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SOCIAL INSECURITY

PREPPING CLIENTS FOR A POSSIBLE REDUCTION IN FUTURE SOCIAL SECURITY BENEFITS PAGE 8

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Wells Fargo cuts 'sizable group' of advisers

BY BRUCE KELLY

AFTER SEVERAL YEARS of watching financial advisers jump ship to other firms in the wake of scandals, Wells Fargo & Co. is now resorting to laying off reps and advisers as the giant bank works to reduce expenses.

Wells Fargo reportedly has begun eliminating hundreds of jobs to cut costs during the COVID-19 pandemic and a slump in profits, but laying off financial advisers is clearly a rarity in the wealth management industry, as those employees are key to generating revenues.

KEY POINTS

- Wells Fargo is eliminating hundreds of jobs to cut costs amid COVID-19.
- The bank also saw a year-over-year decline of 815 advisers.

In its earnings report released last Wednesday, the bank reported a year-over-year decline of 815 advisers, a drop of 5.9%. Wells Fargo Advisors now has 12,908 advisers.

"While this change represents retirements and some natural adviser attrition, it also includes the displacement of a sizable group of salary and bonus advisers as a result of the company's work to become as efficient as we can," spokesperson Shea Leordeanu wrote in an email. Displacements is industry shorthand for layoffs.

HEAD COUNT FALLS

Compared to the second quarter, Wells Fargo reported 390 fewer advisers at the end of September.

One Wells Fargo adviser, who asked not to be named, said the sharp drop was due to job cuts that hit a group called Financial Relationship Advisors particularly hard. Those advisers are paid a salary and bonus rather than from the grid, which is a formula that compensates advisers based on a percentage of total sales.

Financial Relationship Advisors at Wells Fargo is a group of advisers who get accounts from veterans who had been incentivized to hand them accounts, according to the adviser.

"They just let a bunch go this past quarter to bring down expenses," the adviser said.

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Morgan Stanley adds advisers amid pandemic

BY BRUCE KELLY

MORGAN STANLEY increased its financial adviser head count during the COVID-19 pandemic by 70 advisers in the three months that ended in September, an improvement that reflects better recruiting and less attrition among current advisers, who now total 15,469, the company said last Thursday.

While the net increase in financial advisers over the summer represents less than 1% of the firm's total, it's a shift for Morgan Stanley, which has seen experienced advisers leave to join direct competitors or start their own registered investment advisers. Compared to last September, the firm reported a decline of 84 advisers.

Broker-dealers have also reported mixed success in bringing new advisers onboard during the pandemic, with obstacles like worries about travel often slowing down the recruiting process.

STRONG PIPELINE

Morgan Stanley's pipeline for recruiting financial advisers in the near term looks strong, the company said on a call with analysts to discuss third-quarter earnings.

One analyst noted that the past three months marked the firm's best quarter in several years when it came to adding advisers.

"It's hard to project, but the trend is definitely our friend," CEO James Gorman said on the conference call. "And if you look at the net recruiting numbers for the last several quarters, I think the

CONTINUED ON PAGE 26

Financial transaction tax heads to a vote in New Jersey

BY MARK SCHOEFF JR.

A BILL THAT would impose a tax on high-volume financial transactions in New Jersey will be the subject of a hearing in the state Assembly this week.

The meeting Monday of the Financial Institutions and Insurance Committee likely will include a discussion of amendments that would lower the proposed tax rate and sunset the levy after two years, said Kevin McArdle, communications director for the General Assembly Democratic majority. The revisions will not be voted at Monday's hearing.

The bill would impose a tax of $0.0025 per transaction on any person or entity that processes more than 10,000 transactions through electronic exchanges located in the state. The tax would apply to the purchase or sale of financial securities, including futures, options and swaps contracts as well as derivatives and stocks. An amendment would reduce the tax to $0.0001.

The tax has generated strong resistance from the New York Stock Exchange, Nasdaq and TD Ameritrade, which have threatened to move their trading operations out of the state.

BUDGET BOOSTER

The sponsor of the bill, Assemblyman John F. McKeon, D-Essex, is not backing down. He said the tax will help bolster New Jersey's budget.

"It is disappointing that as opposed to being part of the solution, the NYSE is threatening to take its ball and go home," McKeon said in an emailed statement. "We are ready and willing to work with stakeholders to hear their concerns, but we must come from a place of fairness. We need to explore all options that could help our state during this fiscal crisis. At the end of the day, New Jersey families are our priority."

It's not clear when the bill will be amended or voted on in the Assembly. The next voting day for the legislature is Oct. 29, but the measure may not be ready for action by then, McArdle said.

An identical bill has been introduced in the Senate by Senate President Stephen M. Sweeney, D-W. Deptford. A Senate Democratic aide said there is no Senate timeline for the bill.

A financial transactions tax has been promoted by Democratic lawmakers in Congress and has the support of the Democratic presidential candidate, former Vice President Joe Biden.

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As expected, Tom Nally exits TD Ameritrade as Schwab enters

BY EMILE HALLEZ

TD AMERITRADE Institutional President Tom Nally is leaving the company, TD disclosed just days after its sale to Charles Schwab closed on Oct. 6.

TOM NALLY

Nally is among a handful of high-level TD executives who are exiting, according to Schwab spokesperson Rob Farmer. "Select members of TD Ameritrade Senior Operating Council will be leaving the company, including Tom Nally," he said.

Nally, who had previously announced his eventual departure, had been at TD Ameritrade for nearly 27 years, starting as a managing director, and had served as president of the institutional business since 2012, according to his LinkedIn profile. The departures were first reported by WealthManagement.com.

The combined firm, which oversees about $6 trillion in client assets, "will be led by the current 19-member Schwab Executive Council including CEO Walt Bettinger and Chairman Chuck Schwab," the spokesperson said in an email.

INTEGRATION TIMELINE

The full integration of the two massive firms is expected to take as long as three years, Bernie Clark, head of Schwab Advisor Services, said during a recent press conference.

So far, that integration includes "aligning the organizational structures of Schwab and TD Ameritrade," Farmer said.

Ahead of the sale, there have been several other high-level departures from TD Ameritrade, including institutional product specialist Dani Fava, who now works for Envestnet; Skip Schweiss, formerly the president of TD Ameritrade Trust Cos., who is on deck to become the next president of the Financial Planning Association; and former longtime spokesperson Joseph Giannone, who is joining Dow Jones.

During the integration process, the two firms will continue to operate separately, the company said.

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All-female team managing $1.2B leaves JPMorgan to join RBC

BY JEFF BENJAMIN

IN THE LATEST sign that the pandemic-related economic slowdown and business shutdowns are not reducing the pace of adviser movement, RBC Wealth Management-US has recruited an all-female team overseeing more than $1.2 billion.

The six-person team, joining from JPMorgan, operates as The LSS Group and has a 23-year history of working together in Manhattan. The team boasts more than 100 years of combined experience.

"WE'VE BROKEN THROUGH A LOT OF GLASS CEILINGS."

EDEN LOPEZ, MANAGING DIRECTOR, THE LSS GROUP

The team includes Eden Lopez, managing director; Leslie Schwartz, managing director; Paula Steinberg, managing director; Katie Bishop, vice president; Carmilita Aching, senior registered client associate; and Alanna Hitscherich, registered client associate.

DECIDING FACTOR

Lopez said the decision to move to RBC followed "years of due diligence," and ultimately came down the platform, especially as it relates to "fixed income, where RBC is second to none."

The other major factor in the de-

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New book details how financial pros manage their own money

INSIGHTS
JEFF BENJAMIN

A few years ago, I tried to launch a project that involved getting financial advisers to share the details of their personal portfolios for publication in *InvestmentNews*.

The idea was for a regular series that involved basic pie charts to illustrate asset allocations, paired with a summary of the strategy.

Despite some dogged pestering and begging on my part, which even included me promising to lay out my own humble portfolio for the world to see, I only got a few willing participants, which forced me to move on.

With that in mind, you can imagine my delight at receiving an advance copy of "How I Invest My Money: Financial experts reveal how they save, spend and invest" (Harriman House, 2020).

The book, which is the brainchild of Josh Brown, co-founder and chief executive of Ritholtz Wealth Management, and Brian Portnoy, founder of Shaping Wealth, is a collection of 25 essays from across the financial services landscape.

FILTHY RICH?

I have a dreadful habit of reading almost any book that is given to me, but this one I felt was uniquely suited to my oddball appetite for getting behind the scenes of what people who are smarter than me do with their money.

As a collection of essays, the order in which your read them doesn't matter, so I started with the people I feel I know best.

Beginning with Christine Benz, director of personal finance at Morningstar, and Blair duQuesnay, investment adviser at Ritholtz, I got a good taste of exactly what I was looking for: nice summaries on how they got to where they are and specific details — including fund names and types of tax-management wrappers — of what they use to manage their household assets.

My naïve and quantitative perspective had me envisioning a potential spreadsheet that cross-referenced parallels to flesh out the best strategies, which I would leverage to get filthy rich, retire early, and buy an island to live on.

The reality — once I got over the filthy rich, retired, island-owner fantasy — is much better.

GIVEN A BLANK SLATE

According to Portnoy, the essayists were given a virtual blank slate, which is the best part of the book because it shows there are so many ways to look at and think about money and investing.

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Avantax imposes new fee on held-away accounts

BY BRUCE KELLY

AVANTAX INVESTMENT Services Inc., which caters to advisers who are tax professionals, is in the process of levying a new $60 annual fee for advisers' accounts at outside money managers, a popular way for advisers to conduct business directly with mutual fund companies like American Funds.

Called direct to fund, or DTF, by advisers, the method is a simple way for advisers to sell mutual funds to clients. The new fee by Avantax, while only $15 per quarter, could cost some advisers thousands of dollars each year because some of the firm's leading advisers have hundreds of such accounts.

NICKEL-AND-DIMING

The new charge is scheduled to hit the 4,000 Avantax advisers next year but will be waived if advisers move the accounts to the firm's internal advisory or brokerage platform, a change that some questioned would ultimately be in the best interests of clients.

Financial advisers loathe such charges and commonly complain of broker-dealers nickel-and-diming them when they are hit with such fees. It also gives competitors and recruiters reason to call advisers and try to persuade them to jump to a new broker-dealer.

The charge is only for mutual funds and does not include variable annuities as well as certain accounts, such as 529 plans and Simple IRAs, which are retirement plans designed for small businesses. Avantax is pointing to the Securities and Exchange Commission's new standard for brokers, Regulation Best Interest, as the reason for the new charge, but some are questioning that explanation.

"Avantax is telling the reps that this is the direction the industry is going, but it's not. They stand alone on this move," said Jon Henschen, an industry recruiter. "Many broker-dealers certainly like advisers' direct mutual funds to be switched to brokerage accounts but they are not taking such overt steps like charging $60 a year for holding funds directly with the fund manager."

> **"IT COMES DOWN TO CLIENT'S BEST INTEREST VERSUS THE BROKER-DEALER'S BEST INTEREST."**
>
> JON HENSCHEN, PRESIDENT, HENSCHEN & ASSOCIATES

"Holding mutual funds in these direct to fund accounts is simply in the best interest of the client because it is much cheaper, while holding the same assets in a brokerage account is in the broker-dealer's best interest because it is much more profitable," he added. "It comes down to client's best interest versus the broker-dealer's best interest."

The charge will be capped at $25,000

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Social Security announces 1.3% COLA

BY MARY BETH FRANKLIN

THE SOCIAL SECURITY Administration announced last Tuesday that benefits and the maximum amount of wages subject to payroll taxes will increase by 1.3% in 2021, the smallest cost-of-living adjustment since 2017, when the COLA was 0.3%, and one of the smallest increases since COLAs became automatic in 1975.

A 1.3% COLA would boost the average monthly Social Security retirement benefit to $1,543 in 2021, up slightly from this year's $1,523 average monthly benefit. A 1.3% COLA would also increase the maximum retirement benefit, currently $3,011 per month, to $3,148 for someone who retires at full retirement age in 2021.

> **2.8%**
> COST-OF-LIVING ADJUSTMENT IN 2019

The average and maximum Social Security benefits do not include delayed retirement credits. Social Security recipients who delay claiming benefits beyond full retirement age earn an additional 8% per year for every year they postpone benefits up to age 70. Those who retire before full retirement age receive reduced benefits for the rest of their life.

PRICE INFLATION

Social Security benefits increase automatically if the CPI-W, which measures price inflation for urban workers, increases in the third quarter (July, August and September) of the current year over the corresponding third quarter of the previous year. The 1.3% COLA in 2021 follows a 1.6% increase in 2020, a 2.8% increase in 2019, a 2.0% hike in 2018 and a meager 0.3% COLA posted in 2017. There was no COLA in 2016.

The 1.3% COLA for 2021 also affects how much beneficiaries can earn from a job without jeopardizing any of their benefits if

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Opinion

EDITOR'S NOTE

Turn and face the strange ch-ch-changes!

BY PAUL CURCIO

It's almost a year since I joined the team at *InvestmentNews*, so it's a perfect time to reflect on the many changes I've witnessed since my arrival last December.

Little did I know that as managing editor I'd be shepherding not only a transition in leadership under Chief Content Officer George Moriarty, who arrived just two weeks before me, but also a major newsroom upheaval as COVID-19 sent us all home, and I learned how to publish a weekly magazine on the fly from my dining room table.

Despite my unexpected challenges, the *IN* team has accomplished much in a year that most people would like to forget. *IN* redesigned its website and upgraded the tech that runs it. We made the home page more dynamic and better focused on trending topics and new initiatives. We resized the text edition and updated its look and feel.

The editorial team doubled down on its commitment to covering environmental, social and governance investing with the launch of ESG Clarity in Europe, the U.S., and now Asia.

Veteran writers Jeff Benjamin and Bruce Kelly caught the podcasting bug with The InvestmentNews Podcast, joining contributing editor Mary Beth Franklin's Retirement Repair Shop podcast and CEO Christine Shaw's Her Success Matters podcast.

The suddenness of the global pandemic that has affected everyone pushed our live events to a virtual format overnight and inspired us to launch a digital version of the magazine.

In 2020, we've all had to face so many strange changes with no guide other than our wits and determination. I'm proud to have faced it with the best journalists in the business by my side.

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Planning for uncertainty around Social Security

Americans' prospects for achieving a comfortable retirement have taken a number of hits in recent decades. Fewer and fewer workers have access to defined-benefit pensions, interest rates have been stubbornly low, and longevity keeps heading higher. Now the COVID-19 pandemic has created risk around a key source of retirement income for many: their Social Security benefits.

The shutdown caused by the pandemic threw millions of people out of work, which cut into the FICA payroll taxes that fund Social Security payments and accelerated the time frame in which the trust fund that backs Social Security payments when FICA taxes fall short — better known as the Old-Age and Survivors Insurance Trust Fund — will run out of money.

As recently as April, the Social Security trustees estimated the reserves of the Social Security and Disability trust funds would last until 2035.

But last month, a report from the Congressional Budget Office projected that the Social Security trust fund will be empty by 2031. At that point, the Social Security Administration might have to limit payments to what can be covered by the FICA taxes coming in, cutting benefits paid to retirees by 25%.

TOUGH DECISIONS

In this week's cover story, which begins on page 8, Mary Beth Franklin, contributing editor for *InvestmentNews*, looks at how advisers are dealing with this possibility. One adviser she interviewed is reducing Social Security benefits by 25% in plans he builds for clients younger than 50, while another uses a software program to show clients what their retirement plan would look like with full Social Security benefits versus a 21% reduction in those benefits. Another expert warned against making decisions now based on an uncertain outlook for Social Security.

SOCIAL SECURITY CUTS ARE NOT A CERTAINTY, BUT IT'S IMPORTANT TO KEEP CLIENTS INFORMED

While the prospects for Social Security cuts are cloudy, it's important for advisers to inform their clients about the potential problems around the trust fund and what that could mean for their income in retirement, so that individuals have the opportunity to plan for that possibility.

It's also important for Congress to begin considering solutions, although experts cited in the cover story agreed that solving Social Security's problems isn't a priority for Congress, and that situation won't change no matter what the results of the November elections are.

Of course, there's another side to this pandemic problem. While the lockdown undermined funding for Social Security given the widespread unemployment, other people have seen their savings mount as they continued to work but found fewer ways to spend their earnings while stuck at home.

A Northwestern Mutual survey released last week found the average savings of Americans over the age of 18 are up 10% from the level in 2019. So the pandemic may also provide advisers with a new group of prospects and give them a chance to encourage newly minted savers to join the community of investors.

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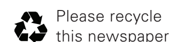

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HOW SECURE IS SOCIAL SECURITY?

A PRACTICAL GUIDE FOR ADVISERS TO NAVIGATE A LOOMING FINANCING CRISIS

BY MARY BETH FRANKLIN

The Social Security trust funds, created to help pay future retirement benefits when payroll tax revenues alone are no longer sufficient, will run dry sooner than previously predicted due to the COVID-19 pandemic and the recession it triggered.

Social Security benefits are financed primarily through payroll taxes paid by both employers and employees, so the rash of business closures and historic spike in unemployment rates will accelerate the projected trust fund depletion by several years. At that point, Social Security will only collect enough money from payroll tax revenues to pay about three-quarters of the benefits retirees have been promised.

What should financial advisers do with this information? Should they adjust their clients' retirement plans by reducing the assumption about the income clients are likely to receive from Social Security benefits? If so, should they apply the reductions across the board to all clients or only to younger ones, who are decades away from retirement? What's the likelihood that Congress will step in to prevent future benefit reductions?

InvestmentNews asked public policy experts, financial planning thought leaders and individual financial advisers to share their insights, predictions and practical advice on how to advisers can guide clients during these turbulent times.

DETERIORATING FORECASTS

Earlier this year, the Social Security and Medicare trustees released their annual report, which projected the combined reserves of the Old Age, Survivor and Disability trust funds would be depleted in 2035, resulting in across-the-board benefit cuts of about 21% unless Congress stepped in before then. But that report didn't reflect the impact of the COVID-19 pandemic.

In September, the nonpartisan Congressional Budget Office updated its annual budget outlook for the entire federal government, factoring in the economic devastation of the pandemic. CBO estimates federal budget deficits will more than triple to $3.3 trillion this year as a result of emergency stimulus relief and reduced tax receipts. It predicts the Social Security trust fund will run dry by 2031, requiring benefit cuts of about 25% starting 11 years from now.

"In other words, today's youngest retirees will face a sharp 25% drop in their benefits when they turn 73," the Committee for a Responsible Federal Budget said in its analysis of the CBO budget outlook update.

"Once the current pandemic ends and the economy is well on its way to recovery, policymakers must turn their attention to long-term debt and deficit reduction to get the country on solid fiscal ground," the CRFB analysis concluded. "This includes action to secure Social Security and other trust funds headed toward insolvency."

Despite the looming financing crisis, Social Security reform is not at the top of anyone's legislative priority list, no matter who wins the White House in November or which party controls the House and Senate.

"Nobody is worrying about Social Security reform right now," said Robert Bixby, executive director of the Concord Coalition, a nonpartisan policy group focused on reducing the federal deficit and debt.

"The political environment is so poisonous, nothing is going to happen immediately, no matter who wins," Bixby said. Congress will keep kicking the can down the road until it can't.

Even the AARP, the nation's largest advocacy group for older Americans, isn't counting on Social Security reform any time soon.

"With more than 200,000 people dead and millions out of work, Social Security reform is not at the top of my list of priorities," said David Certner, AARP's director of legislative policy. But protecting Social Security remains a top priority of the group's members, regardless of political affiliation, he said.

In theory, Social Security benefit payouts cannot exceed available revenue, which means that if Congress takes no action before the trust funds are depleted, benefits would be cut across the board for all beneficiaries. In reality, that is not likely to happen.

Historically, Congress has never cut benefits of current beneficiaries or those approaching that status. Over the next decade, the number of Social Security

CONTINUED ON PAGE 10

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beneficiaries is expected to balloon from 63 million today to about 80 million in 2030, when all baby boomers will be 70 or older.

"The notion that you're going to tell those 80 million people that their benefits are going to be cut seems fanciful to me," said Webster Phillips, 31-year veteran of the Social Security Administration and, until his recent retirement, a senior policy analyst at the National Committee to Preserve Social Security and Medicare. "It just isn't going to happen," Phillips said, pointing to Americans' increased reliance on Social Security in the wake of disappearing pensions and often-inadequate retirement savings.

When faced with the inevitable exhaustion of the trust fund, Congress will likely borrow money to continue paying benefits until it can agree how to tackle the longer-term financing problems, said Jason Fichtner, a renowned Social Security scholar and fellow at the Bipartisan Policy Center. "Congress is more likely to face a debt crisis than cut Social Security checks," he said.

However, borrowing money from general revenue threatens to break the traditional link between workers' payroll tax contributions and their earned Social Security benefit. That could undermine the program's financial independence, forcing it to compete with other national spending priorities for limited federal resources in the future.

Longer-term Social Security reform will likely require higher taxes, future benefit reductions or a combination of the two. Potential fixes include raising payroll taxes for higher-income workers; adjusting the benefit formula to further favor lower-income workers; altering the cost-of-living adjustment formula; increasing the portion of benefits subject to income taxes; and gradually raising the age for full retirement benefits to account for longer average life expectancies.

ADJUSTING ASSUMPTIONS

This year, the estimated benefit statements the Social Security Administration issues to individuals include this warning: "Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because by 2035, the payroll taxes collected will be enough to pay only 79% of scheduled benefits."

"As financial planners, all we can do is operate under current law and stress-test those assumptions against possible economic futures," said Joe Elsasser, president and founder of Covisum, a financial software company specializing in retirement planning and Social Security. "We create a plan based on today, but if that changes tomorrow, we analyze whether that plan still works."

Elsasser suggested that advisers calculate the optimum Social Security claiming strategy under current law, stress-test it in the context of a client's overall financial plan and continue to analyze the situation each year as a potential Social Security funding crisis approaches.

William Meyer, president of Social Security Solutions, a financial software company specializing in optimizing Social Security claiming decisions and tax-efficient income strategies, suggests that financial advisers assume full Social Security benefits for clients age 50 or older, but said advisers may want to discount benefits for younger clients.

"Social Security is so important to financial planning," Meyer said. "It has to change, but I don't see it going away."

"THE NOTION THAT YOU'RE GOING TO TELL ... 80 MILLION PEOPLE THAT THEIR BENEFITS ARE GOING TO BE CUT SEEMS FANCIFUL TO ME."

WEBSTER PHILLIPS, RETIRED ANALYST, NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

Mark Howe, director of financial planning at Frontier Wealth Management in Kansas City, Missouri, reduces Social Security benefits by 25% when he's doing plans for clients age 50 and younger.

"Those clients are also very skeptical about Social Security being around for them — right or wrong — especially among higher-net-worth and higher-income earners," Howe said.

Kerrie Debbs of Main Street Financial Solutions in Cary, North Carolina, said she educates her clients about the possibility of reduced Social Security income in the future as a result of benefit reductions, tax creep or increased Medicare premiums that are deducted from Social Security benefits. "We show them that in order to minimize or mitigate taxes on Social Security and all income in the future, they should use tax-free vehicles such as Roth IRA conversions early and often," she said.

CONVERSION ANALYSIS

Meyer agreed. "In a low-tax environment with no required minimum distributions this year, the opportunity to add Roth conversions makes a lot of sense.

"But Roth conversions can be overdone if advisers don't pay attention to tax brackets and income thresholds that can trigger Medicare surcharges," Meyer said, noting that his company's Income Solver software helps advisers analyze whether conversions make sense.

Jason Lampe of Lampe Financial in Denver said he uses Right Capital financial planning software to show clients what their retirement plan looks like with full Social Security benefits and if benefits were reduced by 21%. For some clients, it can mean the difference between a successful retirement plan and a failed one. Lampe then discusses other options to rescue retirement plans, such as working longer, saving more, cutting spending and delaying Social Security.

Wade Pfau, director of the Retirement Income Certified Professional designation program at the American College of Financial Services, agreed that advisers can't do much more than use current law to make assumptions about future benefits, including the possibility of reductions starting in the 2030s.

"But cutting benefit projections in a retirement income plan is a separate argument from when you claim benefits," Pfau said. "With interest rates at historic lows, the case for delaying benefits is even stronger today."

Social Security benefits increase by 8% per year for every year an individual postpones claiming beyond full retirement age up to age 70. Retirement benefits are available as early as age 62, but they are reduced by 25% to 30%, depending on birth year.

Concerned about the long-term financing of the program, some people contend that it is better to claim benefits as soon as possible. But Pfau argues that in the unlikely event benefits were cut across the board if the trust funds were exhausted, everyone's benefits would be reduced, including those who claimed smaller benefits early.

"It's really about following the optimal course of action today but preserving the flexibility to change it as we get better information," Elsasser said. "At this point, it doesn't make sense to choose a Social Security strategy based on a foggy future."

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

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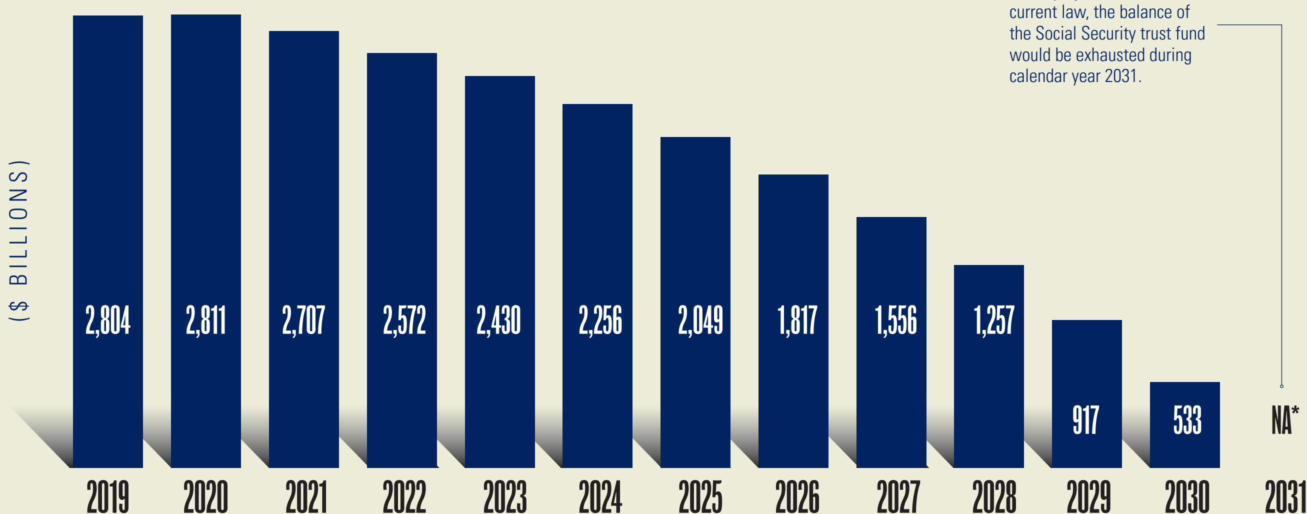
CBO FORECAST FOR THE SOCIAL SECURITY TRUST FUND



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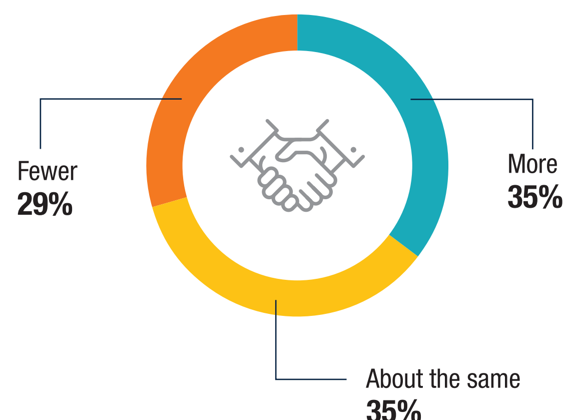
TAKING THE PULSE OF THE ADVISORY

As advisers reflect on lessons from 2020 and navigate ongoing uncertainty with their clients, best practices in the industry are changing. We want to help you keep up.

In partnership with Transamerica, we've launched a series of short polls to gain timely insights into the state of our industry. What advisers tell us will help shape discussion of best practices at InvestmentNews over the coming months.

Our first polls have already begun to offer a window into the advisory industry at a crucial moment.

POLL 1: How many clients did you add from March to September, compared to the same period of 2019?



Stay tuned for upcoming research on a variety of important topics, including how advisers are:

Communicating with and engaging prospects and clients

Discussing and planning for the election with their clients

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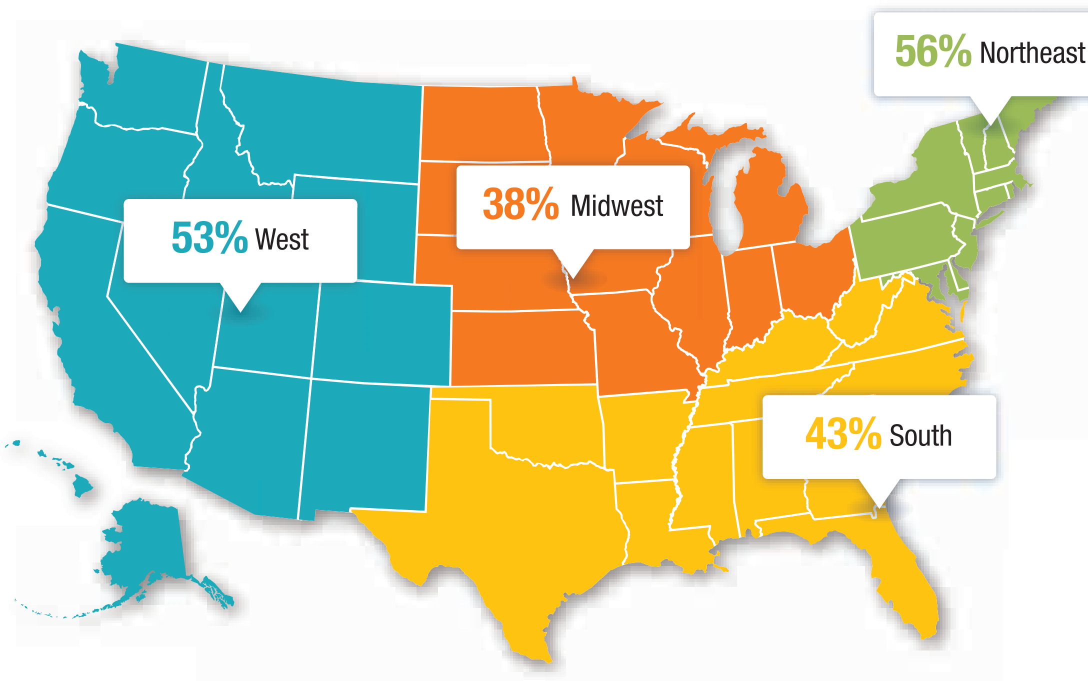
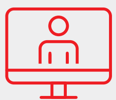
INDUSTRY...

POLL 2: Where is most advisory staff still working remotely?





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Would hiking taxable wage base save Social Security?

MARY BETH FRANKLIN

ONRETIREMENT

Social Security faces a severe financing shortfall within the next 15 years and possibly before the end of this decade, depending on the long-term impact of the COVID-19 pandemic and its effect on the economy, jobs and payroll taxes. The result could be a 21% across-the-board cut in the benefits of all Social Security recipients unless Congress acts before then to shore up the program's long-term finances.

One of the many proposed funding solutions is to increase the amount of wages subject to payroll taxes. In 2020, the maximum taxable earnings base is $137,700, which serves as a cap on both contributions and benefits.

As a contributions base, it establishes the maximum amount of a worker's earnings that is subject to payroll taxes. As a benefit base, it establishes the maximum amount of earnings used to calculate benefits.

COVERED EARNINGS

Of the 7.65% payroll tax rate paid by both workers and their employers, the 6.2% portion that funds Social Security is levied on wages up to the taxable maximum of $137,700 in 2020. The remaining 1.45% portion that funds the Medicare Hospital Insurance trust fund applies to all wages, even those above the taxable wage maximum. Self-employed individuals pay both the employer and employee share for a combined self-employment tax rate of 15.3%.

Since 1982, the Social Security earnings base has risen at the same rate as average wages in the economy, so the share of the population below the cap has remained relatively stable at roughly 94%. But because of the increasing gap between the salaries of top earners and the taxable maximum wage base, the percentage of covered earnings that is taxed has decreased from 90% in 1982 to 83% in 2018.

The approximately 10 million workers who have earnings above the limit pay the same dollar amount in Social Security payroll taxes whether they earn $200,000 or $2 million a year. Under the 2020 limit of $137,700, the maximum amount a wage and salary a worker contributes directly to Social Security is $8,537, with the worker's employer contributing an equal amount. A self-employed individual contributes a maximum of $17,075.

21% EXPECTED CUT IN BENEFITS IF TRUST FUNDS ARE DEPLETED

Raising or eliminating the cap on wages that are subject to taxes could reduce the long-range deficit in the Social Security trust funds. But the full impact of the policy change would depend on whether wages above the maximum would also be counted toward benefits.

The Social Security Administration's Office of the Chief Actuary estimates that phasing in an increase in the taxable maximum for both contributions and benefit base to cover 90% of covered earnings over the next decade would eliminate roughly 20% of the long-range shortfall in Social Security, according to a new, well-documented report from the Congressional Research Service.

Raising or removing the taxable earnings base while maintaining the current benefit structure would lead to higher monthly Social Security checks in the future for individuals who earned more than the current taxable earnings base.

TRUST FUND SOLVENCY

The impact on trust fund solvency would be more significant if the cap on taxes were eliminated but the cap on benefits were retained. Under one such scenario, the Social Security trust funds would remain solvent for more than 40 years. However, the traditional link between contributions and benefits would be broken. That could weaken the political clout that the program has enjoyed for more than 85 years largely as a result of its near-universal coverage and status as an earned benefit.

Supporters of raising or eliminating the taxable wage base argue that workers earning less than the base have a greater proportion of their earnings taxed than workers whose earnings exceed it. They also argue that subjecting a higher percentage of earnings to the payroll tax would adjust for the higher life expectancy of higher earners, who tend to receive benefits for more years over their longer lifetimes than lower-income workers.

Opponents of changing the wage base note that low earners benefit from other tax programs, such as the Earned Income Tax Credit, and receive a greater share of government transfer payments that are not subject to payroll taxes. Critics also argue that raising or eliminating the cap will serve as a disincentive to work and could create a drain on the economy.

The taxable wage base is just one of the complicated and controversial issues that Congress must consider when it finally tackles critically needed Social Security reform. Although the COVID-19 pandemic and the upcoming presidential elections have been sucking up most of the political oxygen, lawmakers can't ignore this critical issue forever. If they delay much longer, millions of American retirees may be left gasping for air.

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

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BY MARY BETH FRANKLIN

Birthdate foils ex-spouse's Social Security claiming strategy

Claiming option is limited to those born before 1954

Donna: I plan to retire when I turn 66 in April. Originally I wanted to wait until 70 to claim my maximum Social Security benefits, but my accountant told me I could claim spousal benefits on my ex-spouse when I reach my full retirement age of 66 and 2 months and allow my own retirement benefits to continue to grow. How do I do that?

MBF: Sorry, Donna, but your accountant gave you outdated information. Only people born on or before Jan. 1, 1954, have the right to file a restricted claim for spousal benefits, allowing them to collect half of their spouse's (or ex-spouse's) full retirement age benefit amount while their own retirement benefit continues to grow up by 8% per year up to age 70. The last group eligible to use this valuable claiming strategy turned 66 in 2019.

Because you were born in 1955, you are not able to restrict your Social Security claim benefits on your ex-husband's earnings record while your own benefits continue to earn delayed retirement credits. Whenever you claim Social Security, you will receive the highest benefit to which you are entitled at that age, whether on your own earnings record or as a spouse.

You don't get to choose.

Although your benefits would be about 30% larger if you waited until age 70 to claim benefits compared to your full retirement age of 66 and 2 months, you may not want to wait that long to claim. One of the main reasons to delay claiming benefits is to maximize not just your retirement benefit, but to create the largest possible survivor benefit for the remaining spouse. As you are divorced, that may not be your top priority.

However, if your ex-husband dies first, you may step up to a larger survivor benefit if it is bigger than your retirement benefit, assuming you were married at least 10 years before the divorce and are currently single or waited until age 60 or later to remarry.

‘Baby bonds’ could reshape racial wealth inequality

BY EMILE HALLEZ

WEALTH DISCREPANCIES between white and Black families in the U.S. haven’t changed since at least 1962. One way to alter that would be a government-funded “baby bond” program.

The concept involves providing publicly funded accounts to children in lower-income families and letting them tap into the savings when they turn 18 for uses including education and housing. Race is not a factor in the proposed programs, but black and Latino children would benefit most, proportionally, as the contributions to the accounts would vary based on income or wealth, according to a report last week from Morningstar Inc.

Such programs could be highly effective, with the potential to cut the wealth gap in half, the report found.

91%
GAP IN MEDIAN WEALTH BETWEEN BLACK, WHITE FAMILIES

STAGGERING DIFFERENCE

Currently, the size of that wealth difference is staggering. Data from the 2019 Survey of Consumer Finances show a median household wealth for white families of about $188,000, compared with $36,000 among Latino families and $24,000 for Black families.

One baby-bond initiative was introduced in companion legislation in the House and Senate last year. The bills were sponsored by Sen. Cory Booker, D-N.J., and Rep. Ayanna Pressley, D-Mass.

That proposal, which Morningstar used to guide its research, would fund accounts with $1,000 and make subsequent annual contributions of up to $2,000, varying based on a family’s income.

“If the program described in [the legislation] had been in place over the past 25 years, we estimate half of all kids in America would have a baby bond account balance of around $13,700 at 18, while nearly one-fourth would have an account balance of more than $28,400, in real dollars, assuming real returns of 1% annually,” the report stated. “While the program does not consider race, Black children would have a median account balance of $27,500, Hispanics $19,800, and whites just $7,100.”

Excluding home equity, a baby-bond program would cut the gap in median wealth between Black and white families from the current level of 91% down to 25%, Morningstar found. The difference in median wealth per minor child, including home equity, would close less dramatically, going from 96% to 56% between white and Black families, according to the report.

529 PLANS

Home equity’s effect on wealth and the hurdle it represents for achieving racial wealth equality means baby-bond programs would benefit from expansions of 529 college savings plans, according to the paper. Automatic enrollment in 529s could boost assets for college-bound children and would add to baby-bond assets, which could also be used for education costs or to pay for a house.

“As baby bonds are, by design, invested without risk, families could potentially take more investment risk in a 529, secure in the knowledge they would have a baby bond to fall back on when it came time to pay for college,” the report stated.

Currently, wealthier families see much more benefit from participating in 529s, Morningstar’s paper noted.

“The tax incentives in these plans almost exclusively benefit affluent families,” according to the report. “Lower-income families are generally exempt from income tax or capital gains tax, so they see no benefit from this incentive.”

LONG-TERM CONSEQUENCES

A reduction in racial wealth inequality could have implications for retirement security. A 2018 report from the Center for Retirement Research at Boston College found 50% of all households with people ages 30 to 59 face a high risk of not being able to maintain their standard of living in retirement. That risk was greatest among Latino households, at 61%, compared with 54% of Black households and 48% of white households, according to CRR.

Much of the difference is attributable to home equity, which can be used for income in retirement, the report found. The median net home value for white families in 2016 was $86,000, compared with $49,000 among Black families and $65,000 for Latino families, according to CRR.

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In-plan retirement income is slow to arrive

As the defined-contribution industry and lawmakers continue their quest to retrofit 401(k)s to replace pension plans, the biggest hurdle awaits — retirement income.

GUESTBLOG
FRED BARSTEIN

The savings problem has been solved by using automatic enrollment at a healthy deferral rate and automatic contribution escalation, stretching the match and using professionally managed investments like target-date funds or managed accounts as the default. That, so far, has been the extent of the so-called DB-ization of DC plans.

Solving for the distribution side, with a guaranteed stream of income to beat inflation and longevity risk, requires all hands on deck.

While wealthy participants can engage with a financial adviser to craft a retirement plan, less than 10% of the 401(k) and 403(b) population can afford traditional, one-on-one financial planning. The Secure Act could help address that.

Starting to move assets into a retirement-income strategy within a DC plan as people get older makes sense — there are assets, data, access and fiduciary protection. So why have valiant attempts by many DC providers failed?

PORTABILITY

Let’s start with portability. When a plan or participant moves to another provider that will not or cannot take on retirement income assets in its record-keeping system, they are left outside the plan. The Secure Act allows for a distribution to individual retirement accounts, but that’s clunky.

There’s also little incentive for DC plan sponsors to take risk. The Secure Act alleviates a bit of that risk by allowing current due diligence of an annuity provider to prevail, even if they fail in the future. But there’s other risk.

“Increased fees are a hot-button [issue] for litigators even if there’s value,” said Lew Minsky, executive director of the Defined Contribution Institutional Investment Association.

And who wants to go first? Retirement plan advisers will demand new products when clients push them, not the other way around. The DC industry will never make the next edition of “Profiles in Courage.”

Then there are low interest rates. “Who wants to lock down low returns right now, foregoing healthy market returns?” said Tim Rouse, executive director at the Spark Institute.

There are also more subtle impediments. “Broker-dealers have no incentive to keep assets in the plan,” said consultant George Revoir, a former senior executive at John Hancock. “There’s no revenue sharing and soft dollars like with IRAs, and no fees from custody, sweeping and securities lending.”

“BROKER-DEALERS HAVE NO INCENTIVE TO KEEP ASSETS IN THE PLAN.”
GEORGE REVOIR, FMR JOHN HANCOCK EXEC

Is there demand? Record keepers would like to keep assets in the plan for obvious reasons. Plan sponsors are open to keeping assets of former employees in the plan, as long as the work and liability involved are mitigated. RPAs without a robust wealth management and rollover angle, which is most of them, would also benefit.

Participants would appreciate more certainty, especially as they get close to retirement. DB plans pool risk, but each DC participant manages their own personal pension plan. Joining a larger group at work is more attractive and cost-efficient.

MITIGATING RISK

Even though the Secure Act allows plan sponsors to mitigate risk if an insurer goes bankrupt, it only means that the risk is transferred to participants. The Pension Benefit Guaranty Corp. protects DB assets of failing companies. It may make sense to have a government agency funded by annuity companies that want to create in-plan retirement-income products to provide similar protection.

Is there hope for in-plan retirement income anytime soon? Probably just that — hope. The most likely near-term solution will be target-date funds and managed accounts that invest in annuities as people get older. Longer term, as RPAs create robust financial wellness for those who cannot afford wealth management, retirement income will be one of many services offered in collaboration with record keepers and annuity providers.

Fred Barstein is founder and CEO of The Retirement Advisor University and The Plan Sponsor University. He is also a contributing editor for InvestmentNews’ *RPA Convergence newsletter.*

27% PORTION OF U.S. INSTITUTIONAL INVESTORS THAT OWN DIGITAL ASSETS SUCH AS BITCOIN
SOURCE: FIDELITY INVESTMENTS

AR Global's New York City REIT proves a bad apple for investors

BY BRUCE KELLY

NEW YORK CITY REIT Inc. (NYC), managed by the Nicholas Schorsch-led partnership AR Global, has taken a severe hit to its share price in the weeks since it listed on the Nasdaq, with investors seeing the value of their holdings drop as much as 80% from the initial sales price.

The REIT was launched in 2013 as one of a bevy of nontraded real estate investment trusts managed by AR Global. Dozens of independent broker-dealers sold the high-commission REIT at its offering price of $25 per share. Such illiquid REITs were often sold with the promise of high yields and a listing of shares, known as a liquidity event in the industry, that would allow investors to cash out and get back all or a good portion of their principal.

After a 2.43-to-1 reverse split in July and its August listing, the REIT's shares were trading at $11.25 at the close of trade last Wednesday.

According to Robert A. Stanger & Co., an investment bank and REIT watcher, a client's initial purchase in 2014 of 1,000 shares of the REIT had a value of $25,000. After the reverse stock split, the number of those shares was reduced from 1,000 to 412, according to Stanger. That means the client who invested $25,000 now has an investment worth close to $5,000, a staggering decline of 80%.

AR Global's chief corporate counsel, Michael Anderson, did not return calls asking for comment.

> **KEY POINTS**
> - New York City REIT has lost as much as 80% of its value from its initial sales price.
> - The REIT underwent a reverse split in July.

The results of New York City REIT's reverse split and listing could also be bad news for broker-dealers that sold the REIT as clients may file investor claims seeking damages. Brokers and advisers typically collected commissions of 7% for those sales, and firms received commissions of 1% to 2%.

"This was the big listing investors were promised, but that $25,000 is down 75% or 80%," said Scott Silver, a plaintiff's attorney who is getting calls from investors about the REIT's precipitous decline in value. "The client's broker told him six years ago to buy it and get the dividend."

"The average investor never had a fighting chance to evaluate what they had," Silver added.

HARD REIT TO SWALLOW

New York City REIT, which is focused on New York commercial real estate, started trading at $30 per share on Aug. 18. It closed that day at $17.60 and by the end of the month had fallen further, to $13.60 per share.

Investors in other REITs offered by AR Global, formerly known as AR Capital, have fared better, particularly those who bought the investments in the wake of the 2008 credit crisis, when commercial real estate was a beaten-up sector and valuations were cheaper.

Schorsch and AR Capital last year agreed to pay $60 million in penalties to settle Securities and Exchange Commission charges that Schorsch, the firm and a partner wrongfully obtained millions of dollars in connection with REIT mergers that were managed by AR Capital.

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Green investments rallying ahead of potential 'blue wave' in November

BY JEFF BENJAMIN

AS DEMOCRATIC challenger Joe Biden gains momentum in the polls over President Donald Trump, certain investment strategies expected to benefit from a more liberal administration are gaining appeal among investors.

Among exchange-traded funds targeting specific sectors and industries, Invesco Solar ETF (TAN) has become one of the hottest funds of 2020, up more than 143% from the start of the year.

The ETF, which holds a concentrated portfolio of solar energy companies, is coming off an impressive 66.5% gain last year. But the recent appeal is viewed as being directly linked to a potential Biden victory.

According to CFRA, the ETF has $2 billion in assets, up from $1.6 billion a month ago and $630 million in June.

Todd Rosenbluth, director of mutual fund and ETF research at CFRA, said investors are betting that "if the Biden administration comes in, their efforts to return the U.S. to the Paris climate accord and a focus on fighting climate change will be a driver for wind, solar and alternative energy demand."

Other examples of thematic ETFs rallying this year include iShares Global Clean Energy (ICLN), Invesco WilderHill Clean Energy (PBW), ALPS Clean Energy (ACES) and SPDR Kensho Clean Power (CNRG).

> **143%** GAIN IN INVESCO SOLAR ETF YEAR TO DATE

ICLN, which is up more than 80% this year and gained nearly 45% last year, has grown to $2 billion from $1.5 billion a month ago and $721 million in June.

FUNDS RISING

PBW, which is up 102% this year following a 63% gain last year, has grown to $933 million from $761 million a month ago and $367 million in June.

One of the newer funds, ACES, is up more than 80% this year after gaining 52% during its first full year in 2019. At $435 million, its assets are up slightly from a month ago and more than double where they were in June.

And CNRG, on the smaller end with just with just $75 million, is up 78% this year and gained 63% last year. CNRG assets have also more than doubled since June.

The asset growth is a combination of market performance and growing investor appetite, which is often fueled by market performance.

"Investors have looked to get in front of this long-term trend," Rosenbluth said. "The ETFs' performance in the past month in particular is consistent with Biden's improved electability chances."

With the election less than four weeks away and Biden leading in most major polls, investors are starting to position portfolios for an administration that will likely throw fiscal and policy support behind more environmental causes.

"The infrastructure and green trade is a very 'blue wave' concept," said Yousef Abbasi, global market strategist at StoneX, referring to a situation in which the Democrats take control of both the White House and Congress. "The trade is very much indicating that someone believes that we'll get the push for a Democratic Senate."

—Bloomberg News contributed to this report.

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Social justice ETFs resonate with investors but results are mixed

BY JEFF BENJAMIN

IN THE MOST recent example of the ETF industry striking while the iron is hot, financial advisers will soon be able to allocate client portfolios to a fund that invests in causes supporting social justice.

The Adasina Social Justice All Cap Global ETF (JSTC) is offered through a partnership between Tidal ETF Services and Adasina Social Capital. The fund was developed to incorporate a social justice investment strategy employed by Adasina sister company Robasciotti & Philipson, an advisory firm specializing in social justice portfolios.

SOCIAL FOCUS

"We are thrilled to partner with the team at Tidal to expand the impact of Adasina as a critical bridge between social justice movements and financial markets for the benefit of people and our planet, while creating space for community to grow," said Rachel Robasciotti, founder of both Adasina Social Capital and Robasciotti & Philipson.

"INVESTORS WILL HAVE MORE CHOICES TO SUPPORT RACIAL EQUALITY."

TODD ROSENBLUTH, DIRECTOR, MUTUAL FUND AND ETF RESEARCH, CFRA

The new ETF joins a short list of funds designed to capitalize on the growing focus on social trends.

"It's a positive sign that investors will have more choices to support racial equality," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

Other examples Rosenbluth cited were Impact Shares NAACP Minority Empowerment ETF (NACP) and SPDR SSGA Gender Diversity Index ETF (SHE), both of which have struggled to attract assets.

BENCHMARKS

NACP, which was launched in July 2018, has grown to just $9 million despite strong relative performance. The fund, which invests in companies based on a diversity scoring system, is up 11.7% from the start of the year and gained 30.7% last year.

By comparison, the S&P 500 Index is up 3.6% so far this year and gained 28.9% last year.

SHE, launched in March 2016, has attracted $134 million for a strategy focused on companies that employ women in high-level leadership roles. The fund is up 55 basis points this year and gained 11% last year.

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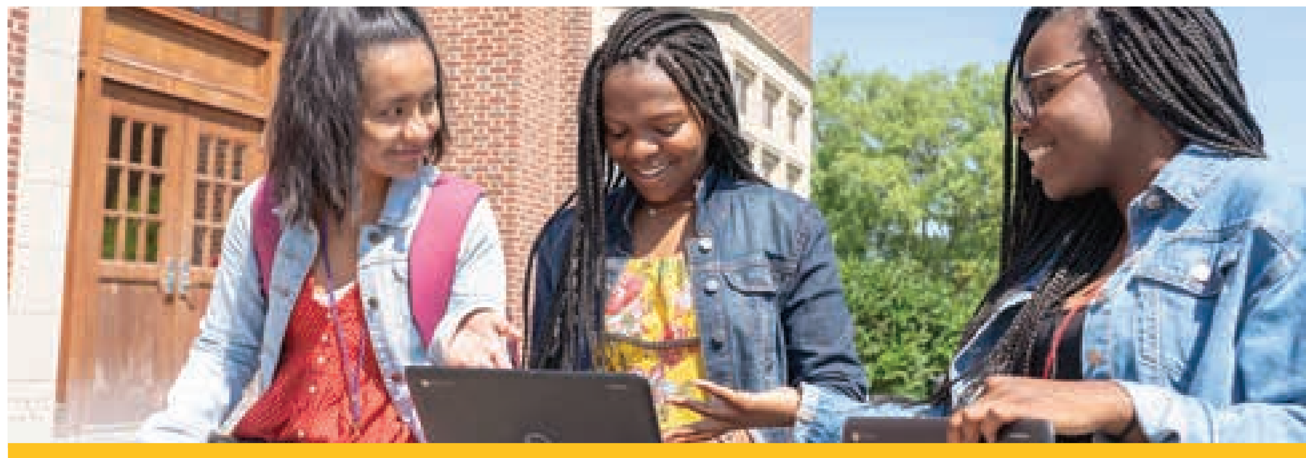

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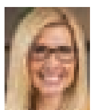
diversity&INCLUSION

From left: Freedom Financial Vice President Jason Harris, CEO Julia Carlson and President Chandran Rajaratnam

Are prospective clients looking for diversity?

With the rise of the Black Lives Matter movement and the media calling out disparities throughout our culture, potential clients these days are paying much more attention to diversity. This appears to be a reflection of the polarization that is so widespread in society today. However, we see a net positive result due to this phenomenon. Here are three examples:


GUESTBLOG
JULIA CARLSON

• We recently had an inquiry from a potential client asking how diverse our group was. That was a surprise, but we welcomed the question. This gives us hope that progress is being made.

• We recently became a member of Association of African American Financial Advisors. Within a few weeks, we received a referral of someone who was looking to do business with a Black adviser.

• We asked one of our newest clients, a C-suite executive at a publicly traded company, "What set us apart from the other advisers you were interviewing?" One of the things she mentioned was the diversity of our team. She has an adopted daughter and she wanted her daughter to see a team of professional advisers who did not all look the same and who did not look like her parents. She had confidence that we could handle her financial life with more prowess than her current adviser, and the bonus was that our company represents what she stands for: diversity and inclusion.

NO JUDGMENT

At Financial Freedom Wealth Management Group, we choose to respond with love and respect to all, and don't judge those who seem to be bigoted. If someone asks for our help, regardless of their personal attitudes, we will provide it. However, as a result of the fact that our team consists of visible minorities, we rarely have customers who object to this.

Many prospects, as they become more aware of the issues facing minorities in society, are looking to do business with firms that have a diverse team. We see that as a trend that is growing in our business.

Diversity is not only about the ethnic and racial makeup of the team. Our team consists of people with diverse points of view and ideas, which are reflected in our rich offerings to our clients.

It will be difficult for organizations that are not already diverse in their team makeup to change. Just hiring minorities when the attitude and biases of the people already in the organization haven't changed will not result in the desired outcome. Organizations that are already diverse will benefit from this trend while the rest try to catch up.

KEY POINTS

- Potential clients are paying much more attention to diversity these days.
- Organizations that are already diverse will benefit from this trend.

Julia Carlson is founder and CEO of Financial Freedom Wealth Management Group. Follow her on Twitter @fitmoneydr.

Get creative about planning client events in a virtual world

As advisers and clients continue to work remotely in many parts of the country, trends that started in March persist. The pandemic is causing a paradigm shift, and advisers who reenvision their practices now can position themselves for future success.

GUESTBLOG
KRISTINE McMANUS

Take client events as an example. Whether it's a holiday party or an intimate dinner, most advisers host some type of gathering throughout the year. Socializing with clients is a proven way to enhance relationships and is often a great source of referrals, particularly when clients bring friends along.

In our new virtual world, few advisers are hosting dinners or wine tastings, and even fewer clients want to attend; instead, advisers are planning unique, scalable events that are deepening relationships in surprising ways. Below are a few examples and suggestions to get your creative juices flowing.

GET COOKING

One adviser's friend is a professional chef whose restaurant closed. The adviser developed the idea of a virtual cooking class, which turned into an enormously successful event. He had aprons printed with his logo (and a food quote) and sent them to his guests along with the invitation and a list of ingredi-

ents. Lastly, the adviser told clients he'd be happy to welcome their friends, too.

Not only did all invitees attend, five clients asked to have friends involved. Because it was all done via Zoom, it was easy for the adviser to accommodate more guests — at no extra expense. And, as a kicker, clients have asked to do it again!

It's worth noting that all the guests came to the cooking class prepared to be pleased. Everyone knew why they weren't together in person. They appreciated the class as a welcome break from their routine and were pleased the adviser was thinking of them.

The adviser confided that, though he has spent enormous amounts of time, energy and money hosting lavish dinner parties in the past, he's never gotten more positive feedback than he received from participants in this virtual cooking class.

SAY CHEESE!

Another adviser is taking advantage of the beautiful fall weather to host a photography session at a local park. She invited clients and their families (including pets) to join her near a pond, where a professional photographer will take portraits. Because the photographer will set up more than 6 feet away from the clients, they are comfortable with the idea — and many have expressed appreciation for a long overdue family portrait.

Appointments are scheduled 30 minutes apart, and guests are instructed to stand in waiting areas that are staggered for safety when they arrive. The adviser and a staff member will be on hand with cider, donuts and apples, and will have a chance to talk to their clients — as well as the next generation of clients — while they wait.

The adviser intends to send clients a print version of the portrait, as well as a digital version in case clients want to use the photo in a holiday card — a great starting point for conversations and potential referrals. How's that for getting creative?

VIRTUAL POSSIBILITIES

If you're an adviser who used to conduct public seminars or workshops, these times hold great opportunities for you. You can reach large numbers of prospects with a virtual format, and, because the barrier to entry is small (prospects only need to sit in front of a computer), they might give your session a try when they ordinarily wouldn't.

You might find other opportunities, too. For example, portfolio managers and analysts who wouldn't normally travel to speak at your event might be willing to participate in a Zoom call. Now you've got an event to promote on your website, social media and elsewhere.

We've all felt the limitations of COVID-19 the past six months, but there are silver linings for advisers, their practices — and their clients.

Kristine McManus is vice president and chief business development officer for practice management at Commonwealth Financial Network.

10 tips for passing the CFP exam

BY BRITTNEY GRIMES

Here are some helpful tips on how to pass the exam to achieve the certified financial planner designation, provided by financial advisers who have passed the exam.

1 A GOOD REVIEW COURSE

Choosing a good review course is crucial, as it will help narrow down the important topics and clarify where you should spend time studying before the test. Also, coffee or at least a good breakfast before the test!

Theodore R. Haley
President
Advanced Wealth Management

2 STUDY WHAT YOU DON'T KNOW

Everyone studying for the exam takes practice test after practice test after practice test — and it can be so tempting to continue answering the 'easy' questions again and again because getting them right feels good. It's more important to keep repeating the questions you get wrong ... over and over until you get them right every time. I suggest keeping a list of all the questions you get wrong each time you take a practice test. Then go back and do those questions again a week later, then another week later, and so on until you consistently get them right. Make sure to space out the retakes, however; you don't want to get the questions right because you only memorized the right answer, rather than understanding why it's the right answer.

Kathleen T. Kenealy
Managing director
Boston Private

3 TAKE ADVANTAGE OF PRACTICE QUESTIONS

Take advantage of practice questions. My review course (Dalton) included a 1,500-question test bank. I worked my way through all of them over two months. I passed the CFP exam on my first attempt but I would have felt more confident if I started the practice questions earlier.

Mary Beth Franklin
Contributing editor
InvestmentNews

4 CONSTANT AND CONSISTENT PRACTICE

What worked best for me was to practice question after question. That was the best way for me to reinforce my knowledge, identify areas where I could use some additional studying, and get best prepared for what to expect on the actual exam.

Jason L. Williams
Principal, senior client advisor
Sullivan Bruyette Speros & Blayney

5 FOCUS ON THINGS YOU CAN CONTROL

My tip on passing consists on focusing on a few things you can control. Be prepared, put the time in to study, without the necessary prep you have no chance of passing. Don't fight the exam, understand what the CFP Board expects out of a CFP, it doesn't matter if you agree or not, answer the way they want. Finally, practice pacing for the exam prior to taking the exam. Time management is especially important for this exam, and if you haven't practiced you could find yourself halfway through the questions during one of the two three-hour sessions with only five minutes left.

Charles C. Weeks
Founding partner
Barrister Wealth Management

6 REVIEW THE CFP BOARD'S CODE OF ETHICS AND STANDARDS OF CONDUCT

Read, re-read and read again the CFP(r) Board Code and Standards — every single day, day in and day out three weeks prior to the exam. Most all questions come through that lens. You must understand that lens.

Nadine Marie Burns
President and CEO
A New Path Financial

7 PACE YOURSELF

Many people approach exams with a 'sprinter's mentality.' They study intensely for short stretches and try to keep enough of the material in short-term memory to clear the exam. The breadth of material is so expansive on the CFP exam that sprinting will not be successful. Marathon trainees have a schedule of at least four months with casual runs leading up to runs as long as 20 miles. They pace themselves, take breaks for recovery time and gradually build up their endurance as race day approaches. I mention endurance because the exam itself is two sessions of three hours with a short break in-between. Same as the marathoner needs to get some long runs in, you need to do a few practice exams to build up your endurance and power through a long day.

Ron Guay
Financial adviser
Rivermark Wealth Management

8 WRITE DOWN IMPORTANT INFORMATION

Whatever you want to remember, like calculation formulas, write them down on your scrap board/paper as soon as you sit down at the testing computer. I found that this 'frees' up your brain so you can concentrate on the question at hand, not trying to remember formulas and such which could be distracting although necessary.

Angela G. Ribuffo
Financial adviser
Raion Financial Strategies

9 SPEND TIME ON A CLIENT'S STORY

The CFP exam is about application. It's about understanding people's financial stories. Spend some time on those case studies. Really understanding the different pieces of that client's story. It's a great way to be effective on the exam because if you learn how to digest all of that information about a client's story, you can really nail that part of the exam.

Tanya Nichols
Founder and president
Align Financial

10 STUDY AND NEVER SECOND-GUESS

You'd think it's obvious, but apparently it isn't. You need to study. A friend and I took the exam at the same time. I studied. He didn't. He failed. I passed. Also, answer all the big scenario questions first. Never second-guess yourself. If you don't know the answer, eliminate obviously wrong choices, then go with your gut.

Thomas I. Rindahl
Financial adviser
TruWest Wealth Management Services

Regulation/Legislation

SEC / FINRA / STATE REGULATORS / CONGRESS / FIDUCIARY / COMPLIANCE

XYPN lobbies for fee-for-service rules

BY MARK SCHOEFF JR.

AS IT LAUNCHES a state lobbying initiative, one of XY Planning Network's priorities is to convince states to take similar approaches to regulating the fee-for-service model that its 1,300 advisers use.

Michael Kitces, XYPN co-founder, is frustrated that policies on service-based charges — such as hourly, monthly and retainer subscription fees — can vary from state to state and sometimes within the same state's securities department.

"We're trying to encourage a more consistent level of regulation," Kitces told reporters last Monday during XYPN's virtual annual conference.

XYPN also will promote fiduciary advice policies at the state level as part of its lobbying program.

It announced the launch of the effort at its conference at the same time it indicated that it will not appeal to the Supreme Court its lawsuit against Regulation Best Interest, the Securities and Exchange Commission's new broker advice standard. A federal appeals court upheld Reg BI earlier this summer.

State securities regulators have raised concerns about advisers charging a monthly fee without providing specific services during the month.

"Fees need to be reasonable and so far, states have not warmed to the idea of advisers charging fees for availability alone," Ohio Securities Commissioner Andrea Seidt wrote in an email. "As a legal matter, advisers need to deliver services according to the contractual term they set with their clients — whether that be one month, one quarter, or one year."

Regulators have requested refunds for clients when "an adviser had charged a client for many months and could not identify any demonstrable client activity or service to a state examiner," Seidt said. States also have raised objections to monthly subscription fees that exceed the equivalent of a 2% annual fee on assets under management.

SCHWAB MODEL

Seidt praised the Charles Schwab subscription model for offering a low monthly fee that "falls within existing caps upon conversion," easy cancellation options and providing services that are easily documented.

"If XYPN is wanting state signoff on that Schwab type of approach, I'm sure states are willing to listen," she said.

Kitces countered that the Schwab subscription is for investment management, while XYPN members provide financial planning advice beyond investment management. He also said that registered investment advisers have long charged quarterly fees based on AUM without providing services on a quarterly basis.

KEY POINTS

- XYPN wants standardized rules for fee-for-service model across states.
- XYPN will promote fiduciary advice policies at state level.

"I don't understand why advisors would be required to refund clients' monthly fees if clients end out not using their investment management, financial planning, or availability for that month, when regulators have for decades permitted advisors providing literally identical services without requiring them to refund their quarterly AUM fees when clients end out not using their investment management, financial planning, or availability," Kitces wrote in an email.

State regulators should start with AUM-based advisers in requiring services be rendered in each billing period, he said.

States have had "several productive conversations" with XYPN, Seidt said.

Kitces said he has asked the North American Securities Administrators Association to write a model rule for fee-for-service regulation. He said that fee-for-service is working well, and none of the XYPN advisers who use its compliance policies has recorded any fee complaints.

"Given a base of advisers as large as we have, [that] means the fee-for-service model actually has an astonishingly low complaints rate from consumers," Kitces told reporters at the conference.

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SEC proposal would allow 'finders' to pitch unregistered securities

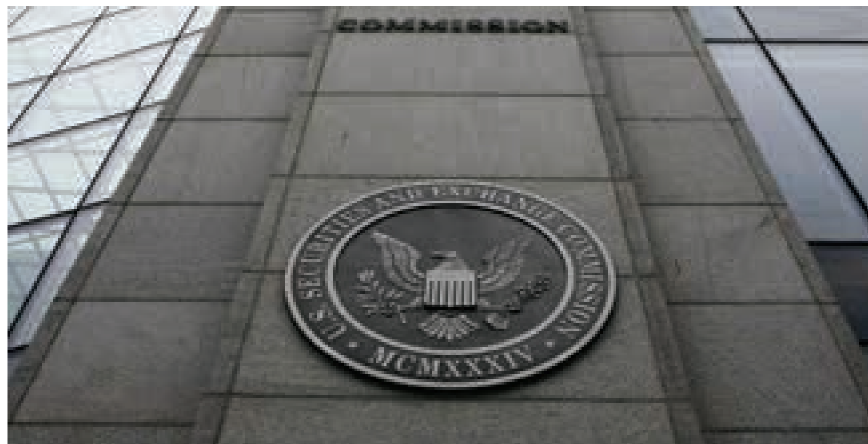
BY MARK SCHOEFF JR.

THE SECURITIES AND Exchange Commission released a proposal Oct. 7 that would allow people who are not registered as brokers to help small and emerging businesses raise capital in the private securities market.

The SEC plan — approved for public comment by a 3 to 2 vote — would establish so-called "finders" who would help connect entities looking for financing with accredited investors eligible to buy unregistered securities.

Like other recent private market reform proposals, this one drew an objection from SEC Democratic member Allison Herren Lee over potential investor harm. The new SEC Democrat, Caroline Crenshaw, also opposed the proposal.

A Tier I finder could only provide contact information for potential investors for a single capital-raising transaction in a 12-month period, according to the proposal. A Tier II finder would have more latitude to identify and contact investors, distribute offering materials and arrange and participate in meetings between the issuer and investors.



REGISTRATION EXEMPTIONS

The exemptions to registration would require a finder to meet certain conditions, such as not engaging in general solicitation and only working with accredited investors. A finder could not provide investment advice nor advise on the valuation of the offering.

The proposal will be open for a 30-day comment period after it's published in the Federal Register.

SEC Chairman Jay Clayton said in a statement the rule is needed to help small businesses locate financing "in places that lack established, robust capital raising networks. Particularly in these ecosystems, finders may play an important role in facilitating capital formation for smaller issuers."

He said the rule would clear up confusion about finders' regulatory status.

"If adopted, the proposed relief will bring clarity to finders' regulatory status in a tailored manner that addresses the capital formation needs of certain smaller issuers while preserving investor protections," said Clayton, who has championed private market reform.

But Lee said the proposal lacks safeguards that govern registered brokers.

"I could have supported a proposed rulemaking that offered a scaled registration model for finders that tailored investor protections to the new risks the model creates," Lee said at an SEC open meeting. "Instead, today we simply propose to permit unregistered activity that meets the traditional definition of brokerage without adding basic protections such as record-keeping requirements or the ability to inspect for compliance."

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KRISTA DEGUFFROY
Director of Inclusion and Compliance, SEI Investments

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MARGARET STARNER
Senior vice president
Starner Group of Raymond James & Associates

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Ritholtz CEO Josh Brown on why your marketing matters

BY NICOLE CASPERSON

THE MOST UNDERRATED marketing strategy in financial planning is writing content that lets your firm talk directly with clients.

That's the upshot from Ritholtz Wealth Management CEO Josh Brown during *InvestmentNews'* FinTech Virtual Summit on Oct. 8.

"I just feel compelled to write about my experiences," Brown said. "All the people that are doing content for the firm are really passionate about the subject matter — so we'd be writing and producing content anyway even if it wasn't to promote the firm."

The inherent authenticity that is exposed through this strategy has bumped Ritholtz Wealth to manage more than $1.5 billion in assets while continuously growing a fan base of prospects and clients, Brown said.

REFORMED BROKER

"When you start off with the client coming in as a fan, you're not spending a lot of time on small talk and making them comfortable," he said. "They're already comfortable. They want to know: 'Can you help me?'"

Brown has been blogging about markets, politics, economics, media, culture and finance since 2008 via The Reformed Broker. He hosts a weekly podcast called The Compound Show and has written three books — "Clash of The Financial Pundits," "Backstage Wall Street" and the upcoming "How I Invest My Money," set to release in November.

"It's not that we think we know everything, a lot of what we're writing about deals with the uncertainty of the subject matter and all of the things that are unknowable," he said. "Being willing to say, 'All right, we're pretty smart, but there's a lot we still don't know and here's how we think about that,' that resonates with readers."

To date, Ritholtz Wealth works with about 1,200 households nationwide, Brown said, and has 16 client-facing advisers. "Then the other 17 members of the firm, myself included, are in support of that advisory work," he said.

In terms of social media, advisers will only be able to benefit from those platforms if they can produce compelling content. "Writing is underrated," Brown said. "Everyone focuses so much on Twitter and LinkedIn, but if you have nothing to say, how are you going to build an audience?"

> **KEY POINTS**
> - Brown has more than 1.1 million followers on Twitter.
> - Advisers can benefit from social media by creating authentic content.

Brown's strategy has proven successful; he boasts 1.1 million Twitter followers and Ritholtz Wealth holds the attention of more than 27,000 followers.

"If you can get people to think, 'I love when that guy writes, I always read it,' that's a killer skill," Brown said. "Then you can use all the other social networks to show people what you're an expert at."

In turn, advisers can leverage the vast amount of curated content the firm produces to become well versed in Ritholtz Wealth's investing philosophy and relay the best of it to clients, which leads to a higher ratio of clients and prospects.

"There are people reading my blog or listening to the podcast that in 10 years might qualify to become clients," Brown said. "We'll be there when they're ready."

PLAYING POLITICS

For the firm's advisers, this strategy has also propelled them to grow because they aren't marketing, cold calling or thinking about where their next client is coming from.

"I will bury them in potential clients," Brown said. "All I want advisers to do is financial planning work up front, present our portfolio recommendation and turn that initial relationship into something that really becomes meaningful over years, and hopefully decades, that's the job description."

But what type of content gains traction? Brown said that he wishes financial planning content gets the clicks, but in the current environment politics are more than likely to double engagement from clients.

"Now, after the election it'll probably go back to people wanting to hear about stocks, ways to save money and early retirement," he said.

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David Lerner's liabilities keep growing

BY BRUCE KELLY

DAVID LERNER Associates Inc., once known for its New York-area radio ads selling municipal bonds, reported in a recent filing with the Securities and Exchange Commission that its financial condition continued to decline last year, with its negative net worth increasing 29.4%, or $5 million, compared to the prior year.

In its 2019 audited financial statement, known as a Focus report, the firm cited a "negative net worth," meaning its liabilities are greater than assets, of $22 million at the end of 2019, up from $17 million in 2018.

According to the Focus report, which was filed with the SEC in March but did not appear on the commission's website until recently, the company's principal stockholder, David Lerner, is continuing to provide financing for the broker-dealer.

The firm did not report income or revenue for 2019.

David Lerner Associates recently received an unqualified or clean report from its accountant, spokesperson Jake Mendlinger noted in an email.

"The deficit indicated in the financials is offset by subordinated loans that qualify as regulatory capital," he wrote. "DLA's ownership is committed to maintaining the financial viability of the firm. We are optimistic about the company's future."

'TIP FROM POPPY'

According to its website, the firm has $4.5 billion in client assets and six branches in the Northeast and Florida.

David Lerner Associates was once well known in the New York area for radio ads that practically blanketed the airwaves and asked prospective investors to "Take a tip from Poppy," referring to Mr. Lerner, who promoted municipal bonds.

In 2012, the Financial Industry Regulatory Authority Inc. ordered the firm to pay more than $3.7 million in fines and restitution for overcharging retail customers on sales of more than 1,500 municipal bonds and 1,700 collateralized mortgage obligation transactions.

A year later, Finra ordered the firm to pay $12 million in restitution to clients who had purchased shares of a nontraded REIT called Apple REIT 10. Finra also fined Lerner more than $2.3 million for charging unfair prices on municipal bonds and collateralized mortgage obligations.

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17. I certify that the statements made by me above are correct and complete.

Christine Shaw, CEO

BOOK REVIEW

CONTINUED FROM PAGE 4

The original idea for the book was spawned from a July 2019 blog post by Brown, in which he detailed his personal investment strategy. The essayists were asked to read it and write their own story.

"We wanted a diverse set of views so it could be informative and inspirational to anyone who picked it up," said Portnoy. "This isn't an Excel spreadsheet of your portfolio, this is how you invest broadly in yourself, your family, and your community. People had license to do what they wanted, but there was instruction that this is not supposed to be promotional."

With those basic marching orders, the eclectic blend of industry representatives shared personal stories that help reinforce the idea that every situation is unique, and investing is a matter of perspective.

Bob Seawright, chief investment officer at Madison Avenue Securities, for example, writes about the value of owning a vacation home on the other side of the country, despite the expense, taxes and other logistical challenges.

"It's a lousy investment," he writes, before rattling off a long list of memorable multigeneration family activities that include picnics, swimming, boating, picking blueberries and eating s'mores.

"It's the most important financial investment we'll ever make," he added.

Morgan Housel, a partner at the Collaborative Fund, writes, like many, about the importance of low-cost indexed investing, while preaching the virtues of living beneath your means.

"My investing strategy doesn't rely on picking the right sector, or timing the next recession," he writes. "It relies on a high savings rate, patience, and optimism that the global economy will create value over the next several decades."

Brown admits the open-ended nature of the essay requests could have gone any number of directions, but that the final result is what he had hoped for.

"People went deeper and more personal than I thought they would," he said. "Most of the contributors are usually being asked what should other people be doing with their money. The major thing we wanted to demonstrate is it's not what investments people hold; it's the reasons people invest that's most important."

In his essay, Brown writes that everyone at Ritholtz invests in the same asset allocation models as the clients. But he also allocates some of his money to support other businesses.

"I don't mind having friends run a portion of my money and I don't judge them against the S&P 500," he writes.

PERSPECTIVE IS THE KEY

Virtually every essayist in the book offers an unapologetic example of investing in something that defies the laws of financial logic, which proves there are many ways to invest and that perspective is key.

Howard Lindzon, co-founder of StockTwits, has zero allocated to bonds, while Carolyn McClanahan, founder of Life Planning Partners, has half her portfolio in fixed income.

The one thing missing from the book is the age of each essayist, which would help place context around their investment decisions. Hopefully, that will be changed in future editions.

Generally, and impressively, the mission of making investing about much more than just money — and all the while focusing on the very long-term horizon — was accomplished.

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NEW FEE

CONTINUED FROM PAGE 4

per adviser, sources said, and advisers have until next September to avoid paying it if they don't move the accounts from the outside fund manager to the Avantax platform. If the accounts are not moved by then, the charge will be assessed retroactively.

PAPERLESS FEE

Meanwhile, an Avantax adviser, who asked not to be named, said the firm was also adding a $7.50 annual fee for advisory accounts at Fidelity's National Financial that send clients paper account statements in an effort to move accounts to digital statements. Avantax currently pays that fee.

"Avantax will continue to offer a broad range of both fee-based platforms and commission-based platforms from which our financial professionals can choose, based on what's in the best interest of their clients," company spokesperson Tony Katsulos wrote in an email. He did not comment about the additional fee to advisers who don't switch clients to paperless accounts.

Avantax Investment Services is the combination of two firms that focus on CPAs and advisers with tax-centered practices: the former HD Vest Financial Services Inc. and 1st Global Inc. Tax preparation software company Blucora Inc. owns Avantax, which had about $70 billion in client assets at the end of 2019, according to InvestmentNews Research.

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COLA

CONTINUED FROM PAGE 4

they claim Social Security before their full retirement age.

EARNINGS CAP

In 2021, individuals who are under full retirement age for the full year will be able to earn up to $18,960 per year without forfeiting any benefits. That's up from $18,240 this year. If their earnings from a job exceed that cap, they would lose $1 in benefits for every $2 earned over the limit. The earnings cap does not apply to pensions, investments or other forms of unearned income.

In the year someone reaches full retirement, there is a more generous earnings cap. In 2021, they would be able to earn up to $50,520 in the months leading up to their birthday. That's up from $48,600 this year. If their earnings exceed that limit, they would forfeit $1 in benefits for every $3 earned over that limit.

The earnings restrictions disappear at full retirement age, which currently ranges from 66 to 67 depending on birth year. Any benefits lost to the earnings cap are restored in the form of higher monthly benefits at full retirement age.

The annual COLA also affects how much workers pay in FICA taxes that fund Social Security benefits.

Employers and employees each pay 7.65% of wages to support Social Security and Medicare. Self-employed individuals pay both the employer and employee share for a combined tax rate of 15.3%. In 2021, the 6.2% portion of the payroll tax that funds Social Security applies to the first $137,700 of gross earnings. A 1.3% COLA would boost the maximum taxable wages to $142,800 in 2021.

The Medicare portion of the tax is 1.45% on all earnings, even those about the maximum Social Security tax limit. Plus, individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) pay an additional 0.9% in Medicare taxes.

PART B

Many retirees should see a slight increase in their net Social Security benefits in 2021 even after factoring in Medicare Part B premiums. Such premiums, which cover doctors' fees and outpatient services, are usually deducted directly from Social Security benefits.

The latest Medicare Trustees' report projects that basic Medicare Part B premiums will increase by about $8.70 a month, to $153.30 per month, in 2021. The official announcement about Medicare premiums for 2021 will be issued later this year. High-income retirees pay more for the same Medicare coverage.

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MORGAN STANLEY

CONTINUED FROM PAGE 2

gap has been closing and we're now turning positive."

"We're at an interesting inflection point in our businesses," Gorman added.

Like Merrill Lynch and UBS, Morgan Stanley said a few years ago that it was moving away from relying on recruiting financial advisers from competitors and instead pushed its advisers to grab a bigger share of clients' assets held at competitors and introduced technology and planning tools as part of that effort. Recruiting advisers from competitors is extremely expensive but also essential in the wealth management industry.

Morgan Stanley's wealth management revenues totaled $4.66 billion in the third quarter, compared to $4.39 billion a year earlier. Revenue per adviser during the quarter was running at an annualized rate of $1.21 million, an 8% increase from the same time last year, when it was $1.12 million.

The firm recently closed its acquisition of discount broker ETrade Financial Corp. and said it was buying fund manager Eaton Vance for $7 billion.

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NEW JERSEY

CONTINUED FROM PAGE 3

Financial services lobbying groups, such as the Securities Industry and Financial Markets Association, oppose a financial transactions tax, asserting that it is the equivalent of a sales tax on investors.

Brian Graff, president of the American Retirement Association, cautions that the cost of the tax would be passed on to retirement accounts. He said more than two-thirds of participants in 401(k) plans earn less than $100,000 annually.

'COMPLICATED' AT STATE LEVEL

"It's going to cover retirement savers, and that's a lot of middle- and low-income people in New Jersey," Graff said. "The folks in New Jersey recognize that doing this at the state level is complicated."

Zach Gladney, a partner at the law firm Alston & Bird, doubts a transaction tax will be approved in New Jersey because the stock exchanges could easily relocate to other states, such as Connecticut.

"That service industry in New Jersey will no longer exist if the tax is passed," Gladney said. "It's just too portable of a business. It's going to be long term more detrimental to New Jersey than helpful."

Financial industry lobbyists are girding for a fight in Congress next year, depending on the outcome of the election. Democratic majorities on Capitol Hill likely would try to advance a trading levy.

"A financial transactions tax is something we're going to be closely monitoring as a potential threat," Graff said.

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RBC TEAM

CONTINUED FROM PAGE 3

cision to leave JPMorgan related to RBC's ownership of City National Bank, she said.

"City National speaks to our niche focus on the entertainment industry," Lopez said. "They have always been one step ahead of us in the entertainment industry, so why recreate the wheel."

With a presence in Los Angeles, Nashville, and New York City, the entertainment industry is a specialty of The LSS Group, but the team caters to high-net-worth individuals in general, Lopez said.

City National, a subsidiary of Toronto-based Royal Bank of Canada, has a long history of specializing in and serving the entertainment industry, and provides tailored financial advice and personal service to over 80% of the country music industry in Nashville, as well as half of all Broadway shows and much of the film and television industry.

ENTERTAINMENT FOCUS

The bank's teams in L.A., Nashville and New York will collaborate closely with The LSS Group to offer clients a full breadth of financial services and City National's suite of technology solutions designed specifically for the needs of the entertainment industry.

Another influence on The LSS Group's move to RBC was the opportunity to reconnect with New York complex director John Moran, whom the team worked with more than a decade ago at Smith Barney.

"Having worked with these incredible women in the past, I can say firsthand how their drive, ambition, expertise and strong wealth management practice will be a great fit for our team," Moran said in a statement. "They have become the gold standard for wealth management, and I look forward to helping them grow their impressive practice even further."

David DeVoe, managing director of DeVoe & Co., highlighted the rarity of an all-female team in an industry in which 80% of financial advisers are men.

"Kudos to RBC," he said. "It's a great win to get a strong team, and a female team is important in today's environment."

NOT BY DESIGN

In terms of the all-female factor, Lopez said it was never by design. Up until four years ago the group included a man, who passed away.

"It has been a natural organic evolution of our team and support team that happens to be all female as well," she said. "We've all been working mothers and we've broken through a lot of glass ceilings."

Mark Bruno, managing director at Echelon Partners, said the move is proof that the pandemic is not standing in the way of adviser movement.

"We've seen a lot of really good recruiting activity this year and it's been interesting to see how many really large teams are moving," he said. "Earlier this year, with all things being virtual, we thought more people would be staying in place, but it seems like more people are using this as an opportunity to move."

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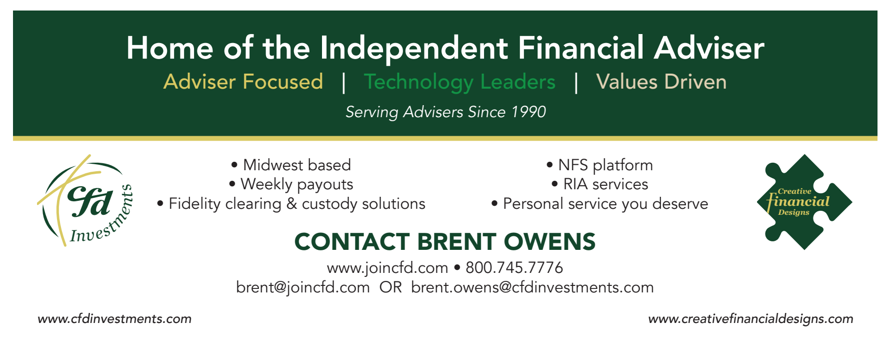

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