InvestmentNews®

APRIL 29 - MAY 3, 2019

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NEWSPAPER I VOL. 23, NO. 17 I

John Rogers' passion for investing began at the young age of 12, when his father started buying him stocks, instead of toys, for Christmas and birthdays. When the dividend checks started coming in, his obsession with investing was sparked. In 1983, John founded Ariel Investments with the belief that patient investors are rewarded and wealth is best created by investing in quality companies whose true value is realized over time. Under John's active leadership Ariel Investments manages over $13 billion in assets and offers mutual funds and separate accounts spanning the market cap spectrum and covering the globe.

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John W. Rogers, Jr.
Chairman & CEO
Chief Investment Officer
Portfolio Manager

Performance

As of 3/31/19	Quarter	1-year	5-year (Annualized)	10-year (Annualized)	Since Inception (11/06/86) (Annualized)
Ariel Fund–Institutional Class*	+ 17.68%	+ 1.01%	+ 8.20%	+ 18.80%	+ 11.17%
Ariel Fund–Investor Class	+ 17.59%	+ 0.70%	+ 7.88%	+ 18.54%	+ 11.09%
Russell 2500™ Value Index	+ 13.12%	+ 1.84%	+ 6.02%	+ 15.03%	+ 10.90%
Expense Ratio (as of 9/30/18)					
Ariel Fund–Institutional Class (ARAIX)*					0.72%
Ariel Fund–Investor Class (ARGFX)					1.01%

* $1,000,000 minimum per underlying client, not advisors' book of business

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes the reinvestment of dividends and capital gains. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance data current to the most recent month-end for the Fund may be obtained by visiting our website, arielinvestments.com. Extraordinary performance shown for any short-term period may not be sustainable and is not representative of the performance over longer periods.

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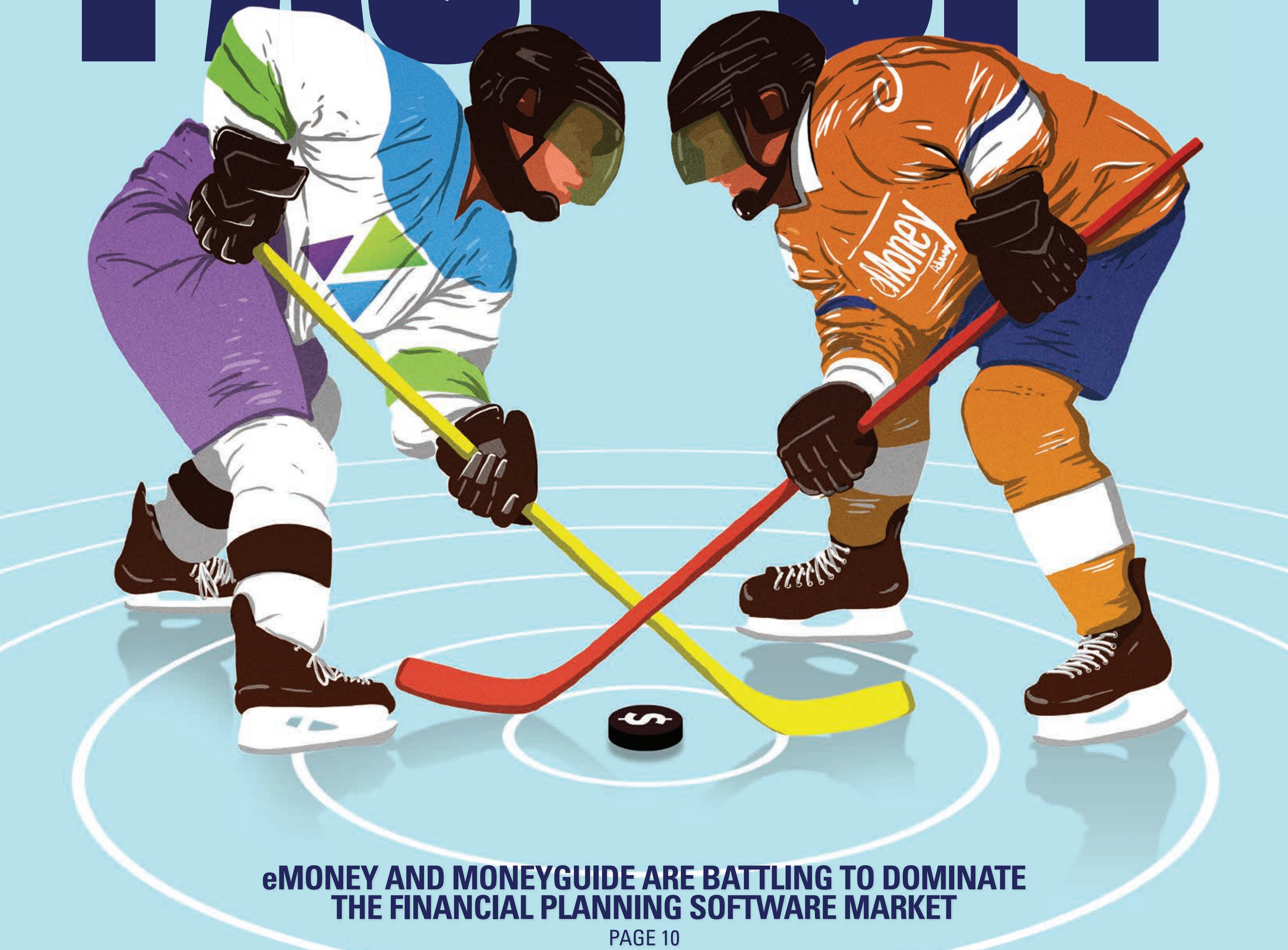

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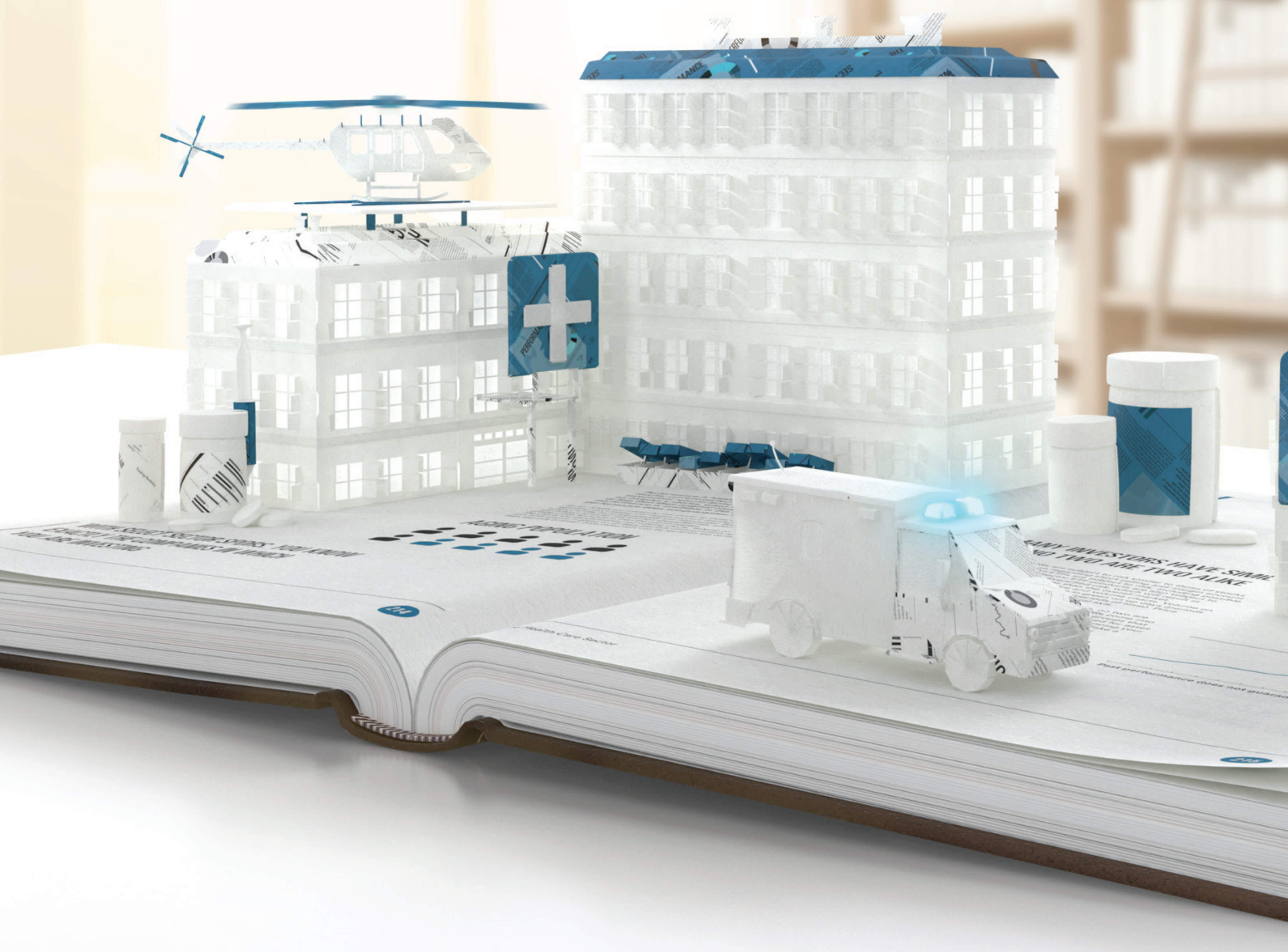

XLV

HEALTH CARE SECTOR SPDR ETF TOP 10 HOLDINGS**

Company Name	Symbol	Weight
Johnson & Johnson	JNJ	10.82%
Unitedhealth	UNH	6.89%
Pfizer	PFE	6.85%
Merck	MRK	6.24%
Abbott Laboratories	ABT	4.08%
Medtronic	MDT	3.55%
AbbVie	ABBV	3.45%
Amgen	AMGN	3.43%
Eli Lilly	LLY	3.26%
Thermo Fisher Scientific	TMO	3.20%

**Components and weightings as of 3/31/19. Please see website for daily updates. Holdings subject to change.

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STATE STREET GLOBAL ADVISORS

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Cover: Chris Thornley

Thaler debated
Nobel Prize winner's retirement concept met with resistance from insurance industry.
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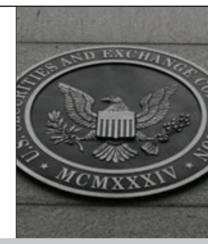

No wiggle words
SEC won't tolerate words like 'may' when it comes to disclosing conflicts of interest.
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Financial therapy? Rick Kahler explains the overlap of money and emotions in planning
InvestmentNews.com/Kahler

Centerbridge in talks to buy Advisor Group

BLOOMBERG NEWS

CENTERBRIDGE PARTNERS IS in talks to buy independent broker-dealer Advisor Group Inc. for more than $2 billion, according to people familiar with the matter.

The private-equity firm could reach a deal soon to acquire Advisor Group, said the people, who asked not to be identified because the matter isn't public.

A deal hasn't been finalized and talks could fall through, the people said. The company, which has been working with an adviser to explore a sale, has drawn interest from other private-equity firms and broker-dealers, the people said.

In 2016, American International Group Inc. sold Advisor Group to private-equity firm Lightyear Capital and the Public Sector Pension Investment Board of Canada.

A representative for Lightyear declined to comment. Representatives for Advisor Group, Centerbridge and PSP didn't immediately respond to requests for comment.

Advisor Group's independent broker-dealer network in the U.S. has more than 7,000 advisers offering sales, administrative, compliance support, technology and other wealth management services, according to its website. The company had $1.7 billion in gross revenue and $228 billion in assets under administration in 2018 — both increasing 20% from the previous year, according to a statement on its website.

The company's firms include FSC Securities, Royal Alliance, SagePoint Financial and Woodbury Financial.

Centerbridge, based in New York, invests in private equity, credit and real estate. The firm had about $28 billion under management at the end of 2018, according to a statement this month.

KEY POINTS
- Deal slated at more than $2 billion.
- Other private-equity firms have shown interest in purchasing the IBD.
- Advisor Group has more than 7,000 advisers.

Social Security funding outlook slightly better

BY MARY BETH FRANKLIN

THE LONG-TERM funding outlook for Social Security's retirement and survivor benefit programs has improved slightly, while the timing of the depletion of the disability program's reserves was extended by 20 years, according to the 2019 trustees' report released last Monday.

In theory, the combined Old-Age and Survivors Insurance (OASI) and the Disability Insurance (DI) Trust Funds are now projected to be depleted in 2035, one year later than projected last year, with 80% of benefits payable at that time. But much of that one-year extension was due to the improvement in the disability trust fund's prospects.

And although the total annual cost of the Social Security program was expected to exceed total income last year for the first time since 1982, that didn't happen. Asset reserves in the combined OASI and DI trust funds increased by $3 billion in 2018 to $2.895 trillion.

But that doesn't mean the program has resolved its long-term financing problems. It just kicked them down the road a bit.

The total annual cost of the

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Morgan shakes up wealth unit

BLOOMBERG NEWS

MORGAN STANLEY CEO James Gorman shook up leadership of the firm's massive wealth management division, assigning one of its co-heads to focus on bank units offering loans and deposit accounts.

The move affects two executives who've been widely seen as contenders to replace Mr. Gorman in the years ahead: Shelley O'Connor, who co-led wealth management with Andy Saperstein, will run two regulated bank entities, which the company is looking to expand, the CEO wrote last Tuesday in a memo to staff.

"Given the criticality of the banks to the future growth of our business, I have asked Shelley to dedicate her full-time efforts to leading them," Mr. Gorman wrote. She helped create them, and "her extensive wealth-management experience and leadership make her uniquely suited for this important role."

The shakeup follows last

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Adviser gave college players money

INVESTMENTNEWS

A FORMER FINANCIAL adviser assisting with a government investigation into corruption in college football testified in a New York federal court that he directed payments to football players from Alabama, Notre Dame, Michigan, Penn State, Pittsburgh, Northwestern and North Carolina between 2000 and 2014 in hopes they would hire him as a financial adviser, according to CBSSports.com.

In court testimony last Tuesday, Louis "Marty" Blazer said that in 2009 he paid $10,000 to the father of a Penn State player who was the 11th overall pick in that year's NFL draft, CBSSports.com reported. He testified that he made the payment at the encouragement of a Penn State assistant coach who said the player's family had money problems. The payment was by check, Mr. Blazer said, and the transaction happened at the home of the Penn State coach.

PRO CLIENTS
What advisers need to know.
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Mr. Blazer, who was barred by the Securities and Exchange Commission in 2016 for misusing client funds, is also involved in an ongoing investigation into college basketball. How Mr. Blazer, who a sports agent described to ESPN.com as a "nickel-and-dime financial guy from Pittsburgh," became such a key player in two major sports investigations is a tale with several twists.

According to ESPN.com, the story began when Mr. Blazer helped finance a movie in 2009 using money from some of his clients. The movie was a bomb, and Mr. Blazer began to take funds from some clients to compensate others for losses in the movie and various other show business deals.

SPECIALIZING IN ATHLETES

Mr. Blazer, who spent 13 years at Smith Barney after a two-year

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Finra reveals how it spent $61 million in fine money

BY MARK SCHOEFF JR.

FINRA USED FINE proceeds last year to fund improvements in technology that helped the regulator better monitor markets and examine member firms, according to a report released last Thursday.

The Financial Industry Regulatory Authority Inc. said it collected $61 million in fines in 2018. The board approved fine-related spending of $81.1 million, so Finra drew $20.1 million from its reserves to augment the total amount of fines. Finra reserves are essentially its investment portfolio, which totals about $1.7 billion.

BOARD SETS RULES

The Finra board has determined that fine monies can be used to fund capital initiatives, educate investors, help firms comply with Finra rules or replenish the reserves.

In 2018, Finra spent $65.7 million on capital initiatives and strategic expenditures, including $16 million to migrate technology applications from data centers to cloud-based platforms. It spent $12 million to improve its examination and investigations program. It also invested $3.5

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Schwab's next-gen portfolio tool now live

BY RYAN W. NEAL

SCHWAB ADVISOR Services is moving ahead with its next-generation portfolio management technology, bringing Portfolio Connect out of the test phase and onto the market.

Schwab is positioning Portfolio Connect as a simpler, cost-effective alternative to tools like Orion Advisor Services, Advent's Black Diamond or Envestnet Tamarac (which recently acquired Schwab's older portfolio management software, Portfolio-Center).

While Portfolio Connect only works with Schwab accounts and lacks many of the customization options provided with other software, it is deeply integrated with Schwab's custodian platform and will be free for advisers.

"When we took a look at the overall landscape of portfolio management options that advisers have today, there are a lot of third-party options providing multi-custodial, sophisticated systems," said Lauren Wilkinson, Schwab's vice president of digital adviser solutions.

Portfolio Connect provides an option for smaller firms and newly formed breakaways looking to minimize costs and focus on growth, Ms. Wilkinson said.

DEDUCTING FEES

Advisers can use the technology to get performance information about individual accounts and the entire firm. It also can automatically calculate fees and deduct them from a Schwab account.

Citing Schwab's 2018 benchmarking study, Ms. Wilkinson said firms with less than $100 million in assets under management are adding clients and assets faster than their peers. By helping with that growth, Schwab is hoping it remains the custodian of choice as the small advisers get larger.

The technology has traveled a long road to make it to the public. Portfolio Connect was first announced in 2010 as part of an initiative to build a cloud-based, multicustodial portfolio manager to compete with third parties.

The firm changed course in 2018 under Andrew Salesky, Schwab's senior vice president of digital adviser solutions. Now the firm is focused on integrating with third parties to support advisers with more complex needs, Ms. Wilkinson said. Before onboarding, Schwab is making sure advisers know exactly what Portfolio Connect can and cannot do, and recommending third-party options when appropriate.

INTEGRATION
Fidelity adds third parties to platform.
PAGE 18

The final product was guided by advisers in the test program, including Eric Henderson, chief investment officer of East Horizon Investments. He said the process was an ongoing conversation with Schwab's developers.

"We can be a little persnickety about data and numbers," he said.

Overall, he applauded the "slick feel" of Portfolio Connect, adding that it seems more modern than other portfolio management tools he's used. The biggest improvement for him is that data automatically update from the brokerage platform, meaning he doesn't have to do daily downloads or manual updating of client data.

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10 IBDs that bring in big fee revenue

Growth in fee revenue continued to outpace commission revenue at many independent broker-dealers last year. Here are the IBDs with the most fee revenue in 2018, according to *InvestmentNews* Research.

10
WADDELL & REED FINANCIAL ADVISORS
Fee revenue: **$259.9 million**
Change from 2017: **10.5%**
Portion of total revenue: **49.7%**

9
KESTRA FINANCIAL INC.
Fee revenue: **$303.0 million**
Change from 2017: **23.4%**
Portion of total revenue: **55.2%**

8
SECURITIES AMERICA INC.
Fee revenue: **$402.1 million**
Change from **2017: 28.1%**
Portion of total revenue: **50.0%**

7
MML INVESTORS SERVICES
Fee revenue: **$443.7 million**
Change from 2017: **16.6%**
Portion of total revenue: **39.4%**

6
CAMBRIDGE INVESTMENT RESEARCH INC.
Fee revenue: **$509.6 million**
Change from 2017: **10.8%**
Portion of total revenue: **56.2%**

5
NORTHWESTERN MUTUAL INVESTMENT SERVICES
Fee revenue: **$786.9 million**
Change from 2017: **25.2%**
Portion of total revenue: **64.5%**

4
COMMONWEALTH FINANCIAL NETWORK
Fee revenue: **$976.2 million**
Change from 2017: **22.3%**
Portion of total revenue: **68.5%**

3
RAYMOND JAMES FINANCIAL SERVICES INC.
Fee revenue: **$1.31 billion**
Change from 2017: **26.0%**
Portion of total revenue: **54.5%**

2
LPL FINANCIAL
Fee revenue: **$1.80 billion**
Change from 2017: **27.3%**
Portion of total revenue: **34.6%**

1
AMERIPRISE FINANCIAL SERVICES INC.
Fee revenue: **$2.64 billion**
Change from 2017: **13.1%**
Portion of total revenue: **54.9%**

Fidelity sales tactics called into question in 403(b) suit

BY GREG IACURCI

THE MARKETING AND sales tactics Fidelity Investments uses with retirement savers were called out in a lawsuit involving alleged retirement-plan mismanagement by Vanderbilt University, bringing into focus the ongoing and seemingly increasing tension felt among plan sponsors, participants and their service providers.

Last Monday, Vanderbilt reached a $14.5 million settlement with the plaintiffs, represented by attorney Jerome Schlichter — the largest settlement to date by a university sued over its retirement plan.

EXCESSIVE FEES

The lawsuit claimed the university caused employees to overpay for investment and administrative services in two retirement plans because of excessive fees, allegations the university denies.

> **"SOME RECORD KEEPERS ... USE THEIR POSITION TO SELL PRODUCTS OUTSIDE THE PLAN."**
> JEROME SCHLICHTER, ATTORNEY

As part of the settlement, Vanderbilt also agreed to some provisions regarding the operation of its 403(b) plans, a type of defined-contribution plan for nonprofit employers — one of which related to Fidelity, the plans' record keeper. According to the settlement, Vanderbilt must tell Fidelity to refrain from using participants' information that it acquires in the course of its work to market or sell them products unrelated to the retirement plan.

MUST REQUEST TO CROSS SELL

In other words, Fidelity cannot use participant data — such as their investment choices, retirement age, number of dependents and employment information — to cross-sell to them, unless they specifically request that Fidelity do so.

Fidelity is not in legal trouble because of the practice, nor was it a defendant in the Vanderbilt lawsuit. But attorneys say this type of provision to protect against a record keeper's use of partici-

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Drawback of Thaler's 401(k)-Social Security idea

BY GREG IACURCI

NOBEL LAUREATE Richard Thaler's idea to increase retirees' Social Security payments by using a portion of their 401(k) accounts is drawing criticism from some corners of the financial advice industry, primarily due to the current less-than-stellar health of the Social Security system.

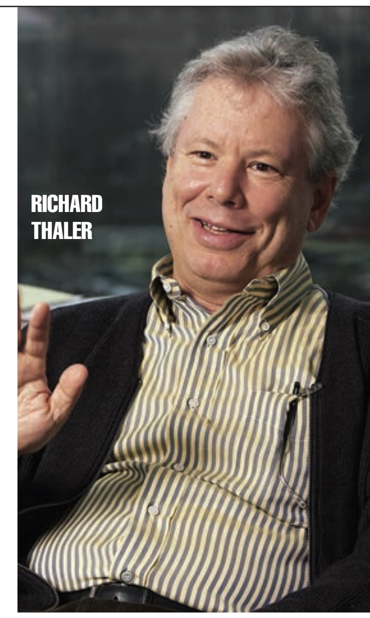
Mr. Thaler, who won the Nobel Prize in 2017 for his work in the field of behavioral economics, proposed that Americans be able to voluntarily send the Social Security Administration up to roughly $250,000 from their 401(k) accounts to increase Social Security income in retirement.

The idea, he said, would simplify the complexity in drawing down retirement assets for 401(k) savers and offer them an inflation-adjusted, lifetime income stream better than they could purchase in the private sector.

EDITORIAL
Vigorous debate of ideas is healthy.
PAGE 8

While many observers believe the idea has merit, they think Congress would first need to address the Social Security system's low funding levels, which overshadow the potential benefits of Mr. Thaler's idea.

"Fixing Social Security would have to be something done first before you could ever imagine a buy-in," said Jamie Hopkins, director of retirement research and vice president of private client services at Carson Group.



RICHARD THALER

Funding in the Social Security program — which paid benefits to 47 million people in 2018 – has declined, largely because of longer life spans.

The Social Security Board of Trustees said last Monday that the total annual cost of the program is projected to exceed total annual income in 2020, for the first time in

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Warren wants to end student debt for 42M

BLOOMBERG NEWS

DEMOCRATIC PRESIDENTIAL candidate Elizabeth Warren proposed eliminating student-loan debt for an estimated 42 million Americans with a wealth tax, seeking to show young voters she would ease one of their biggest economic burdens.

The plan would eliminate as much as $50,000 in student debt for anyone with household income of less than $100,000, and partially cancel debt for those who make as much as $250,000. Beyond $100,000 in income, the $50,000 in per-person debt forgiveness falls by $1 for every $3 earned, zeroing out after $250,000.

WORKING FAMILIES

In other words, those who earn $130,000 are eligible for $40,000 in student debt relief, while those who make $190,000 can lower their loan amount by $20,000.

"The enormous student debt burden weighing down our economy isn't the result of laziness or irresponsibility,"Ms. Warren wrote in a blog post published last Monday. "It's the result of a government that has consistently put the interests of the wealthy and well-connected over the interests of working families."

With a university admissions scandal focusing attention on the inequities of U.S. higher education,

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ELIZABETH WARREN

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OPINION

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Criticism of Thaler proposal should not halt discussion

THE IDEA RECENTLY put forward by Nobel laureate Richard Thaler to allow Americans to contribute a portion of their 401(k) balances to the Social Security Administration in return for a higher income stream has been criticized from some in the financial advice business.

The concept proposed by the University of Chicago professor, who won the Nobel Prize in 2017 for his work in behavioral finance, would allow retirees to send up to about $250,000 to the government from their workplace retirement plan. In return, they would receive a guaranteed, inflation-adjusted annuity that would increase the size of their monthly Social Security checks. Retirees effectively would be adding more of their own money to the pot that Social Security uses to provide benefits.

Mr. Thaler said the idea would simplify the complexity of drawing down retirement assets and generate more retirement income because the annuity provided by the government would cost less than what one could purchase in the private sector.

As *InvestmentNews* reporter Greg Iacurci recently discovered, the idea has drawn fire from several quarters.

One criticism focuses on a technical issue. The Federal Insurance Contributions Act payroll taxes levied on both employees and employers are not deposits or investments in an account over which an individual participant has rights; essentially, they are a tax to pay for benefits in the future over which the government has control. In that way, the current Social Security system is different from 401(k) plans, for instance, where participants have rights to the assets in their accounts. That difference perhaps could be changed through legislation or addressed in how the contribution of 401(k) assets to Social Security is treated.

Other criticism comes from those who believe Social Security's looming financial problems are so great that expanding the program before those issues are addressed is a nonstarter. Underscoring those funding problems was a report last week by the Social Security Board of Trustees noting that the total annual cost of the program is projected to exceed total annual income in 2020 for the first time in nearly four decades.

The Thaler proposal, and any other proposals that would have the government offer a product that competes with the private sector, would doubtless spark pushback from the insurance industry, whose smaller pools of insured individuals than in the massive Social Security system and higher costs for marketing and administration would mean an inability to compete and still earn a profit.

Despite its possible holes, however, Mr. Thaler's idea is worthy of consideration by think tanks, academia and the government. As a social scientist whose work thus far appears to be based on a dispassionate search for truth, it would seem fair to assume Mr. Thaler's proposal has no hidden political agenda, but rather is based on a sincere belief that the idea could benefit large numbers of people while still making sense economically.

DEBATING IDEAS OF SERIOUS THINKERS COULD LEAD TO OTHER CREATIVE SOLUTIONS.

Taking Mr. Thaler's proposal seriously and discussing it in public forums also may encourage ideas from other serious thinkers about retirement and lead to creative ways to improve the nation's retirement-income picture — which currently is bleak.

An analysis by the Government Accountability Office in late 2017 found that the median retirement savings for Americans between 55 and 64 was $107,000. And recent research by the Employee Benefit Research Institute found that 40.6% of U.S. households where the head of household is between 35 and 64 years old are projected to run short of money in retirement.

With the future of millions of Americans at stake, and with divided and deeply partisan lawmakers unlikely to touch an issue with so many political consequences, having leading retirement thinkers instigate policy discussions on boosting retirement income could be our best hope to spark positive change.

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.

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By Ryan W. Neal

STEPPING UP THEIR GAME

Two of the most successful fintech companies are racing to develop the next generation of financial planning software

Once a niche offering with only a handful of practitioners, financial planning is now embraced by even the largest financial institutions. It's a profound change for the brokerage industry, and technology companies like eMoney Advisor are in the driver's seat.

eMoney, which began as an idea of Edmond Walters, a former financial adviser, is now one of the largest, most successful companies in adviser-facing fintech. Fidelity Investments acquired eMoney in 2015 for $250 million, a blockbuster purchase that shocked the industry — and not just because of its price tag. The deal was a sign for many that traditional institutions finally saw digital, planning-led financial advice as the wave of the future.

Since then, eMoney has produced 2.5 million financial plans and 2.1 million client portals. Its aggregation engine, a critical ingredient in the company's success, has pulled together 13.7 million accounts and $2.3 trillion in assets. eMoney is even prouder of how it has maintained the culture of a technology startup, despite the sudden departure of its charismatic founder, Mr. Walters, less than a year after inking the deal with Fidelity.

eMoney's headquarters in Radnor, Pa., is far more Silicon Valley than Boston, with free snacks, Segways, video games and Patagonia sweater vests instead of suits and ties. There's even a milkshake machine.

This is more than window dressing to Ed O'Brien, eMoney's CEO, a Fidelity

veteran who succeeded Mr. Walters. He believes it's all necessary to foster the innovative spirit many feared would be crushed under the bureaucracy of a $2.4 trillion asset manager.

"It's all about engagement," Mr. O'Brien said. "You want employees who come to work, they feel engaged not only in the work itself … but having fun at work is one of our values."

BACK ON THE SCENE

But 2019 brings eMoney a new challenge in the form of its own founder. Mr. Walters is back on the scene after a noncompete agreement kept him away from the fintech world, and he's diving right back into financial planning.

"It's been hard being on the sidelines, not being in the game," he said. "There's a lot going on right now, things that I thought were going to happen over the last three years."

Mr. Walters has aligned with eMoney's archrival MoneyGuide, which was acquired in March by fintech giant Envestnet for $500 million.

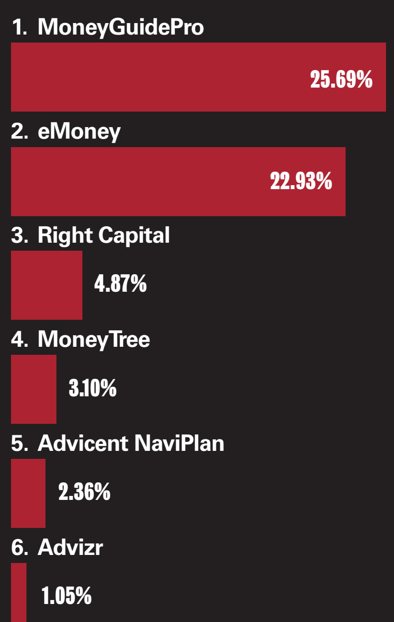
Envestnet brings deep pockets to the table to help compete against the resources eMoney receives from Fidelity, in addition to a technology platform that MoneyGuide previously lacked. Mr. Walters sees an opportunity to address gaps in the market.

"We're the next generation, and we will go head-to-head with eMoney," Mr. Walters said of the alliance between his new company and Envestnet MoneyGuide. "We're going to change the way advisers communicate and present to clients. It's digital versus Betamax."

Top technologies for financial planning

MoneyGuide and eMoney are the two most widely used financial planning technologies, and each of them owns more market share than the other top financial planning tools combined.

Here's how it breaks down, according to the latest adviser software survey by Technology Tools for Today.



MoneyGuide and eMoney are battling to capture technology budgets as companies across the financial services industry try to move away from product sales in favor of providing financial wellness, comprehensive wealth management or holistic financial advice.

"Banking, insurance and wealth management all intersect, and planning is the glue that ties them together. It's the software that can sit across all of those wings," said Dennis Gallant, senior analyst at Aite Group. "We've talked about moving towards planning, but this is the year there's really an effort to push the market."

CONTINUED ON PAGE 12

CONTINUED FROM PAGE 11

Making financial planning more accessible creates opportunity beyond the traditional wealth management industry. Firms see planning as a way to build relationships with new, next-gen clients and increase the loyalty of current clients before the next crash.

"During these market changes, if you can prove that certain goals they have stay unaffected … you can stop them from making irrational decisions," said Ugur Hamaloglu, partner at Ernst & Young. "I can tell you with a fair degree of certainty that every consumer financial services sector is looking into financial planning, from banking all the way to insurance firms."

PLANNING GOES MAINSTREAM

In the past, financial planning was often little more than a tactic that brokers employed to gain assets. Until recently, it was also labor-intensive, and only worth the trouble for the wealthiest investors.

The shift to AUM-based fees, along with aging client, new regulations and the commoditization of investment advice over the past 20 years have helped push planning into the mainstream.

"Planning has been an evolutionary trend in financial service, but the recent confluence of macro trends has really accelerated it to almost revolutionary," Mr. Gallant said.

New technology is making this possible. Before 2000, financial planning software stood alone rather than being integrated with the rest of an adviser's technology, making planning difficult to scale, Mr. Hamaloglu said. The plans produced were static, paper-bound reports.

Mr. Walters believed the technology should make financial planning an interactive, collaborative experience for advisers and clients. He envisioned a tech platform built around planning that would include things like a digital document vault, a client portal and account aggregation. His approach helped eMoney become the centerpiece of many advisers' technology ecosystems.

"How could I provide them with a view of all of their assets and their information, updating every day?" Mr. Walters remembered thinking as he came up with eMoney. "I looked for a solution and I couldn't find it. I decided I would build it."

GOALS-BASED PLANNING

eMoney initially focused on cash flow analysis for the high end of the market, and Mr. Walters admits that it wasn't good at goals-based planning. This opened the door for MoneyGuide, launched by PIEtech, also in 2000, to provide technology focused entirely on goals, making it more accessible to advisers targeting individuals who aren't ultra-wealthy.

MoneyGuide has produced more than 5.5 million financial plans and aggregated more than 3 million accounts. More than 110,000 advisers use the product and 1.5 million clients use MoneyGuide's integrated portal.

MoneyGuide's focus on being a standalone technology helped it find success with enterprise firms that already had their own client portals, said co-CEO and chief technology officer Tony Leal.

However, eMoney's client portal proved to be immensely popular with advisers. Frani Feit, managing director of Tradition Capital Management, said of the three technology platforms her firm offers clients, it's eMoney that clients use most.

"I believe it is because eMoney provides a daily snapshot of clients' aggregated wealth holdings, which is not just accounts under our management. Their 401(k) plans, cash value of life insurance and 529 assets are all reflected on one screen," Ms. Feit said. "And when advisers help their clients keep a long-term view of building wealth by allocating investments to the most tax-efficient types of accounts, seeing one's total portfolio grow over time helps reinforce that message."

Advisers' passion for eMoney was tested in 2015 when news broke that the scrappy startup would sell to Fidelity. Some independent RIAs worried they would be forced to custody client assets with Fidelity if they wanted to keep using their beloved client portals and planning software. Others feared a behemoth financial institution would slow down a tech startup's ability to innovate.

Four years later, Fidelity has stayed true to its promise of independence. Advisers can still use the software regardless of where they custody client assets. Mr. O'Brien said that while eMoney's total user base has grown, the portion of users who have Fidelity accounts is roughly the same as it was before the sale.

Mr. Walters' departure about nine months after the sale didn't help calm nerves about how Fidelity would foster technology development. Today, not everyone is content.

"Personally, I would love to see the innovation speed up," said Scott Frank, founder of Stone Steps Financial. Mr. Frank doesn't think Fidelity has impeded eMoney's development and said the service support and technology are as strong as ever. But he feels the software is designed to sell investments and services rather than planning-led financial advice.

"My assumption is eMoney doesn't care about a small RIA adviser like me," Mr. Frank said. "We're small for them compared to insurance companies and brokerages. At the end of the day, they're guys that still make money on selling products."

Mr. O'Brien said this isn't a concern he's heard before, and that the heart and soul of eMoney is to help people talk about money. But Mr. Walters agrees with the criticism. He said most fintech products on the market are designed to sell products, and that's not a successful, long-term approach.

The real value of advisers is building relationships with clients to help them get through difficult times. Mr. Walters is betting technology is the key to helping advisers demonstrate that value.

"That's all I focus on. I couldn't care less if anyone ever buys [an investment] product," Mr. Walters said.

He also believes there is more work to be done around adviser-client collaboration. His new firm, Apprise Labs, is using MoneyGuide's planning engine and Envestnet's technology to address the more complex estate and tax planning needs of the ultra-wealthy.

INTEGRATION

"I've started working toward this direction. I haven't seen anything in three years that's been enhanced other than lower-level goal planning," Mr. Walters said.

Integrating MoneyGuide with the rest of Envestnet's technology also gives the company the platform it never had, Mr. Leal said.

MoneyGuide can integrate with Envestnet Yodlee for aggregation, and PortfolioCenter and Tamarac will bring functions such as portfolio management and reporting. Envestnet's asset management platform will help create a seamless process from planning to investing.

Neither company will admit to being influenced by the other. Mr. Leal said the Envestnet deal wasn't a move to fend off slowing growth, and said he still believes there are benefits to being a small, independent company.

"Fewer developers who are truly committed and understand the space can do more than 300 developers," Mr. Leal said.

He also pointed out that MoneyGuide integrates with eMoney's client portal and will continue to do so.

"We're very good friends with Ed," Mr. Leal said. "They compete fairly and in the right way. We couldn't be any more excited to compete with them."

For Mr. O'Brien, the MoneyGuide-Envestnet transaction only reaffirms eMoney's existing strategy.

"We've been for a couple of years focused and committed to what we call the full spectrum of planning," he said. "We start with a simple foundation of budgeting, spending, net-worth statements, and move all the way to the high end of comprehensive estate planning."

It's clear eMoney and MoneyGuide — with Fidelity and Envestnet, respectively, behind them — are in an arms race to provide financial planning tools to as many advisers as possible. Both are working on simplifying their user experiences for advisers serving clients with less-sophisticated planning needs, and for brokers with an investment management background who are dipping their toes into planning for the first time.

eMoney calls it "foundational planning," while MoneyGuide executives describe "blocks," a sort of Netflix-style menu for clients to select parts of the financial plan that they can complete at their own pace.

Both companies talk about breaking down planning into "bite-sized pieces" to be easier for advisers and clients, with tools aimed at helping advisers fundamentally change their client conversations and relationships.

"The adviser is not necessarily talking about products or investments. It's what are the things that are most important to that household, that family," Mr. O'Brien said. "For the adviser, [financial planning means] deeper, stronger relationships that continue to thrive even while there's pressure on fees all around them."

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"I LOOKED FOR A SOLUTION AND I COULDN'T FIND IT. I DECIDED I WOULD BUILD IT."

—EDMOND WALTERS, CEO, APPRISE LABS

Advisers rally around their financial planning tools

Advisers are passionate when it comes to financial planning software, but exactly how do they feel about the tools? Scott Andrew Bell, founder of California-based RIA GDP Inc., sparked an interesting discussion about financial planning tools on Twitter when he said, "I've been working with MGP alongside eMoney to test them both, and I think I'm digging MGP quite a bit more. What are you using?"

MICHAEL KITCES
@MichaelKitces
"MGP for the planning experience, eMoney for the portal, is what I hear most often. (Though when the portal is the anchor for so many, they often revert to eMoney for the whole planning experience because it's more deeply/fully integrated.)"

C. CANNON
@_TheCannon
"MGP for the planning experience & testing Right Capital for presentation & aggregation."

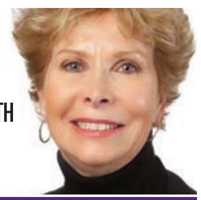
STERLING.EDGE
@EdgeSterling
"E-Money — Most of my clients are younger. Building cash flows, budgets and accountability using the portal is a large value add for my market. I also find the visuals more stimulating. It is a bit intense. I'm excited to see all the competition. It should aid us all."

JIM MACKAY
@JLMacKay3
"I've stayed with MGP for years and just when I start to think about something else, they improve it. Who knows what happens now but would hope the trend continues."

J ROBERTS
@PHXplan
"I used both and settled on MGP because of the cost. eMoney has some good features, but the price was 3 times higher... difficult for a new advisor to afford."

BRANDON DEMBOWIAK
@Dwakkkk
"@eMoneyAdvisor for us. As mentioned, the cost is definitely a challenge but we found MGP to be too goal heavy for clients. We use goal-based planning but most clients didn't know EXACTLY what event or purchase they wanted to plan for. Cash flow focus and EMA does that best."

Taxes vary for 9 income streams



MARY BETH FRANKLIN

ONRETIREMENT

Clients don’t always understand the interactions of different types of retirement income and how they are taxed. During a recent webinar, Joe Elsasser, president and founder of Covisum, a software company focusing on Social Security claiming strategies and tax efficiency, discussed ways to improve retirement income strategies.

1. IRAs, 401(k)s and 403(b)s. In retirement, distributions from workplace plans such as 401(k)s and 403(b)s are fully taxable as ordinary income at the federal level, with tax rates ranging from 10% to 37%.

Account holders must start taking annual required minimum distributions after age 70½. Those who continue to work beyond that age can delay their 401(k) and 403(b) distributions until they retire, but not their IRA distributions.

KEY POINTS

- Different types of income are taxed at different levels.
- Helping clients understand these interactions can improve RMD strategies.

2. Pensions. Some retirees lucky enough to have a traditional pension are surprised to learn that those guaranteed monthly income benefits are fully taxable as ordinary income at the federal level. State tax rules vary, with some excluding a portion of various types of retirement income from taxes and others exempting pensions altogether.

MINIMIZE TAXES, SURCHARGES

3. Roth IRAs. Including tax-free distributions from Roth IRAs and Roth 401(k) plans in a retiree’s income mix can minimize both income taxes and high-income surcharges on Medicare Part B and Part D premiums.

Many advisers are encouraging clients to consider partial Roth IRA conversions over the next few years to take advantage of current low rates before they expire at the end of 2025.

4. Social Security. A portion of Social Security benefits are tax-free at the federal level, but once “combined income,” defined as adjusted gross income plus one-half of Social Security benefits plus tax-exempt interest, exceeds certain thresholds, some benefits are taxable at ordinary income tax rates.

5. Investment gains and dividends. The sale of stocks, bonds and mutual funds held for more than a year, as well as qualified dividends, are taxed at the preferential long-term capital gains rates, ranging from 0% to 20%.

For 2019, if you’re single with taxable income of $39,375 or less or married filing jointly with taxable income of $78,750 or less, your long-term capital gains are taxed at 0%.

For people with higher taxable incomes, the rates go up.

23.8%
MAXIMUM CAPITAL GAINS RATE, INCLUDING MEDICARE SURCHARGE

6. Municipal bond interest. One of the attractions of municipal bonds is that the interest is tax-free at the federal level and generally at the state level, too, for bonds issued in the taxpayer’s home state.

But nontaxable muni bond interest is included in the modified adjusted gross income calculation used to determine whether a high-income Medicare beneficiary must pay a monthly premium surcharge, and profits from the sale of a bond are subject to capital gains taxes.

7. Medicare taxes and surcharges. High-income taxpayers are subject to special taxes that help fund Medicare. If net investment income exceeds $200,000 for single individuals or $250,000 for married taxpayers, they will pay an additional 3.8% tax, boosting the maximum capital gains rate as high as 23.8% (20% + 3.8%).

8. Annuities. Some or all of the income you receive from an annuity is taxable at ordinary income tax rates. If you hold the annuity outside of a qualified retirement account, the portion of the payment that represents a return of your investment is tax-free. The remainder is taxable. If you hold the annuity inside a traditional retirement account, 100% of the payouts are taxed at ordinary rates.

9. Life insurance. Life insurance proceeds paid to a beneficiary upon the death of the insured are tax-free, as are withdrawals of the cash value portion of a permanent life insurance policy.

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

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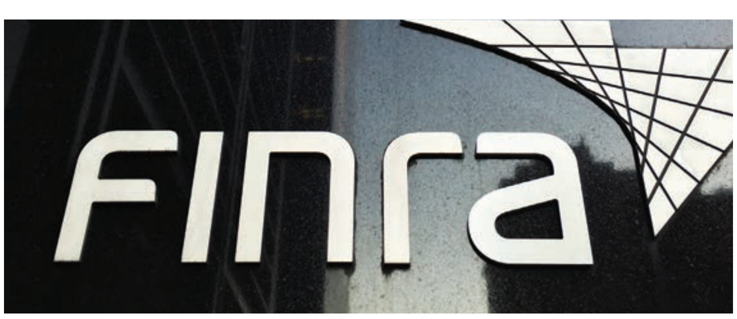


Finra censures Voya for sales of load funds

INVESTMENTNEWS

THE FINANCIAL Industry Regulatory Authority Inc. has censured Voya Financial Advisors and ordered it to pay an unspecified amount in remediation to retirement plan and charitable organization customers to whom it sold mutual funds.

In a letter of acceptance, waiver and consent, Finra said that from Jan. 1, 2009, through May 26, 2016, Voya disadvantaged those customers, who were able to purchase class A shares in certain mutual funds of the firm’s without a front-end sales charge. Instead, those customers were sold class A shares with a load or class B or C shares with back-end loads and higher ongoing fees and expenses.

During the time in question, Finra said, Voya “failed to establish and maintain a supervisory system and procedures reasonably designed to ensure that eligible customers who purchased mutual fund shares received the benefit of applicable sales charge waivers.”

Opportunity zones clarified

BLOOMBERG NEWS

THERE’S PLENTY OF enthusiasm for new U.S. tax breaks for investing in low-income communities designated as opportunity zones. But many people have delayed spending because of uncertainty about how the incentives will work.

The Trump administration sought to clear away those hurdles April 17 with new guidelines designed to meet investor wishes, while leaving unresolved some issues flagged by critics.

“The government really wants this to work,” said Jessica Millett, co-chair of the tax department at Duval & Stachenfeld. “Treasury really did use its regulatory authority to interpret things to help investors.”

Lawyers, accountants and consultants will be poring over the 169-page proposal to parse what it means for clients, but early analyses identified several measures that will encourage capital to get off the sidelines.

The rules allow a more flexible timeline to invest cash, as well as a one-year grace period to sell assets and reinvest the proceeds. The new rules also provide more clarity around how a business can prove it’s conducting enough activity in a zone.

10-YEAR TIME FRAME

The rules also allow investors to get special tax treatment if they’ve held their stake in the fund for at least 10 years, even if the fund didn’t own the asset for a full decade.

The administration “continues to remain supportive and is clearly taking a liberal stance in interpreting the law,” said Craig Bernstein, principal at OPZ Bernstein, a real estate private-equity fund that is targeting investments in opportunity zones.

Some critics say the law is written so loosely it could become a handout to the wealthy, juicing returns on projects they would have pursued anyway. Others say the bulk of investment could go to zones in places like Brooklyn and Portland, Ore., that have little trouble attracting inflows.

Separating retirement money

Retirement income is a major concern among upcoming retirees, with 46% of Americans predicting they won't have enough money once they leave the workforce. Compounding these fears, 10,000 baby boomers retire every day.

GUESTBLOG
NATALIE WOLFSEN

Given the demographically driven demand for retirement planning, advisers need simple, intuitive tools that position them to meet the financial needs and goals of their clients. We need to look beyond the status quo to envision what a more effective retirement planning approach could look like.

TAP INTO PSYCHOLOGY

When considering how to turn clients' nest eggs into steady income replacement strategies, as well as how to explain decisions and convey progress to clients, it's important to leverage adviser and investor psychology.

Bucketed investing is one approach that provides an intuitive way for advisers to think about investing and for investors to gain a comprehensive understanding of their finances. A bucketed investing framework allows advisers to manage their clients' money within different time horizons. In doing so, they can demonstrate to investors the importance of having the security of a short-term liquidity bucket, while also allowing clients' savings to keep growing through longer-term investment buckets.

A BUCKET STRATEGY IS ONE INTUITIVE WAY TO THINK ABOUT INVESTING.

While the bucketing approach is intuitive, administration can be laborious and time-consuming. Thankfully, there are tools available that can automatically rebalance buckets, allowing advisers to harness the potential of this investment framework and focus their time and resources on keeping up with investor demands while scaling their businesses.

INSTILLING CONFIDENCE

Being able to visually demonstrate to investors where their money is going and how it's progressing toward their goals is crucial for instilling confidence. Visual tools are an intuitive way to enhance the investor experience.

Digital calculators, for example, can automatically generate bucketed suggestions based on client information, to enable advisers to expedite client money management while providing a way for investors to understand how their finances are distributed across various buckets.

Historically, annuities have seen high demand from retirees looking for the security of an income stream. But annuities are far from perfect, given their often high fees, lower liquidity and devaluation from inflation.

LIQUID OPTIONS

Having access to income is important for retirees, however, annuities don't have to be the only solution. A bucketing approach is inheritable, flexible, liquid and cost-effective. It allows access to funds immediately if needed and provides protection against market swings and unexpected life events. It's designed to ensure retirees have a source of income replacement while leveraging market upswings to continue growing their nest eggs.

Natalie Wolfsen is chief solutions officer at AssetMark Inc., an investment adviser.

YOURPRACTICE

1,190 NUMBER OF CERTIFIED FINANCIAL PLANNERS AT NORTHWESTERN MUTUAL INVESTMENT SERVICES, THE HIGHEST OF ANY INDEPENDENT BROKER-DEALER, ACCORDING TO *INVESTMENTNEWS* RESEARCH

TECHNOLOGY / BUSINESS DEVELOPMENT / MARKETING / NEXT GEN / CLIENTS / EMPLOYEES

What advisers can do to break into the pros

BY RYAN W. NEAL

MANY ADVISERS WOULD love to serve the market of professional athletes. Young, famous men and women earning large sums of money but often lacking much, if any experience with investing or planning for the long-term? It's a perfect opportunity, and that's before thinking about the locker room as a referral network, business opportunities apart from the game and perks that a sports fan adviser might enjoy.

> **KEY POINTS**
> - Advising pro athletes can be difficult and time-consuming.
> - When athletes sign big contracts, family members often appear with their hands out.

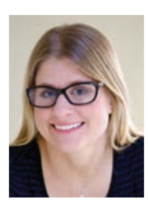
But it's a more difficult market than many think, both to find clients and to serve them, said Liz Davidson, CEO of Financial Finesse. It's not the fortune and and glory promised by shows like HBO's "Ballers."

Financial Finesse partners with large companies, professional sports leagues and player unions, including the National Football League Players Association, to provide financial literacy coaching. Ms. Davidson said it provides basic lessons so athletes have the knowledge and enough savings to better work with an adviser.

InvestmentNews spoke with Ms. Davidson about her firm, the unique challenges of athletes, and what advisers need to know about managing professional athletes' money.

Ryan Neal: What advice do you have for advisers who want to get into this market?

Liz Davidson: You have to have a passion for it — not for the game, but for athletes and wanting to serve athletes. They're very, very motivated by the personal connection aspect. What happens is you'll have players with a high profile who hire an advisory firm or adviser, and that relationship goes well and they share that with other players. It's a viral community in the locker room. A lot of that isn't necessarily from returns, it's more about an adviser who … is cool, or is "my person."



LIZ DAVIDSON

It's being very holistic and being very available and willing to take time and help in areas you traditionally wouldn't.

Also, taking part in the savings portion, almost being a CFO. You have to love it, because it's not as easy or as much money as people think.

RN: **What makes it difficult?**

LD: Imagine coming into a very large sum of money, from very humble means, at age 21. That's just a hard thing to manage, and then you're getting paid over 17 weeks. Your paycheck feels huge.

Also taxes. They play in different states, and there's a lot of tax considerations. They seem like they're wealthier than they are when you consider what they have to pay to their agents, or when contracts aren't guaranteed. I think players can be excellent clients, but they do have unique needs.

RN: **What are some common issues you encounter with athletes?**

LD: Relationships are a huge issue. For significant others, making sure they're aligned.

Also, the relationship to the family. It's shocking how many family members emerge out of the woodwork when you get a nice-sized NFL contract. The hands start coming out. It's sad, because I think they get taken advantage of. We do workshops on that, and that's something advisers can help with as well.

RN: **How did you build this relationship with the NFL?**

LD: Because we don't manage assets, and provide education and guidance, the NFLPA is paying us, not the players. That was a very appealing value proposition for the NFLPA — being that safe place, that resource.

There was also this recognition that the spending issue needed to be addressed. It's changing a lot, and the guys are saving more than they used to. But when we started in 2009, we saw too many players spending down everything and having a tough transition when they left the game.

RN: What do you provide in the coaching program?

LD: It is very, very personalized.

We learned early on that people who aren't in the financial industry don't care about the topics themselves. They don't care about asset allocation or the markets; they are interested in their own life. Everyone wants to have more money, but it's really about them.

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IBDs sell bigger share of annuities

BY GREG IACURCI

INDEPENDENT broker-dealers saw big growth in their sales of variable annuities last year, even as other distribution channels such as the wirehouses and other large national brokerage houses saw sales stay flat or decline.

The boost appears to be the result of several factors: more attractive product features, the growing popularity of structured or buffer annuities, and the disappearance of the Labor Department's fiduciary rule.

IBDs also saw gains in indexed and fixed annuities last year.

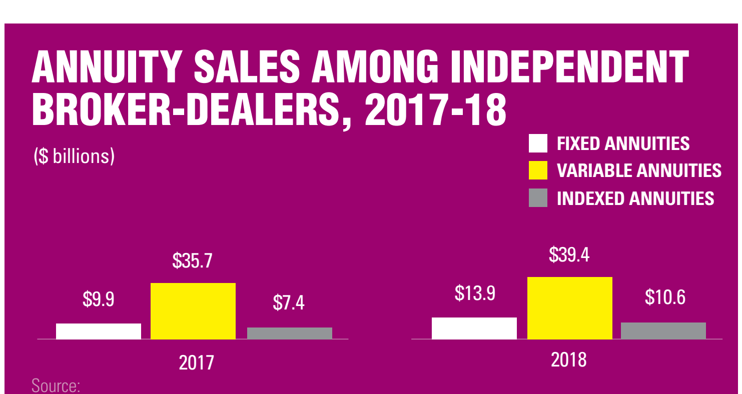
Independent broker-dealers sold $39.4 billion of variable annuities in 2018, an increase of $3.7 billion or 11%, according to the Limra Secure Retirement Institute. IBDs captured 39% of overall VA sales last year, eclipsing sales by other distributors, such as banks, career and independent insurance agents, and full-service national broker-dealers.

Product sales among full-service national broker-dealers, a category that includes the four wirehouses and firms like Edward Jones, were unchanged, at $12.2 billion.

This dynamic in part reflects independent broker-dealers' uptake of structured annuities, a sort of cross between a variable and indexed annuity, said Todd Giesing, director of annuity research at Limra. These products, which the industry counts as a type of variable product, accounted for $1.7 billion of VA growth last year. Wirehouses likely haven't taken to the products as readily, Mr. Giesing said, since their brokers have alternative products such as structured notes to sell.

In addition, the rise in interest rates through most of last year led many insurers to make certain product features more attractive, such as annual withdrawal rates offered on riders with guaranteed living benefits, Mr. Giesing said.

Read the full story at InvestmentNews.com/VAsales.



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5 fintech buzzwords that must die

When it comes to confusing jargon and empty buzzwords, few fields are as guilty as the financial services or tech industry. When the two come together, it's a Venn diagram of awful terminology.

I hear from advisers all the time who admit to feeling bewildered by all of the new tech lingo they have to learn. Thirty years managing portfolios hasn't prepared anyone for blockchain.

Granted, finance and technology are both complex topics, and there will always be some degree of sophistication required. But I believe we can make the fintech world more accessible for everyone if we all agree to kill some of the most egregious industry slang. Here are a few places to start:

RYAN W. NEAL

ONTECHNOLOGY

1. Seamless, or frictionless, end-to-end processing

Here it is, the mother of all tech clichés. This is in no way limited to fintech — the HBO show "Silicon Valley" used this as a punchline about tech startups.

You know what technology companies really mean when they say something is "seamless or frictionless, end-to-end processing"? They mean the product works. They mean their product can accomplish the task it is supposed to, start-to-finish, without something screwing up.

This phrase allows fintech companies to announce a new capability without admitting that it previously might not have worked right.

2. All-in-one

You have no idea how many emails I have claiming a piece of technology is all-in-one. Here's the thing: Nothing is "all-in-one." Not a thing. My iPhone can do lots of things, but it still can't make my bed in the morning, and it has way more capabilities than any adviser fintech I've seen.

3. Machine learning

There is nothing wrong with the phrase "machine learning" in itself. The problem is that it is horribly overused by the fintech industry — and almost always inaccurately.

True machine learning is when a computer system can perform a specific task without being programmed with specific instructions. Some companies are working on this, but when you hear a fintech vendor talk about machine learning, nine times out of 10 they mean it can make predictions.

The same can be said for artificial intelligence. The potential is exciting, but we are still a little way from true machine learning.

4. Integration

Again there is nothing wrong with the word "integration" per se. In fintech, it simply means one product connects with another one. What gets confusing for advisers, and me, is the wildly different definitions fintech vendors have for the word. For some, it simply means single sign-on. For example, you log-in to your portfolio accounting system and it also logs into your CRM.

For others, it means bi-directional data flow, which is jargon for "data from one technology can move to and from another technology."

HERE'S THE THING: NOTHING IS 'ALL-IN-ONE.' NOT A THING.

Technology vendors will boast about their new integration partners, but you have to ask for specifics to find out what the integration actually accomplishes.

Unless all relevant information from one technology is updated in real time by the other, without any manual effort required by the user, the two products aren't integrated.

5. Solution

It's a product, people. Yes, your technology may solve a problem. But just call it a product.

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Lake Avenue Financial team

diversity&INCLUSION

M&A can be one path to a more diverse practice

GUESTBLOG
ALEX CHALEKIAN

As society becomes more diverse, it's time for a broader swath of the independent financial advice industry to reflect the country's changing demographics. Simply put, we need more women, young people and ethnocultural minority advisers and support staff.

At the same time, these groups represent chronically underserved segments of the financial advice market, offering advisers an opportunity to forge new relationships and grow their businesses. These dual and largely overlapping initiatives create an opportunity to use M&A to both increase diversity and enter new markets.

To be sure, advisers can, and should, hire from a diverse pool of candidates when it makes sense. However, acquiring practices that already serve diverse groups, often while having key personnel on staff who are members of those groups themselves, may be the most efficient way to enter those markets — especially for advisers seeking to expand in major metropolitan areas.

IMMIGRANT FAMILIES

Most big cities have a high number of ethnic and cultural minority households that at once have significant wealth but no relationship with a professional adviser. There's no question that practices that mirror society will have an easier time capitalizing on this opportunity, since prospects from immigrant families or those who speak a different language often feel more comfortable with teams with similar backgrounds.

If a client or prospect, for instance, prefers to speak Spanish, having a multilingual adviser or someone else on staff who can facilitate a conversation may help to uncover needs that probably would not have been revealed otherwise.

Along with life-expectancy factors that make it more likely for wives to outlive their husbands, the rise of households with female breadwinners means financial advisers have an incentive to create women-friendly practices, too.

One way to pursue this goal is to seek out M&A deals with women-led groups or, at the very least, with groups that have a healthy mix of male and female advisers.

Read the full story at InvestmentNews.com/mergerdiversity.

Alex Chalekian is the founder and CEO of Lake Avenue Financial.

SEC won't tolerate wiggle words like 'may' in Form ADVs

The Securities and Exchange Commission and journalists have something in common. Both are leery of wiggle words like "may."

Editors always prefer that reporters offer certainty for readers. If they write that something "may" happen or "could" result in dire consequences, editors sometimes tell them to find something more concrete.

The SEC's problem with "may" revolves around disclosures of conflicts of interest. If the conflict is there, investment advisers better say so, rather than describe the potential conflict as something that "may" affect recommendations to clients.

A case pending in the U.S. Court of Appeals for the D.C. Circuit focuses on this situation. The Robare Group, a registered investment adviser, has appealed an SEC administrative decision to sanction the firm for failing to disclose conflicts

WASHINGTONINSIDER
MARK SCHOEFF JR.

connected to a revenue sharing arrangement it had with Fidelity Investments for the sale of certain mutual funds.

ALLEGED FAILURE TO DISCLOSE

The firm entered into the agreement with Fidelity in 2004, and between September 2005 and September 2013, the firm was paid approximately $400,000. The SEC alleges the firm did not disclose the arrangement at all until 2011.

In 2011, the firm changed its disclosure to say its investment adviser representatives may receive compensation in the form of 12b-1 fees. That still didn't suffice for the SEC.

"Regardless of whether the source of the payments were 12b-1 fees, TRG's disclosure that it *may* [emphasis is SEC's] receive selling compensation in the form of 12b-1 fees in no way revealed that TRG actually had an arrangement with Fidelity, that it received fees pursuant to the arrangement, and the arrangement presented at least a potential conflict of interest," the SEC stated in a 2016 administrative opinion.

The D.C. Circuit heard an oral argument in the case in January. A decision is pending.

CRACKDOWN ON 12B-1 FEES

The court ruling will come as the SEC is cracking down on investment advisers who fail to disclose 12b-1 fees. The SEC just completed an initiative in which it encouraged firms to self-report instances where they put their clients into expensive share classes when lower-priced classes were available.

The problem mostly centers on investment advisory firms that are paying the additional compensation from funds to personnel also registered as brokers.

"IT CAN'T BE A 'MAYBE WE WILL, MAYBE WE WON'T.'"

FRED REISH, PARTNER, DRINKER BIDDLE & REATH

The SEC's focus on fees and expenses means advisers should be more specific on what they reveal to clients, according to Fred Reish, partner at Drinker Biddle & Reath.

"I would tighten up the screws on your disclosures on anything that would cause you to make more money," Mr. Reish said in a recent firm webcast. He added in an interview: "The SEC is saying 'may' is not good enough. It can't be a 'maybe we will, maybe we won't.'"

The court might back up the SEC on that point.

"It appears many firms used the word 'may' in good faith, believing the term was consistent with industry practice and regulatory guidance," the law firm Eversheds & Sutherland said in a legal alert on the Robare case. "Regardless of how the Circuit Court decides this case, its decision will likely affect how firms draft disclosure documents in the future."

In the coming months, we may see "may" changed to "will" on many Form ADVs.

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Fidelity boosts technology integration

BY RYAN W. NEAL

FIDELITY INSTITUTIONAL is expanding the roster of third-party technology available to advisers through its Wealthscape Integration Xchange, adding account aggregation tools from Addepar and client relationship management capabilities from Wealthbox.

Its exchange now offers more than 120 third-party tools in addition to Fidelity's proprietary technology.

Lisa Burns, Fidelity Institutional's head of platform technology, said increasing this number is a key priority for the firm.

"The goal of Integration Xchange is to help firms tailor technology platforms to their advisers' and investors' needs by giving them access to a wide variety of options in a single location," she said in a statement.

Beyond the new data connections with Addepar and Wealthbox, Fidelity is improving its integration with Orion Advisor Services to offer advisers a fully automated account opening experience.

Fidelity's purchase of eMoney Advisor in 2015 brought along integrations with a small number of leading tools, and it launched the Integration Xchange in October with an initial lineup of 100 tech vendors.

It's significant how far Fidelity has embraced the open-architecture technology strategy pioneered by TD Ameritrade Institutional, said Will Trout, head of wealth management at research firm Celent.

"By admitting that they cannot provide all the answers to everyone, Fidelity is actually making itself more useful to its core clientele," Mr. Trout said.

Jon Patullo, TD Ameritrade Institutional's managing director of institutional technology solutions, said he isn't suprised other firms are following his firm's lead. Advisers are fiercely independent, demand flexibility and are clear about not wanting their custodian dictating the technology they use. TD's Veo Open Access now supports more than 160 third-party integrations.

"We saw an opportunity a decade ago to collaborate with RIAs and the adviser tech community to provide an open architecture solution that would address advisers' biggest technology challenges," Mr. Patullo said.

A CLEAR TREND

Every custodian is going this direction, according to Greg O'Gara, senior research analyst for Aite Group's wealth management practice. Pershing's NetX360 supports an increasing number of integration partners, and Schwab Advisor Services is working with Orion Advisor Services and Envestnet Tamarac on digital account openings.

"The way that digital client engagement is evolving, you need to have open architecture to support adviser preferences for digital client interactions," Mr. O'Gara said.

Fidelity's real advantage is still its proprietary solutions, Mr. O'Gara said. With the AMP robo-adviser, eMoney for financial planning and the Wealthscape platform for advisers, Fidelity has the infrastructure to guide investors from self-service digital advice to a financial plan and eventually to a full-service advisory relationship, all with a consistent digital experience.

Ms. Burns said supporting technologies from third parties is not a new strategy for Fidelity.

"We've always been committed to open architecture," Ms. Burns said. The difference is that before the Integration Xchange, Fidelity lacked a single, branded place for advisers and vendors to see the full suite of what is available.

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Franklin plans to cut up to 5% of its workforce

BLOOMBERG NEWS

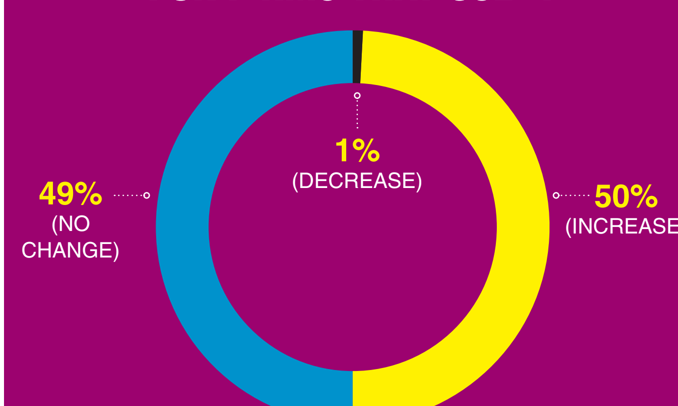
FRANKLIN RESOURCES Inc. plans to cut as much as 5% of its workforce to help save at least $75 million as the fund company faces continued outflows.

Franklin, the parent of Franklin Templeton Investments, started with voluntary buyout offers for eligible U.S. employees age 50 or older who have at least 10 years of experience, the company said in a Jan. 29 staff memo, which hadn't previously been reported. Those employees had until March 25 to respond to the offer. The company had a head count of 9,691 as of Sept. 30, the end of its fiscal year.

"Our industry remains in the midst of rapid change, which has put pressure on our business in recent years," CEO Greg Johnson and president Jenny Johnson said in the memo. "These are difficult decisions, but necessary ones for the long-term health and strength of the organization."

Asset managers including BlackRock Inc. and State Street Corp. have unveiled plans for job reductions this year. Cost-cutting is being driven by the 2018 market decline as well as industry automation and growing pressure to lower fees.

CHANGES TO DIGITAL MARKETING SOFTWARE SPENDING THIS YEAR, FOR FIRMS THAT USE IT



Source: 2019 *InvestmentNews* Adviser Technology Study

Insurance lobby plans blitz for bill

BY MARK SCHOEFF JR.

INSURANCE TRADE associations are set to launch a campaign to gain approval for retirement-savings bills by August to ensure they don't stall again as attention turns to the 2020 election.

The American Council of Life Insurers is coordinating with AALU (formerly known as the American Association of Life Underwriters), the National Association of Insurance and Financial Advisors and the Insured Retirement Institute to host a series of Capitol Hill lobbying days from April 30 to May 15.

The goal is to get a vote on the House floor under special fast-track rules in May for the Setting Every Community Up for Retirement Enhancement Act, or SECURE. The bill contains many of the same provisions as the Retirement Enhancement and Savings Act, or RESA, which has been introduced in the Senate.

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

Advocates want to get Senate approval of the bill by the end of the summer to ensure it is squared away before the ramp-up to the 2020 election causes a legislative slowdown.

"We're all on a mission to get this through the House in May and the Senate in the summer," said ACLI president and chief executive Susan Neely. "If it doesn't get done by August, it will be another delay."

50 MEETINGS

Over the next few weeks, ACLI and IRI will collaborate on 50 meetings with House lawmakers and staff, said IRI president and CEO Wayne Chopus.

"There's bipartisan support for [addressing] the retirement crisis," he said.

That support has been built in part by the muscle and money of the insurance lobby. In the last election cycle, ACLI made $1.1 million in political campaign contributions, according to the Center for Responsive Politics. It also spent $3.6 million on lobbying last year.

For the most part, the retirement bills have not generated controversy. But the annuities safe harbor provision draws criticism from the architect of the DOL rule, former assistant labor secretary Phyllis Borzi.

Ms. Borzi said the provision is too permissive on the range of annuities it allows, including variable and fixed indexed. She said it should be limited to deferred, immediate and longevity annuities.

It is a "complete sellout to the insurance industry," Ms. Borzi said. "It's symptomatic of how powerful the insurance lobby is."

Read the full story at InvestmentNews.com/inslobby.

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Ex-LPL rep suspended for loans

BY BRUCE KELLY

JAMES E. "JEB" BASHAW, a former star broker with LPL Financial, was suspended for four months by the Financial Industry Regulatory Authority Inc. last Tuesday for borrowing $200,000 from a customer in 2013 without telling LPL, a violation of industry rules.

LPL fired Mr. Bashaw in 2014 for allegedly failing to follow firm policies and industry regulations. He "falsely told LPL that he had not borrowed any money from another individual" in two annual compliance questionnaires before he was fired, according to Finra. Mr. Bashaw did not repay the customer loans, according to the Finra order. When he filed a Chapter 11 bankruptcy petition in December 2017, he disclosed the debt as a personal loan, and it was included in a reorganization plan approved by the bankruptcy court in May 2018.

RETAKING THE SERIES 7

Mr. Bashaw, who neither admitted nor denied Finra's findings, was ordered to pay a $5,000 fine and requalify to sell securities by taking the Series 7 exam, a basic test required to sell stocks and bonds.

JAMES E. "JEB" BASHAW

Mr. Bashaw eventually became registered with International Assets Advisory, an Orlando, Fla.-based independent broker-dealer.

In an email last Wednesday, Mr. Bashaw said he was traveling and was not available to comment.

Before he was fired, Mr. Bashaw was a star broker for LPL in Houston. In 2011, Barron's ranked him the top financial adviser in Texas, with total assets of $3.8 billion.

Mr. Bashaw fought back against LPL. In 2016, he filed a $30 million arbitration claim with Finra, alleging the firm stole his clients. In October 2017, a Finra arbitration panel ruled against Mr. Bashaw.

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Finra launches office to focus on fintech

BY RYAN W. NEAL

THE FINANCIAL Industry Regulatory Authority Inc. wants to take a closer look at how its member firms are using technology.

The securities industry's self-regulatory agency is forming an Office of Financial Innovation to help the agency identify, understand and foster financial innovation in the markets while protecting investors and market integrity.

"Innovation continues to pose new opportunities and challenges for our member firms and the broader financial services industry, and it is essential that we as regulators keep pace," said Finra president and CEO Robert Cook in a statement.

> **"INNOVATION CONTINUES TO POSE NEW OPPORTUNITIES AND CHALLENGES."**
> ROBERT COOK
> PRESIDENT AND CEO, FINRA

The Office of Financial Innovation is the latest development of Finra 360, Mr. Cook's initiative to make Finra more efficient and effective.

The new office seeks to promote engagement around innovations by reaching out to Finra stakeholders, training Finra staff, producing research and publications, and coordinating across Finra teams and other regulators.

Haimera Workie, a senior director at Finra, will lead the office, which will incorporate Finra's existing Office of Emerging Regulatory Issues.

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SoFi trades triggered capital gains tax hit: robo researcher

BY RYAN W. NEAL

CUSTOMERS OF Social Finance Inc.'s robo-adviser may incur some unexpected capital gains taxes after the company reallocated managed portfolios using new proprietary exchange-traded funds.

In February, SoFi announced its launch of two ETFs with a 0% expense ratio for at least the first year. The proprietary ETFs began trading in April, and SoFi used them as replacements for the Vanguard Total Stock Market ETF in certain managed portfolios the following day, according to Backend Benchmarking, a research firm that opens accounts with several popular digital-advice providers to track and compare performance.

The trade caused a significant taxable event, realizing both short- and long-term gains, according to Backend Benchmarking founder Ken Schapiro.

Other digital advisers have also swapped out third-party funds for proprietary products. Fidelity Go replaced iShares ETFs with Fidelity's no-fee mutual funds, and Wealthfront moved some clients into its in-house risk parity fund, last year.

The difference is that both of these companies notified customers about the upcoming trades, Mr. Schapiro said. Wealthfront gave investors the ability to opt out of the trade, while Fidelity offered to transfer those assets into self-directed accounts.

Mr. Schapiro said SoFi did not provide advanced warning.

"I fail to see how SoFi was acting in their clients' best interests in swapping funds for their own. It's going to take me 35 years to make up the capital gains tax hit," Mr. Schapiro said in a statement.

In an emailed statement, a SoFi spokesperson said the company notified clients about the trades "in a timely fashion in accordance with regulations."

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COLLEGE PLAYERS

CONTINUED FROM PAGE 4

stint at Merrill Lynch in 1995, formed his own advisory firm in 2008 and developed a specialty in serving professional athletes, many of whom invested in Mr. Blazer's deals, according to ESPN.com.

The SEC started investigating Mr. Blazer in 2013 after one of his athlete clients complained about losing money and demanded to be reimbursed. Simultaneously, Mr. Blazer was involved in a state investigation of improper payments to football players at the University of North Carolina, who told investigators that the money was in exchange for agreeing to sign with Mr. Blazer and an NFL agent.

To get himself out of the ever-tightening vise of the law, ESPN.com said Mr. Blazer proposed to the FBI that he help them uncover greater corruption in sports, particularly in college basketball, even though his experience was with football players. He began working with the government in November 2014 and over roughly 18 months he met repeatedly with coaches, players and parents, often carrying with him envelopes of cash, according to the website.

The FBI probe into college basketball is continuing and may snare dozens of top basketball coaches. Mr. Blazer, meanwhile, awaits sentencing on criminal charges of securities fraud, wire fraud, aggravated identity theft, and making false statements and falsifying documents. If the charges are combined, he could face a maximum of 67 years in prison.

FINRA FINES

CONTINUED FROM PAGE 5

million in investor education.

For many years, Finra was criticized for not providing specifics on how it spends fine money. The document Finra released last Thursday was its second annual report on fine expenditures.

"The report is part of a broader effort to promote greater transparency regarding the funding of our operations," Finra spokesman Josh Drobnyk wrote in an email.

Brighter illumination of Finra finances is one of the results of the Finra 360 self-assessment launched in 2017.

The report helps answer concerns that Finra levies fines in order to meet its budget, said Susan Light, partner at Katten Muchin Rosenman. She pointed out that Finra had identified $81 million in fine-eligible spending but only collected $61 million in fines in 2018, requiring it to dip into its reserves.

$20M
AMOUNT FINRA PULLED FROM ITS RESERVES IN 2018

NO SET GOAL

"This year, it just happened that [fines] added up to $61 million," said Ms. Light, a former Finra senior vice president and chief counsel for enforcement. "It's not pegged at a certain goal."

Finra fine totals have varied widely over the last several years: $64.9 million (2017), $173.8 million (a record in 2016), $93.8 million (2015) and $132.6 million (2014).

Detailing what it does with the money can bolster Finra's standing with the brokerages it oversees, investor watchdogs and other regulators, said Emily Gordy, partner at McGuireWoods.

CREDIBILITY BOOST

"It's very important for their credibility," said Ms. Gordy, a former Finra senior vice president for enforcement. "It's important for all stakeholders to understand where the fine money is going."

Finra regulates 3,607 brokerages and 629,847 registered representatives. It is overseen by the Securities and Exchange Commission.

In addition to collecting $61 million in fines in 2018, Finra obtained $25.5 million in restitution for investors harmed by violations of Finra rules.

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FIDELITY SALES

CONTINUED FROM PAGE 5

pant data is significant because it hasn't appeared in prior lawsuit settlements.

"This is something new," said Mr. Schlichter, who pioneered litigation against corporate and university employers for excessive retirement plan fees. "It's important, that's why it's part of the relief."

Record keepers, Mr. Schlichter said, have attempted to "gain revenue by other means" as the charges for providing record-keeping services have declined over the past several years, a trend that's at least partly attributable to the threat of litigation.

"One could call it whack-a-mole — revenue is down for record keepers, so some record keepers in some plans have sought to use their position to sell products outside the plan to those plan participants, using confidential information obtained as a record keeper," Mr. Schlichter said.

Median record-keeping fees fell by half over the past decade — to $59 per participant in 2017 from $118 in 2006, according to consulting firm NEPC. Record keepers have had to make up for that lost revenue elsewhere, especially as retirement-plan sponsors and their advisers increasingly have ditched the practice of using a record keeper's in-house investment products.

Mr. Schlichter said that Fidelity has, in general, looked for ways to increase revenue in light of fee compression, including by selling products to plan participants. He declined to comment on whether and to what extent that practice was occurring in the Vanderbilt 403(b) plans.

SAFEGUARDING DATA

Michael Aalto, a Fidelity spokesman, said the company "takes great care to safeguard customer data and follow its clients' directions" regarding the nature of Fidelity's communications with participants.

"There were no allegations in this lawsuit that Fidelity engaged in any improper marketing or 'cross-selling' practices, and Fidelity plans to comply fully with the direction Vanderbilt may provide as a result of the settlement agreement," Mr. Aalto said.

Fidelity has been in the spotlight over the past few months after several 401(k) participants brought lawsuits claiming the firm accepted "secret payments" from in another 403(b) fee lawsuit against Northwestern University, said Duane Thompson, senior policy analyst at fi360 Inc. In that case, also brought by Mr. Schlichter, plaintiffs alleged that plan record keeper TIAA used participants' information to market other products to them. The case, Divane v. Northwestern University, was ultimately dismissed.

JEROME SCHLICHTER

investment providers for making their products available to retirement savers. These kickbacks, plaintiffs claim, made the investments more costly and weren't disclosed. The Labor Department and Massachusetts Secretary of the Commonwealth William Galvin have opened separate investigations of Fidelity's fees.

NOT ILLEGAL

Marcia Wagner, principal at The Wagner Law Group, said she hasn't previously seen a provision regarding record keepers' use of participant data in lawsuit settlements. The practice isn't illegal under existing retirement law, she said, since it doesn't apply to the assets in a retirement plan.

"I think [Mr. Schlichter] views that confidential information as something of value that shouldn't be utilized," Ms. Wagner said.

"Because he couldn't get there by law, he got there by contract," she added, referring to the settlement agreement.

Plaintiffs made a similar claim

Roughly two dozen prominent universities have been sued since August 2016 for alleged mismanagement of their 403(b) plans. Results have been mixed.

Vanderbilt's $14.5 million settlement in the case, Cassell v. Vanderbilt University, was the largest to date among similar lawsuits. Brown University reached a $3.5 million settlement in March, while Duke agreed in January to pay $10.7 million and the University of Chicago settled for $6.5 million in May 2018.

Damon Maida, a spokesman for Vanderbilt, said the school believes it has prudently managed its retirement plans and settled "solely to avoid prolonged litigation."

Lawsuits filed against the University of Pennsylvania, Northwestern University, Washington University in St. Louis and Georgetown University were dismissed pre-trial, and New York University won its case after a trial.

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THALER DRAWBACK

CONTINUED FROM PAGE 4

nearly four decades.

Jack Dolan, a spokesman for the American Council of Life Insurers, said the group has "many concerns" with Mr. Thaler's idea in light of the program's financial stability.

Having annuities provided by life insurers in the private sector, which are backed by guarantees supported by company reserves and "strictly regulated" by states, is a "highly preferable arrangement than asking workers to invest their hard-earned retirement savings into the financially strapped Social Security system, a pay-as-you-go program slated for insolvency in 2035," according to Mr. Dolan.

2035 is the year in which combined asset reserves in Social Security's two trust funds — for retirees and disabled workers — are expected to be depleted. The fund for retirees is projected to become depleted in 2034, at which time only 77% of benefits will be payable.

Aside from the funding, Julio Lopez-Brito, a financial adviser at Portfolio Resources International Group, believes lawmakers would have to change the structure of Social Security itself to provide greater protection to retirees.

"You don't have a right to your Social Security benefits, actually," he said. "Those are not like your savings. The government can cancel that any day."

However, Mr. Lopez-Brito endorses the concept behind Mr. Thaler's idea.

"Social Security is the best income annuity there is. You can't buy that type of income annuity in the private market," he said.

Social Security can offer a higher payout to retirees than private-sector annuities due to lower overhead costs, since insurers must pay for functions like marketing and distribution, Mr. Hopkins said.

DIRECT COMPETITION

While annuities have features Social Security couldn't offer, insurers would still likely see Mr. Thaler's proposal — if it comes to fruition — as direct competition.

"I think you would see an incredible amount of opposition from insurance companies to that idea," Mr. Hopkins said. "It's really the government expanding its reach into retirement products."

"In the end, any ideas that really open up the Social Security system — even tangentially like this one seemingly does — you're touching the third rail of politics," Dan Zielinski, spokesman for the Insured Retirement Institute, said of Mr. Thaler's proposal.

Andrew Biggs, a resident scholar at the American Enterprise Institute who studies Social Security and pensions, thinks many retirees — especially lower-income individuals — wouldn't elect to send more money to the Social Security Administration.

"I support it as an option for people," said Mr. Biggs. "I think probably not that many people will take the option."

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WARREN DEBT

CONTINUED FROM PAGE 6

making college accessible for all is increasingly a campaign theme on the left. Ms. Warren's plan also calls for eliminating undergraduate tuition and fees at two-year and four-year public institutions.

Her campaign estimates that her debt cancellation and free-college policies would cost $1.25 trillion over a decade, and calls for financing it with a portion of the $2.75 trillion in revenues from her proposed annual tax on wealth of more than $50 million.

U.S. student debt topped $1.5 trillion last year, according to the Federal Reserve. Ms. Warren's policy seeks to help millennials weighed down by student debt and to prevent the same fate for the next generation of Americans who'll become eligible to vote in 2020.

UNIVERSAL CHILD CARE

Since taking the first step in her presidential bid on New Year's Eve, Ms. Warren has churned out policy blueprints to offer universal child care, break up large technology firms, add housing investments to cut rent costs and slap a surtax on corporate profits.

The two-term Democrat's proposals are highly unlikely to gain the support of President Donald J. Trump or be considered in Congress while Republicans control the Senate. But with control of the White House and Congress up for grabs in the 2020 election, the question of higher taxes on the rich promises to be a campaign topic.

Ms. Warren's policy would fully cancel loans in about three-quarters of households with student debt, according to an estimate provided to the campaign by Arizona State University assistant professor Raphael Charron-Chenier and Brandeis University law professor Thomas Shapiro.

LOWER ADMISSION BARRIER

The proposal also aims to lower barriers to admission facing black and Latino families, two influential Democratic voting blocs.

It calls for expanding Pell Grant funding for non-tuition costs and creating a fund to assist historically black and minority-serving universities. Universities would be forbidden from considering criminal history or citizenship status when deciding whom to admit.

A near-record quarter for RIA acquisitions

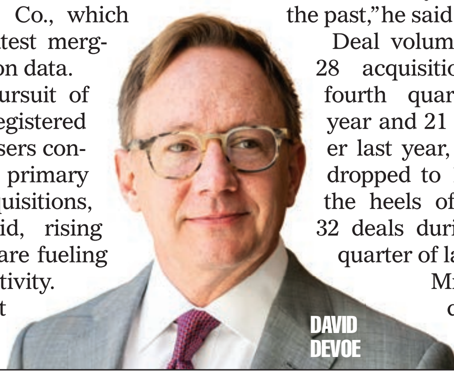
BY JEFF BENJAMIN

THE TOTAL OF 31 acquisitions of registered investment advisers that occurred during the first quarter is just one shy of the record and signals more good news for those advisers looking to sell their firms.

"I would call it a blockbuster quarter," said David DeVoe, managing director at investment bank DeVoe & Co., which compiled the latest merger-and-acquisition data.

While the pursuit of scale among registered investment advisers continues to be the primary driver for acquisitions, Mr. DeVoe said, rising valuations also are fueling increased activity. Because most advisory firms are valued based on total assets under management or advisement, the strength of the equity markets has been pushing valuations higher. Those higher valuations are moving more owners to the negotiating table to sell near the top or deploy a succession plan, Mr. DeVoe said.

"Advisers are clearly more open to deals than they have been in the past," he said.


DAVID DEVOE

Deal volume rose from 28 acquisitions in the fourth quarter of last year and 21 in Q3. Earlier last year, acquisitions dropped to 16 in Q2 on the heels of the record 32 deals during the first quarter of last year.

Mr. DeVoe does not anticipate the same kind of drop-off in volume this year because he is seeing a broadening in the types of firms that are acquiring RIAs. There has been an increase in so-called subacquisitions, which involves an acquisition by an RIA that is part of a larger aggregator.

Subacquisitions now represent a quarter of all deals, according to the report. The byproduct of that increase is a lower average deal size, because subacquisitions tend to focus on firms with between $100 million and $500 million under management. During the first quarter, average assets of firms acquired through subacquisitions was $423 million, which compares to $659 million for all other deals.

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MORGAN MOVES

CONTINUED FROM PAGE 4

month's announcement that president Colm Kelleher, once viewed as a possible successor to Mr. Gorman, will leave at the end of June. The departure of the 61-year-old company veteran opened up the competition among the senior ranks to someday ascend to the top of the company. Other contenders include Ted Pick, who last year rose to head the investment banking and trading division, bolstering his position as a potential CEO candidate. Mr. Pick, Ms. O'Connor and Mr. Saperstein are all in their 50s.

The company created Morgan Stanley Private Bank after the financial crisis to increase deposits and lend more to customers. Together, that unit and the other — called Morgan Stanley Bank — offer a range of services, such as facilitating payments and providing home loans and other credit lines. Clients include corporations, institutional investors and wealthy consumers.

OPERATING COMMITTEE

Ms. O'Connor has spent more than three decades at Morgan Stanley and is one of only three women on its 17-member operating committee.

The memo also announced that Rob Rooney will oversee a broader collection of teams to keep the bank's systems safe and running, naming him head of technology, operations and firm resiliency.

"Aggregating these functions under a single leader will enable increased efficiency and accountability," Mr. Gorman said, pointing to a variety of risks associated with cybersecurity, data management and dealings with vendors. Phil Davies, the firm's head of operations, will gain responsibility for business continuity and report to Mr. Rooney, according to the memo.

The memo was first reported by the Wall Street Journal.

"AGGREGATING THESE FUNCTIONS …WILL ENABLE INCREASED EFFICIENCY AND ACCOUNTABILITY."
JAMES GORMAN, CEO, MORGAN STANLEY

Mr. Gorman recruited Mr. Saperstein from Merrill Lynch in 2006. As sole head of wealth management, he will "focus specifically on digital capabilities, enhancing client and adviser experiences, finding areas of growth, and partnering with institutional securities and investment management," Mr. Gorman wrote.

SOCIAL SECURITY

CONTINUED FROM PAGE 4

program is now projected to exceed total annual income in 2020 and remain higher throughout the 75-year projected period. As a result, total asset reserves are expected to decline during 2020. Social Security costs have exceeded its non-interest income since 2010.

The retirement and survivors' trust fund is still expected to be depleted in 2034 — the same forecast as last year — but the amount of benefits that would be payable at the time has slipped to 77%, down from last year's projection of 79%.

That means if Congress does nothing between now and 2034, there would be sufficient assets from ongoing payroll taxes to pay 77% of promised benefits. In other words, benefits would be cut across the board by 23%.

"The Trustees recommend that lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes gradually and give workers and beneficiaries time to adjust to them," said Nancy Berryhill, acting commissioner of Social Security.

DISABILITY CLAIMS DOWN

"The large change in reserves depletion date for the DI Fund is mainly due to continued favorable trends in the disability program," Ms. Berryhill said. "Disability applications have been declining since 2010 and the number of disabled-worker beneficiaries receiving payments have been falling since 2014."

Other highlights of the report: Total income, including interest, of the combined OASI and DI trust funds amounted to just over $1 trillion in 2018, including $885 billion from net payroll tax contributions, $35 billion from taxation of benefits and $83 billion in interest income. Total expenditures from the combined OASI and DI trust fund amounted to $1 trillion in 2018.

Social Security paid benefits of nearly $989 billion to 63 million people in 2018. During that same period, 176 million people had earnings covered by Social Security and paid payroll taxes.

The projected deficit over the 75-year range is 2.78% of payroll, a slight improvement over the 2.84% projection in last year's report. That means that bringing the Social Security program into financial balance for the next 75 years would require increasing payroll taxes immediately by 2.78%, or 1.39% each for both workers and employers.

Currently, workers and employers each pay 6.2% of payroll on the first $128,400 of earnings to fund Social Security and an additional 1.45%, evenly split, to fund Medicare, for a combined payroll tax of 7.65%. Self-employed individuals pay both portions of the payroll tax for a combined rate of 15.3%.

77%
AMOUNT OF PROMISED BENEFITS TO BE PAID IN 2034, IF NO CHANGES ARE MADE

The 1.45% Medicare portion of the payroll tax applies to all wages; people with high incomes (individuals earning $200,000 and married couples earning $250,000) pay an additional 0.9% in Medicare taxes.

The Medicare Hospital Insurance program remains on track to meet its obligations to beneficiaries through 2026, the same projection as last year's report.

"Both the Medicare and Social Security programs remain secure as the financial outlook for both is not materially different from last year's outlook," said Treasury Secretary Steven Mnuchin, a member of the Board of Trustees.

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