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EDITOR'S NOTE

The return of print

It brings me great pleasure to announce that this issue represents the return of the print edition of *InvestmentNews*.

First, allow me to thank everyone for their patience as we managed this situation.

Now, let me share our two-phase plan to return to our print issue schedule.

Phase One (June to August): Print magazines will be delivered the weeks of June 15, June 29, July 27 and Aug. 31.

Phase Two (September through year-end): Print magazines will be delivered every week between Sept. 15 and Dec. 21.

GEORGE B. MORIARTY

Response to the introduction of our digital edition has been overwhelmingly positive, as some readers told us they find it conducive to their current situations and that they are able to read and refer to the digital edition easily throughout the day.

Therefore, we want to assure those of you who have enjoyed the digital edition that it will remain an option for you, too!

This is an exciting step in our return to normal business operations, and I encourage you to stay in touch with your questions, comments and product ideas.

Sincerely,
George B. Moriarty
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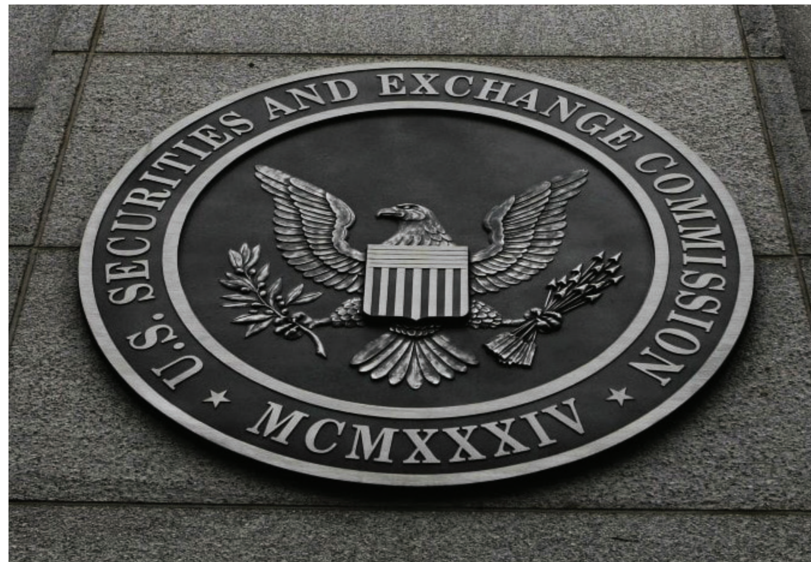

Just 2 states require their advisers to file Form CRS

BY MARK SCHOEFF JR.

INVESTMENT ADVISERS registered with the Securities and Exchange Commission are scrambling to put together a client relationship summary required by the agency's investment advice reform rules that go into force at the end of the month.

Advisers registered at the state level don't have the same deadline bearing down — unless they operate in Oklahoma or Rhode Island.

The so-called Form CRS is part of the regulatory package that also includes Regulation Best Interest, the new advice standard for brokers. The new rules must be implemented by June 30.

In Form CRS, advisers and brokers outline their services, fees, costs, conflicts of interest, the standard of conduct that governs them and disciplinary history. The document, which is two pages for stand-alone advisers and brokers and four pages for dual registrants, also outlines key questions investors should ask before selecting a financial professional.

The Form CRS requirement applies to SEC-registered advisers, who have more than $100 million in assets under management. Advisers with less than $100 million AUM register with their states.

KEY POINTS

- Oklahoma, Rhode Island advisers scramble to file the SEC-required form.
- The SEC was criticized for using the form without investor testing.

CONCERNS EXPRESSED

Most state regulators resisted Form CRS from the beginning of the rulemaking process. In an Aug. 23, 2018, comment letter, the North American Securities Administrators Association outlined its concerns about the disclosure document.

State regulators have criticized the SEC for promulgating Form CRS without conducting appropriate investor testing. They also say it is duplicative of information recorded in the adviser registration document known as Form ADV.

Most states are not imposing a Form CRS requirement on their advis-

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Cetera tightens its pay policy: Sources

BY BRUCE KELLY

CETERA FINANCIAL GROUP appears to have tightened its purse strings on pay for the home-office staff, according to three industry sources.

Cetera, a network of five independent broker-dealers with 8,000 reps and advisers, recently told employees that it has put a freeze on merit pay increases for the next couple of years and reduced its 401(k) match to 1% of an employee's annual salary, down from 4%, according to the sources, who asked not to be named due to the sensitivity of compensation information.

It was not clear when the changes in ongoing and future compensation policies were announced, the sources said.

A Cetera spokesperson, Adriana Senior, did not return phone calls and emails seeking comment.

At broker-dealers, advisers typically don't feel the effects of compensation changes as they operate independent businesses and only use its services for brokerage and advisory transactions, record keeping and back-office support. It's not clear how many of Cetera's back-office employees are affected. Cetera's website lists 1,700 employees.

In April, *InvestmentNews* reported five senior executives were leaving Cetera. Cuts to senior management are one way a broker-dealer can reduce costs.

Genstar Capital, a private equity manager, acquired Cetera in 2018 for $1.7 billion, financing the deal with $1 billion in below-investment-grade debt.

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Pru is a contender for MassMutual's retirement business

BY EMILE HALLEZ

MASSMUTUAL IS REPORTEDLY weighing the sale of its $175 billion retirement plan business, and one large insurer — Prudential Financial — would make a good fit for such a deal, according to a source familiar with the companies.

On June 5, Reuters reported that MassMutual is exploring the sale, with a potential price tag of $2 billion, citing unnamed sources. The retirement plan segment would represent the company's second recent divestiture of a major business line. In 2018, MassMutual agreed to sell the majority of its OppenheimerFunds business to Invesco for $5.7 billion.

One candidate to acquire the retirement business is another insurer, Prudential. There's considerable overlap in the types of defined-contribution plans the two companies serve, particularly in the Taft-Hartley, government and nonprofit areas, according to the source with knowledge of the potential sale.

COMPLEMENTARY LINES

The business lines are also complementary, as Prudential has more business with large plans, and MassMutual has more of its clients concentrated in the sub-$20 million category, according to the source.

"Prudential Financial regularly evaluates strategic opportunities for its businesses and operations. As a company policy, we do not comment on potential business transactions," a Prudential spokesperson said in a statement.

Another potential acquirer is Empower Retirement, according to the source. Empower bills itself as the second-largest DC plan provider in the U.S. by number of participants. That company did not immediately respond to a request for comment.

Last year, MassMutual had $21.7 billion in sales in its workplace and institutional businesses, which includes defined-contribution and defined-benefit plans, workplace disability and life insurance, pension-risk transfer and other lines. That was up from $18.3 billion in 2018, according to the mutual-owned company's annual report.

RECORD REVENUE

The company as a whole saw revenue hit a record $32.6 billion in 2019, up slightly from $32.5 billion in 2018, according to the report. However, net income was considerably higher last year, at $524 million, than the negative $716 million in 2018, the company noted.

In a release last year, Prudential described itself as the largest provider of Taft-Hartley plans, which are collectively bargained multiemployer plans. The company oversaw about $36.3 billion in such plans, representing 516,000 union member accounts, according to the release.

MassMutual administered $21.9 billion in Taft-Hartley assets in more than 180 such plans as of the end of 2019, according to a company marketing sheet.

A sale would mark the latest transaction in a long trend of consolidation among retirement plan record keepers.

"As record-keeping costs have come down considerably, record keepers have had to evaluate whether it makes sense to continue in the capital-intensive record-keeping business," said Ross Bremen, a partner in NEPC's defined-contribution practice. "We've seen lots of record keepers looking for ways to earn additional fees. Record keeping is like a balloon — if you squeeze one side, then you potentially need to increase fees in other areas."

That has led plan providers to explore additional fee revenue from managed accounts services or proprietary investments, Bremen said.

A MATTER OF SCALE

"First and foremost, [MassMutual] is a life insurance company," said Dick Darian, partner at Wise Rhino Group. "They already have a history of doing this," he added, citing the sale of OppenheimerFunds. Staying afloat in the retirement plan record-keeping business is a matter of scale, which will continue to drive industry consolidation, he said.

Considering a sale soon makes sense, because the value they can get today is "a lot higher than it will be a year from now," Darian said. "There's not enough room for 50 national record keepers."

Another insurance company would make an ideal acquirer, given the overlap in businesses, he said.

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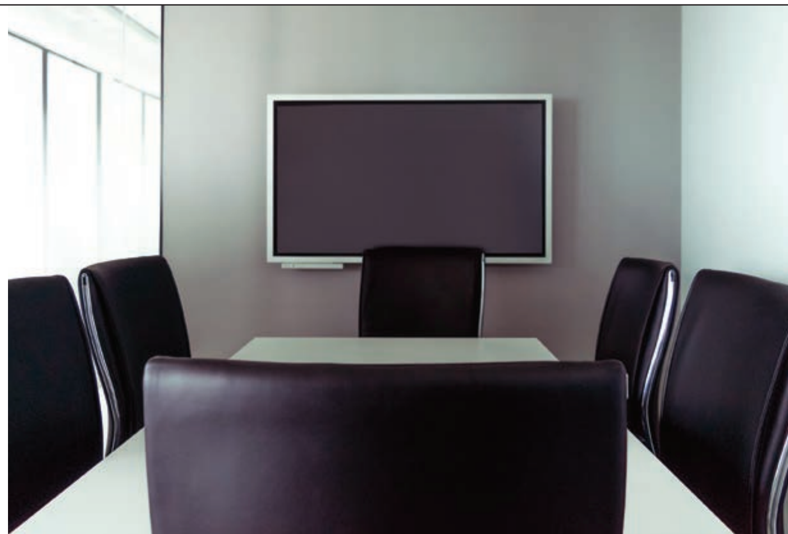
RIAs facing a next-gen crisis, says DeVoe study

BY NICOLE CASPERSON

THE RIA INDUSTRY is likely to face succession hurdles in coming years as a majority of large firms reported insufficient investment in the next generation of leadership.



Advisers' current level of confidence that young leaders can take over firm operations is "shaky at best," according to the DeVoe RIA Next Gen Transitions Survey released last Monday. More than half (57%) of the 118 RIAs surveyed responded that a transition from founders to the next generation would be"bumpy"or worse, and 13% said it would be a severe challenge.

Human capital management among RIAs is still lagging despite the significant lack of confidence in the next generation of firm leadership. The survey results showed 65% of RIA firms are not providing adequate performance reviews, 54% of firms do not have clear incentive compensation plans and 49% are not providing clear career paths for their employees.

URGENCY NEEDED

"There needs to be some urgency here," said David DeVoe, founder and CEO of DeVoe & Co. "The industry is on the precipice of a succession planning crisis. [RIAs] are aging and advisory owners are moving toward retirement and still, two-thirds of firms don't have a succession plan in place."

The survey gathered responses from senior executives, principals and owners of RIA firms ranging from $100 million to $5 billion in assets under management from November through January.

"Most advisers admit to me privately that they're not great at managing their [employees],"DeVoe said. "Which is interesting because they have so many processes in place to take care of clients … that type of empathy and engagement once applied to their own staff, [RIAs] could really unlock great potential."

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Falling fund fees save investors $6B: Morningstar

BY JEFF BENJAMIN

AS THE ASSET management industry continues to compete on price, investors are generally reaping the rewards.

According to the latest research from Morningstar Inc., the multidecade trend toward cutting fund expense ratios and cheaper fund options saved investors nearly $6 billion in fees last year alone.

The research shows the asset-weighted average expense ratio for all U.S. open-end funds and ETFs has been cut nearly in half over the past two decades, to 45 basis points in 2019 from 87 basis points in 1999. That is also down from 48 basis points in 2018.

EXPENSE RATIOS DOWN

The asset-weighted average expense ratio for actively managed funds was 66 basis points in 2019, down from 68 basis points in 2018. For passive index funds, where the bulk of asset flows have been heading, the average expense ratio fell to 13 basis points

CONTINUED ON PAGE 23

Tax refunds for IRAs? How about groceries instead?

BY EMILE HALLEZ

MILLIONS OF AMERICANS have yet to file their federal income taxes, with the deadline having been pushed back to July 15 from April 15 because of the COVID-19 crisis. And this year, it appears less likely that workers are saving their refunds or using them to fund retirement accounts.

Nearly three-quarters of people who file tax returns receive refunds, at an average of about $2,000. In normal times, most say they use that money to bolster savings, invest or pay down high-interest debt, said Mark Steber, chief tax officer at Jackson Hewitt.

"Surveys show that most taxpayers spend their tax refunds very wisely," Steber said.

But given the massive spike in new unemployment claims, along with the reduced hours or furloughs many workers are facing, "I don't think you'll see as many people putting money into savings or even paying down debt," he said.

In February, before the pandemic led to a lockdown across the U.S., 50% of people said they planned to use their tax refund for savings, and 34% said it would go toward paying down debt, according to results of a survey of about 7,700 people commissioned by the National Retail Federation. Meanwhile, 24% said they would put the money toward everyday expenses, while 10% said they would use it for a major purchase, another 10% for home improvement, 9% would use it to splurge, and 13% said it would go toward a vacation. (Respondents could select more than one response.)

LIKE A BONUS

While in normal times, tax refunds might be treated like a bonus and socked away, this year they're more likely to go toward necessities such as groceries and rent.

As of May 22, about 134 million tax returns had been filed, down 6.2% from the 142.7 million that were filed as of that date in 2019, according to the Internal Revenue Service.

However, year-to-date filings are inflated because the total includes returns filed to ensure the IRS had the information needed to send economic impact payments to people who would not ordinarily file income taxes, the agency said.

By pushing the filing date to July 15, the IRS also extended the deadline for IRA holders to make contributions to their accounts for the prior year.

"A lot of people are focused on their finances during what we call tax season," or January through April, said Melissa Ridolfi, vice president of retirement and college leadership at Fidelity Investments. "About a third, 34%, of our prior year [IRA] contributions come in during those three weeks before the due date."

IRA providers said there is usually a spike in contributions around the filing deadline, but it's not clear whether that happened this year. According to Fidelity, contributions to IRAs were up 10% over those seen in the first quarter of 2019, and new account openings were up 36%.

'LONG-TERM SAVINGS GOALS'

"People are focused on their long-term savings goals," Ridolfi said. Those savers try to not miss a year of IRA contributions, she noted. But whether people who have saved at high rates will cut back during the second half of the year is in question given the current economic and political environments, she said.

How people used the recent stimulus payments they received under the CARES Act hints at how they might use their tax refunds.

134M
NUMBER OF US TAX RETURNS FILED AS OF MAY 22

Within 10 days of receiving their checks, people spent an average of $600 more than those who had not yet received checks, according to a recent report from Northwestern University. Spending patterns varied by income level.

During the three days following receipt of payments, spending on basics such as food, utilities, rent and household items increased by $50 to $75 per day, according to the report, suggesting that people were using the stimulus checks on necessities.

A separate report from Betterment showed a difference among active sav-

CONTINUED ON PAGE 23

Merrill bets big on its next generation of advisers

Merrill Lynch is taking another step to bolster the ranks of its next generation of financial advisers by creating an avenue for younger employees, known as client associates, to become full-fledged FAs.

Merrill's new plan for its associates addresses several issues facing the firm and the broader financial advice industry. Namely, how do financial advisers who are baby boomers safely and smartly pass their clients from one adviser to the next when they retire?

BRUCE KELLY
ONADVICE

Training the associates to become full-fledged advisers is a smart move; such associates already work with and know many clients, dealing with them when they initially walk into a Merrill Lynch branch.

With a long history of training young brokers and advisers, Merrill is tackling the nettlesome problem of succession planning that faces the broader financial advice industry and its roughly 300,000 brokers, advisers and planners, the majority of whom are in their late fifties and older.

THORN IN THE SIDE

Meanwhile, the registered investment advisory industry is a thorn in the side of wirehouses like Merrill because it is a destination for veteran advisers who want to run their own business and leave large banks to do so. Wirehouses have yet to figure out how to train the next generation of advisers to replace them.

Indeed, RIAs, which often operate as one- or two-person shops, have a more difficult time handing off clients to younger team members because, well, there just aren't that many of them working at small firms, as my new colleague Nicole Casperson noted in a story on Page 5.

"The RIA industry is likely to face succession hurdles in the coming years as a majority of large firms reported insufficient investment in the next generation of leadership," Casperson reported.

"Advisers' current level of confidence in young leaders to take over firm operations is 'shaky at best,'" she wrote, citing a new industry study.

FOCUSING ON THE PROBLEM

That is exactly the problem that Merrill appears to be focusing on through its decision to formally train more of its client associates to become advisers.

And this is key: Merrill is committing to compensating the young associates who make it all the way to becoming a full-fledged financial adviser. Client associates are currently paid a salary and annual bonus, while financial advisers are paid a percentage of their total revenue or sales, known as the grid. The latter is far more lucrative to the adviser and is the industry standard.

Paying client associates who eventually become FAs offsets the broad fear and paranoia of many veteran advisers at big bank wirehouses that younger advisers will be paid a standard salary and bonus as opposed to a percentage of the revenue they generate through sales and services. Financial advisers at the big bank wirehouses like Merrill dread that the firm will

CONTINUED ON PAGE 23

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Opinion

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Small broker-dealers are facing a dilemma

What business, precisely, is your company in?

That question and the responses it gets from top corporate executives have been studied for years by academics at leading business schools, who have found that many enterprises, even giants like Eastman Kodak, have paid a high price for mistakes in defining their business.

Kodak defined itself as being in the film business, not primarily in the image business. When photographic technology changed, Kodak failed to seize the lead in digital imagery, partly because the film business remained so profitable — until the company faded away.

The shrinkage now underway at smaller broker-dealers, as detailed last week by *InvestmentNews* senior columnist Bruce Kelly, reflects the pressures on that business model from the rising cost of technology and compliance, as well as tissue-thin interest rates. But the sector's fundamental problem points to an inability, or unwillingness, to address that core B-school question: What business are they really in?

Essentially, they must ask themselves whether they are in the advice business or the sales business.

A QUESTION OF HISTORY

The entire retail securities business has been grappling with that question for years. Historically, the business model, regulatory structure and culture of broker-dealers, large and small, has been based on sales. It has been that way since the Great Depression, when the Glass-Steagall Act separated commercial and investment banking, and the Securities and Exchange Commission was created to regulate the latter. Into the 1960s and 1970s, broker-dealers — new firms, giant bank spin-offs (such as Morgan Stanley from J.P. Morgan & Co.) and small-town bank operations that became regional and local securities firms — underwrote corporate debt and equity and municipal securities, which they sold to affluent investors via their "customers' men" (ever wonder why the industry is so male-centric?).

The growth of pension funds and other institutional investors led to the unfixing of commission rates in 1975, which spawned the discount brokerage, encouraging investors to buy, rather than be sold, securities. At the same time, rising inflation spurred the flight of cash into new money market funds, which led to accelerated growth in mutual fund investing. The next decades saw the expansion of defined-contribution plans, which thrust the responsibility for retirement saving and investing onto individuals.

As demand for financial and investment advice grew — alongside growth in online brokerage, leading to steadily declining commissions — larger broker-dealers acknowledged the shift by creating fee-based accounts, hastening the evolution of today's hybrid sales/advice structure, in both independent and employee versions.

Today's environment puts smaller broker-dealers in a bind. It is increasingly difficult for them to compete against broker-dealer and advisory giants that can afford the expensive infrastructure needed to offer a modern hybrid service. It's also harder for them to sell the complex securities products that are the only ones left carrying significant commissions. At the same time, their current sales-oriented personnel may not be able to deliver the kind of planning-centric advice the market increasingly is demanding, which also is likely, in the short run at least, to be less lucrative than product sales.

What's the solution? With the sales model in its sunset years, advice is clearly the future, as the growth of the RIA model and financial planning demonstrates. Many smaller firms, of course, acknowledge this inevitability, whether through efforts at hybridization or a decision to sell out to a larger firm.

But if advice is the business that broker-dealers really are in, and if they want to continue to remain viable, then transitioning to the advice business more emphatically — despite the near-term difficulties and pain — must become less a matter of "should" and more a matter of "how" and "when."

TODAY'S ENVIRONMENT PUTS SMALLER BROKER-DEALERS IN A BIND. IT IS INCREASINGLY DIFFICULT FOR THEM TO COMPETE.

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 George B. Moriarty at gmoriarty@investmentnews.com. All letters will be edited.

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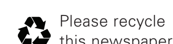

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BY EMILE HALLEZ

TAMING YOUR

BEHAVIORAL ECONOMICS EXPLAINS A LOT ABOUT INVESTORS' JITTERS OVER THE PANDEMIC, AND CAN HELP THEM AVOID IRRATIONAL DECISIONS

INNER BEAR

THIS YEAR'S VOLATILE MARKET HAS TESTED MANY INVESTORS, some of whom have been caught up in a panic and sold at significant losses.

Some have rebalanced their portfolios, favoring less risky investments. Others, if they have not had to consider dipping into their 401(k) accounts early, have stopped saving or investing.

And many have simply done nothing, which, depending on their age and investment strategy, is likely the best course they could take.

Behind the variety of responses are some basic concepts from behavioral economics, an understanding of which can help advisers and their clients respond better in uncertain times.

"It really depends on how many crises you've been through with skin in the game, for how people are responding to this as investors," said Sarah Newcomb, a behavioral economist at Morningstar Inc. "What we are experiencing started with fear. More than just market fear — it was survival fear, and survival fear is very motivating. What fear does in our brains ... is it shortens our mental time horizon."

NOW VS. LATER

Fear often leads people to focus almost exclusively on their current circumstances, causing them to lose sight of the future. This is present bias.

"People really become very present-focused. While that might be great for meditation, it's not very great for investing. The first thing you must do as a long-term investor is see the future," Newcomb said.

For some, that led to selling riskier assets, such as stocks and investments built with stocks, for fixed income. This year, there has also been strong demand for variable annuities that are designed to limit losses for contract holders.

"In that immediate shock of stress and fear and panic, many people experience a huge preference for certainty in the moment, no matter what the cost," Newcomb said. "We are so uncomfortable with that uncertainty."

However, there is a different behavior that is also at play — one that conflicts with panic selling.

"People tend to hold onto losses for too long, because they feel they missed out on selling [securities] when the price was still kind of good and are hoping it will come back," said Nina Mazar, a behavioral scientist and professor of marketing at Boston University. Similarly, some investors sell gains too early, Mazar noted, citing research published more than 20 years ago by Terrance Odean and Brad Barber.

"A very common scenario is when a client owns a stock or fund that's in the red and is hesitant to sell until it comes back to breakeven. When asked why, the responses are usually either to avoid the feeling of taking a loss or an attachment to the original reason that led them to that investment," Steven Chau, founder of Know Your Worth Financial, wrote in an email. "That simple question of 'why' is usually all it takes to put that decision into context … [providing] the closure they need to move on from that position and begin exploring other opportunities."

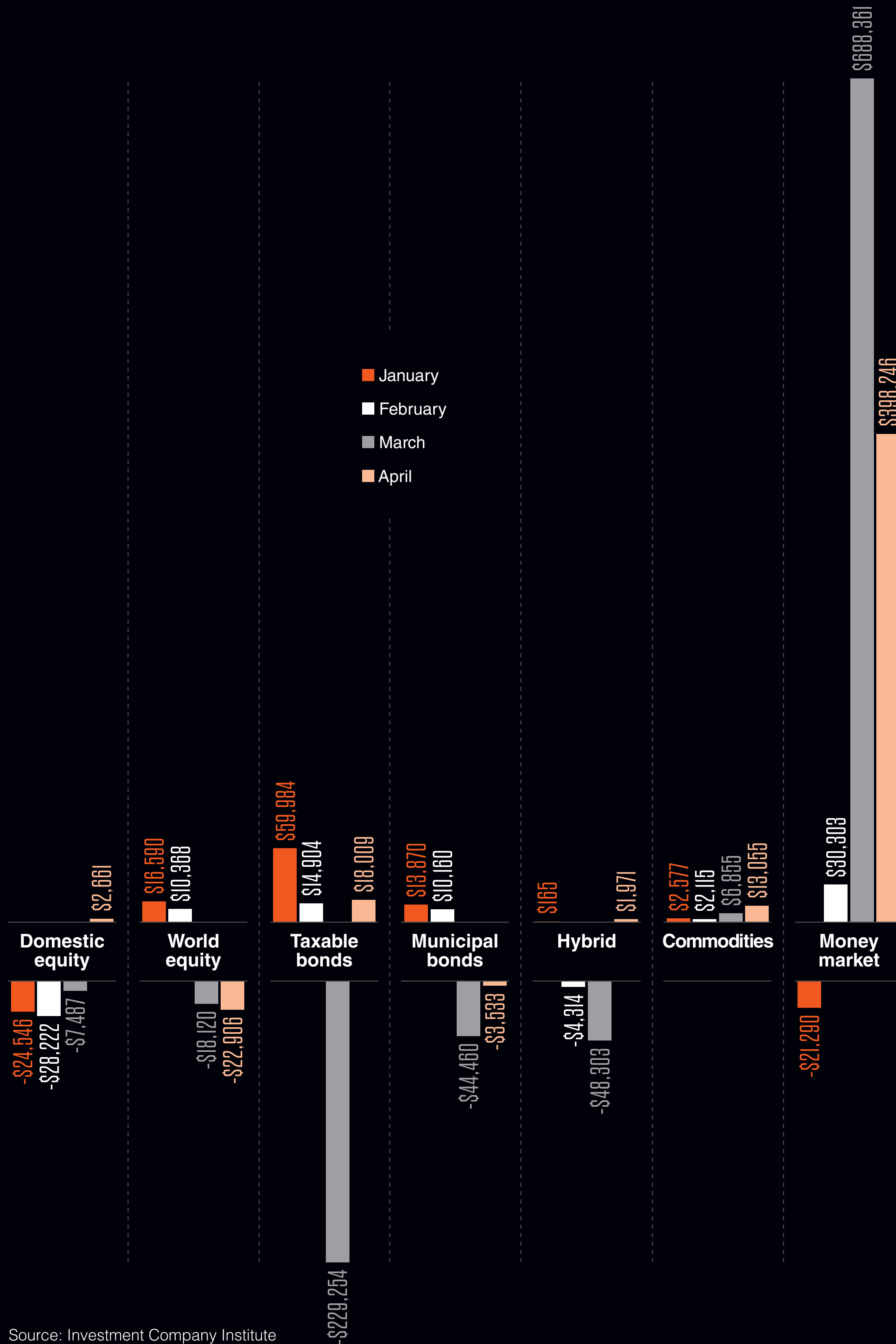
Some investors have the opposite of a panic reaction to fear, instead taking on more risk than they would in normal times, Newcomb said.

"Suddenly, people who thought of themselves as decent investors four months ago think of themselves as investment geniuses now. And they're picking individual stocks, where they're probably better suited in target-date funds," she said. "There are good investments in the moment, but it's not about speculating. It's always got to be about the fundamentals."

The sense of urgency that investors have felt this year is "often a reactive, not responsive approach," financial adviser Megan Kopka of Kopka Financial tells clients.

"This is what we train for in investment advising

CONTINUED ON PAGE 12



CONTINUED FROM PAGE 11
and [train] better for in financial planning," Kopka wrote in an email. "I do not take on an investment client unless they go through my financial planning process so we have a plan for adverse market conditions."

MAINTAINING STATUS QUO

Prospect theory from Daniel Kahneman and Amos Tversky says people tend to overvalue what is happening in the moment, comparing any changes within a short window of time.

So even if a portfolio has seen a net return over a year, an investor might be more concerned with its performance over a month.

"It's very rare that we will look at the absolute gain or loss, but we always compare it to something," Mazar said. That can also mean waiting to get back into the market until stock prices fall back to low levels, as people who didn't buy at the bottom think they missed out on the best possible deal, she noted.

"Investors will actually use that as their comparison point, those really, really lows," Mazar said.

"So they may be waiting now to get back into the market, because all these [recent returns], compared to those lows, are really high," she added.

It is also human nature to view our actions in the context of what others are doing, Mazar said. If other investors are cashing out, for example, it can be uncomfortable to stay invested because it feels as if the person is doing something wrong by going against the group, she said.

"Clients enjoy learning how their current decisions relate to popular behavioral finance concepts," Dan Andrews, vice president of Financial Planning Fort Collins, wrote in an email. "When Bitcoin was in the news all day every day in 2017 and 2018, clients appreciated learning about herd behavior and how that was influencing their desire to join the craze."

LOSSES STING MORE

Prospect theory finds that losses sting more than twice as much as returns feel rewarding. Because of that, people are more likely to try to avoid losses than they are to seek gains.

"People are risk-averse. They are usually likely to pay a premium to avoid a risk," Mazar said. "Regret is a very strong emotion. That is usually what guides our behavior when it comes to financial decision-making."

People are afraid of what might happen in the stock market later this year, according to a recent survey from Allianz Life. More than half — 54% — of the 1,000 people surveyed in May said they are worried that the market has yet to hit bottom, according to the report.

Seventy-two percent of respondents said the recent volatility is making them consider changes to protect their retirement accounts from losses. More than half of the people surveyed said they have reduced the contributions they make to their retirement savings accounts.

And nearly half — 45% — said they preferred financial products that forgo some potential returns in exchange for limiting losses, up from 38% of people who expressed that preference at the beginning of the year, according to the survey.

"[COVID-19] was harder than most downturns to coach clients and employees because it was so fast and the health care piece was so uncertain. The panic was worse than normal," Mark Struthers, founder of Sona Financial, wrote in an email. "Investors will often say, 'I wish I were in cash,' without reconciling the fact that they would have a fraction of their assets that they have now."

Many advisers recommend against clients checking their account balances daily, as declines can induce panic.

"We try to educate them on why we made their investment in the first place and that nothing has changed our end goal," Joseph Weber, president of Integrated Financial Solutions, wrote in an email. "Chasing returns is not a strategy, and we also try

to coach them on tuning out all the noise they hear/see on the news."

401(K) TRADING

During the crisis, defined-contribution plan participants traded in their accounts at the highest levels in more than a decade, reports from several plan record keepers show. But even so, the vast majority of plan participants didn't touch their accounts.

"When we experience short-term, downward market volatility, we're wired to act or make changes, but the market tends to reward inaction," Matt Cooley, founder of Inspire Wealth Partners, wrote in an email.

While it's not clear what motivated investors to ride out the market, behavioral finance concepts that have been applied to 401(k) plans could be at play.

"When it comes to human behavior, it's about friction — what is easy, what is hard," Mazar said.

Avoiding hard decisions or ones that require effort is tied to the idea of inertia, which tends to make people stick with defaults. That concept has been credited with the success of automatic enrollment and automatic annual contribution increases — by doing nothing, workers begin building retirement savings.

But if enrolling in a plan is easy, making changes to it can be difficult, Mazar said. For example, it takes effort to log into an account and rebalance one's investments — and such a change might not take effect until the following pay period, she noted.

"As you have friction in terms of changing the allocation, the login to maintain, the less people will be engaged with that. And that can have its advantages," she said.

LEARNING OPPORTUNITY

The pandemic has had extreme economic consequences for millions who lost their jobs or had their hours cut, and that has highlighted the lack of emergency savings in the U.S. Though the federal government has provided unemployment benefits under the CARES Act, some people have had to turn to their 401(k)s for cash, well ahead of retirement.

The need for financial education is behind the lack of savings, but economic inequality is another major contributor.

"If you have present bias, then when you get money, you're more prone to spend it rather than save it for the future," Newcomb said.

"People who don't earn a living wage tend to have more present bias … [If] you can't see next week, you're not going to be planning for five years," she said. "Long-term financial goals are irrelevant."

Some advisers have extended free financial planning services to people experiencing hardship. For them, and for those with existing clients, this could be a time to educate.

"Advisers have such a great opportunity right now to teach, because people are listening," Newcomb said. "Under everything, what people need to learn is that long-term solvency is built on short-term solvency."

The reactions people have to volatility seem to be connected to their relationship with money, Danny Michael, principal of Satori Wealth Management, wrote in an email.

"People's biases toward spending, saving and investing typically begin in their childhood and carry on during their adult lives," Michael said. "It is crucial to understand these feelings upfront to ensure that I am able to make good investment recommendations consistent with the best interest of the client while accounting for their feelings toward risk."

To examine those deeply ingrained feelings about money, financial therapy is beneficial, wrote Tara Unverzagt, founder of South Bay Financial Partners.

"Behavioral science only takes you so far, and then you have to start diving into the 'stories in your head,' which is Financial Therapy," Unverzagt said. "Often they are family stories that are passed from one generation to the next, while other times they come from events or situations in your past where the story helped you, and now you are still hanging onto that story even though your situation has changed."

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Not taking an RMD isn't a reason to appeal a Medicare surcharge

In a nation where health insurance is usually tied to employment, losing a job or retiring can cause disruptions in both insurance coverage and income. Most Americans age 65 and older are eligible to get their health coverage from Medicare, but the pandemic has changed how much some people pay for that.

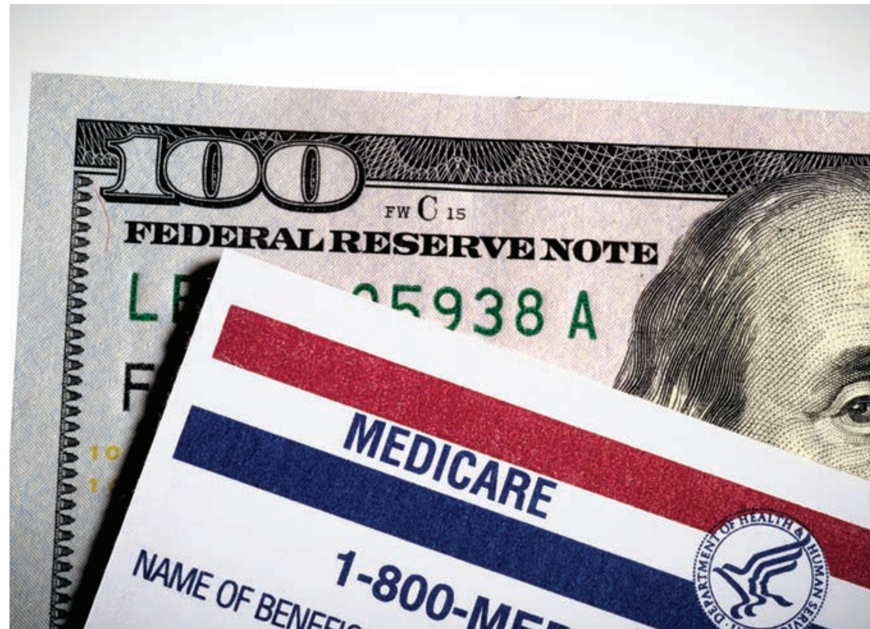
MARY BETH FRANKLIN

ONRETIREMENT

A reduction in income during the current pandemic can affect how much people pay for their Medicare coverage.

Although most Medicare beneficiaries pay $144.60 per month for Part B in 2020, higher-income individuals pay more.

Medicare surcharges, officially known as income-related monthly adjustment amounts, kick in when an individual's modified adjusted gross income exceeds $87,000 or when a married couple's joint income exceeds $174,000. MAGI includes adjusted gross income plus any tax-exempt interest from municipal bonds, which are a popular investment vehicle for many retirees. Medicare uses the last available tax return to determine surcharges, so IRMAA determinations for 2020 are based on 2018 tax returns.



There are five IRMAA income brackets above the base premium amount with surcharges ranging from $202.40 per month per person to as much as $491.60 per month per person.

INCOME LOSS

If an individual's income declines as the result of a life-changing event, such as retirement, job loss or a reduction in work hours or wages, that is grounds for appealing an IRMAA determination if the income loss would result in a reduction or elimination of the surcharge.

However, if this year's income declines for other reasons, such as a reduction in dividend payments or a decision not to take a required minimum distribution from an individual retirement account as allowed by the CARES Act, that does not qualify as a life-changing event and is not an acceptable reason to appeal a current IRMAA surcharge. The CARES Act, passed in response to the COVID-19 pandemic, waives the requirement for any required minimum distributions in 2020.

A REDUCTION IN INCOME ... CAN AFFECT HOW MUCH PEOPLE PAY FOR THEIR MEDICARE COVERAGE.

But lower income this year could automatically reduce Medicare surcharges two years from now, as Medicare surcharges in 2022 will be based on 2020 income tax returns.

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

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INmail

BY MARY BETH FRANKLIN

Claiming strategy for nonworking spouse

Regina: What's the best Social Security claiming strategy for a married couple where the husband is 67 and the wife, who has no earnings history of her own, is 65. Does she have to wait until her full retirement age to get the maximum spousal benefit? Or, could the husband claim his benefits now at age 67 and the wife would collect half of his benefit at 65?

MBF: Because the wife has no Social Security benefits of her own, she must wait until the husband claims his benefit to trigger a spousal benefit for her. The amount of her spousal benefit is based on her age at time of claim. The wife's spousal benefit would be worth 50% of her husband's full retirement age benefit, which in his case is age 66, if she claims at her full retirement age of 66 and 2 months. If she collects her spousal benefit before her full retirement age, it will be worth less than half of her husband's full retirement age benefit.

By waiting until 67, the husband has already increased his Social Security benefit by 8%. For every year he postpones collecting Social Security beyond full retirement age, he earns 8% per year in delayed retirement credits up to age 70.

While both spouses are alive, the wife's maximum spousal benefit is based on up to half of her husband's full retirement age benefit, not half of a larger amount. But if he dies first, she would be entitled to survivor benefits worth 100% of what he was collecting or entitled to collect at time of death, including any delayed retirement credits. At that point, her own smaller spousal benefit would disappear.

4 unusual IRA issues related to deaths in 2020

IRAALERT
ED SLOTT

An adviser called me about a client who just died from COVID-19 but had not yet made his 2019 contribution to his individual retirement account. The client had already filed his taxes, though, and claimed the IRA deduction.

Given the pandemic, the IRS extended the 2019 IRA contribution deadline to July 15. Can that 2019 contribution still be made? No. His estate representative will have to amend his tax return and remove the tax deduction.

For IRA owners or beneficiaries who die in 2020, some of the new tax rules from the SECURE Act and the CARES Act can bring unexpected results.

IRA CONTRIBUTIONS

In the case above, even though the IRS extended the deadline for 2019 IRA contributions, a contribution still cannot be made. The IRS ruled years ago that once IRA owners die, they can no longer make a contribution, even if it is for the prior year when they had qualifying earnings.

What's the rationale? In one of the most logical IRS opinions ever issued (PLR 8439066), the agency said a contribution made after the death of the account owner "would not be a contribution for retirement purposes." In other words, you can't make a contribution after you're dead because you no longer need a retirement plan. It's hard to argue with that logic.

In a later ruling (PLR 8527083), the IRS allowed a surviving spouse to make a contribution to her spousal IRA after the death of the working spouse. After all, the surviving spouse still needs a retirement account.

However, if it was a SEP IRA contribution, the answer would be yes. An employer must still fund a SEP IRA for qualifying employees even if they have since died.

DEATH IN AN RMD YEAR

Normally when an IRA owner dies, the beneficiary has to take a year-of-death required minimum distribution if the IRA owner did not take his full RMD before he died. But this year that doesn't matter. The CARES Act waived RMDs due in 2020, so no year-of-death RMD is required.

IRA BENEFICIARY DIES

The SECURE Act eliminated the stretch IRA for most non-spouse beneficiaries who inherit after 2019. If a beneficiary inherited in 2019 or earlier and was a designated beneficiary, that beneficiary could continue the stretch for the rest of his life. However, if the beneficiary dies in 2020, that's the end of the grandfathered stretch IRA. The successor beneficiary (the beneficiary's beneficiary) will have to withdraw any remaining balance in the inherited IRA under the new 10-year rule, even if that successor would have qualified for the stretch as an eligible designated beneficiary, for example, if she was a minor child.

> **THE CARES ACT WAIVED RMDS DUE IN 2020.**

Even a six-year-old successor beneficiary will have to withdraw the inherited funds by the end of the 10th year after the original beneficiary's death. It won't be uncommon for a successor beneficiary to be very young and have only 10 years to empty the inherited account.

NO NAMED BENEFICIARY

With all the new post-death rules, this one is oddly easy: There was no change under the SECURE Act for non-designated beneficiaries. These are beneficiaries that are not people, such as an estate, a charity or a nonqualifying trust. This can happen when no one is named as beneficiary and the IRA passes to the estate.

In this case, the result is the same as before. If the death is before the required beginning date, then the five-year rule applies. If the death is on or after the required beginning date for RMDs, then the beneficiary can take payouts over what would have been the deceased IRA owner's remaining single-life expectancy, had he lived.

In another strange twist, if IRA owners die in their 70s, the payout to beneficiaries can exceed the 10 years that named beneficiaries would be stuck with. Go figure!

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

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Achieving change involves overcoming resistance

As humans, we have a special relationship with change, one that touches every facet of our lives. Whenever we imagine something bigger or better than the status quo, we are calling for change. Too often, this call is left unanswered.

GUESTBLOG
STEPHANIE BOGAN

It's not our fault; we are biologically hardwired to resist change. Our amygdala — part of the brain's primitive survival system — interprets change as a threat and releases hormones that trigger the fight-or-flight response. These neurological mechanisms explain why we long for change far more often than we create it.

Your brain is designed to focus on problems, not possibilities. The great irony is that the times we fear change the most are very often the times when we stand to benefit the most from it.

BETTER FUTURE OUTCOME

Any real conversation about change must begin with the acknowledgement of its purpose: to create a better future outcome for ourselves in some way. The changes you desire will vary, ranging from the desire to trade long hours for financial success and freedom, to having time to think about the big picture.

People ask me what the "spark" is that separates those who experience greater success and happiness from those who struggle and suffer. To put it simply, change is born in the decision to expect more of the future than you are experiencing in your present.

Why do we desire change and yet fail to bring it about? Gleicher's Formula, popularized by Kathleen Dannemiller in 1992, offers keen insight into the invisible forces at play when we seek change. The formula essentially says that our discomfort with the status quo (D), multiplied by our vision for the future (F) added to our steps (S) must be greater than the resistance met (R). Gleicher's Formula is expressed as: (D x V) + FS > R.

COMMITMENT VS. RESISTANCE

In simpler terms, your commitment to a better outcome must be larger than the resistance you face in seeking it. The Latin root of the word "decision" means "to cut off." A genuine decision, notably different than wishing for a different outcome, draws a line that cuts off the possibility of any other outcome.

To help get the tongue in your mouth and the tongue in your shoes moving in the same direction, consider these tips:

- **Make sure your "why" is bigger than your "what ifs?"** Your brain is hardwired to focus on problems over possibilities. The forces motivating your desired outcome are the same forces that decide your fate.
- **Be clear on what's really holding you back from making the change.** Most of the time what's holding you back from making a change is fear of some far-fetched negative outcome or, worse still, the dreaded unknown. There are rarely any real dangers beyond the walls of our imagination. Acknowledge what's holding you back and ask, "Is it really true that saying no to a requested fee discount will mean I never retain another client, file for bankruptcy, get eaten by a hungry tiger and die?" Doing so helps your brain more accurately assess the threat, allowing for more rational analysis that prioritizes long-term success over avoiding short-term stress.
- **Take small, big steps in the direction you wish to go.** Facing major problems and decisions shuts down the cognitive and motivation centers of our brain. Taking a micro action shifts your brain from survival mode into a more positive, empowered state, enabling your conscious, creative brain. From there, most everything is figure-out-able.

RIGHT NOW

Whether it's choosing to serve a narrow swath of clients more deeply (a niche), charging fairly for the value you add (knowing your value) or donating to the Association of African American Financial Advisors to promote long overdue diversity in our profession, the time for change is — as always — right now.

None of us could have imagined times like these when we made the change that fueled our entry into this profession. Now we are called by these times to lead it into a new and brighter future.

I hope you will join me in answering the call for change.

Stephanie Bogan, a business strategist and high-performance coach, can be reached at learnmore@educeinc.com.

Advisers must focus on health, empathy in the new normal

BY BRUCE KELLY

FOR ADVISERS TO successfully navigate this period of unprecedented market dives and rebounds, with the pandemic looming over the well-being of their families, employees and clients, they better get used to discussing a wider and perhaps more personal array of issues than they likely have in the past.

Expressing empathy and understanding, and using virtual tools like Zoom to hold meetings, are a big part of what it takes to be an adviser in the so-called "new normal" of advice.

According to an online industry panel held June 2 by *InvestmentNews* titled "Navigating 2020: The New Normal," advisers who communicate and focus on client's financial plans and overall health will succeed as the advice industry adjusts to this environment.

"This is a biological crisis," said Nela Richardson, principal and investment strategist at Edward Jones. "This is not business as usual. This is business with a pandemic."

"We're in a different paradigm right now," said Gene Goldman, chief investment officer and director of research at Cetera Investment Management, adding that such times demand that firms and advisers deliver more than standard fare, such as investment research.

Advisers must heed clients' emotional states, not always a focus in the past.

"Clients appreciate hearing from their financial advisers right now more than they ever have than during the downturns of the last three decades," said Carolyn Armitage, managing director at Echelon Partners.

"Clients can feel fearful, alone and confused and filled with anxiety," Armitage said. "And so financial advisers have that ability to be the calm and comforting voice, checking in on clients and showing empathy for what they are going through in a time of need."

"FINANCIAL ADVISERS HAVE THAT ABILITY TO BE THE CALM AND COMFORTING VOICE."

— CAROLYN ARMITAGE, MANAGING DIRECTOR, ECHELON

"It's not one-size-fits-all," said Paul LaPiana, head of product, Massachusetts Mutual Life Insurance Co.

LaPiana said key themes for advisers and clients are safety, access to medical care and concerns around friends and family who are at high risk for COVID-19. More standard issues include risk associated with long-term financial security.

Register for the June 16 virtual bootcamp for advisers, "The Next Normal - best practices post COVID-19" at InvestmentNews.com/webcasts.

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Best adviser practices when serving the mass affluent

GUESTBLOG
SCOTT HANSON

I've proudly built a highly profitable financial advice firm serving the mass affluent. I recently wrote about why it's a mistake for advisers to ignore this segment. But it takes efficient systems, technology and people to make it work.

For some background, my partner and I started our firm 27 years ago by targeting retirees from the telecommunications industry. At the time, telephone companies were going through a massive restructuring and offering many of their workers lump-sum pension buyouts and early retirements.

We began working with the hourly employees, but as we became experts with their pension plans, we began getting referrals to senior managers and executives. Obviously, upper management had more assets to work with, and it would have been easy for us to change course and simply target them. In fact, an industry consultant implored us to do just that.

Instead, we put together a framework where we could serve the executives while still helping the rank and file.

That framework helped create what we are today: A full-service wealth management firm that guides the financial and investment lives of 12,000 high-net-worth and mass affluent clients.

WORKING ON THE PLANNING TEAM FOR MASS AFFLUENT CLIENTS IS A GREAT TRAINING PLATFORM.

Here's what we do to provide high-level service to the mass affluent:

Standardized financial planning. We've developed a financial planning process that deals with the major issues without taking hours to construct. Typically, these plans are not terribly complex and can be completed by a junior adviser at the firm.

Model portfolios. While our firm provides some customization for larger clients, for smaller clients we use model portfolios. Rather than leaving the investment decisions up to the financial adviser, our investment committee has several models from which our advisers can choose. The portfolios are managed by the firm and the adviser doesn't have to worry about monitoring the accounts. (Some might say our portfolio management approach is like what you'd find with a TAMP.)

Minimum planning fees. The greatest values we can provide as advisers are, first, comprehensive financial planning and, second, behavior financial (keeping clients from making mistakes from which they cannot recover). The investment management is a commodity. As such, we charge a minimum annual fee for someone to become a client, rather than require that they have a minimum account balance.

Telephonic or video reviews. Rather than having these clients come into the office on a regular basis, they are encouraged to meet with us either over the phone or via video. These meetings take much less time than in-person meetings.

We've found that working on the planning team for mass affluent clients is a great training platform for the new college grads we hire each year. And our associates take great pride in the fact that we serve normal people, like themselves, not just the 1%.

If you've ignored the mass affluent as you've moved higher up the net worth ladder, you're missing out on helping the people who need it most.

Scott Hanson is co-founder of Allworth Financial, formerly Hanson McClain Advisors, a fee-based RIA with $8 billion in AUM.

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Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of the variable annuity and its underlying investment options. The current contract prospectus and underlying fund prospectuses, which are contained in the same document, provide this and other important information. Please contact your representative or the Company to obtain the prospectuses. Please read the prospectuses carefully before investing or sending money.

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SPECIAL REPORT

Corporate Response to COVID-19 Shows ESG's Influence

In the past decade, environmental, social and governance (ESG) strategies have gained traction as a growing portion of investors expect their investments to reflect their values and have a greater impact on society. However, the COVID-19 pandemic has put ESG to the test.

In a wide-ranging interview in early April, Calvert Funds President John Streur reflected on how ESG pressure has affected the corporate response to the pandemic, and what ESG managers will press businesses on in light of the disease. A brief synopsis of the interview follows:

***InvestmentNews* Content Strategy Studio (INCSS): At a broad level, what has COVID-19 shown us about ESG investing, and its impact?**

JOHN STREUR: I think we're seeing that ESG is starting to have a real influence in some corporate cultures, and their social contract with society. This crisis has been a real test of whether what companies say they are doing differently and paying attention to today will bear fruit. It's still early, and it's not an apples-to-apples comparison, but I think we're seeing a much more positive response from corporations toward their employees and their customers than we saw during the financial crisis.

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John Streur, President, Calvert Funds

INCSS: How would you grade that corporate response through March?

JOHN STREUR: I'm going to use an old-school grading scale of a letter grade for overall performance and a 1-3 number grade for effort, where one is for full effort. In this crisis, I'd give U.S. companies a B1. The response has been above average relative to history in dealing with crises, and I think by and large, companies are trying to do the right thing. The challenge is that a lot of companies don't have much financial flexibility and it's inevitable that you're going to see layoffs. We're already seeing that in March. But some companies have gotten in front of the crisis and led, saying 'we're going to do things that ESG investors would view as the right thing to do.'

INCSS: What are some positive examples you would highlight?

JOHN STREUR: In the financial sector, you saw banks agree early to halt share buybacks. Some banks have said they will give credit card holders a month off on paying credit and interest payments with no late fees. That's partially a PR move, but it's also a positive step in their interaction with consumers during this hardship. Meanwhile, another bank made an announcement they'll have no layoffs in 2020. In other industries, select large retailers have worked hard to hire additional people.

Another big difference is in reporting about the pandemic response to shareholders. For example, Workday used a special disclosure within an 8k to talk about the compensation they are creating for employees in this period and the time off and flexibility they are providing.

INCSS: In light of COVID, what are some of the issues that ESG managers like Calvert will push companies on?

JOHN STREUR: The pandemic is a material issue for every company. We're going to ask them for disclosures about their specific response, because it will impact that company's reputation as a brand and member of its community for years to come.

Specific to health-care companies, we are encouraging them to increase access to treatments for coronavirus and make sure they are priced fairly and distributed broadly. Within the financial sector, it will be enormously important for banks to help individuals ride out the storm. We'll be asking these institutions to work aggressively with policymakers. Banks can't work alone. They need to work hand-in-hand with government to create innovative programs to ease the financial stress on the 80% to 90% of the population that's not equipped to deal with the financial hardships from this … Individuals who need help can't float a corporate bond.

INCSS: Is there anything else advisers and their clients should know about ESG and its influence on responding to the pandemic?

JOHN STREUR: I think the pandemic has provided evidence that corporations are starting to rethink their role in society and realize how important it is that they pitch in and solve social problems. This is the type of influence investors sought when they were drawn to ESG investing. We're seeing ESG push companies forward and get them to show leadership and help soften the impact COVID-19 will have on society. ■

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SPECIAL REPORT

How advisers can identify 'greenwashing'

In response to consistently growing demand for investments that meet environmental, social and governance criteria, a number of public corporations and investment managers are engaging in "greenwashing," or presenting their ESG efforts in the most positive light possible. To find out how advisers can be sure whether the ESG investments they select truly meet their clients' criteria, InvestmentNews Content Strategy Studio recently spoke with Anthony Eames, Vice President and Director of Responsible Investment Strategy at Calvert Research and Management. The edited discussion follows.

***InvestmentNews* Content Strategy Studio: Tell us about greenwashing.**

ANTHONY EAMES: There are essentially two kinds. The first is done by companies in which investors may consider investing. These companies may accentuate ESG principles in particular areas, such as gender equality or executive compensation, where they do well, but not call attention to areas where they do less well, say energy usage. If the latter is an important part of their business, not following ESG principles there while boasting about doing well in other areas is a form of greenwashing.

A manager should offer a sufficient variety of strategies so that an investor can build a diversified portfolio that truly follows ESG principles.

Anthony Eames, Vice President & Director of Responsible Investment Strategy, Calvert Funds

The second kind of greenwashing involves investment managers who market strategies that purport to follow ESG principles, but who don't necessarily follow a comprehensive approach or do the research necessary to make sure the companies in which they invest actually adhere to those principles.

INCSS: How do you evaluate companies to make sure they are not greenwashing?

ANTHONY EAMES: That really speaks to the fundamental way we do research, which looks at whether companies take a structural approach to ESG issues. We examine whether they have a set of policies, procedures and a framework for managing the factors they face, and then score them based on the rigor and comprehensiveness of that framework. We check that against the strength of how they actually implement their framework.

About six years ago, we started to focus on the idea of financial materiality, based on work done by George Serafeim of the Harvard Business School. We now examine businesses at an industry level and organize companies into 160 peer groups that have similar risks. We then weight the ESG characteristics that are material for each group. For consumer finance companies, for example, it's not about "E," since their work has little impact on the environment; it's more about stewardship of data, which is a social factor that can affect financial performance. By contrast, for industrial companies that use machinery, the "S" factors involve workplace safety, as well as "E" factors such as energy use and minimizing pollution. Governance is fairly consistent across all industries, and involves issues of board diversity and independence, and executive compensation.

We believe the process of identifying financially material factors on a company-by-company basis and then ranking companies based on how they rate increases our chances of identifying companies with strong performance potential and minimizes the risk of greenwashing.

INCSS: When making an investment decision, how should an adviser and clients prevent themselves from being "greenwashed"?

ANTHONY EAMES: There are a few key considerations. First, does the manager have a purpose and a set of principles they follow. Many managers simply use a negative-screening approach. A purpose- and principles-based approach balances all needs, which means that profits are important, but should not come at the expense of societal and environmental impact. Second, a manager should have a dedicated team to do ESG research. As of the end of March, we have 13 on our staff. Third, there should be an engagement strategy, including proxy voting and dialoguing with company management teams. Last year, shareholders were asked to vote on more than 200 proposals related to ESG, but some asset managers didn't vote. We do.

Finally, investors should ask whether the manager measures the impact of what companies do and report on it? We calculate carbon and toxic emissions, the amount of water that companies use, and their connection to tobacco and other activities in order to paint a fuller picture for investors. Ideally, after all that, a manager should offer a sufficient variety of strategies so that an investor can build a diversified portfolio that truly follows ESG principles. ■

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Private equity in 401(k)s? It's not likely anytime soon

BY EMILE HALLEZ

PRIVATE EQUITY investments are virtually nonexistent within 401(k)s, and recent hype from regulators might do little to change that.

On June 3, the Department of Labor published a letter in response to Pantheon Ventures, clarifying that private equity is allowed to be used within defined-contribution plans as part of a multi-asset investment strategy, such as a target-date product.

Accompanying that letter were statements from Labor Secretary Eugene Scalia and Securities and Exchange Commission Chairman Jay Clayton, both touting the potential for private-equity investments.

But the letter to Pantheon did not outline safe harbor protections for plan fiduciaries — it largely confirmed what plan consultants already knew, which is that the Employee Retirement Income Security Act does not prohibit such investments.

A plan fiduciary would not violate ERISA "solely because the fiduciary offers a professionally managed asset allocation fund with a private-equity component," according to the DOL letter.

"There's nothing in ERISA that prohibits private equity in a DC plan, as an asset class," said James Veneruso, defined-contribution consultant at Callan. "To me this wasn't any sort of a game changer. This wasn't a change in the rules."

A COVETED MARKET

To include investments with a private-equity component, fiduciaries simply need to follow a prudent process and document it, Veneruso noted.

It's a market that private-equity firms have long coveted. The Blackstone Group, for example, purchased Aon Hewitt's retirement plan record-keeping business in 2017, later rebranding it as Alight Solutions. Blackstone CEO Stephen Schwarzman described the inclusion of private equity in 401(k) plans as a "dream."

EUGENE SCALIA

Private equity can be a difficult sell because it involves asking plan sponsors to add complexity and cost to their investment options. And DC plan sponsors, leery of being sued, are not keen to be the first penguin to jump off the iceberg.

"For run-of-the-mill business owners, even some of the largest plans we serve, they don't want to stand out," said Jason Roberts, CEO of the Pension Resource Institute. "They want to get [a plan], do what's right by their employees, but they don't want to stick their necks out."

IMPROVING OUTCOMES

When 401(k) plans make changes to their investment menus, sponsors do so to improve outcomes for their participants, Veneruso said.

Adding alternative investments or strategies that include alternatives can be prudent, but sponsors want to show that any increase in cost or complexity will be rewarded in the form of higher returns or long-term performance, he said.

"There's a very big asymmetric payoff if you go out on a limb and try something new. And if it's a success, that's good. But seldom is a plan participant going to call you up and thank you," he said. "If things don't go well, there is the risk of a lawsuit. There is career risk."

For the past five years, Intel has been fighting a lawsuit over the use of private equity in its 401(k) plan. Earlier this year, the Supreme Court found that Intel could not be granted summary judgment because of a three-year limit for plaintiffs to bring claims after being provided with investment disclosures. That case has not been decided on its merits.

"We work with quite a few custom clients. We do not have any using [private equity]," Veneruso said.

Only about 1% of large plans surveyed by the Defined Contribution Institutional Investment Association said their custom target-date options include private equity, according to a report from the organization in May. Those target-dates use private equity as a diversifier, along with other investments like bank loans or hedge funds, and they represent only a small proportion of a target-date's assets — typically less than 1%, according to the DCIIA report.

1%
PORTION OF LARGE PLANS WITH PRIVATE EQUITY IN TARGET-DATES

"The prevalence of private equity in custom target-date funds is quite low," said Christopher Nikolich, an author of the report and U.S. head of glide path strategies for multi-asset solutions at AllianceBernstein. "However, I do expect to see more private equity in custom target-date funds over time."

AllianceBernstein's custom retirement plan portfolios include private equity, Nikolich said. Allocations can vary from 5% to 15%, he said.

"Custom target-date funds will be managed more like sophisticated multi-asset-class portfolios [in the future]," he said. "The [DOL] guidance and the letter will only help … to be a catalyst to help those exposures grow over time."

PE BOOSTS RETURNS

Private equity can help boost returns because the number of privately listed companies has been increasing, Nikolich said.

Clients "see the potential for long-horizon growth that may be above and beyond what you see in public equity markets," he said. "That growth becomes more important in an environment where equities may not deliver double-digit returns every year."

Custom target-date funds, such as the one at the heart of the Intel lawsuit, are generally used within very large DC plans, those with billions of dollars in assets. AllianceBernstein, which was not named in that lawsuit, had been the manager of the target-date series Intel used.

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MAKE THE SMARTER MOVE

TAX REFUNDS

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ers. People with Betterment accounts used their stimulus money to fund a cash reserve (27%), build an emergency fund (20%), invest (25%) and save for retirement (13%). Another 15% of Betterment customers used the money for other purposes, including down payments, tuition or future travel, according to the company.

"If you need the money immediately, you might not be putting it into retirement [savings]," said Travis Huber, who is on the IRA team at Wells Fargo.

In normal years, particularly during bull markets, "a healthy number of folks" use IRS Form 8888 to automatically direct their refunds to IRAs, he said.

AN OBVIOUS CHOICE

For those getting refunds who haven't contributed the maximum to their IRAs for 2019, that can be an obvious choice, at least for people who still have jobs, said Maria Bruno, head of U.S. wealth planning research at Vanguard. And people who did contribute the maximum for 2019 can "get a jump-start on the current year's contribution," Bruno said.

Generally, IRA owners who can contribute the maximum to their accounts should do so early in the year, as waiting to make a prior year's contribution costs them in unrealized compounding — a "procrastination penalty," Bruno said. Waiting to make contributions can cost $15,000 to $20,000 over 30 years, in today's dollars, according to research from Vanguard in 2017.

In 2016, two-thirds of IRA contributions at Vanguard were made during the first four months of the year, and most of those made in March and April represented 2015 contributions, the report noted.

'SUPERSIZING' A REFUND

Directing refund money to the prior tax year's traditional IRA limits is appealing, as the contribution itself is tax-exempt, which has the effect of "supersizing" a refund, Steber said.

For some, tax refunds can be put to good use by building emergency savings or put toward necessities, Bruno said. But for people who are financially comfortable, Roth IRA contributions can be a prudent option, she said.

"This whole world is upside down because of the pandemic," said Marty Abo, a certified public accountant and managing member of Abo and Co. People are less likely this year to "go out and buy cars because they get the tax refund," he said.

The advice Abo gives on tax withholding, regardless of economic circumstances, is simple: Don't strive for a big refund, and file sooner rather than later.

"I'm not a big believer in refunds," he said. "It's like forced saving."

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FORM CRS

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ers because of continued worries that it won't be effective.

"We're really concerned it's going to be another boilerplate form that is not going to be useful to investors," said Andrea Seidt, Ohio securities commissioner. "If that's the case, we would not require it in our state. It may exacerbate investor confusion. We want to make sure it delivers the value that it promises."

ONE OF THE OUTLIERS

One of the outliers is Oklahoma. State-registered advisers in the state must attach Form CRS to their Form ADV Part 2 in the Investment Adviser Registration Depository.

"We're requiring that they file it through IARD so that there is a complete Form ADV on file," said Melanie Hall, Oklahoma securities administrator.

The state is not mandating delivery of Form CRS to retail clients but is encouraging it as a "best practice," Hall said. The document will help clients grasp how an adviser operates.

A Rhode Island securities official was not available for comment.

Valerie Mirko, a partner at Baker & McKenzie, doesn't anticipate other states will follow in the footsteps of Oklahoma and Rhode Island. The IARD doesn't give states the ability to file Form CRS as a Form ADV Part 3 the way it does for SEC-registered advisers.

"I don't expect additional states to move forward on adopting Form CRS," Mirko said.

State regulators don't have plans to draft a model rule for a disclosure document to supplement Form ADV, said Christopher Gerold, chief of the New Jersey Bureau of Securities and NASAA president.

Instead, they will monitor how Form CRS works.

"We're going to look at the data," Gerold said.

In coming weeks, an investor assessing financial professionals would get a Form CRS from an SEC-registered adviser but not from a state-registered adviser.

"I don't see that it would cause a problem," Gerold said. "We're always focused on investor protection. ADV Parts 1 and 2, if done appropriately, are going to give [investors] the information they need to make that decision."

Mirko agreed Form ADV disclosures can be as effective as Form CRS, depending on the investor.

"It really depends on how the state-registered advisers provide [their ADV] information and how they walk the investor through it," Mirko said.

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MERRILL

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erase the grid over time and replace it with a salary.

Last year, Merrill's parent, Bank of America Corp., moved 300 Merrill Edge advisers into its Merrill Lynch Wealth Management branch offices. Unlike traditional FAs, who, as noted above, are paid a percentage of the revenue they bring into the firm, Merrill Edge advisers are paid a salary.

"I give Merrill Lynch credit for instituting policies that strike me as coming from the field and not as an edict from senior management up above," said Danny Sarch, a longtime industry recruiter. "My understanding is that veteran advisers have been looking to easily turn some of these client associates into full-fledged advisers."

"Client associates are the primary place for service and support for clients, working either with teams or individuals' advisers," said a Merrill executive, who spoke privately to *InvestmentNews* about the new program. "They are close with clients and usually the first point of contact."

The opportunity for the associate to become an adviser already existed at the firm, he added.

But the new program, which kicks off in the fourth quarter, is much more structured and offers the associates a visible career path, the executive said.

"Historically, a small number of client associates eventually became advisers, and more are making the move successfully," he said.

It's clear that Merrill has a thoughtful plan to tackle the problematic issue of training the next wave of financial advisers and hoping to keep its baby boomers happy until they retire. Giving the client associates the opportunity to reach that goal, and paying them properly, is a big step in the right direction for the firm and the rest of the financial advice industry.

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FUND FEES

CONTINUED FROM PAGE 5

in 2019, down from 14 basis points in 2018.

"The epicenter of the outflows has been from higher-cost active funds, and a lot of that money has been migrating to not just low-cost index funds, but very low-cost index funds and ETFs," said Morningstar analyst Ben Johnson.

"The upside for investors is billions and billions of fee savings, which are both immediate and compound over time," Johnson said.

If there is a downside to a race to the bottom in terms of fees, it might be that it puts more pressure on investors and financial advisers to dissect the funds and portfolio strategies to determine if cheaper is actually better.

"As fees converge at ever lower levels, people will only look at fees," Johnson said. "As fees get lower, they will matter less, and what really matters is the fund's process."

As an example of the focus on fees among investors and advisers, Morningstar found that in 2019, the cheapest 20% of funds had $581 billion worth of net inflows, while the remainder of funds suffered $224 billion in net outflows.

Todd Rosenbluth, director of mutual fund and ETF research at CFRA, said the pursuit of lower fees has partially been masked by a focus on the trend toward passive over active management.

"Many people think of active funds simply losing share to passive, but investors are increasingly focusing on fees and staying loyal to cheaper active strategies as they stand a better chance of repeating their success," he said. "The growing array of alternatively-weighted passive funds has also given investors strong low-cost choices that provide some similar benefits of active management focusing on quality and valuations."

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NEXT-GEN CRISIS

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The acknowledgement that advisers are not experts in human capital planning is a small step toward improvement. In fact, human capital planning is 75% of the expense structure for an RIA, he noted.

SURPRISING RESULT

"That expense is huge," DeVoe said. "RIAs can have a team that produces these wonderful results but if [human capital] processes aren't in place, you can have a company that can stagnate and even create a toxic environment."

For DeVoe, the most surprising result from the study was the higher interest in external coaching versus internal guidance. In fact, 59% of advisers responded that the next generation of firm leadership would benefit from external coaching, compared with 36% who said internal coaching would be beneficial.

"Just as elite athletes hire coaches to take their game to the next level, today's top RIA leaders understand that an experienced, trusted partner can accelerate the achievement of their goals," DeVoe said. "Even baby steps are going to start to unlock momentum and get that snowball moving downfield."

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