majors and also the viability of the student being able to secure a job upon graduation," Ms. Thomas said.

WHAT'S THE ROI

Parents and students need to better calibrate the cost of a college and what the experience there will mean for their career and life trajectory, said Douglas A. Boneparth, president of Bone Fide Wealth.

"Parents and students fail to understand how to calculate a return on the investment," he said.

Mr. Boneparth said this estimate involves considering the total cost of the college education, the amount that would have to be repaid each month, the student's job and salary prospects after graduation, and the cost of living where the graduate's job is located.

Students also need to better understand just how big a commitment going to college is and why the investment makes performing well in one's studies so important. Dropping out is the equivalent of losing a lot of money.

"I have clients who want me to speak to their children about the value of a dollar," Mr. Hicks said.

But in the end, parents usually will do whatever will help their kids the most — even if it calls for a financial sacrifice.

"I've never met anyone who regrets funding education, but it can definitely leave you behind," Mr. Troxell said.

This is why sound advice to help parents manage the sacrifice is vital.

"There is no student loan program for retirement," said Adam Cmejla, founder of Integrated Planning & Wealth Management.

mschoeff@investmentnews.com
Twitter: @markschoeff

Washington seeks to ease loan burden

One thing the Trump administration and Congress can agree on is the need to ease the burden of student loans.

In March, the White House said one of its goals in reforming the Higher Education Act was to establish "commonsense limits on federal student loans, as well as improved guidance to students regarding their likely ability to fulfill repayment obligations."

The administration said Congress should limit the amount of loans that can be obtained through the Parent Plus and Graduate Plus programs.

Parent Plus allows parents to take out loans equal to the difference between the cost of attendance and the amount of financial aid a child receives. The loans have a fixed interest rate of 7.6%.

The Trump administration is also asking Congress to consolidate five income-driven loan repayment options into one plan that caps monthly payments at 12.5% of the borrower's discretionary income. It also said Congress should extend loan forgiveness to all undergraduate students after 15 years of repayment.

Last week, Sen. Jeff Merkley, D-Ore., and Rep. Rosa DeLauro, D-Conn., introduced the Affordable Loans for Any Student Act. Under the measure, the current five repayment plans would be replaced with two. One would be a fixed repayment plan with equal monthly payments over 10 years. The other would base repayments on 10% of income and be capped at 20 years.

Three Senate bills were introduced March 27 that would require more transparency surrounding financial aid and student loans.

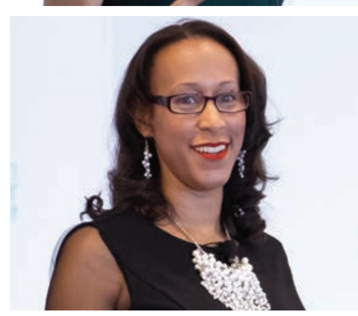
"Students often face hardships after graduation because they borrowed more from the federal government than they can afford to repay with the degree they earned," one of the authors, Sen. Chuck Grassley, R-Iowa, chairman of the Senate Finance Committee, said in a statement. "These bills would help take the mystery out of college costs and ensure that students know what they're getting themselves into before they get in over their heads."

— Mark Schoeff Jr.

$10K AMOUNT FORMER MERRILL INVESTMENT BANKER PRABIR PUROHIT WAS FINED FOR ALTERING EXPENSE RECEIPTS TOTALING $3,246.14 FOR CAR RIDES HOME AFTER LATE WORK NIGHTS

WOMEN ADVISER SUMMIT

HUNTINGTON BEACH, CALIF., MARCH 26



Panel, left to right: Theresa Gralinski, director of marketing and communications, *InvestmentNews*; Michelle Curry, retirement planning specialist, AXA Advisors; Cynthia Myers, owner and founder, Confluence Financial Planning; April Booth, chief operating officer, TAG Advisors.
At right (top to bottom): Erin Browne, managing director, portfolio manager of multi-asset investing, Pimco; Christy Rutherford, author and women's leadership development expert; Tammy McKennon, financial adviser, Edward Jones.

Advisers best equipped to educate students

BY LIZ SKINNER

FINANCIAL ADVISERS are uniquely positioned to deliver personal financial education, and the advantages they glean from doing so will benefit firms for years to come, experts say.

The U.S. has the world's largest economy, but it ranks 14th in the world for financial literacy. Improving the nation's financial knowledge would allow people to make better decisions over their lifetimes, which will generate more wealth.

Panelists speaking March 26 at the *InvestmentNews* Women Adviser Summit in Huntington Beach, Calif., said the nation's schools need help providing financial education. Advisers already are experts in explaining the concepts behind saving and budgeting.

Teachers know there is a need to provide financial education but don't feel comfortable teaching it themselves, said Erin Voisin, director of financial planning at EP Wealth Advisors.

"I've heard them say, 'I don't know how to budget myself, so why should I be the one to teach this?'" Ms. Voisin said.

Advisers at her firm created a curriculum for high schools. Demand from schools has been high, and the advisers are now presenting as many as three to four times a month in the Los Angeles area.

CLIENTS' CHILDREN

Darla Sipolt, managing director of core West sales at TD Ameritrade Institutional, helped her own financial adviser create a 12-month basic financial curriculum that he presents to his clients' children once they turn 18.

He's found that improving their financial literacy created deep connections with these young adults.

"He developed relationships with these benefactors that he wouldn't otherwise get to have," Ms. Sipolt said at the summit, which attracted nearly 125 female advisers.

Improving financial literacy also can lead to more people knowing about the career of financial advice, and "there are not a lot of new people coming into this industry," said Jennifer Bacarella, director of firm development at Sigma Financial Corp.

Sigma is partnering with different colleges to offer vouchers to juniors and seniors that allow them to take the Financial Industry Regulatory Authority Inc.'s Securities Industry Essentials exam free of charge.

"We are going into these classes to talk about the benefits of this industry and we tell them, 'Over your summer break, why don't you take this SIE exam? It's a great thing to add to your resume and it's good for four years,'" Ms. Bacarella said.

Financial literacy was one of the key themes at the summit, which aims to provide female financial advisers with business information.

The Huntington Beach event is the first of six such women adviser summits this year, with others taking place in Boston, Chicago, Denver, New York and San Francisco.

lskinner@investmentnews.com
Twitter: @skinnerliz

Catching a glimpse of a female-dominated world

As I look at our industry, I see many advisers who do excellent work in helping clients. Recently, I was fortunate to attend the Annual Forbes/Shook Investment Conference. It was an excellent program filled with many financial advisers. As I listened to speakers and spoke to advisers from many different firms, it seemed clear the domination of

GUESTBLOG
LOUIE A. VALDEZ

males in the industry is as high as ever. Although I don't have exact numbers, 80% of the attendees were male. The few women at the conference were accomplished, strong, powerful and leaders at their craft.

Why aren't there more? How is that possible?

I have seen firsthand how women interact when they are the majority at a conference — I decided to be part of the minority for a change and attend a women's conference. In fact, I have been to four in the past three years, most recently the *InvestmentNews* Women Adviser Summit in Huntington Beach, Calif. I did this because for me to be a better adviser I needed to see and learn firsthand what issues women may face. And I learned a lot more than how to help our female clients.

I believe the energy and excitement at a women's conference is much different than a mixed conference. Women learn by sharing and interaction, which is always in full effect at their conferences. I learned the anxiety of going into a room with nothing but women and the odd stares as I participated at the event.

NERVOUS LAUGHTER

I felt nervous laughter as speakers spoke dismissively of men and one-sided women's jokes and anecdotes to ease their presentations. I saw the styles and clothing of women and the compliments going back and forth, something that is implied but not said at male-dominated conferences. In other words, I was on the opposite side of the ledger and understood the uneasiness of being in the minority.

For the first time, I feel I understood what it was like to be a woman in a man's dominated world of finance.

BUILDING A TEAM

We are finding more women among our clients. In my opinion, this stands to reason as women exhibit concern in taking care of their families, being independent in financial decision-making and seeking advice from professionals. In my experience, many men do not believe in seeking help as they believe they have all the skills to do investment planning on their own. Given this trend, we have built a team that has strong women to help serve our clients and we intend to hire more.

I WAS ON THE OPPOSITE SIDE OF THE LEDGER AND UNDERSTOOD THE UNEASINESS OF BEING IN THE MINORITY.

As I have learned and benefited from being in this industry, I hope to continue to do my part to be a supporter of women in finance. More women are needed in financial services as studies show their effectiveness in helping clients. Women are inclusive and work best in teams, which is the direction our industry is heading.

Lastly, women are masters at conversation and bringing people together, which is in lockstep with holistic wealth management. I understand what women are facing in our industry and I will not forget the experiences I have learned as a reminder to do what must be done.

Louie A. Valdez is group managing director for investments at Valdez Wealth Management.

Industry assured CAT won't scratch

BY MARK SCHOEFF JR.

RECENT REMARKS by Securities and Exchange Commission chairman Jay Clayton regarding a market-surveillance system in the works seem to be allaying financial industry fears that it will collect investors' personal information.

Last month, Mr. Clayton told a Securities Industry and Financial Markets Association conference the agency is working on a unique customer identification for the so-called Consolidated Audit Trail, which would compile data on all orders for U.S. exchange-listed and over-the-counter equities.

An SEC spokesman elaborated on Mr. Clayton's position in an email last Monday: "Chairman Clayton's comments highlight that to address concerns regarding consumer PII [personally identifiable information] and to minimize cybervulnerabilities, the SEC is supportive of an approach that no longer requires Social Security numbers."

CAT is similar to an idea pursued several years ago by the Financial Industry Regulatory Authority Inc. to use data analytics to target potential investor harm. The Comprehensive Automated Risk Data System was ultimately killed due to industry worries about security of customer data.

In late February, Finra was put in charge of creating CAT.

"The collection of PII is not imminent, so there is time to have this conversation," Finra chief executive Robert Cook said at the SIFMA conference.

mschoeff@investmentnews.com
Twitter: @markschoeff


JAY CLAYTON

Why regional firms are attracting more brokers


DANNY SARCH
ONRECRUITMENT

"Independence is not for everyone." So said my friend, a senior brokerage firm executive, after reading my last column on corporate culture.

And, of course, he is right.

While going independent with a registered investment adviser or an independent broker-dealer gets a lot of attention, more than half of advisers who have left wirehouses have joined regional firms. There are a few reasons why wirehouses are shrinking and so-called regionals are appealing.

1. Bigger is no longer better, either with technology or brand.

In the pre-internet era, big servers crunched data and cost big money. For years, wirehouse advisers saw going to a small firm as a compromise in the services and products they could provide to their clients. The internet and the cloud revolutions have "democratized" these services to the point that even a client who is willing to buy the right software can have the same capabilities as the most sophisticated adviser or money manager.

Some might argue that the luster of the big firms' brands still resonates with high-net-worth clients. But I think most would agree that the financial crisis diminished the reputational advantage the wirehouses once had. Working at large, bureaucratic banks means assuming the possibility of headline risk that threatens the brand constantly. Just ask Wells Fargo advisers.

Clients are following their advisers who depart the wirehouses because their loyalty is to the practitioner and not that adviser's former company.

2. Big firms no longer place a priority on helping advisers solve operational problems.

For decades, advisers relied upon their branch managers for service. The best ones created a special branch culture and typically "walked the floor," armed with a yellow pad ready to take obstacles away from their advisers so they could spend time with their clients. The managers today who have survived the purges of the past decade are now responsible for four times as many advisers as they were 10 years ago. Even with the best of intentions, they no longer have the time to help as many advisers as they did before.

Advisers also tell me that branch managers do not have the authority to make even the most basic decisions.

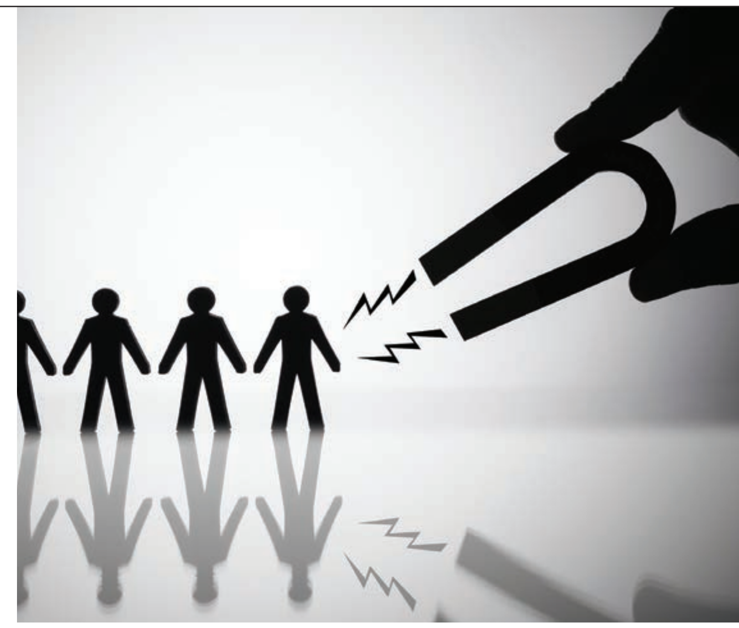
Regional firms, on the other hand, are run with offices only a fraction of the size of the wirehouses. Branch managers not only have more time to tend to their advisers' challenges but are empowered to do more within a flatter management structure.

3. Wirehouses are cutting adviser payouts and have been for years, while making compensation plans ever more complicated.

"It's like death by a thousand cuts," one Merrill adviser told me. This was after Merrill announced in November it would not pay advisers for the first $4,000 in fees and commissions they generate every month, beginning in January.

Morgan Stanley now defers up to 15% of adviser's compensation every month. Their compensation plan is over 30 pages long.

Regional firms' compensation plans are simple, lucrative and rarely change.



Years ago, the understood trade-off for an adviser with the big firms was a better name, an amazing culture and a better toolbox for less pay. Just as their cultures became subsumed by mergers, the other wirehouse advantages have disappeared too.

Danny Sarch is the founder and owner of Leitner Sarch Consultants, a wealth management recruiting firm.

InvestmentNews gathered more than a dozen industry experts in New York on March 5 to discuss the future of financial advice, and more specifically, the merging of digital and human advice.

Executives from top advisory firms, national brokerages, custodians and others debated the challenges and opportunities offered by digitally enhanced financial advice for clients. *InvestmentNews* reporters Greg Iacurci and Ryan W. Neal captured the essence of these frank discussions in these stories.

We also asked attendees to ponder what disruptive force is lurking that we aren't even discussing yet. Their thoughts range from health and aging to the distraction of machine learning.

— *Liz Skinner*

Advice increasingly technology-enhanced

BY GREG IACURCI

THE FINANCIAL ADVICE industry has largely sat dormant as society at large has undergone a sweeping technology revolution. But that dynamic is set to shift over the next few years, according to a panel of adviser technology experts.

KEY POINTS

- Industry has been left behind.
- Catching up requires integrated solutions for client data.
- Retaining client loyalty must be key focus with new tech.

"You look at other industries like medical, and the technologies they have are amazing," said Edmond Walters, chief executive of Apprise Labs and the founder of eMoney Advisor. "If you look at our industry, we're so far behind."

Mr. Walters, who discussed adviser technology along with other experts at *InvestmentNews*' Future of Financial Advice roundtable, said advisers typically present high-net-worth clients who are worth tens of millions of dollars with "ridiculously horrible reports," and then ask those clients "to trust us from day one."

Ron Carson, founder and CEO of advisory firm Carson Group, said the wealth management profession has been "dramatically overpaid" for the value it has delivered to clients.

'INSULATED' FROM INNOVATION

"Financial services has been insulated from a lot of the innovation that's taken place outside of financial services," Mr. Carson said. "We're at a point where if we're not providing value-added services, over-the-wall technology is going to, and has started to already."

But the industry is quickly shifting, panelists said.

Mark Casady, founder and general partner of Vestigo Ventures, which invests primarily in early-stage fintech companies, said technology has begun to move "downscale" to smaller investors. That's similar to what happened with credit cards, he said, which were originally offered solely to wealthy individuals but are now used broadly.

"Really inexpensive technology is coming to the masses," said Mr. Casady, former CEO of independent broker-dealer LPL Financial.

This also will allow advisers to be twice as productive as they are today, and deliver advice for less.

The lack of end-to-end data integration — so advisers can plan around multiple client accounts and financial products — is one problem that financial advice technology has been trying to solve.

"The issue is, how do you connect the dots?" asked Jack Sharry, executive vice president of LifeYield.

Panelists also offered words of caution.

"What I think the industry sometimes misses is once data becomes prevalent and really easy to get to, it will change the nature of who can compete," Mr. Casady said, stressing that this dynamic will be present in a few years based on the current pace of technology development.

Craig Pfeiffer, CEO of the Money Management Institute, said the industry must be "really careful" with tech development.

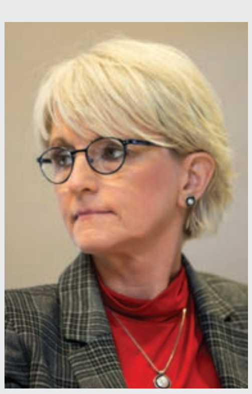
Ultimately, brand loyalty flows from consumer to business, not from business to consumer, he said.

"The loyalty clock restarts with the next shiny object," he said.

giacurci@investmentnews.com
Twitter: @giacurci

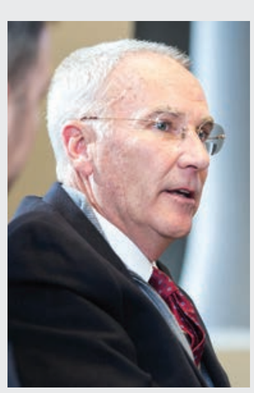
A disruptive force no one is talking about ...

"How are we going to deal with aging clients as they accumulate? When they're in early retirement and spending and then all of a sudden when they're hitting their 70s and 80s and they experience cognitive issues, health problems and other serious events that advisers are going to have to help their clients with — and they are not ready to do this."



Carolyn McClanahan, founder of Life Planning Partners, co-founder of Whealthcare Planning

"Extraordinary fiscal revenue approaches, taxation, etc. by the new House of Representatives impacting perception of the capital markets by institutional investors and in turn retail investors ... causing short-term volatility that quickly reminds investors of 2008."

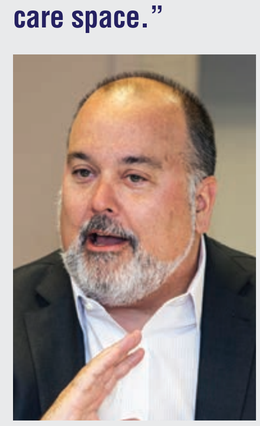


Craig Pfeiffer, CEO and president, Money Management Institute

"I think one of the areas that's maybe not getting as much attention as it should is the element of risk management. I believe as boomers move from accumulation to distribution, the topics and the elements of risk management strategies will become much more on the forefront of financial planning."

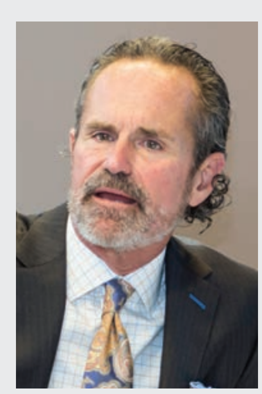
Corey Walther, senior vice president and head of distribution relationship management and business development, Allianz Life Insurance Co. of North America

"I don't think we can underestimate things like stem cell research that's occurring and other forces in health care that may exponentially change life spans for people. So to really alter the way we think about how much money does one need in retirement, you've got to watch the healthcare space."



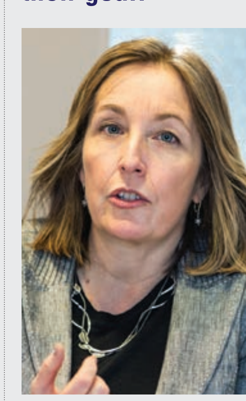
Mark Casady, co-founder, Vestigo Ventures

"Machine learning is here, it's real. Imagine a financial adviser being able to look at every single potential outcome and situation a client has 365 days a year, 24 hours a day, and generate alpha actions, maybe none or maybe half a dozen. AI is going to change the way we add value and the way we interact with our clients in the future."



Ron Carson, CEO and founder, Carson Group

"I think it's a simple message of communication between the adviser and the investor. Using visualizations and iconography or tools to convey complex portfolio context constructs or helps people figure out how they're going to reach their goal or how likely they are to reach their goal."



Tricia Rothschild, chief product officer, Morningstar

Tools must bridge knowledge gaps, inertia of advisers

BY RYAN W. NEAL

WHAT THE FUTURE of financial advice will look like is no longer the right question to be asking. What matters more is, how will we get there?

There was consensus among industry leaders gathered at *InvestmentNews*' recent Future of Advice roundtable that the successful advisers of tomorrow will be those who can adroitly use technology to provide a greater number of clients with truly customized advice across every account in the household.

What's more vexing is getting advisers to embrace the new digital tools available to them.

Getting the entire workforce from the back, middle and front offices all trained on the technology and using it effectively is a huge challenge, said Eli George, SS&C Advent senior director of partnerships and data. Part of the solution must be the human side of the equation — investing in education and ongoing support, and influencing behavior through incentives.

"That's the hook for engagement, you help [the adviser] do their job easier and better," Mr. George said.

The other piece is the technology itself. Tools need to be designed not by technologists on a whiteboard, but by those who use them in their practices.

TECH THAT FITS

For BlackRock managing director of digital wealth Ross Znavor, that means designing technology not just to fill a need or provide value to advisers, but to fit into the entire ecosystem of their day-to-day lives. Mr. Znavor said adviser technology needs to function like Apple's AirPod headphones, which connect and work automatically with phones without needing to set anything up or plug anything in.

After all, the average adviser is 56 years old and likely didn't grow up operating keyboards.

"They are white, male, pale and stale," said Edmond Walters, Apprise Labs founder. "Advisers get frustrated when technology doesn't work and just give up. They're not going to use it in front of a client and look stupid. You have to make it incredibly easy for them.

"All of these things we create for them — they're scared of," said Mr. Walters, who also founded the popular financial planning platform eMoney Advisor.

MAKE IT EASY

Mr. Walters suggested firms default to using digital client portals to check account balances, cash flows and investments. If clients are using the technology, advisers will have to learn how it works.

Tricia Rothschild, Morningstar chief product officer, said firms should use a "content hook" to make the information technology they provide more digestible. Instead of bombarding clients with risk modeling or scenario analysis, data can be presented in terms of "here's what happens to your portfolio if X happens."

So how do we get adviser technology that's as easy to use as popular apps like Uber? Ron Carson, Carson Group founder and CEO, suggested focusing on the core, routine actions advisers perform and getting those processes down to a minimum number of clicks.

The goal is reaching that ideal future: a more cohesive relationship between clients, advisers and the enterprise, all connected by digital technology.

"When you can start to track what type of activities the adviser is doing and how clients react to that … you can use technology to create that unique experience," said Tim Munsie, senior vice president of advisory initiatives at Jackson National.

Some advisers agree.

When technology handles investment management, it will make it easier, and more profitable, for advisers to take on the role of a "holistic financial life coach" and offer even more value to clients, which will be increasingly necessary in the future, Mr. Carson said.

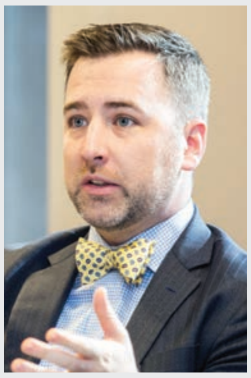
"Every day, I use Netflix and I use Amazon. That's the experience I'm going to start comparing my adviser to," he said. "You're going to have to provide everything for a client where you can demonstrate value. And it's going to be thing we haven't even thought about yet."

rneal@investmentnews.com
Twitter: @ryanwneal

"I think the disruptive force right now is a connected ecosystem, from identifying the goal to coming up with the investment solution to then executing the goal and having the ongoing balancing. The problem we see right now is all those things are fragmented or separate."

Ross Znavor, managing director of digital wealth, BlackRock

"As baby boomers start to rely on this nest egg to get them through retirement, decumulation is going to become more and more important, and it will be a shift. I think the folks that have planned for decumulation are certainly going to win their shares of the business in the future."

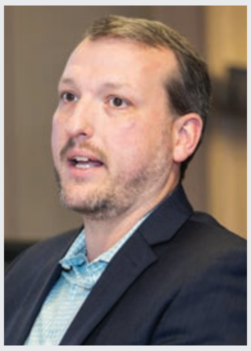


Tim Munsie, senior vice president of advisory initiatives and integrations, Jackson National Life Distributors

"The disrupter is household level management where risk and tax become critical. As we go forward, it will be about household level management that is both risk-smart and tax-smart."

Jack Sharry, executive vice president and chief marketing officer, LifeYield

"The invasion of asset management and product companies into adviser technology. While many firms will build or buy their own technology initially, they eventually will follow custodians' lead to integrate their technology products/services with the most popular advisory technology tools that RIA firms are using today."



Eli George, senior director of solutions management for global data, partnerships and U.S. advisory, SS&C Advent

"It's demography, it's aging. It's the exact same trap that almost every industry has fallen into when they don't think about the importance and the size of the baby-boomer generation."

Steve Gresham, principal, The Gresham Co.

"The distraction of machine learning. I believe it can be an enormous help to the client, and to the adviser to serve clients better so they make better decisions. But at the end of the day, it's not going to replace the adviser."

Edmond Walters, CEO, Apprise Labs

Top advice firms focus on productivity with tech, not its cost

BY RYAN W. NEAL

IT'S TRADITIONALLY thought that smaller advisory firms are able to embrace new technology quicker than larger firms. With fewer advisers to train and accounts to migrate, the small boat can turn quicker than the big ship.

But large firms appear to be turning the corner with technology, and boosting their bottom lines.

> **KEY POINTS**
> - Top-performing big firms spend nearly double that of rest of advice industry.
> - Median tech spending across industry leapt 12.2% in 2018.

The biggest firms tend to be among the best performing in terms of operating profit margin, revenue growth, revenue per professional — and these top performers spend, on average, nearly double the rest of the advice industry on technology, according to the 2019 *InvestmentNews* Adviser Technology Study.

Beyond spending, top-performing firms evaluate their technology more frequently, and focus more on its impact on productivity and profitability. They also focus less on cost.

That focus is leading them to place a greater importance on technology that improves client experiences through more personalized advice, better outcomes and more effective marketing efforts. Top-performing firms are more likely to offer tools like a collaborative dashboard, online appointment booking and e-signature.

Because top performers tend to be larger firms with clients that have assets under management that are 75% greater than the rest of the industry, it's not surprising they are investing less in technology that is geared toward the mass affluent, the *InvestmentNews* study found.

However, top performers are more likely than all other firms to be leveraging a robo-adviser.

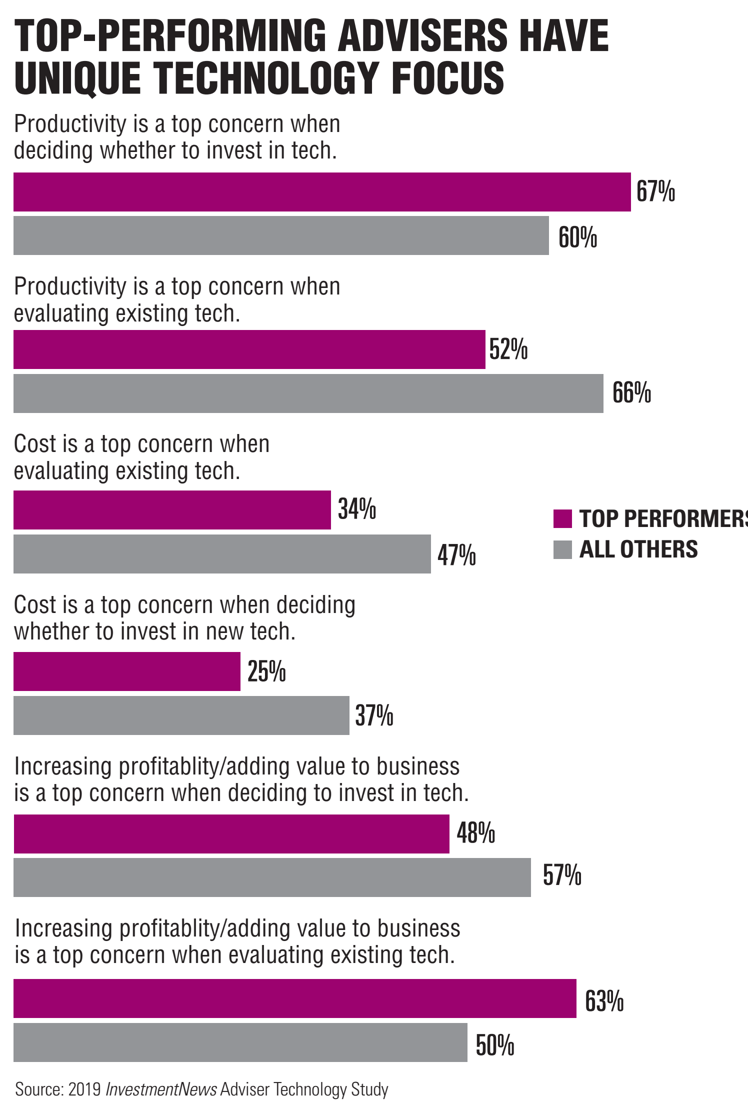
STANDALONE ROBO

Matt Sirinides, *InvestmentNews* senior manager of research and data, said it's probable that these firms are offering digital advice as a standalone offering to attract younger investors.

"Our assumption there, and we've seen this in our other research, is that they're generally using it for accommodation accounts. Or to let young advisers attract a younger clientele, as part of a next-generation initiative in the firm," Mr. Sirinides said."A lot of other firms have essentially written off robos, especially the smaller firms."

Regardless of size or profitability, advice firms of all sizes continue to struggle with a lack of integration among their technology tools, as well as a shortage in automation. These two issues are correlated: automated workflows require seamless flow of accurate data, which is impossible without deep integration across the tech stack.

Advisers using an integrated, all-in-one tool provided by a B-D, custodian or third-party vendor reported higher satisfaction with technology than firms on open-architecture platforms or firms that select individual pieces of technology.



Source: 2019 *InvestmentNews* Adviser Technology Study

Adoption also remains a challenge, with 56% of advisers surveyed saying "fully utilizing the firm's current technology" is more important to achieving growth goals than "investing in new and emerging technologies."

Median tech spending across the industry leapt 12.2% in 2018, the largest change tracked by the *InvestmentNews* study since 2013.

LICENSING, SOFTWARE COSTS

This is partly due to increased adoption, as more advisers using the tools results in greater licensing and tech training costs, Mr. Sirinides said. A 22% increase in software spending also helped drive an uptick in the overall tech spend.

Advisers also have more choice than ever before.

Custodians, broker-dealers and asset managers are investing heavily in technology as a means for product distribution and asset collection, and private investment in adviser-facing fintech is booming.

While firms on average are spending more money on technology, the spending remains consistent at around 3.22% of revenue.

So even if the big ships have caught up with the small boats, the rising tide continues to lift them all.

rneal@investmentnews.com
Twitter: @ryanwneal

One thing you can count on in a world of change

SCOTT KLEINBERG

ONSOCIALMEDIA

It was 12 years ago when I started using social media. First Facebook, then Twitter, then LinkedIn, then Instagram. And in between a million other platforms that no longer exist.

Just a year after that, I started using social media in a supervisory role. I learned a lot moving from coordinator to manager to director. And ever since, I've shared a lot of what I've learned in the form of columns like this one.

But like anything else, things change.

We went from 140 characters to 280. Horizontal photos and videos were the greatest until they weren't and vertical took over. My rule of tweeting no more than four times an hour was declared outdated when we elected a president who tweets 50 times in 24 hours.

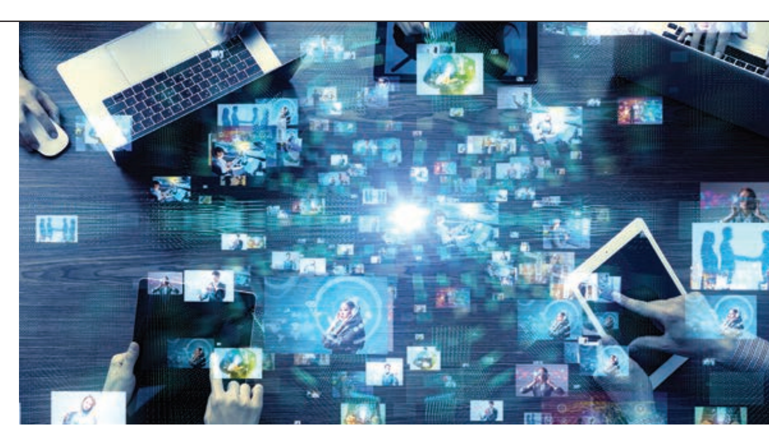
I'm happy to say that one thing that hasn't changed, and never will, is your voice — more specifically, how important your unique voice is to your unique brand of social media. How you come across and sound online can make or break your ability to spread your message and win.

So before you jump online and tweet 50 times in 24 hours (please don't do that, even if you are elected president someday), start with this. Whether you are going for consistency, compliance or camaraderie, here are five key points to consider.

Know your audience. I'll never stop repeating this, because it's that important. People who tell you to cross-post your tweets on LinkedIn and Instagram are wrong. The platforms are all different, and saving time is not an excuse for violating that cardinal rule.

Say what you mean — and say what you want. What you don't want to do is share a link with no context. That's called broadcasting, and it's the opposite of engaging. Know what it is you want to say and combine that with the audience tip above for maximum effect.

Get visual. Too much text is boring. Photos and/or videos can spice up a post by breaking up the monotony and increasing engagement.



Edit yourself, but don't overdo it. There's no excuse for misspelled words or poor grammar in your social media posts, but you don't want to sound robotic. Write down your thoughts and write the way you talk, but check your work.

There's no such thing as a totally random hashtag. While #ILoveSocialMedia is cute and entertaining, it's not going to move any engagement needles. Tools such as hashtagify.me let you research what's trending and popular. But even a free trial will show you all the possibilities.

If you have a social media question or an idea for a column topic, tweet them to me with the hashtag #onsocialmedia or email me. And follow @InvestmentNews on Twitter, and find us on LinkedIn, Instagram and Facebook as well.

skleinberg@investmentnews.com
Twitter: @scottkleinberg

Onboarding forms lasting impression

BY JEFF BENJAMIN

IN THE FINANCIAL planning industry there are lots of ways to recruit new clients, but what comes next can make or break a satisfying and lasting relationship.

Whether the client is leaving another adviser or working with an adviser for the first time, the so-called onboarding process is the ultimate first impression.

Depending on the complexity of the client's financial situation, financial advisers and industry professionals estimate it can take anywhere from two weeks to three months to get all the accounts in line, documents signed, and financial plans operating.

That process, which can be tedious, deliberate and even frustrating at times, should be treated by advisers as the opportunity to make a lasting first impression.

Vanessa Oligino, director of business performance solutions at TD Ameritrade Institutional, recommends starting by "mapping out the process."

"When you're bringing a new client on board you might have a brochure or onboarding checklist, and you should walk them through that, so they know what to expect," she said. "Let them know who they will be working with and what is expected of them."

KEY POINTS

- Onboarding can take anywhere from two weeks to three months.
- Hand-holding of new clients sets a positive tone.
- Automate as much as possible without becoming impersonal.

BOTTLENECKS

Even though much of the onboarding process will be automated through client relationship management systems, there are still signatures to gather and documents to collect, which is where bottlenecks can begin.

Ken Van Leeuwen, managing director at Van Leeuwen & Co., said the hand-holding for new clients is almost immediate because he places so much emphasis on setting a positive tone.

"Right after they say yes, we schedule the next meeting," he said. "It's really important that we touch the client as much as possible in those early days. We want to show them what our service offering is."

Mr. Van Leeuwen, who estimates that it takes his firm about three weeks to complete an onboarding process, said new clients receive an email within the first few days requesting items like tax returns, insurance policies, estate plans and investment account statements.

"Then, we go visit them and help them collect all the documentation," he said.

Mr. Van Leeuwen said the immediate and follow-up communications are not just to ensure the documentation is gathered.

"The minute they agree to become a client, they need to be made to feel welcome," he said. "We say please and thank you, we show up on time, and when we say we're going to do something, we do it."

Anand Sekhar, vice president of practice management and consulting at Fidelity Clearing & Custody Solutions, also said that new clients should be provided with an overview of what to expect throughout the onboarding process.

"Firms should develop a timeline and walk clients through the process in a meeting or over the phone," Mr. Sekhar said.

CREATE A CHECKLIST

Other tips he suggested included creating a checklist for everything new clients need to provide, using digital signatures when possible, and starting every onboarding process by finding out if clients prefer to be contacted via phone, email, text, or some combination of these channels.

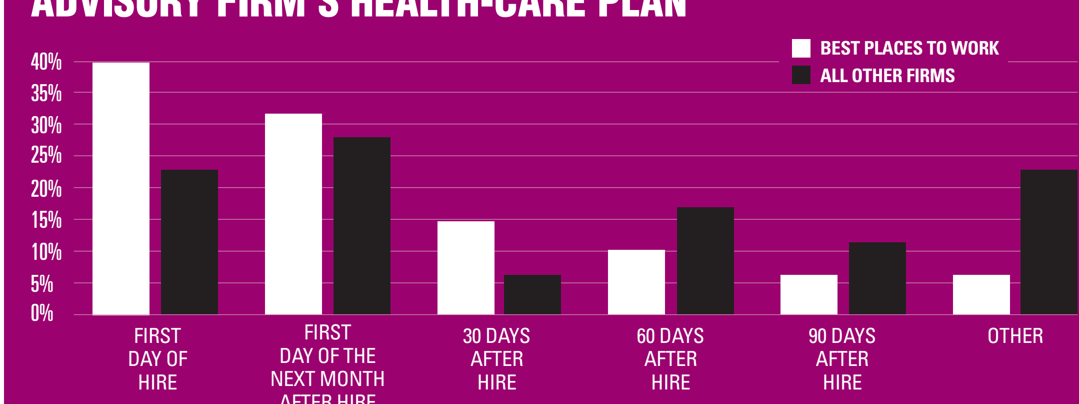
The key, however, is to automate as much as possible without becoming impersonal, Ms. Oligino said. She recommends trying to customize the onboarding process for each client, even if that just means adding a personal note along with the welcome package.

"It's tricky because you need to be able to onboard people in a consistent and efficient way, but you always want to be personal, which means you need to get to know them," she said. "For example, around the holidays venders give me chocolate all the time, and I don't eat chocolate. That tells me they don't know me very well."

She suggests surveying clients during or immediately following the onboarding process to gauge how things are going. "It's a big mistake to put the relationship on autopilot once the accounts are funded."

jbenjamin@investmentnews.com
Twitter: @benjiwriter

WHEN A NEW EMPLOYEE IS ELIGIBLE TO ENROLL IN THE ADVISORY FIRM'S HEALTH-CARE PLAN



Source: 2019 *InvestmentNews* Best Places to Work for Financial Advisers

Is the quarterly client newsletter old news?

BY JEFF BENJAMIN

WHEN IT COMES to producing client newsletters, financial advisers either love them or hate them. And if they hate them, they usually abandon the idea altogether.

"Most newsletters are a joke," said Josh Brown, financial adviser and CEO of Ritholtz Wealth Management.

Mr. Brown, who wrote a blog in February about why his firm stopped producing its quarterly newsletter for clients 2½ years ago, believes the practice mostly survives because it's a habit among an aging adviser population.

"They've been doing it forever," he said. "And a lot of the newsletters are ghostwritten, so it's not even their words that they're sending out to clients."

Mr. Brown, a prolific blogger and social media influencer with more than a million followers on Twitter, argues that newsletters often amount to more noise in a world where investors are already trying to navigate information overload.

"People in 2019 are busy with the amount of time they're working, and trying to find a work-life balance, and you're trying to get them to read marketing material that you've commissioned to have written," he said. "It's archaic."

FLOOD OF INFORMATION

While some newsletters are ghostwritten or partially contain generic content, there are those who see it differently and believe the flood of available information is a reason to produce a newsletter for clients.

"There is a lot of information, and more and more people are looking for curated information," said Lisa Kirchenbauer, founder and president of Omega Wealth Management.

"We know our clients so we're curating information for what we think they will be interested in," she said. "There's a lot of information out there, but they don't even know where to start, so we help them understand what information they should trust."

Ms. Kirchenbauer has been sending out quarterly client newsletters for most of the 20 years she's been in business, and she admits she used to buy content, "but the clients knew it was canned content."

These days, her emailed newsletter is produced in-house and she pays a designer $400 per quarter to put it together.

Beyond just market updates, Ms. Kirchenbauer writes a "holistic overview," and the newsletter also includes features on financial planning and investing, book reviews and staff updates.

"We did a client survey at the end of the year and the majority of people rated the newsletter as between eight and 10 out of 10," she said. "They even email us and tell us how much they like it."

George Reilly, founder and principal at Safe Harbor Financial Advisors, has been producing a two-sided, single-page client newsletter for three years, which he believes helps him bring in new clients.

"It is indirectly a sales pitch," he said. "I've heard clients say they share it with people."

Like Ms. Kirchenbauer, Mr. Reilly believes the key to success is keeping the content fresh, original and specifically tailored to clients.

"I recently included a personal note about my mother, who died last year, and how that highlights the importance of estate planning," he said.

"WE HELP THEM UNDERSTAND WHAT INFORMATION THEY SHOULD TRUST."

LISA KIRCHENBAUER
FOUNDER AND PRESIDENT
OMEGA WEALTH MANAGEMENT

ARE THEY ANY GOOD?

But what some advisers swear by still goes against the grain of popular culture and the evolution of information distribution, according to Mr. Brown.

"How many of these newsletters can be any good?" he said. "Most advisers aren't writers, and most writers aren't advisers."

And in terms of distribution, Mr. Brown said the newsletter itself is the problem.

"People don't want a Word doc forced on them, but they do care what their adviser thinks," he said.

jbenjamin@investmentnews.com
Twitter: @benjiwriter

48% PERCENTAGE OF PEOPLE 55 AND OLDER WITH NOTHING PUT AWAY IN A 401(K) OR IRA, ACCORDING TO A GAO ESTIMATE FOR 2016

Handling your most risk-averse clients

GUESTBLOG
JAMIE HOPKINS

Risk-tolerance questionnaires, scores and levels are a big focus right now in retirement income planning. While many of the tools are rudimentary (e.g., your desire to skydive probably isn't tied to your investment risk tolerance), we do need to gauge the risk-tolerance levels of our clients.

After we do so, what's next?

Probably the biggest thing most advisers and firms do is readjust the client's investment allocation. But this isn't much of a science today. How do you determine if your client should be in a 60-40 stock-bond portfolio as opposed to a 70-30, or even a 30-70?

Perhaps you go back to the client's goals and see what returns they need and what risk level they can take to help achieve these. But this is really going back to goal-based planning and almost ignoring the risk-tolerance level.

Next, if we are going to lower a client's equity portion of their investment portfolio we will likely be reducing their long-term investment gains. To offset this, we should try to get the client to save more money.

While many advisers do not correlate their client's risk tolerance to insurance, it should be connected. A client who is more risk-averse will likely see more value in more insurance, including insurance that fully insures the risk as opposed to risk-splitting. This means they are likely to want lower deductibles and more insurance. That could be for health, disability, car, life and long-term-care insurance.

Communication also is going to be important. With a more risk-averse client, you should likely communicate more frequently.

Also, consider what access points clients have to information. If you have a really risk-averse client, is it beneficial to send them the weekly, daily or monthly investment overview?

Lastly, remember that if you are planning for a married couple, have them do their risk-tolerance questionnaires separately. Taking it together could lead to just learning about one spouse, and spouses can have completely different risk levels. As such, when planning for couples, you might need to use multiple strategies to help them separately prepare, invest and save for retirement.

Risk assessment is important, but you can use it in a variety of ways and make it more meaningful for your clients.

To read the full column, go to InvestmentNews.com/hopkins.

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

Small 401(k) plan fees buck compression trend

BY GREG IACURCI

SMALL 401(K) PLANS are proving to be an oasis of sorts for financial advisers even as fees for larger plans are declining rapidly.

Average advisory fees for a $100 million 401(k) plan decreased 9% in 2018 from the year prior, according to Fi360, a fiduciary consulting firm. The fee — around $71,000, or 7 basis points on plan assets — has declined 20% since 2013.

But fees among smaller 401(k) plans have rebounded from historic lows, the Fi360 data show. The average fee for a $10 million plan has increased 13% since 2017, to $28,000, or roughly 28 basis points. That's 12% higher than in 2013.

Meanwhile, median fees for record-keeping services dropped by about half over the decade through 2016, according to NEPC.

Asset managers haven't been spared either — the average fee for a domestic equity mutual fund in a 401(k) plan dropped 29% between 2009 and 2015, according to an analysis conducted last year by BrightScope Inc. and the Investment Company Institute.

Lawsuits targeting 401(k) plans for excessive fees have contributed to the trend, as plan sponsors become more acutely aware of their duties to ensure reasonable costs.

Advisory fees for large plans also have been reduced as the result of a convergence of competitors: Larger consulting firms such as Mercer are increasingly moving down-market as smaller advisory teams move up-market, according to experts.

"The Mercers of the world 10 years ago weren't looking at doing a $10 million or $20 million plan," said Sean Deviney, director of retirement plan consulting at Provenance Wealth Advisors. "Now, you run into them in some circumstances."

And those working with $100 million-plus plans often charge a flat annual dollar fee for services, which often results in a lower aggregate fee, said Matt Burt, director of professional services at Fi360.

Retirement-plan specialists that work with smaller 401(k) plans have been able to increase their fees as they've offered more comprehensive services, experts said.

giacurci@investmentnews.com
Twitter: @gregiacurci

"IT'S WRONG THAT I WOULD PAY THE SAME TAX RATE AS SOMEONE EARNING $100,000 — OR EVEN WORSE, PAY THE SAME TAX RATE AS SOMEONE EARNING $30,000."

ILLINOIS GOVERNOR J.B. PRITZKER, A BILLIONAIRE, ON DOING AWAY WITH HIS STATE'S FLAT TAX

Allianz to roll RMDs into annuity

BY GREG IACURCI

ALLIANZ LIFE Insurance Co. of North America is launching an indexed annuity geared toward clients 70½ and older who don't need the money that the government requires they withdraw each year from retirement accounts in the form of required minimum distributions.

RMDs kick in for retirement-account holders at age 70½, mandating they withdraw and pay tax on a percentage of an individual retirement account or 401(k) balance. For Allianz annuity owners who would rather keep their assets invested, Allianz's product automatically rolls the RMD payment into a second annuity and withholds the associated tax. As an added incentive, the company pays a 25% bonus on funds in the second annuity.

"I've never heard of anyone else doing this," said Sheryl Moore, head of consulting firm Moore Market Intelligence. "The No. 1 complaint I hear from annuity purchasers is, 'I don't want my RMD; why do I have to take it if I don't want it?'"

These sorts of products could ultimately be a way for insurers to combat the effects of the so-called gray wave in the U.S., the massive flow of baby boomers into retirement.

The new Allianz product, Legacy By Design, is actually two separate annuity contracts — the initial tax-qualified indexed annuity and a second, non-qualified indexed annuity, which receives the RMD rollover, net of taxes. Purchasers only need to fill out one application, and can elect Allianz to automatically withhold RMD taxes or transfer the tax for the customer to pay directly. The company pays a 25% bonus in the form of a death benefit for heirs.

For example, if an annuity owner must take $12,000 from an indexed annuity for an RMD and $2,000 is withheld for taxes, the remaining $10,000 would go into the non-qualified annuity, plus a $2,500 bonus.

The death benefit for heirs would theoretically be the sum of remaining assets in the initial qualified annuity, the non-qualified annuity and any bonus payments, Mr. Gray said.

The product design mirrors a concept employed for several years to fund life insurance contracts, whereby a customer buys an income annuity and the income payments fund life-insurance premiums, Ms. Moore said. It's meant to circumvent rules around the taxability of life-insurance investments. Retirees can also spend up to $125,000 to buy a QLAC, or qualified longevity annuity contract. Income from these annuities doesn't kick in until well after age 70½, and retirees exclude these assets from RMD calculations.

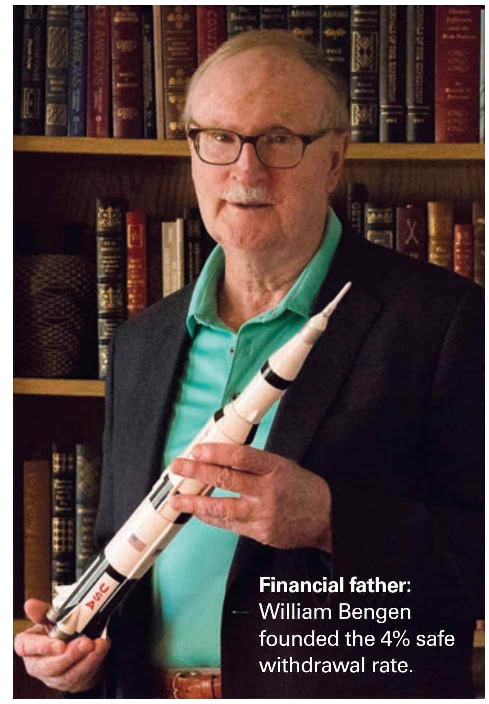
25%
BONUS ALLIANZ PAYS AS A DEATH BENEFIT

giacurci@investmentnews.com
Twitter: @gregiacurci

The 4% rule may be irrelevant

The 4% retirement withdrawal rule has enjoyed a ubiquitous presence in the world of financial planning ever since William Bengen proposed it in 1994. Mr. Bengen's rule states that individuals should withdraw no more than 4% of their savings [the first year of retirement, and take that same amount adjusted for inflation] annually to ensure they will not outlive their assets.

GUESTBLOG
SUDIPTO BANERJEE



Financial father: William Bengen founded the 4% safe withdrawal rate.

His work came in response to fears that the prevailing rule of thumb at the time, 5%, was too risky. Today, some even argue that the 4% rule is still not safe enough and that 3% is the way to go.

But is this even relevant? What if this guidance is based on assumptions about retiree behavior that are not accurate?

A 2013 study, The Drawdown of Personal Retirement Assets, found that between ages 60 and 69 (i.e., after penalty-free retirement withdrawals begin and before required minimum distributions kick in at age 70 ½) only 17% of retirees made retirement account withdrawals annually. Forget the withdrawal rate: A clear majority of retirees did not withdraw any money at all.

Of course, that changes once RMDs become mandatory. By age 71, 60% of retirees were taking withdrawals, and this percentage increased with age. However, there is ample evidence to suggest that the distributions were taken to comply with the law rather than out of necessity. How do we know? Well, when RMDs were suspended in 2009 as a part of the fiscal stimulus package, withdrawal rates for those between ages 72 and 85 dropped by 15 percentage points — a behavior hardly consistent with any withdrawal rule.

I've noticed this behavior in research I conducted for the Employee Benefit Research Institute last year ("Asset decumulation or asset prevention? What guides retirement spending?"). The research found that in the first 18 years of retirement, households that started retirement with less than $200,000 in non-housing assets experienced only a 25% drop in their assets. Why? Perhaps households with fewer assets wanted to hold on to that money for medical expenses or other emergencies.

WEALTHY RETIREES

But what about people with more assets who could afford to spend a little more? They spent even less. Retirees who started with more than $500,000 in non-housing assets spent down about 12% on average in the first two decades of their retirement.

If that's the case, then it may be safe to expect higher spend-down among people who have guaranteed income for life, such as participants in defined-benefit pension plans. But guess what? Pensioners spent even less — only 4% of their non-housing assets in the 18 years after retirement.

Irrespective of where retirees started with their assets, about one-third had more assets after nearly two decades of retirement than they had at the beginning of retirement.

So what does all the data tell us?

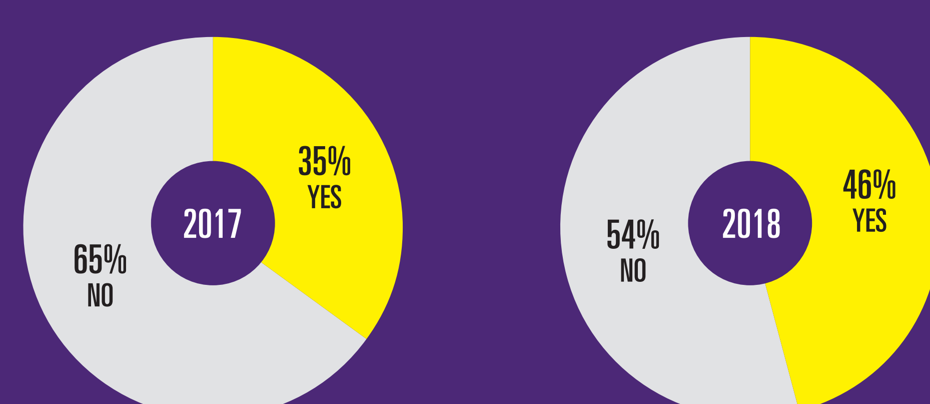
There is a lot of evidence to suggest that it's highly unlikely retirees plan to spend down their assets in a manner we assume they will. If anything, the data suggests retirees are intentional about not spending down their assets as long as they can. But if retirees are not following any rule or strategy such as Mr. Bengen's 4% rule, how are they deciding how much to draw down from their assets?

A driving factor for retirees is most likely the preservation of principal. Retirees' behavior shows they prefer to leave their principal intact and will prioritize spending down any income they receive on an ongoing basis first, such as Social Security income, pension income and the income their assets generate.

Most retirement models assume if people have a dime left in their accounts at the time of their death, it's a financially successful retirement. But I highly doubt someone in that situation would consider that a success. By asking these important questions, advisers can gain the insight necessary to guide clients toward rewarding retirement years.

Sudipto Banerjee is a senior manager of thought leadership at T. Rowe Price.

Advisers who take environmental, social and corporate governance factors into account when constructing client portfolios?

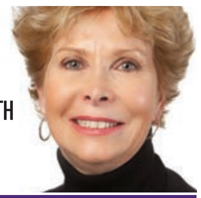


Source: "From upstream to mainstream: ESG at a tipping point," *InvestmentNews* Research and Calvert Research and Management, 2018

Top reasons to file a tax extension

With a week to go before the annual April 15 tax-filing deadline, many people are still gathering the necessary financial records or scrambling to come up with the cash needed to pay their tax bill. But neither excuse is a sufficient reason to miss the crucial filing deadline.

The Internal Revenue Service allows taxpayers to file for a six-month extension for any reason as long as they submit the proper form in time. Just file Form 4868 either electronically or on paper by the April deadline. But more time to file does not mean more time to pay.



MARY BETH FRANKLIN

ONRETIREMENT

SELF-EMPLOYED

Marty Abo, a certified public accountant and head of Abo and Co. in Mt. Laurel, N.J., offered his top reasons why clients should file an extension by the deadline, even if they don't have the money or the information they need to complete a final tax return at that time. For some self-employed taxpayers, filing an extension can make sense even if they don't owe the IRS any money.

1. If you do not file by the April 15 deadline, you might face a failure-to-file penalty. Without a valid extension, a return that's filed late is subject to a 5% per month penalty on any unpaid balance, up to a maximum penalty of 25%.

2. The penalty for failing to file is generally higher than the penalty for failing to pay, so if you cannot pay all the taxes you owe, you should still file your tax return or an extension and explore other payment options in the meantime.

3. If you do not pay by the due date, the failure-to-pay penalty is one-half of 1% of your unpaid taxes for each month.

Normally, you have to pay at least 90% of what you owe for the tax year, or 100% of the tax liability from the prior year, to avoid a penalty for underpayment (110% if your adjusted gross income on that year's return exceeded $150,000). But this year, special rules allow taxpayers who have paid at least 80% of their tax bill during the year to escape penalties.

4. If you file an extension and pay at least 80% of your actual tax liability for 2018 by April 15, you will not be faced with a failure-to-pay penalty as long as the remaining balance is paid by Oct. 15.

5. If you file your return on time and request an installment agreement, the one-half of 1% failure-to-pay penalty decreases to one-quarter of 1% for any month the installment agreement is in effect.

6. If you do not pay your tax balance by April 15, you will be charged interest on any unpaid amount. The interest rate on underpayments is 6% per year — still a bargain compared to most credit card interest rates if you are considering charging your outstanding tax bill on your credit card.

80%
MINIMUM AMOUNT OF 2018 TAX BILL DUE LAST YEAR TO AVOID PENALTIES

7. If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of $210 or 100% of the unpaid tax.

8. There are other good reasons to file an extension. Filing an extension permits you to defer funding a self-employed retirement plan, but not a regular individual retirement account, Roth IRA or Coverdell Education Savings Account.

An extension also allows self-employed individuals to delay opening and funding a simplified employee pension, or SEP, to as late as the extended due date. Although a Solo 401k must be established by Dec. 31 of the prior year, tax-deductible contributions can be made through the April 15 tax deadline, or Oct. 15 in the case of a tax-filing extension.

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

Mary Beth Franklin, a certified financial planner, is a contributing editor for InvestmentNews.
mbfranklin@investmentnews.com
Twitter: @mbfretirepro

California's auto-IRA program wins lawsuit

BY GREG IACURCI

CALIFORNIA'S AUTO-IRA program, CalSavers, survived a legal challenge that sought to nullify the state's new retirement vehicle, and some experts see the decision as a positive indicator for states that have similar programs and those considering implementing one.

The primary question posed by the lawsuit, Howard Jarvis Taxpayers Association v. The California Secure Choice Retirement Savings Program, was whether CalSavers created an "employee benefit plan." If so, it would be trumped by federal retirement law and voided.

California District Judge Morrison C. England Jr. sided with California and dismissed the lawsuit.

"This is quite significant," said Mark Iwry, a nonresident senior fellow at the Brookings Institution and former deputy assistant secretary of Treasury for retirement and health policy during the Obama administration.

"It bodes well for state auto-IRAs generally," he said. "It's very clear in holding that [the Employee Retirement Income Security Act] does not preempt these state auto-IRA programs."

JUDGE MORRISON C. ENGLAND JR.

Attorneys for both the plaintiffs and defendants declined a request for comment.

In 2012, California passed a law creating CalSavers, an automatic-enrollment, payroll-deduction individual retirement account program meant to help address a perceived shortfall in retirement savings among private-sector workers.

Auto-IRA programs like CalSavers require employers of a certain size to offer a workplace retirement plan for employees, whether that's a private-sector option like a 401(k) or the government-sponsored auto-IRA. If employers choose the latter, their responsibilities are generally limited to facilitating automatic deductions in their payroll systems.

The lawsuit is the first to address the issue of ERISA preemption. The judge gave the plaintiffs 20 days to file one final amended complaint.

In August 2016, the Obama administration issued a regulation to promote creation of state auto-IRA programs. The rule provided a safe harbor for states, clarifying that the programs wouldn't be subject to ERISA and preempted by it as long as they met certain conditions. The Trump administration overturned the regulation in May 2017.

giacurci@investmentnews.com
Twitter: @gregiacurci

SEC NOMINEE

CONTINUED FROM PAGE 2

ate floor, where the full chamber would vote on her. That process could take several weeks.

A committee spokeswoman said the panel tries to move nominees quickly, but the timing depends on when Ms. Lee's paperwork is filed as well as the Senate schedule.

The Securities Industry and Financial Markets Association, which supports Regulation Best Interest, said the nomination should not influence the timing of the advice rule.

"We hope the SEC presses forward with the final rules," said Kevin Carroll, SIFMA managing director and associate general counsel. Ms. Lee "won't affect the final vote. You're going to need the three Republican votes to pass it. There wouldn't be a need to delay Reg BI."

TOP PRIORITY

Mr. Clayton has emphasized that advice reform is one of his top priorities.

"If he thinks he has the three votes with his Republican colleagues, he may not be willing to slow down," said Barbara Roper, director of investor protection at the Consumer Federation of America, which opposes Regulation Best Interest. "We don't see much evidence that Chairman Clayton is looking for a compromise that can win bipartisan support. I hope I'm wrong on that."

A commission vote doesn't appear imminent.

Republican SEC commissioner Elad Roisman said last Tuesday he has not made up his mind and hasn't reviewed a final rule.

"I haven't seen what it is," he told reporters on the sidelines of a U.S. Chamber of Commerce event.

FULL COMMITTEE 'IDEAL'

Karen Barr, president and chief executive of the Investment Adviser Association, said she hopes Ms. Lee will be confirmed quickly and participate in finalizing advice reform.

"It's ideal to have the full commission vote on a rulemaking as important to investor protection as this one," Ms. Barr said.

Ms. Stein voted against releasing the advice reform package for public comment in April 2018. It's not clear whether Ms. Lee also would have strong objections. She was not working for Ms. Stein at the time, but instead was a senior counsel in the Complex Financial Instruments Unit of the SEC's enforcement division.

"WE HOPE THE SEC PRESSES FORWARD WITH THE FINAL RULES."

KEVIN CARROLL, MANAGING DIRECTOR, SIFMA

In addition to working at the SEC from 2005 to 2018, Ms. Lee has served as a special assistant U.S. Attorney and as a litigation partner at Sherman & Howard in Denver, according to a bio released by the White House.

"She's incredibly smart and knowledgeable," Ms. Roper said. "She's an ideal appointment."

mschoeff@investmentnews.com
Twitter: @markschoeff

AIR FORCE

CONTINUED FROM PAGE 4

to deceive Mr. Exner into relinquishing them, but he refused. Mr. Exner's lawsuit claimed that First Command terminated him even as it continued to use his copyrighted works.

After leaving First Command in 2017, Mr. Exner affiliated with LPL Financial.

NOT PART OF BROKER PROTOCOL

First Command is not part of the protocol for broker recruiting and has a two-year nonsolicit agreement in contracts, preventing advisers from speaking to clients when they start working at another brokerage firm, Mr. Exner said.

"They locked us out of our own office that we pay rent for," Mr. Exner said. "They took our computers and copied the hard drive. They sent letters to clients that made them feel like we abandoned them.

"We were attracted to First Command because I was prior military," he said. "[But] the contract with advisers puts handcuffs on you. We are independent contractors and First Command treated us like employees. It was a hostile takeover of our clients and intellectual property."

$130M
SIZE OF BOOK OF CLIENT ASSETS-BUILT BY THE EXNERS

By the time he left First Command Financial Planning, Mr. Exner and his wife, Claudia, had built a book of client assets totaling close to $130 million. First Command gives advisers referrals, but Mr. Exner said that a little more than half — roughly $70 million in assets — were the result of his and his wife's work and not referrals.

A spokesman for First Command, Mark Leach, did not return calls seeking comment. The company has not yet filed a response to Mr. Exner's lawsuit.

First Command Financial Planning is a sizable firm. It reported close to $7.5 million in income for fiscal 2018, which ended in September, and $59 million in total revenue, according to its annual audited financial statement with the Securities and Exchange Commission.

Its parent company, First Command Financial Services Inc., states on its website that it has 170 offices worldwide, many near military installations, and $27.2 billion in managed account and mutual fund assets. Eight out of 10 of its advisers are veterans or military spouses, according to the website.

This could turn into another ugly dispute for First Command Financial Planning, which has had a couple other dark marks in its past.

In December 2005, the SEC and the National Association of Securities Dealers, or NASD, the forerunner to the Financial Industry Regulatory Authority Inc., alleged that First Command used misleading sales materials to offer and sell mutual-fund investments through an installment method that resulted in overcharging many clients. The firm paid $12 million as part of a settlement with the regulators.

STRONG-ARM TACTICS

Two years later, *InvestmentNews* reported that First Command was using strong-arm legal tactics as the firm fought with advisers over clients.

There is no room in the financial advice business for advisers and firms to fight over who controls the client. The client controls the relationship.

When a broker leaves one firm to work at another, both the firm and broker should be able to talk to the client and make their pitch.

Let's hope Mr. Exner and First Command can reach an appropriate settlement to their dispute in which clients' interests should truly come first.

bkelly@investmentnews.com
Twitter: @bdnewsguy

GALVIN FEES

CONTINUED FROM PAGE 3

said Mr. Power, who participated in a working group formed by Mr. Galvin. "It was a one-page document with simple, easy-to-read information that's pretty clear."

T.J. van Gerven, owner of Modern Wealth Builders in Woburn, Mass., backs the fee-table proposal.

"We should disclose what we charge in dollar terms," he said. "Let the consumer decide if they value your service at that price."

Another Massachusetts investment adviser endorsed the proposal but said it doesn't go far enough. Bill Nelson, founder of Pacesetter Planning in Natick, Mass., said Mr. Galvin should expand the disclosure to include a description of services that are attached to fees.

"Financial planning or investment management advice can take many forms," Mr. Nelson said. "It's not enough to just know how much it costs, you need to know what you're paying for, too."

The proposal comes as the Securities and Exchange Commission is working on an investment advice reform package. The disclosure document included in the SEC proposal has faced withering criticism.

Knut Rostad, president of the Institute for the Fiduciary Standard, praised Mr. Galvin for illuminating fees at the state level.

"Secretary Galvin's proposal for a uniform price list is an excellent step forward," he said. "It provides needed clarity and transparency. We know it's not going to happen on the federal level. It's fantastic that some states are taking the lead."

The proposal is open for public comment until May 3. There will be a public hearing in Boston on May 2.

mschoeff@investmentnews.com
Twitter: @markschoeff

MORNINGSTAR

CONTINUED FROM PAGE 2

day] at a super-high institutional level of investing, but not at a retail, general-wealth-management level," she said.

Bond mutual funds held $10.4 trillion in 2017 — roughly 21% of the more than $49 trillion held in open-end mutual funds, according to the Investment Company Institute. By comparison, equity funds held nearly $22 trillion. (The remaining amount consists of hybrid funds and other categories.)

Bond funds have seen net inflows for most of the past decade, according to ICI, largely because of the demographic shift in the U.S. caused by the aging of the baby boom generation. Older investors tend to rely more on fixed income.

Morningstar's upcoming change will impact the underlying data points the company uses to generate its mutual fund reports and style boxes, which are visual representations that help advisers identify the specific fixed-income category of a particular fund.

The latter component is important not only in portfolio construction, but in fund selection. Advisers and investors often compare funds based on their performance, fees and other metrics. More reliably characterizing a fund category means lackluster funds will have a more difficult time hiding among peers, experts said.

"The more transparency we practitioners are provided the better," said Vance Barse, financial adviser at Manning Wealth Management Inc.

Despite the popularity of bond funds, financial advisers are often "not as targeted" in making their bond allocations when compared with their equity allocations, said Todd Rosenbluth, head of ETF and mutual fund research at CFRA Research.

Advisers understand well the various equity styles — small-, mid- and large-cap growth, value and blend funds — and try to put together allocations that include many of those styles, Mr. Rosenbluth said. However, when it comes to fixed income, they may use only two or three different styles, partly because they don't have the same data tools at their disposal, he said.

"I do think there's greater granularity within the equity space than within the bond space," he said.

giacurci@investmentnews.com
Twitter: @gregiacurci

RETIREMENT BILL

CONTINUED FROM PAGE 3

and earlier for retirement," he said.

The bipartisan support in the House was echoed in the Senate last Monday, when Senate Finance Committee chairman Chuck Grassley, R-Iowa, and the ranking member, Sen. Ron Wyden, D-Ore., introduced a companion bill, which they dubbed RESA.

"They're anxious to pick up this legislation and move it forthwith in the Senate, as soon as we can send it over there," said Rep. Ron Kind, D-Wisc., a coauthor of the SECURE Act.

Last year, Congress failed to approve RESA in the waning moments of the lame-duck session, requiring that it be re-introduced this year. Now supporters see strong momentum.

"The way it passed today in the committee is a big step forward to seeing a bill get enacted in both chambers this year," said Paul Richman, chief government and political affairs officer at the Insured Retirement Institute. "We're very encouraged that we'll see this bill move across the goal line."

In addition to IRI, the bill has wide support from financial industry trade associations, including the Securities Industry and Financial Markets Association, the American Council of Life Insurers and the National Association of Insurance and Financial Advisors.

mschoeff@investmentnews.com
Twitter: @markschoeff