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JANUARY 18-22, 2021

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ARE IBDs READY FOR A HACK ATTACK?

WITH ADVISERS MORE RELIANT ON TECH THAN EVER BEFORE, BROKER-DEALERS ARE INCREASINGLY ON GUARD AGAINST CYBERTHREATS IN 2021 PAGE 8

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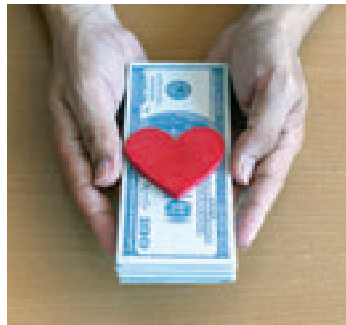

Ed Slott shows how to help clients reduce their RMD tax bill using charitable contributions.

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Wells Fargo cuts costs as adviser rolls decline

BY BRUCE KELLY

WELLS FARGO ADVISORS has been reporting an overall decline in financial advisers for years, but 2020 stands out: The wirehouse, whose parent bank Wells Fargo & Co. is cutting costs and restructuring under a new CEO, reported 901 fewer financial advisers last year or roughly double the number it lost in 2019.

Wells Fargo has revised how it tallies its head count and this quarter began including about 800 to 900 private bankers and portfolio managers that work at its "private wealth" unit, which includes its private bank and Abbot Downing, which is being merged into Wells Fargo Advisors.

In its earnings release last Friday the company reported having a total of 13,513 financial advisers at the end of December, a decrease of 6.25% compared to the end of 2019.

The two sharp annual declines in brokers and advisers at Wells Fargo don't provide an exact apples-to-apples comparison because the company has changed its reporting. But it does give an indication of how deep the structural changes are under Charlie Scharf, who took over as CEO a year ago.

Financial advisers are usually off-limits when large institutions are looking to cut costs and personnel. But under Scharf, Wells Fargo has not shied away from laying off advisers or cutting adviser-led businesses.

In October, Wells Fargo said it had cut a "sizable group" of advisers as it reported slumping profits. Those advisers, however, were not core wealth management advisers but rather lower-producing, salaried advisers. This year the company also said it was pulling out of the international wealth management business.

PROFITABILITY AT A PREMIUM

It's clear that Wells Fargo Advisors is trying to focus on the most profitable wirehouse advisers, who produce large amounts of total annual revenue in the neighborhood of $1 million.

"We continue to see retirements, which have increased due to our successful Summit succession program, ensuring that clients remain with us after an advisor retires," spokesperson Shea Leordeanu wrote in an email. "And we see other advisors leaving the industry. As is typical in the fourth quarter, retirements increased quarter over quarter as expected."

Meanwhile, total client assets at Wells Fargo's wealth and investment management group, which includes its advisers, increased 6% to a record $2 trillion, primarily driven by higher market valuations, the company reported.

bkelly@investmentnews.com

Raymond James chops executives' pay in 2020

BY BRUCE KELLY

RAYMOND JAMES FINANCIAL Inc., with more than 8,000 financial advisers, cut the pay of senior executives in its fiscal year 2020, as the firm laid off employees and dealt with the business turmoil created by COVID-19.

In fiscal 2020, which ended Sept. 30, Raymond James CEO Paul Reilly had total compensation of $11.3 million, a decline of almost 17% compared to the prior year, according to the firm's annual proxy statement, which was filed Jan. 8.

Jeffrey Julien, executive vice president of finance at the firm, saw his total annual compensation decline by 46% to $2 million in fiscal 2020, while the compensation of James Bunn, president of global equities and investment banking, declined 12% to $4.4 million. Bella Allaire, executive vice president of technology and operations, had her total pay drop 11.4% last year, to $3.1 million.

17%
AMOUNT OF SALARY REDUCTION FOR RAYJAY CEO PAUL REILLY IN 2020

Raymond James cut 500 jobs in September, or 4% of its workforce, to control costs during the pandemic. None of the employees whose jobs were eliminated were financial advisers, the company said at the time.

The last half of the year was a difficult one, Raymond James reported in its proxy statement.

"After a strong start to fiscal 2020, the second half was difficult, as we faced the COVID-19 pandemic, global economic uncertainty and social unrest across the nation," according to the filing, but it said the company had "good financial results" and strong recruiting and retention of financial advisers.

Raymond James reported that this year is going to be a bumpy ride as well.

"Moving forward, we expect to face continued headwinds in 2021 from a full year of lower short-term interest rates, and there remains a high degree of uncertainty about the course of the COVID-19 pandemic and the transition to a new U.S. administration," according to the proxy. "However, we believe that Raymond James is well positioned for growth."

bkelly@investmentnews.com

Brokerages suspend political spending

BY BRUCE KELLY

THE DIVISIVE, VIOLENT politics that spurred the U.S. Capital riots on Jan. 6 are apparently spilling into the financial advice industry as firms that are home to thousands of registered reps and financial advisers back away from political donations.

The firms that are temporarily halting or rethinking how they donate money to politicians via political action committees, or PACs, are some of the most prominent platforms for financial advisers and registered reps, including: Bank of America Corp., Morgan Stanley, Charles Schwab Corp., JPMorgan Chase & Co. and Goldman Sachs Group Inc.

The riots at the U.S. Capitol occurred as Congress was tallying the Electoral College votes for President-elect Joseph R. Biden, who will be sworn in as the forty-sixth U.S. president Wednesday.

Corporate America appears to be drawing a distinction between two types of politicians: those who did not vote for future President Biden during the largely ceremonial process and all other members of Congress.

The first group, the representatives and senators who voted against the certification of the presidential election, are staunch supporters of President Donald Trump, who has spent weeks making charges that the November election was a fraud.

DOLING OUT MONEY

Morgan Stanley, for example, is suspending PAC contributions to members of Congress who did not vote to certify results of the Electoral College for Biden and Vice President-elect Kamala Harris, a spokesperson said. And Bank of America, which owns Merrill Lynch, will take the U.S. Capitol riots into consideration when it doles out money to politicians in 2022, a spokesperson said.

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Black advisers share reactions to Capitol Hill riots

BY NICOLE CASPERSON

ALTHOUGH MARKETS WERE undaunted by riots at the U.S. Capitol building last Wednesday, advisers are ready to double down on diversity, equity and inclusion after the event shed light on racial disparities the nation continues to face, according to executives.

The advisers interviewed for this story, who are all Black, expressed a belief that the Capitol Hill riots stood in stark contrast to the way law enforcement handled Black Lives Matter protests.

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Schwab says no more campaign donations

BY MARK SCHOEFF JR.

CHARLES SCHWAB CORP. announced last Wednesday it will no longer make financial contributions to political campaigns.

The firm said it is shutting down its political action committee, the mechanism through which it collects voluntary contributions from its employees and directors that are then distributed to lawmakers.

The move came a week after a mob supporting President Donald Trump stormed the U.S. Capitol and disrupted congressional certification of the Electoral College vote that later affirmed President-elect Joe Biden's victory.

When the electoral vote count resumed, more than 140 members of Congress voted to object to the results from two key

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Trade groups rethink giving to Trump loyalists

BY MARK SCHOEFF JR.

TRADE ASSOCIATIONS that represent financial advisers are rethinking whether they will make political donations to lawmakers who voted against certifying presidential election results.

On Jan. 6, a normally routine House and Senate ratification of the Electoral College vote was halted when a mob supporting President Donald Trump broke into the U.S. Capitol. The insurrection occurred as some members of Congress opposed the election results in Arizona and Pennsylvania, key swing states won by President-elect Joe Biden.

When order was restored in the Capitol, more than 140 members of Congress voted to object to the electoral vote in one or both of the states that were in dispute. In the days that followed, major financial firms suspended donations to those who objected, or to all lawmakers.

Washington trade associations that represent financial firms and advisers also are wrestling with whether and how to change their political action committee policies on donations in the wake of the Capitol conflagration.

"I WILL NOTE WHO VOTED AGAINST CERTIFICATION."

NEIL SIMON, THE INVESTMENT ADVISER ASSOCIATION

"I will note who voted against certification so there can be a robust discussion by the PAC board on whether we want to hold off making contributions to those legislators," said Neil Simon, vice president for government relations at the Investment Adviser Association.

The IAA made $46,000 in political contribution to 2020 campaigns, according to Federal Election Commission data through late November.

The Financial Services Institute, which represents independent broker-dealers and financial advisers and spent about $316,000 on 2020 campaigns, is suspending all donations while it reviews its political contribution guidelines, said FSI spokesperson Allison Kuehner Mutschler.

The Investment Company Institute, which represents the mutual fund industry and contributed about

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An old bond strategy that's good as gold

If you already thought gold investing was a fringe strategy, you might want to sit down for this one.

INSIGHTS
JEFF BENJAMIN

A fledgling but interesting operation out of Scottsdale, Arizona, is hoping to turn back the clock by introducing gold bonds that are purchased and repaid with actual gold.

The company, Monetary Metals & Co., already has one deal under its belt and is jockeying to gain traction by reminding folks that this was a common practice about 90 years ago, before FDR's Gold Reserve Act put the kibosh on all the fun.

In addition to a gold leasing business that lets people essentially rent out their gold to companies for yields between 2% and 4.5% a year, Monetary Metals last month orchestrated the issuance of its first gold bond by Australian gold mining company Shine Resources.

GOLD OUT

The one-year bond, worth approximately $6 million, or 3,000 ounces of gold, was purchased by investors for a minimum buy-in price of 10 ounces of gold, which was trading at around $1,800 an ounce last Friday.

Under the terms of the agreement, investors earn a 2% yield on their bond until their share of the proceeds is withdrawn and used by Shine Resources, at which point the bond yield jumps to 13% annualized, net of fees.

2% PROMISED YIELD ON BOND BACKED BY REAL GOLD

Keith Weiner, founder and chief executive of Monetary Metals, said the initial bond offering was oversubscribed, suggesting liquidity options for any investors looking to cash out (um, gold out) before year's end.

Weiner said the next gold bond issuance, involving an unnamed public company based in Australia, will be in the 50,000- to 70,000-ounce range, or between $100 million and $140 million, and have a five-year maturity.

To navigate the logistics of using gold as a currency, Monetary Metals has partnered with New York-based broker-dealer Ashton Stewart to help investors acquire the gold needed to buy the bonds.

The physical gold is held at the Delaware Depository, the country's

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Butowsky tweets, deletes, apology for 2016 remarks

BY BRUCE KELLY

HIGH-PROFILE AND outspoken financial adviser Ed Butowsky took to Twitter last Tuesday to make an apology to the brother of Seth Rich, a former employee of the Democratic National Committee whose murder in the summer of 2016 gave life to right-wing conspiracy theories involving leaked Democratic National Committee emails.

Will Sommer @... · Jan 13
Ed Butowsky, the wealthy conservative who was involved in Fox News's fallacious story on murdered DNC staffer Seth Rich, is apologizing to Rich's brother Aaron for suggesting he stole Democratic emails. The retraction is presumably part of an upcoming legal settlement.

In a curious development to a strange, twisting tale, Butowsky, managing director of Chapwood Capital Investment Management, then deleted the three Tweets later Tuesday, but not before they were saved by Will Sommer, a reporter at the Daily Beast. Aaron is Seth Rich's

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DOL tells 401(k) sponsors how to find 'missing' participants

BY EMILE HALLEZ

THE DEPARTMENT OF Labor last Tuesday told retirement plan sponsors how to avoid getting in hot water over plan participants they've lost track of, including guidance on how employers should try to locate such "missing" participants.

That guidance comes years after it was requested by industry groups. The DOL regularly investigates employers over the issue of missing participants, but until now it hadn't provided clear steps on how to remedy the problem.

Employers had previously relied on guidance from the IRS on how to deal with terminated plans, though the federal Pension Benefit Guaranty Corp. launched a 401(k) missing participant program in 2017, said Jason Roberts, CEO of the Pension Resource Institute.

"This issue as of the last couple of years just kept coming up," Roberts said, citing instances in which plan sponsor clients were under DOL investigations. "They would say, 'You haven't done enough to find them,'" without telling sponsors how to address the alleged shortcoming.

The guidance has three components — a description of best practices for retirement plans, a compliance assistance release and a field assistance bulletin outlining 401(k) sponsors' use of the PBGC missing participant program.

One group, the ERISA Industry Committee, had asked the DOL since at least 2018 to provide clarity. In a statement, the group praised the agency for a "good first step."

SETTING A STANDARD

"The Compliance Assistance Release provides transparency in the DOL's enforcement efforts and provides a national enforcement standard that employers can look to," Aliya Robinson, senior vice president of retirement and compensation at ERIC, wrote in the statement. "While we remain concerned that best practices become de facto requirements, we appreciate the sharing of policies and operations that have been successful."

In its missing participant guidance, the DOL noted that "the first step in addressing any problem often is knowing that there is one."

The Employee Benefits Security Administration "has learned from its experience and from plan sponsors that the following 'red flags' are often warnings or indicators of a problem with missing or nonresponsive participants," the DOL stated.

Such red flags include "more than a small number" of nonresponsive plan participants or of terminated vested participants who have not started taking payments from the plan upon reaching

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TOP STRATEGIES FOR THE YEAR AHEAD

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Opinion

EDITOR'S NOTE

Have the conversation

Conversation is a lost art, and that gap in our collective skill set has created pain points across every aspect of our lives.

In our personal lives, the temptation to sweep uncomfortable topics under the rug rather than engage might make for a less volatile dinner, but if I've learned nothing else from having the kids around ALL THE TIME, it's that having hard conversations is better than not.

GEORGE B. MORIARTY

And professionally, it's no different. The financial advice industry built itself on conversation and listening. Every successful adviser talks about not just storming into a meeting and pushing your product, but rather taking the time to hear what the client's situation is and understanding their story. That only comes from conversation.

But as the industry tackles diversity, conversation becomes a challenge. Conversation, though, can help. I witnessed it earlier this week. During an excellent meeting of *IN* editorial advisers, two new members mentioned the opportunity and need for *IN* to continue to provide a voice for the value of diversity in the profession. Their insights and ideas were invaluable.

Then a self-described "seasoned" professional asked the question: "How can I help?" It started an incredible conversation. They both cited the value of asking the question and helping one another. Plus, they spoke of the need to avoid persecution or exclusion of any group.

Inclusion requires including everyone who wants to do good and letting them ask the questions that matter.

This all came from conversation. So let's keep talking.

gmoriarty@investmentnews.com

A resolution to cover the topics advisers value most

Late last year, *InvestmentNews* asked financial professionals to share with us their business resolutions for 2021, and many obliged us with pledges that ranged from improving client service to adding a range of new technologies in the new year.

Most are dedicating their focus in 2021 to clients and helping them secure what they value most, either now or in the future. Overall, they're resolved to provide more. At *InvestmentNews*, we're also planning to spend the new year focused on a similar mission of delivering more.

We resolve to increase the breadth of topics we bring to our adviser audience because we know clients are expecting and needing more right now.

Some of that additional information will include planning strategies for those individuals advisers help through pro bono work and financial literacy efforts.

For one, our stories, videos, podcasts and events will include suggestions for planning topics that go beyond what wealthy families need to include budgeting, taking advantage of low-income tax benefits, student loan repayment, debt strategies and more.

Many next generation advisers have been focused for years on clients who need more ground-level planning, and they also tend to be most engaged in financial literacy efforts. We're committed to sharing more stories about how advisers can make a difference in the lives of families beyond their own clients.

But that's not all.

We'll also share more modern thoughts on retirement income, including annuities. Not the kind that brokers convince 80-year-olds to spend their life's savings on, but some interesting investment-only and accumulation-focused products, buffered annuities and other protected outcome solutions.

WE'RE COMMITTED TO SHARING MORE STORIES ABOUT HOW ADVISERS CAN MAKE A DIFFERENCE

Provisions in the SECURE Act will ultimately lead to more 401(k) plans using annuities as part of the default investment option, and advisers will need to understand the varieties.

Bitcoin is another subject we expect to cover more, and not just its volatile price. We'll write about how firms such as Fidelity are dipping their toes into the waters with this new asset class. Advisers need to know about Bitcoin and other digital currencies as investments and as payment tools because clients will be asking about them — maybe even wanting to pay with them one day.

We'll also be pumping even more ESG news onto the pages of InvestmentNews.com, as client interest in socially responsible investing continues to grow and questions to advisers will likely increase. Want even more? Check out our sister site at ESGClarityUS.com.

InvestmentNews aims to arm advisers with enough knowledge to answer client questions about what ESG investing is — and isn't — and to decide whether they want to serve up such options within portfolios. If not, advisers would be smart to have some outside solutions or professionals to recommend to clients — as most socially minded individuals aren't going give up their desires to link their values and their fortunes.

The pandemic has pushed to the forefront the issue of sustainability for investors, businesses and governments, while also boosting the need for compassionate advisers to spread financial literacy to Americans who need it more than ever.

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Chief Executive Officer
Christine Shaw, cshaw@investmentnews.com

CONTENT
Chief Content Officer: George B. Moriarty
gmoriarty@investmentnews.com
Managing Editor: Paul Curcio
pcurcio@investmentnews.com
Deputy Managing Editor: Sean Allocca
sallocca@investmentnews.com
Assistant Managing Editor: Susan Kelly
skelly@investmentnews.com
Senior Editor, Special Projects: Liz Skinner
lskinner@investmentnews.com
Contributing Editor: Mary Beth Franklin
mbfranklin@investmentnews.com
Senior Columnist: Jeff Benjamin
jbenjamin@investmentnews.com
Senior Columnist: Bruce Kelly
bkelly@investmentnews.com
Senior Reporter: Mark Schoeff Jr.
mschoeff@investmentnews.com
Reporter: Emile Hallez
ehallez@investmentnews.com
Reporter: Nicole Casperson
ncasperson@investmentnews.com
Editorial Special Projects Manager: Brittney Grimes
bgrimes@investmentnews.com

Director of Multimedia: Stephen Lamb

CREATIVE DEPARTMENT
Executive Art Director: Scott Valenzano
Associate Art Director: Pablo Turcios
Digital Designer: Ken Wilson

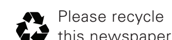
TECHNOLOGY
Chief Technology Officer: Simon Collin
simon.collin@bonhillplc.com
Digital Operations Manager: Christian Eddleston
ceddleston@investmentnews.com
Developer: Jeff Paitchell
jpaitchell@investmentnews.com

ADVERTISING SALES
Director of Revenue Operations: Shara Richter
srichter@investmentnews.com
Business Solutions Manager, New England:
Justine DeGaetano, jdegaetano@investmentnews.com
Business Solutions Manager, West Coast:
John Shaughnessy, jshaughnessy@investmentnews.com
Business Solutions Manager, Eastern U.S.:
Judith Kelly, jkelly@investmentnews.com
Business Solutions Manager, Eastern U.S.:
Michelle Richard , mrichard@investmentnews.com
Business Solutions Manager, Midwest:
Jason Anciulis, janciulis@investmentnews.com
Client Services Manager:
Caroline Murphy, cmurphy@investmentnews.com
Client Services Manager:
Mike Charest, mcharest@investmentnews.com
Head of Digital Advertising Operations:
Berta Franco, Berta.franco@bonhillplc.com
Digital Ad Operations Campaign Manager:
Kimberly Hall, khall@investmentnews.com
Digital Ad Operations:
Jason Tebaldi, jtebaldi@investmentnews.com
Director of Event Sales: Dan Rubinetti
drubinetti@investmentnews.com
Director of Event Operations: Brie Johnson
bjohnson@investmentnews.com
Business Solutions Manager & U.S. Events:
Sabrina Straub, sstraub@investmentnews.com
Marketing Director: Sasha Burgansky
sburgansky@investmentnews.com
Director of Customer Service, Events:
Natalie Taylor, ntaylor@investmentnews.com

AUDIENCE AND MARKETING
Director of Audience and Analytics:
Ellen Brady, ebrady@investmentnews.com
Senior Research Analyst: Devin McGinley
dmcginley@investmentnews.com
Email Marketing Specialist: Nicole Chantharaj
nchantaraj@investmentnews.com
Digital Operations Manager: Thomas Markley
tmarkley@investmentnews.com
Audience Data Specialist: Julie Vanderperre
jvanderperre@investmentnews.com
Director of Marketing, Brand and Products:
Katie Downey, kdowney@investmentnews.com
Marketing Coordinator: Morgan Mallon
mmallon@investmentnews.com
Director of Project Management: Gillian Albert
galbert@investmentnews.com
Digital Operations Specialist: Carla Flores
cflores@investmentnews.com
Senior Graphic Designer: Kyung Yoo-Pursell
kpursell@investmentnews.com

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

BONHILL GROUP, PLC
Chief Executive Officer: Simon Stilwell
Chief Technology Officer: Simon Collin
Chief Financial Officer: Sarah Thompson
Head Office: Bonhill Group, Plc Fleet House, 59-61 Clerkenwell Road, London, EC1M 5LA



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2021 Market Outlook: Money, Markets And Mystery

Wednesday, Jan. 27, 2021 | 4:00pm-5:00pm ET

Register at investmentnews.com/marketoutlook

Senior Reporter Jeff Benjamin will moderate this InvestmentNews' webcast that will bring together investment experts who will focus on the trends and expectations for the year ahead.

The topics to be discussed include:

- What does the year ahead hold for passive and active investment management?
- How should advisers prepare for the change in DC leadership?
- Will ESG continue the explosive growth experienced in 2020?

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2021 Planning Strategies: A fireside chat with Ed Slott

Thursday, Jan. 28, 2021 | 2:00pm-3:00pm ET

Register at investmentnews.com/taxoutlookwebcast

The new year brings a host of new planning challenges — and opportunities — for financial advisers and their clients. Join InvestmentNews' Chief Content Officer George Moriarty as he sits down with IRA planning expert Ed Slott to discuss strategies advisers need to monitor in 2021 for their clients.

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- Finding the right tax planning tips to help clients
- Preparing a gifting plan for 2021

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BROKER-DEALERS CYBERTHREATS

AFTER RUSSIAN HACK, IBDS SEE CYBERSECURITY AS A TOP PRIORITY FOR 2021

BY BRUCE KELLY

It's the nightmare of every independent broker-dealer executive, particularly after the recently revealed Russian hack of upwards of 250 federal government agencies and businesses put a spotlight on cybersecurity. What if criminals breach a broker-dealer's cyber wall by impersonating its financial advisers?

The phony advisers call the broker-dealer's support line and request new passwords, which gives the intruders access to the personal information of thousands of clients.

Then the real, targeted adviser gets an email notification about the request and informs the firm. The broker-dealer takes steps to respond to the intrusion but falls short and does not prevent the attackers from accessing the portal through other compromised adviser logins.

That horrific scenario is actually a true story. Voya Financial Advisors paid $1 million in 2018 to settle Securities and Exchange Commission charges regarding a data security breach two years earlier that compromised the personal information of thousands of customers.

The Russians hackers gained access to the U.S. government agencies via a software update by a third-party vendor, SolarWinds. Independent broker-dealers are also vulnerable to breaches at third-party vendors, since they typically rely on such vendors for technology. Building systems and software is expensive and time-consuming for firms that are watching their margins shrink with interest rates hovering once again near zero.

SolarWinds, a network management software company, was secretly hacked in early 2020; the hackers then added malicious code to the company's software system.

Broker-dealers obviously need to be on their guard for both types of cyberattacks. 2020 was the year that independent broker-dealers needed to rely on technology more than ever, with home-office staff and a large

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Robinhood hacking victim sues over lax cybersecurity

A California man sued Robinhood Markets Inc. after his account was hacked, claiming the trading platform aimed at millennials didn't do enough to protect customers' sensitive information.

Siddharth Mehta said in a complaint provided by his lawyer that his account was looted of "tens of thousands of dollars" in July. He's seeking to represent all other hacking victims in the proposed class-action lawsuit.

The complaint wasn't immediately available in public filings on Santa Clara County court's website.

Mehta is one of almost 2,000 Robinhood users whose accounts were compromised by cybercriminals last year, according to an internal review at the company in October 2020.

"ROBINHOOD BEHAVED LIKE IT WAS JUST A TECH STARTUP."

KEVIN OSBORNE, PARTNER, ERICKSON KRAMER OSBORNE

"Robinhood's customers collectively lost millions of dollars," Mehta said in the complaint. "Robinhood neglected to inform customers of the unauthorized activity for months. Only after reports were leaked by anonymous sources to news outlets did Robinhood disclose that a widespread breach had occurred."

Mehta didn't immediately notice his account had been broken into, according to the complaint. His lawyer, Kevin Osborne, partner at Erickson Kramer Osborne, said Mehta wasn't refunded the money he lost.

"Robinhood behaved like it was just a tech startup — running fast, breaking stuff, and growing faster than its systems could handle," Osborne said in an emailed statement. "But it's not just a startup, it's a financial institution and it has real responsibilities. They're handling people's savings."

Robinhood declined to comment on the lawsuit.

The online brokerage that allows users to buy fractions of shares to make trading more affordable exploded in popularity last year, adding millions of users.

The case is Mehta v. Robinhood Financial LLC, Superior Court of the State of California, County of Santa Clara.

— Bloomberg News

CONTINUED FROM PAGE 9
number of advisers working from home or in remote offices.

IBDs and advisers often don't have sophisticated authentication systems that use text messages or phone calls to sign on to networks. Are they ready if they're the target of a sophisticated cyberbreach in 2021?

"By not having a modern, secure, multifactor authentication for each login, independent broker-dealers are inviting trouble," said Steve Hunt, senior analyst on Aite Group's cybersecurity team. "It's not like they are asking for trouble, but to a hacker they look like the one house on the block with the dim porch light and flimsy lock on the door."

"After any data breach or attack each enterprise should ask the questions, 'Can this happen here? And what controls do we have that would prevent this type of attack?'" Kevin Murphy, senior manager at T-Mobile, wrote in an email.

"In this particular case, do we require a secure development and build environment from our vendors?" Murphy asked. "Is it part of our third-party agreements? A secure authentication is certainly part of a secure development and build environment and should be one of the controls in place."

"Based on the SolarWinds attack, enterprise customers need to review their third-party agreements and review the attestations for the security of the patches," or a set of changes to a computer program meant to update it, he added.

MAJOR CONCERN

Cybersecurity was the top near-term tech concern for independent broker-dealers, according to the 2020 InvestmentNews Adviser Technology Study, and was cited by 77% of firms who participated.

Some firms are taking extra precautions, while others are not. Sixty-five percent of IBDs had at least some cybersecurity coverage in their E&O — errors and omissions — insurance, and 29% purchased supplemental insurance for cyberliability, according to the study.

The threat is real for advisers. Seven percent of all advisory firms have had data compromised as the result of a cybersecurity breach, according to the study.

Broker-dealers rely on outside or third-party vendors for technology and other services and can sometimes suffer ill effects as a result.

The Financial Industry Regulatory Authority Inc. closed out 2020 by hitting LPL Financial, the largest independent broker-dealer in the industry, on Dec. 31 with a $6.5 million fine due to shortcomings in a variety of supervisory issues, ranging from record keeping to fingerprinting of non-registered employees and supervision of advisers' consolidated reports.

From January 2014 to September 2019, LPL fell short in its supervision of consolidated reports generated by outside, third-party vendors that its advisers used, according to Finra. The vendors did not send the reports to LPL and the firm did not review them.

One former LPL broker exploited the weak supervision of consolidated reports, essentially documents that summarize customers' assets, to send reports containing fictitious assets to several LPL customers as part of a $1 million Ponzi scheme, according to Finra.

THIRD-PARTY PROBLEMS

While the lapse in LPL's supervision of the reports is not a hacking issue, it shows the sprawling access that third-party vendors have inside independent broker-dealers.

"IBDs are different than the victims of the SolarWinds-related attack — they're not big organizations that foreign attackers want to go after — but they are susceptible to security shortcomings that everyone faces," said Aite Group's Hunt.

"Because of the SolarWinds attack, we are reviewing the data protection agreement with third-party vendors to make sure we have those protections in place," said Nick Harness, chief information officer at Kestra Financial.

"And we're about to restart those conversations to see what vendors' cybersecurity controls look like and other reviews, too," Harness said.

Kestra does the initial review in-house and then uses a consultant to complete the majority of the due diligence grunt work of a tech vendor exam, he said.

"In an ideal world, those reviews would be similar across vendors and expect that to be a challenge," Harness said. "In our industry, there are a lot of fintech partners and there will be gaps in those controls. SolarWinds highlighted that everybody is not immune to this."

Reliance on outside companies and vendors makes it imperative to be on guard for such attacks.

"It's not realistic for us to eliminate using third-party vendors, so it's down to intense due diligence of the third parties you are using," said Amy Webber, president and CEO of Cambridge Investment Research, a leading independent broker-dealer.

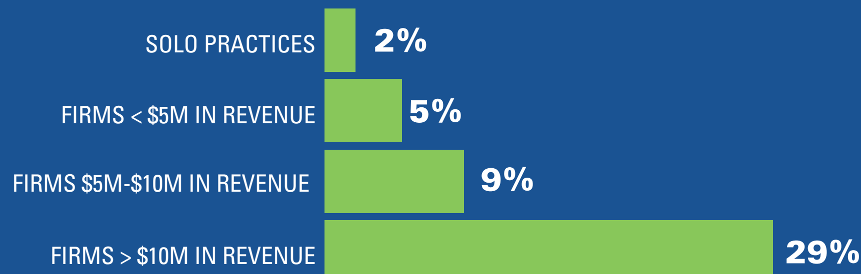
It's a matter of when, not if, a B-D will face a cyberattack, she added.

"We chose not to do business with certain companies because their risk mitigation wasn't strong enough," Webber said. "At one point in time, our advisers used a system to store client documents so everyone, the accountants, the attorneys, could look at them in a vault-type facility. But there are a lot of vaults we can't do business with because they are not safe enough."

"You have to be willing to say no to some vendors and keep on looking," she added.

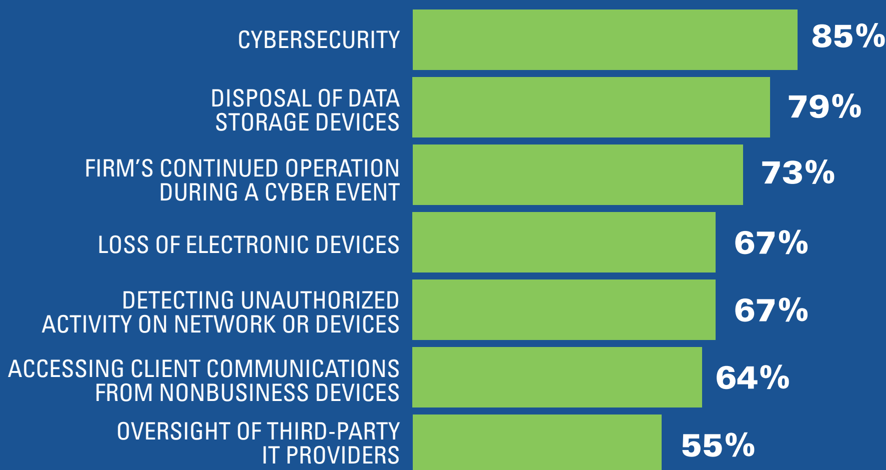
bkelly@investmentnews.com

LARGER FIRMS MOST AT RISK OF A SECURITY BREACH

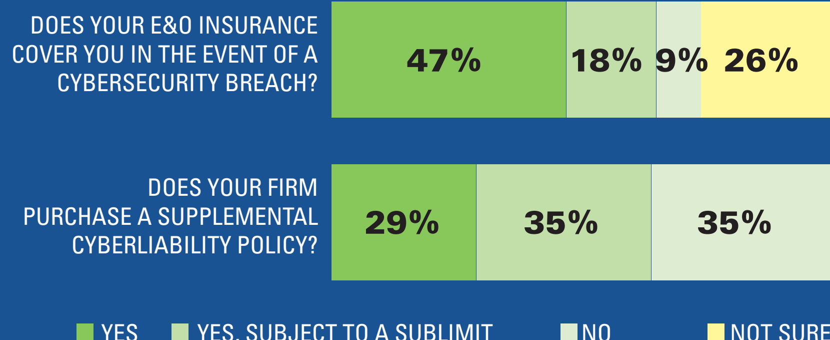


*Firms reporting a cyberbreach in their history

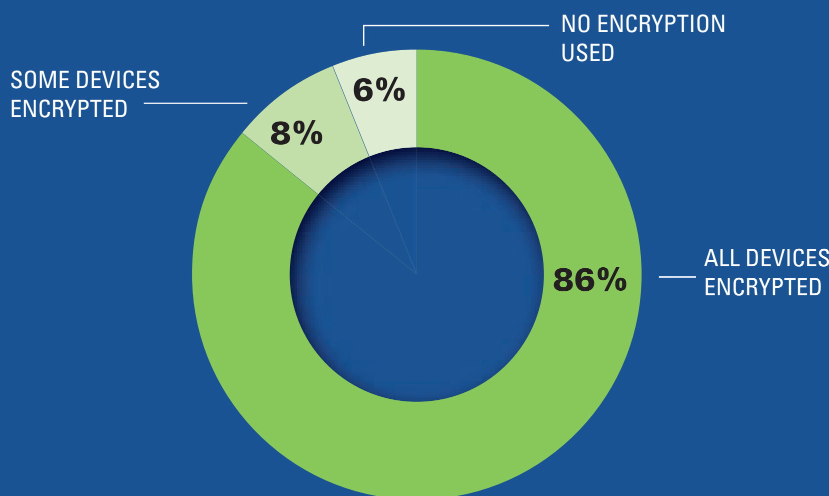
DOES YOUR FIRM HAVE DOCUMENTED POLICIES AND PROCEDURES IN PLACE FOR THE FOLLOWING? (IBD AFFILIATES ONLY)



CYBERLIABILITY INSURANCE AT IBDS



DATA ENCRYPTION AT IBDS



Source: InvestmentNews 2020 Adviser Technology Study

2020 Elite RIA Study

Insights from Top-Performing Advisory Firms

InvestmentNews surveyed the Elite* registered investment advisory firms to find out what makes them stand out from the pack. This study, produced in partnership with E*TRADE Advisor Services, enables the reader's advisory business to learn the best practices of these industry leaders and experts.

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- How elite RIAs have coped with the unique challenges of the COVID-19 pandemic

*Independent RIAs and hybrids affiliated with broker-dealers having at least $250 million in assets under management and score in the 50th percentile of firm productivity and revenue per staff.

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Job losses put focus on holistic planning

The awful year of 2020 may be history, but economic uncertainty and concerns about job security continue to cloud many clients' financial plan. Those concerns were underscored by the news that U.S. nonfarm payrolls declined by 140,000 in December, following seven consecutive months of job gains.

In the new year, financial advisers, accustomed to offering long-term guidance on retirement planning and investment advice, may want to emphasize more holistic aspects of planning, including building emergency funds and managing debt.

MARY BETH FRANKLIN

ONRETIREMENT

"In wealth management, the transformation from an investment and transaction focus to a more holistic relationship with individuals and families has been underway for years," according to a new white paper, "The Future of Wealth Management," from Salesforce. "But the pandemic has accelerated the need for advisors to adapt quickly to empower clients to navigate uncertainty."

Mari Adams, branch manager of Mercer Advisors in Boca Raton, Florida, agrees. "There's nothing like an honest-to-goodness crisis to give your emergency preparation a test run and there's no doubt that the 2020 COVID pandemic qualifies as one of the most profound crises ever to affect our nation," she wrote in her weekly newsletter.

Adams noted that while many Americans who were living paycheck to paycheck before the pandemic had little or no financial cushion, even some higher-income households fell woefully short of the six months of emergency reserves generally recommended by financial planners.

DISCRETIONARY SPENDING

Ironically, many people who were able to continue to work from home during the lockdown saw their savings soar as their usual spending on discretionary items such as restaurants, travel and entertainment was curtailed.

Others who lost jobs in the decimated retail, hospitality and travel sectors, or who found they could not return to work due to childcare and remote schooling responsibilities, represent the new "have-nots" of the pandemic. Goldman Sachs estimates that 42% of small businesses have had to lay off employees or cut their compensation over the past year, leaving millions of Americans unemployed.

Martin Abo, managing member of accounting firm Abo and Co., offered some basic financial planning advice and tax tips for clients who have been recently laid off and others who suspect they may be laid off soon.

Abo urged the still-employed-but-worried group to conserve cash and postpone spending on things that are not strictly necessary. It's also important to keep creditors happy as a good credit report and access to additional credit could come in handy if a layoff occurs.

KEY POINTS

- Clients worried about their jobs should conserve cash.
- Clients who've lost their jobs may need help on how to draw funds from retirement accounts.

But clients shouldn't be afraid to put necessary expenses on a credit card to build up a cash reserve, Abo said. If a layoff doesn't occur, the credit card balances can be paid off quickly. If the client does lose a job, the cash reserve provides a margin for error and the credit card balances can be paid off over an extended period, he said.

It's also a good idea to arrange additional credit, if possible, such as a home equity line of credit. A HELOC allows homeowners with sufficient equity to borrow money as needed rather than taking out a lump-sum loan. However, with current low interest rates, it may be possible to replace an existing mortgage with a cash-out refinancing that could both reduce monthly payments and create extra cash to add to emergency reserves. Clients should also contact their bank to arrange overdraft protection if they haven't done so already.

If clients are already unemployed, Abo said advisers' main goal should be to keep them from making the situation worse by inadvertently or impulsively taking actions that result in otherwise avoidable tax liabilities.

Someone who is 55 or older when laid off may need to access some money from retirement accounts before attaining age 59½. While qualified plan distributions for those who separate from service after age 55 are exempt from the 10% early withdrawal penalty, distributions are still taxable. However, the early withdrawal penalty exemption is lost if the funds are rolled over into an IRA.

EARLY WITHDRAWAL PENALTY

"If there is an immediate critical need for some of the retirement plan money, keep some outside the rollover IRA and roll over the rest," Abo said. "The taxable plan distribution not rolled over will be subject to income tax but not the 10% penalty."

Another way to avoid the 10% early withdrawal penalty for distributions before 59½ is to arrange "substantially equal periodic payments" from a retirement plan through a 72(t) distribution. However, once the annuitization program begins, clients must stick with it for at least five years or until age 59½, whichever is later, or face retroactive early withdrawal penalties back to the initial distribution.

For unemployed workers who have passed age 59½, it may make sense to take a withdrawal from an IRA or 401(k) when reduced income will lead to little or no tax liability on the distribution. It could also allow those clients to delay claiming Social Security benefits until an older age — up to age 70 — when benefits would be worth more for the rest of their lives.

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

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

INmail

BY MARY BETH FRANKLIN

Remarriage rules for survivors

Cameron: I have a hypothetical question regarding a widow who is 62 and has not claimed Social Security. Her husband died four years ago. She plans to claim survivor benefits at her full retirement age. My question is, if she remarries, does the Social Security survivor benefit go away?

MBF: Good news! As the widow has already waited beyond age 60 to remarry, she can claim a survivor benefit based on her first husband's earnings record even while married to someone else.

Depending on her earnings history, the widow may be entitled to three different Social Security benefits: her own retirement benefit, a survivor benefit based on her late husband's earnings and a spousal benefit once she remarries. But she can claim only one benefit at a time.

Keep in mind that spousal benefits are worth up to 50% of a worker's full retirement age benefit amount if the spouse claims at her full retirement age or later, while survivor benefits are worth 100% of a deceased worker's benefit if the survivor claims at full retirement age or later. So it's likely the survivor benefit on her first husband would be larger than the spousal benefit on her future husband.

If your client is entitled to Social Security on her own earnings record, she may want to collect reduced retirement benefits now at age 62 and switch to her survivor benefits at her full retirement age, when they would be worth 100% of what her husband was receiving or entitled to receive at the time of his death. Survivor benefits do not grow larger if collected after full retirement age.

Assuming your client was born in 1959, she is among the group of Social Security beneficiaries born from 1955 through 1962 who have different ages for full retirement benefits and full survivor benefits. For example, someone born in 1959 can claim full retirement benefits at 66 and 10 months but is eligible for full survivor benefits four months sooner, at age 66 and 6 months.

However, if she collects any type of Social Security benefit before her full retirement age and continues to work, she is subject to earnings restrictions if her gross wages exceed $18,960 in 2021.

January is the new December for charitable contributions

IRAALERT
ED SLOTT

Required minimum distributions from retirement accounts resume in 2021 after being waived for 2020. By acting early in the year, advisers can help clients reduce their RMD tax bill with qualified charitable distributions, if they qualify.

The QCD tax benefit only applies to owners and beneficiaries of individual retirement accounts who are 70½ or older. Even though the age at which the RMD requirement kicks was raised to 72 by the SECURE Act, the QCD age remains at 70½. This gap can allow IRA owners who are not yet subject to RMDs to use QCDs, if they are at least 70½.

QCDs cannot be made from employer plans like 401(k)s and 403(b)s. In addition, donor-advised funds, including other supporting charitable entities and private foundations, do not qualify for QCDs. Up to $100,000 per year can be given with QCDs (not per IRA account, but per person). The QCD must be done as a direct transfer from the IRA to the charity.

QCD TAX BENEFIT

QCDs allow qualifying clients to receive a tax benefit for their charitable gifts. The funds leaving the IRA to be given to the charity are not a taxable distribution — the distribution is excluded from income.

Most people no longer receive tax benefits for their charitable donations because they take the standard deduction, as opposed to itemizing deductions. The QCD provides a better tax benefit than an itemized deduction anyway, because the QCD is an exclusion from income and can lower adjusted gross income. An itemized deduction does not reduce AGI. The QCD benefit is in addition to the standard deduction.

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AGE AT WHICH RMDS KICK IN UNDER SECURE ACT

For those who are resuming RMDs this year, donating to charity via a QCD can offset the RMD income — but only if the QCD is properly timed.

If the RMD is taken before the QCD, it will be taxable, and it cannot be offset with a QCD done later in the year. That's why advisers should let clients know that when it comes to making charitable gifts, January is the new December. Most people tend to do their giving in December at holiday time, but by then it may be too late to gain the tax benefit of offsetting RMD income, due to what's known as the "first dollars out rule."

FIRST DOLLARS OUT RULE

Under the tax rules, the first dollars distributed from a retirement account in any year that the client is subject to an RMD are deemed to go to satisfy that RMD. That's why those who wish to reduce their RMD income with QCDs should do the QCD with the first distributions out of the IRA by transferring the amount they wish to give directly from the IRA to the charity, before taking any RMD for the year.

Example: IRA owner Mary is 75 and subject to RMDs in 2021. Her 2021 RMD amount is $5,000. Mary would like to make charitable contributions for 2021 but usually waits until December to do that. She takes her $5,000 RMD in February 2021, and then does a $5,000 QCD in December thinking it will offset the $5,000 RMD income. But it won't, and Mary won't be happy at tax time. Mary will still have $5,000 of taxable income from the IRA RMD since that RMD was taken before the QCD.

In all, Mary has withdrawn $10,000 from her IRA; $5,000 is taxable and the $5,000 that went to the charity is excluded from income.

What should Mary have done? She should have done the $5,000 QCD early in the year before taking any RMD. If she had, that QCD would have satisfied her 2021 RMD and no additional funds would need to be withdrawn from her IRA unless she wished to make additional withdrawals. The better result: Mary would have withdrawn only $5,000 from her IRA and none of it would have been taxable. Plus, the QCD would have satisfied her 2021 RMD.

QCD TAX TRAP WARNNG

The SECURE Act removed the restriction on individuals who are 70½ or older making contributions to traditional IRAs. But that good news came with a poison pill that could also eliminate the QCD benefit. If a tax-deductible contribution is made, and the client also wants to do a QCD, they may lose the QCD tax benefit and might have to include the QCD as taxable income. Advice: Don't do this. Instead, recommend that the client make the contribution to a Roth IRA, or if married, have one spouse do the tax-deductible IRA and the other do the QCD from their traditional IRA.

For more information on Ed Slott and Ed Slott's 2-Day IRA Workshop, visit www.IRAhelp.com.

New type of 529 account underutilized by financial advisers

BY EMILE HALLEZ

THE RELATIVELY NEW 529 ABLE account can be one of the most useful savings vehicles for people with disabilities, but they have yet to pick up steam among financial advisers.

ABLE accounts, which stand for Achieving a Better Life Experience, have attracted more than $500 million in assets among more than 75,000 savers since 2016, according to a report in late December from AKF Consulting. And while 43 states and the District of Columbia have collaborated to provide those accounts, there is but one adviser-sold program in the country: the Virginia ABLEAmerica, which is distributed by American Funds. That program, which launched in mid-2018, represents less than 1,000 accounts, the AKF report notes.

"We think there is an opportunity for advisers on this," said AKF managing director Andrea Feirstein. Currently, annual contribution limits are $15,000 per account, with one account per beneficiary. But Congress could change that to bring the accounts more in line with 529 college saving accounts, which allow multiple accounts per beneficiary and higher gift limits, Feirstein said.

Under the 2017 Tax Cuts and Jobs Act, ABLE accounts for working people who are not contributing to a retirement account can have an additional $12,760 in annual contributions until 2026, when the law sunsets, the report noted.

The Virginia adviser-sold ABLE program is available to eligible savers in any state, though most states have their own direct-sold programs, and 16 of those have state tax incentives for contributions, according to AKF. By comparison, 35 states have their own tax breaks associated with their college savings plans.

Further, ABLE eligibility is limited to beneficiaries who experience a disability before age 26. Some legislators have proposed expanding that age to 46, which would increase the number of people eligible for ABLE accounts from an estimated 8 million to 14 million, Feirstein said.

"THESE ARE ACCOUNTS THAT ARE IN THE BEST INTEREST OF YOUR CLIENT."

ANDREA FEIRSTEIN, MANAGING DIRECTOR, AKF CONSULTING

"Advisers don't see a big dollar play right now, but my view is that these are accounts that are in the best interest of your client. If you have a wealthier client who has someone with disabilities in his or her family, odds are you're doing a special needs trust," Feirstein said. ABLE does not have income limits for eligibility.

MEDICARE RECAPTURE

There is a drawback to most of the ABLE programs, she noted. Only 11 states do not have Medicaid recapture provisions, meaning that most will attempt to recoup Medicaid funds advanced to an eligible beneficiary after they die.

Virginia's College America plan, which is also distributed by American Funds' parent Capital Group, represented $70.7 billion across 2.4 million accounts nationally, according to AKF.

That state's ABLE plan shows a big difference in account sizes for people who work with advisers. That program has an average account size of about $11,600, compared with the national direct-sold account average of less than $7,100, the report stated.

ehallez@investmentnews.com

$55B VALUE OF DOLLAR-DENOMINATED ESG NOTES COMPANIES RAISED IN 2020, ALMOST DOUBLE THE ROUGHLY $30 BILLION RAISED IN 2019.
SOURCE: BLOOMBERG

Here are 3 issues set to motivate ESG investors in the coming year

GUESTBLOG
ALLYSON MCDONALD

2020 was a tumultuous one for investors facing a pandemic, the resulting economic fallout, and a reckoning on cultural and systemic racism and racial injustice. And no sooner had the new year begun when an anti-democratic mob, incited by outgoing President Trump, brazenly attacked the Capitol, a symbol of U.S. democracy. All of these issues remain top of mind among environmental, social, and governance investors as we head into 2021.

Looking forward, a growing number of investors will continue to use ESG to activate their capital beyond financial returns. Morningstar reports that as of July 2020, ESG funds had already attracted greater inflows than in all of 2019 — and last year's net flows were already four times higher than any previous year. And whereas funds overall hemorrhaged $384.7 billion in the first quarter of 2020, which covered the pandemic sell-off, ESG funds had inflows of $45.6 billion during the same period.

What issues will motivate ESG investors in the coming year? Fostering a just, green recovery in the wake of the pandemic, addressing widespread racial inequity and injustice, and moving the needle on climate change are top of the list.

COVID-19 VACCINES

With vaccine distribution underway, ESG investors are eager to hear manufacturers' plans for scaling up production and ensuring equitable distribution of vaccines and therapies domestically and in recovering economies. How are pharmaceutical companies factoring in public investment into their pricing strategies? What are the legal and reputational risks associated with accepting public money for R&D while minimizing tax payments via tax havens and other means? Investors are urging companies to adopt fair tax policies to safeguard against these risks.

Investors will call on companies to explicitly detail how they plan to carry out their commitments to vaccine access for low-income and communities of color, particularly in the U.S. This demands collaboration, knowledge-sharing, technology transfer — and even sharing IP in the short term.

GENDER AND RACIAL EQUITY

COVID-19 has laid bare pervasive, systemic inequity in the U.S., and many ESG investors are urging companies to build inclusive workforces and identify and dismantle structural racism within their operations and supply chains. Companies are disclosing more information about their approaches to diversity, equity and inclusion and publicly disclosing diversity and compensation data, but there's much more to be done.

In 2020 the median wealth of white households is projected to be 86 times that of Black households. Redressing this inequity is not simply a moral issue, but a practical one within an economy dependent on consumer spending for two-thirds of its activity. Companies benefit from workplace diversity, which correlates with stronger business outcomes, and their performance depends on their ability to attract and retain underrepresented groups.

We also expect to see more ESG investors pushing companies in the U.S. and overseas to increase racial and gender diversity at the board level.

CLIMATE CHANGE

While there's keen anticipation of what President-elect Biden will do to address climate change, ESG investors aren't waiting to act. More investment managers are pressuring banks to increase financing to renewables, decarbonize their loan portfolios and adopt goals aligned with the Paris Accord.

ESG investors are pushing for more disclosure from companies on climate-related political and lobbying activities, "no deforestation" policies, trade association memberships, and risk management and oversight. They have already seen progress from companies like American Water Works, Verizon and Oracle. Now banks are coming under scrutiny: Are they disclosing their engagement with policymakers on legislative and regulatory climate issues? How involved are industry groups and trade associations in these debates, and are companies' stated values consistent with their trade associations'?

These are just a few of the issues on the table for ESG investors in the year ahead. Others will emerge, such as holding companies accountable for lending activity, purchasing decisions, marketing decisions, etc. Meanwhile, issues related to COVID-19, climate, and racial equity aren't going away — and neither are the increasingly influential ESG investors advocating for them.

Allyson McDonald is CEO of Boston Common Asset Management.

Pandemic pushed global ESG bond market to record

BLOOMBERG NEWS

THE GLOBAL SUSTAINABLE debt market grew 29% to a record $732 billion last year, helped by an explosion of bond issuance for social projects amid fallout from the pandemic, according to BloombergNEF.

"Sustainability continues to rise up on the agenda for investors, businesses and governments," Mallory Rutigliano, a sustainable finance analyst at BNEF, said in a report last Monday. "This relatively new market is now being seen as a tool global economies can use to build back greener and socially fairer."

Social bond issuance jumped sevenfold to $147.7 billion in 2020, as governments and companies borrowed for relief from the pandemic amid strong investor demand, said BNEF. Issuance of sustainability bonds — which allow issuers to use proceeds for both green and social projects — rose 81% to $68.7 billion in the period.

> **"SUSTAINABILITY CONTINUES TO RISE UP ON THE AGENDA FOR INVESTORS."**
> MALLORY RUTIGLIANO, ANALYST, BLOOMBERGNEF

The biggest issuers of social bonds last year included the European Union, which tapped the market three times for projects aimed at providing funding for a job support program, with order books for all the offerings heavily oversubscribed. French unemployment insurance management body Unédic Asseo raised 4 billion euros in May to fund its response to COVID-19, the biggest-ever social bond, followed by another deal of the same size in June.

Sales of green bonds — the largest category of sustainable debt by dollar volume — grew by 13% to a record $305.3 billion, after a slowdown in the first half of 2020, BNEF said. Cumulative green bond issuance since 2007 exceeds $1 trillion.

Global sales of ESG-linked loans, meanwhile, slumped last year. Sales of sustainability-linked loans — which have interest rates pegged to issuers' performance on sustainability goals — and green loans dropped by 15% to $119.5 billion and $80.3 billion, respectively, according to BNEF.

"Growing demand from investors and stakeholders will encourage the sustainable debt market to innovate and push new types of instruments," she said.

A shift of U.S. government control to the Democratic Party this month is expected to give an added jolt to sales of corporate bonds that finance environmental and socially responsible projects. JPMorgan Chase & Co. is forecasting a 30% growth in the global green, social and sustainability-linked bond issuance this year.

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Talking Taxes: Parametric Discusses Tax Changes, and How Advisers Can Demonstrate Their Value Add

Talking Taxes: Parametric Discusses Tax Changes, and How Advisers Can Demonstrate Their Value Add
Tax management is an oft-overlooked element of an adviser's value proposition, but that doesn't make it any less important. Fluid tax laws mean its significance won't be diminishing any time soon.

BOB BRESHOCK
Managing Director
Parametric

In an interview with InvestmentNews Content Strategy Studio, Bob Breshock, the managing director leading Parametric's family office advisory group, discussed some of the potential tax changes on the horizon that could affect advisers and their high-net-worth clients. He also shared how advisers can demonstrate the value they bring to clients with efficient tax management. A synopsis of the interview follows:

InvestmentNews Content Strategy Studio: What are some of the potential tax changes we could see under a Biden administration that would impact high-net-worth investors most?

BOB BRESHOCK: With the Democrats winning both Georgia Senate seats they get to a 50-50 split in the Senate and President Biden could pass his vision of tax reform without a single vote from a Republican. This is made possible by "Budget Reconciliation," a streamlined process for passing revenue or spending bills. As part of the process, when a bill gets to the Senate, instead of needing the standard 60 votes for passage, it instead requires only a simple majority. (In the event of a 50-50 tie, Vice President Kamala Harris would cast the tie-breaking vote.)

It's worth noting, however, the timing of tax reform may need to coincide with a post pandemic economy that would be less jeopardized by tax hikes. That said, one item that could have a potentially large impact on high-net-worth investors: For households with adjusted gross income (AGI) of more than $1 million, Biden has proposed taxing realized gains and qualified dividends at regular income rates, instead of the lower capital gains rate that exists today.

Some of Biden's other proposals could affect estate planning. Currently, the Federal Gift and Estate tax exemption is poised to be reduced from $11.58 million to $5.85 million at the end of 2025. Biden has proposed a return to 2009 levels, which stood at $3.5 million for estate transfers and $1 million for gifts, with an increased maximum tax rate of 45%. Essentially, more people would be subject to the estate tax, and at a higher rate. He has also proposed eliminating the step-up in cost basis for an inherited investment.

INCSS: What should advisers do in consideration of these potential changes?

BOB BRESHOCK: It will be different for each client, but advisers will have to evaluate the tradeoff between accelerating the realization of capital gains before the potential tax increase – and giving up deferment, vs. paying capital gains at a later point in time with a potentially higher tax rate. They'll have to factor in the time horizon of the investment, the market environment they anticipate, the tax rate and of course the risk of continuing to maintain those investments.

The murkiness of each of those factors underscores the benefit of having your clients in separately managed accounts. It gives the adviser a level of control that you just don't have with an ETF or mutual fund, where the behavior of other investors in the mutual fund can force taxes on you as they redeem shares based on their own decisions. In this environment, where there's a number of unknowns, controlling what you can and having that ownership of the realization event and the tax lot is going to be extremely important.

INCSS: Circling back to the potential tax changes that could affect estate planning, is there any specific advice for to prepare for that potential change?

BOB BRESHOCK: Many high-net-worth individuals will need to consider using some or all of their current high exemption amount before it is potentially lost. For advisers, this will require careful analysis of how much to give away now and how much to retain for other needs and goals. Advisers will likely consider more use of various split interest trusts such as grantor retained annuity trusts (GRATS). Also, the potential loss of basis step- up means advisers should evaluate charitable giving for highly appreciated assets as well as assessing the investment risk versus tax deferral benefit of low basis holdings.

INCSS: Tax advantaged investing is one of the adviser value adds that clients may not fully appreciate. How can advisers raise awareness?

BOB BRESHOCK: When you think of the built-in frictions that chip away at someone's wealth – an adviser fee, potentially a commission, the investment manager fee and then taxes … Taxes are by far the single largest. Luckily, there's been a real improvement from a variety of platforms that highlight the corrosive effects of tax drag. That modeling can really help advisers quantify their value add and show how they are increasing the client's wealth by effectively managing taxes.

As an adviser, it can also help to sit down and show your clients some of the modeling and scenario analyses you are conducting to consider tax implications. The client experience is changing in that it's much more of a partnership. More and more high-net-worth investors want some control and involvement in the decision-making process. If you can show them you're setting the framework in the right way, but giving them a hand in making decisions, you're improving their experience and at the same time demonstrating some of the work and planning that goes into tax-advantaged investing.

INCSS: What tax laws may be coming off the books in the next five to 10 years that advisers should prepare their clients for now?

BOB BRESHOCK: In 2025, many of the provisions of the 2017 Tax Cut and Jobs Act will sunset. Tax rates will change, standard deduction changes, the limits on state tax deductions and mortgages change, the reduction of AMT will change. It points to the ongoing fluidity of the tax environment. There are a lot of changes on the horizon and continued vigilance of taxes will be needed. For advisers who haven't emphasized tax management, this is a strong way to link to your clients, show your value and create a sticky relationship.

INCSS: What is Parametric doing to help advisers further their tax advantaged investment efforts?

BOB BRESHOCK: Advisers and clients want more and more customization of individual portfolios. We're constantly innovating and providing new tools for advisers to assess the tradeoffs in building these customized portfolios so they have a sense of how that portfolio will perform relative to an index. As just one example, if an adviser has a client that wants to take carbon out of his or her portfolio, our tools can help them know what to remove, and go a step deeper and show the implications of those changes relative to a non-carbon screened benchmark.

There are always tradeoffs and frictions in customization. We help advisers and clients understand and manage those tradeoffs in risk, taxes and cost. ■

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RPA CONVERGENCE

EVOLUTION OF ADVICE

InvestmentNews gathered all sectors of the retirement plan adviser community to discuss the challenges and debate the solutions that this fast-changing business will encounter in 2021 and beyond.

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BROKER-DEALER

Gathering the RPA broker-dealer community together to identify the issues they face and discuss solutions

On Nov. 30 and Dec. 1, *InvestmentNews* sponsored its latest RPA Convergence Broker-Dealer Roundtable and Think Tank. This virtual event brought together leading voices in the broker-dealer community to discuss the current state of the industry.

The two-day event was kicked off by Fred Barstein, discussing the primary themes currently facing the sector of the community, such as servicing all types of advisers, governmental and litigation risk, wealth management opportunities and technology.

The discussions that followed focused on the opportunities and challenges they face, which led to potential solutions. In the next several pages, you will find Emile Hallez, Fred Barstein and some participants sharing their insights on these conversations.

These topics will be discussed throughout the year on RPAconvergence.com, a site *IN* launched in partnership with The Retirement Advisor University to provide the RPA community with a one-stop resource for the news these dedicated experts need to improve their businesses.

This site complements our annual Think Tanks focused on the CIO, record keeper, aggregator and broker-dealer segments of the retirement plan adviser community.

— George Moriarty

Financial wellness wins 401(k) plan business

The strategy can be used to train younger advisers and look for wealth management clients

BY EMILE HALLEZ

Financial wellness was once a specialty service offered by a minority of retirement plan advisers — but now it is all but necessary to win new business, according to guests at the RPA Convergence Broker-Dealer Roundtable and Think Tank in December.

"I'm amazed at the number of them that have redone their pitchbook, their presentation they use for prospects," said Taylor Hammons, head of retirement plans at Kestra Financial. "They've minimized or removed the slides that talk about provider due diligence."

The basics of funds, fees and fiduciary support are now a given, not something that help plan advisers differentiate themselves, Hammons said.

"What's important is helping the plan participants make the right decisions and giving them the tools and support to make that happen," he said. "And [advisers] are winning business hand over fist with that approach."

That could be even more important as plans seek to hire new advisers in 2021. If this year has provided any lesson for the 401(k) business, it is that emergency savings and access to basic financial planning are lacking but sorely needed.

On this front, there is often a distinction between retirement plan specialists and advisers who have only a handful of DC clients, attendees noted. Advisers who have a big chunk of their business with 401(k)s, for example, are much more likely to provide comprehensive financial wellness services made by a third party. Those who only dabble in DC plans tend to direct plans to the financial wellness options provided by record keepers, guests at the event said.

NO EASY WAY FORWARD

But going beyond record keepers' services creates wrinkles. Access to participant data, for example, is a must for financial wellness to be effective — and individual 401(k) savers, often because of inertia, seldom give it to advisers on their own. Record keepers and employers can be reluctant to provide participant data because of privacy laws and policies.

Third-party financial wellness services also come with a cost. Conversely, opting to use a record keeper's financial wellness service means that a plan adviser could have to keep track of a dozen different programs.

"From an integration standpoint, it's a big deal as well," said Don MacQuattie, head of sales for institutional fidu-

CONTINUED ON PAGE 44

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Broker-dealers face constrained resources

RPA Convergence Broker-Dealer Roundtable and Think Tank stresses opportunities and challenges

Most professionals at the 50 or so broker-dealers that support retirement plan advisers are resource-constrained, especially if their primary role is helping with sales and services of defined-contribution plans.

A group of these professionals met virtually at the end of 2020 to highlight the opportunities and challenges they face and discuss ways to collaborate among themselves and with providers.

Some, like Edward Jones, have greater resources than most, because the company's view of retirement includes all types of retirement plans, like SEPs, SIMPLEs and solo 401(k)s, as well as IRAs.

FRED BARSTEIN

Regardless, these broker-dealer professionals face huge challenges to support the specialist as well as dabblers who may be forced to serve accounts with low balances, whether they want to or not — different from private client practice.

While DC aggregators have been attracting an increasing number of plans, assets and advisers, broker-dealers are more likely to be able to serve advisers' retirement and wealth needs as the two worlds converge. Aggregators are scrambling to attract wealth managers to their groups and create an integrated platform, which is likely why firms like Hub International continue to stay with broker-dealers like LPL.

FINANCIAL WELLNESS

The discussion centered on the three main obstacles to truly engage DC plan participants:

1. Participant data come with access and privacy issues.

2. Regarding technology, financial wellness programs are needed, but not as a stand-alone. With each plan provider offering its own, advisers that use them must switch programs when they move clients to another record keeper.

3. "Virtual CFP" is a term coined by John Peters, senior business development consultant at Commonwealth. Traditional wealth advisers and RPAs are not able to or not interested in serving the less affluent. Is there a new, special model for younger, entry-level advisers?

INDUSTRY CONSOLIDATION

Record-keeper consolidation is a fact of life. John Davis, principal of retirement products at Edward Jones, stressed the enormous amount of time and resources his firm must spend in the wake of acquisitions, such as Empower's purchase of MassMutual's plan business. There will be more work to come for resource-constrained broker-dealers.

Fintech consolidation is also an issue. Jon Anderson, head of retirement at Cetera, noted that just as his company was ready to onboard a new technology after 12 months of work, the fintech was acquired and the service was eliminated.

NEW LAWS AND REGULATIONS

Other than potential changes governing IRA rollovers, no recent laws or proposed legislation worried the group. Laura Kirkover, head of retirement and investment product consulting at Wells Fargo Advisors, cited concerns about the number of new laws and regulations, the short time to comply and the internal resources required. And there was a huge amount of concern about state intervention, as most firms are national, which could mean a patchwork of compliance requirements.

> **RECORD-KEEPER CONSOLIDATION IS A FACT OF LIFE.**

The consensus on multiple employer plans and pooled employer plans was cautionary, with most saying they were likely to adopt record-keeper plans even without private labeling.

More options for different plan types create an even greater need for advisers to guide clients, Edward Jones' Davis said. However, he said he was concerned about the potential erosion of the advisers' role in investment selection.

Few said they were concerned about the recent spike in 401(k) litigation.

OTHER ISSUES

With resources constrained, the group pointed to opportunities in wealth management and other resources to craft products for DC plans. There is no better example than retirement income, which synthesizes many different product types.

Davis said he was concerned about record keepers competing with his firm's advisers, especially in insurance sales, where more information than a provider has is needed to suggest a suitable product.

COLLABORATION

There was consensus that the industry overall needs to collaborate to create comprehensive and effective financial wellness services. Though it's unlikely that providers will come together to support one technology, they should have a common data format for plan and eventually participant data. Such an effort is being spearheaded by the Spark Institute and the Defined Contribution Institutional Investment Association.

Kim Perry, director of retirement services at Stifel Financial, said it is common for wealth advisers and RPAs to collaborate. The group agreed that a new breed of financial coaches, who are paid a salary plus bonus, is needed to serve less affluent investors. But third-party "virtual CFPs" can cause compliance issues, Commonwealth's Peters said.

The retirement industry is solving big problems that go beyond access to DC plans at work. Improving retirement income requires the collaboration of plan sponsors, advisers, record keepers and asset managers. Getting all parties on board may be difficult, but without collaboration, helping workers with their financial issues is probably impossible.

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.*

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1 "Retirement Plan Advisor Trends," Cogent Wealth Reports, September 2018. **2** Best-in-class award for plan sponsor service and support, "2018 DC Survey: Recordkeepers," PLANSPONSOR 2018.

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Getting annuities into 401(k) plans

Selling plan sponsors on the idea will be a challenge

BY EMILE HALLEZ

The future of defined-contribution plans includes annuities — but that future is still a ways off, guests at the recent RPA Convergence Broker-Dealer Roundtable and Think Tank said.

Presently, very few 401(k) plans use annuities, particularly as part of the default investment option. Provisions in the SECURE Act bode well for the future of insurance products in DC plans, such as a rule being implemented this year by the Department of Labor requiring annual statements of 401(k) s to include retirement income estimates. The legislation also clarified fiduciary liability protections for plan sponsors in their selection of products and providers.

But selling plan sponsors on anything new is a challenge, and annuities are complex products. And a bigger issue in the short term is adding guaranteed income options at a time when guarantees are not stellar, attendees at the Nov. 30 – Dec. 1 RPA event noted.

"The low interest rate environment makes it very difficult to feel compelled to invest in guarantees, particularly if you've got the capital requirements to go along with that," said Gary Tankersley, head of sales and distribution for John Hancock's U.S. retirement plan business. "That low interest rate environment is going to prevent people from putting the word 'guarantee' on anything."

OTHER PRODUCTS TO CONSIDER

Broker-dealers are paying more attention to retirement income, but that effort is focused more on the wealth management side of the business than on workplace savings plans, guests said.

Annuities are part of the overall strategy to address retirement income, but there are other products, besides 401(k)s, that also need to be considered.

"It's more than just the traditional annuity," said Laura Kirkover, head of retirement and investment product consulting at Wells Fargo Advisors. The question is, "Is it a product that works, or is it pulling together resources from a lot of different products, [such as annuities, life insurance and investments]?" Kirkover said.

RETIREMENT INCOME

More than 90% of target-date fund providers said they see income products being incorporated into those investments in the near future, according to a recent report from Cerulli Associates. That includes annuities and managed payout funds, but there are other strategies, such as a transition from the target-date fund to a managed-account service, such as Empower Retirement's Dynamic Retirement Manager service.

Retirement income is becoming more of a focus for Edward Jones, especially given changing age demographics in the country and among its clients, said John Davis, principal of retirement products at the firm. Helping the firm's 20,000 advisers "with a consistent, scalable process, to make sure they are meeting all of those client needs in the most tax-efficient manner … is important," Davis said.

"The goal isn't retirement. It's what you want to accomplish in retirement," he said. "Understanding the income relative to the expense that is needed to achieve those goals is a focus."

ehallez@investmentnews.com

A sign of things to come

The purchase of record keepers may be key to catching new revenue

As the defined-contribution industry turns its focus to plan participants, Raymond James' purchase of NWPS, a small record keeper based in the Northwest, may be a harbinger of the future for other distributors.

Many broker-dealers and mutual fund companies had record-keeping offerings in the past, but most have let them go. Does Raymond James see opportunities to monetize participants in retirement plans, especially given the launch of pooled employer plans, or PEPs? Is it that simple?

It is not simple because of potential conflicts of interests involved in offering proprietary services. Regardless, best-in-breed record keepers have been developing financial wellness tools to build their relationships with participants.

At the 2020 *InvestmentNews* RPA Convergence Broker-Dealer Roundtable, many broker-dealers were not clear on the definition of financial wellness and were concerned that each record keeper had its own financial wellness offering and that those differences could complicate the ability to service plans and participants. The most common definitions included products like managed accounts, rollovers, health savings accounts and those dealing with student loan debt, most of which did not necessarily provide a revenue stream to the adviser or firm.

GEORGE REVOIR

ABIGAIL REVOIR

DEFINING WELLNESS

Let's look at what wellness means to the record keepers' revenue streams. Reaching participants early in their careers works best for this cradle-to-grave model:

- Managed accounts
- Student debt repayment
- Student debt refinancing
- Credit cards
- Home mortgage and refinancing
- Homeowners and auto insurance
- 529 college savings
- Life insurance and estate planning
- Personal savings
- Inherited assets in the coming wealth transfer between generations
- Disability insurance
- Consolidating retirement accounts
- Retirement income
- Annuities

Record keepers get a revenue stream on most of these products, and earn more on their own or through partnerships, which is a model that consulting firms like McKinsey are recommending. This is epitomized by Empower's purchase of Personal Capital. The adviser can only share in a part of these revenue streams, assuming the record keeper is willing.

Could it be that Raymond James' Institutional Fiduciary Solutions, whose senior managers have had a long career in record keeping, sees a way to cut to the front of the revenue line with the NWPS acquisition? Regardless of the offering — financial wellness in a PEP or a stand-alone plan — the revenue opportunity centers around the participant, with record keepers currently in the best position since they control the participant's digital experience as well as the data.

Is the purchase of a record keeper by a broker-dealer now an anomaly or a trend? The rise of startup fintech record keepers that are willing to white-label and share data may push this from being an interesting experiment to a realistic method for advisers and broker-dealers to capture new revenue in the plan.

George and Abigail Revoir work at AMRev Consulting, where George Revoir is a principal.

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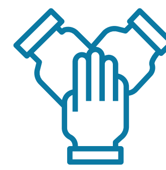

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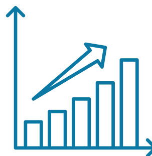
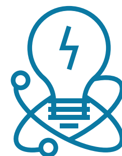


Innovative Services



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The cost of record-keeper consolidation

Big mergers can lead to headaches for broker-dealers

At the 2020 *InvestmentNews* RPA Convergence Broker-Dealer Roundtable and Think Tank, one of the challenges that emerged was the cost of rampant record-keeper consolidation. It's inevitable in a maturing fragmented industry, but when a provider like Empower Retirement acquires a business like MassMutual's record-keeping division, broker-dealers must spend valuable and limited resources.

Edward Jones is notorious for being incredibly careful about allowing record keepers onto its system, spending many months, if not years, conducting intense due diligence.

FRED BARSTEIN

"We have a six-to-nine-month due diligence process with just eight-to-nine partners," said John Davis, the firm's principal of retirement products. The evaluation process not only examines services and capabilities, but also which firm is likely to survive long term.

The change in ownership of MassMutual's record-keeping business means that Edward Jones must conduct unscheduled due diligence. After all, MassMutual is on the Edward Jones platform, but Empower is not. That is interesting, as MassMutual was able to get on the Edward Jones approved list when it purchased The Hartford's record keeper.

Though not all broker-dealers have the same intense due diligence process, all of them need to evaluate the new record keeper's services and capabilities. Even if they have approved MassMutual and Empower on their system, broker-dealers should be conducting a new due diligence process to determine which services are being kept and eliminated. There will be a new entity, even if the name does not change.

TIME-CONSUMING

Record-keeper consolidation is difficult for advisers as well. Clients must change providers and systems, which can be time-consuming, and not just for the additional due diligence they need to conduct as fiduciaries. Even more damaging are the incessant calls to the clients of the acquired provider by poaching advisers.

And think about a plan sponsor that an adviser recently placed at the acquired provider. The client will be forced to go through another conversion process, which does not make the adviser look good. Even if it's not their fault, it is their problem.

This all demands a lot of time from valuable people, yet there is little if any additional revenue for the adviser and broker-dealer.

There is also a human factor in this. Record-keeper consolidation is being driven, in part, to cut costs, which means eliminating jobs. Think about the jobs lost at MassMutual, especially sales professionals — picture their faces. Do we think there will be more wholesaler positions in the future? In the past, many record-keeper wholesalers were able to move to fund companies, but those positions are also being eliminated.

> **RECORD-KEEPER CONSOLIDATION WILL UNDOUBTEDLY CONTINUE.**

Record-keeper consolidation will undoubtedly continue. Even with the recent Empower acquisition, there are still 43 national providers serving the 401(k) industry, where scale matters. The top five have more than 75% of the adviser-sold DC assets and participants, leaving the other 38 to fight over a dwindling 25%.

WHAT TO DO?

It's safer to put more business with the top five record keepers, which have resources to compete. But as they get better, more of them compete with advisers to service and monetize participants. Fidelity and Vanguard are very open about their intentions, but why do you think Empower, now with 12 million participants, paid $1 billion to buy Personal Capital?

Others like Raymond James, with its purchase of NWPS, a national record keeper based in the Northwest, may see opportunities to control the participant's digital experience and data. Others are starting to partner with fintech record keepers like Vestwell that are happy to be the "Intel inside" and share data.

It's easy to say that advisers and distributors need to choose wisely, but just as with investments and fiduciary duties, the process is paramount, with no guarantee of results. How many distributors and advisers have a documented due diligence process conducted by prudent experts periodically?

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.*

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AGGREGATOR

Gathering the RPA aggregator community together to identify the issues they face and discuss solutions

On Dec. 8 and 9, *InvestmentNews* sponsored its latest RPA Convergence Aggregator Roundtable and Think Tank. This virtual event brought together more than 25 leading representatives from the aggregator community.

The event began with each attendee sharing reasons for participating, and Fred Barstein introduced the overwhelming themes of the industry today, namely, participant engagement, industry consolidation, plan design, litigation and creating a scaled practice.

The discussions that followed focused on the opportunities and challenges they face, which led to talk of potential solutions. In the next several pages, you will find Emile Hallez, Fred Barstein and some participants sharing insights on these conversations.

These topics will be discussed throughout the year on RPAconvergence.com, a site *IN* launched in partnership with TRAU to provide the RPA community with a one-stop resource for the news these dedicated experts need to improve their businesses.

This site complements our annual Think Tanks focused on the CIO, record keeper, aggregator and broker-dealer segments of the retirement plan adviser community.

— George Moriarty

How M&A affects retirement plan advisers

Ongoing consolidation has been good for some aggregator firms, but others are being left out

BY EMILE HALLEZ

Private equity firms have shown an intense interest in the 401(k) world, and the massive amounts they've been paying to acquire businesses has created opportunities and challenges for retirement plan advisers.

Buyers can expect to pay as much as an estimated 20 times the amount of a target firm's earnings before interest, tax, depreciation and amortization, or EBITDA. For retirement plan advisers looking to sell, this is an extremely attractive time for deals, according to attendees at the RPA Convergence Aggregator Roundtable and Think Tank in early December.

But it's also a difficult time for smaller firms that don't have abundant capital to grow through acquisitions, guests said.

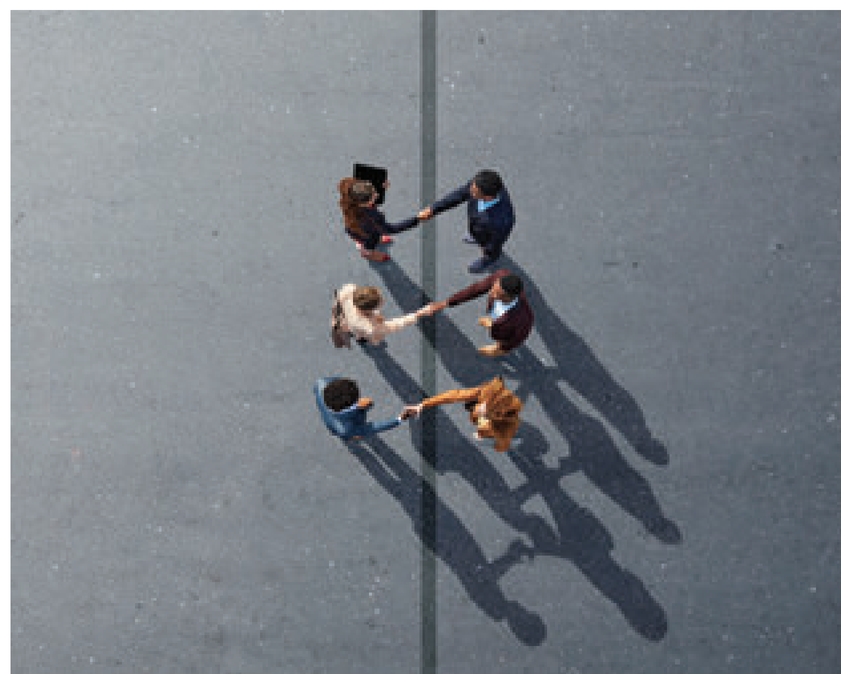
"When I talk to people about acquisitions in this business, it's honestly third-grade math, and people aren't making stupid decisions," said Glenn Spencer, CEO of Prime Capital Investment Advisors. Paying higher-than-usual EBITDA multiples can work because capital is abundant and debt is cheap, Spencer said. If the acquired business can generate revenue higher than the interest payments and can be sold for more than what the buyer paid, deals make sense, he said.

Prime Capital subsidiary Qualified Plan Advisors is currently in the process of buying First National Bank of Omaha's retirement advisory practice. That deal was expected to close Dec. 31.

BEING OUTBID

"The multiples are way higher than they were, say, 24 months ago," Spencer said. "It's a highly fragmented industry. These relatively smaller firms can gain a lot of benefit from attaching to someone who has a lot more resources."

But some firms have seen themselves being outbid by competing buyers with deeper pockets. John Cunningham, senior vice president of Alliant's Retirement Services Group, compared the experience to being outbid on a home.



"We're out, on some acquisitions," Cunningham said. "We're at a point where these valuations are just too high. It's great for some of my old friends, colleagues and associates … but I don't think we'll be a firm that pays multiples of 11 to 13 times [EBITA] for these firms. I just don't think they're worth that."

A likely consequence of the proliferation of mergers and acquisitions

CONTINUED ON PAGE 44

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The key to retirement systems' success

Consolidation in the defined-contribution business gives opportunities and challenges

Advisers, with their focus on helping participants and improving coverage, are the human element needed to improve retirement security within a voluntary system.

There are three primary adviser or consultant market segments that serve defined-contribution plans:

1. Institutional investment consultants that focus on plans with more than $500 million in assets.

2. Advisers, registered investment advisers and those affiliated with traditional broker-dealers that focus on plans with $1 million to $25 million in assets.

3. Retirement plan advisers who are part of DC aggregators or have more than 50% of revenue from DC plans, focused on the $3 million to $250 million market.

Of the three, RPAs represented by aggregators are the least mature, having emerged dramatically over the past five years. They have been actively acquiring other advisers or have been acquired or funded themselves.

FRED BARSTEIN

Almost all of the aggregators were represented in early December at the third annual RPA Convergence Aggregator Roundtable and Think Tank, held virtually (see the list at the end). People in this group are the industry's thought leaders, creating new processes and integrating technology, fueled by capital. The future is both bright and daunting for aggregators and RPAs. Here's how they said they see it:

CONSOLIDATION

This is both an opportunity and challenge. RPAs joining aggregators and private equity firms investing in four of the top five aggregators have provided significant opportunities to help clients and build businesses. The buzz word at the roundtable was "operating platforms," which is a more elegant term for scaled and stacked practices.

Aggregators can have a greater impact on retirement income now, accounting for almost $2 trillion in DC assets — or almost half of the adviser-sold market. But there's an opportunity to provide direction to the industry and have a separate voice in Washington, which is sorely needed.

The challenge is that acquisition prices have become so high, many can no longer afford to participate. Advisers attracted by the money might choose the wrong partner and end up having to unwind the relationship, which is time-consuming and costly.

PARTICIPANTS AND FINANCIAL WELLNESS

The biggest topic at the think tank was how to help participants and monetize the relationships with them. This includes:

- Creating customized solutions, communications and experiences.
- Cross-selling wealth and benefits.
- Emergency savings, health savings accounts and student loan debt.

The challenges include engaging plan sponsors in financial wellness programs, getting access to data and the looming fight with record keepers, which also want to monetize the participants.

MANAGEMENT

Building an operating platform is difficult. It has taken some of the larger firms, like Captrust, SageView and NFP, decades. And creating culture is perhaps the most nuanced and cumbersome task. Other issues are:

- Growing organically, which in-

CONTINUED ON PAGE 44

Biggest retirement adviser aggregators

Firm or platform	Retirement assets under administration ($B)	Total retirement plans	Retirement revenue ($M)	Firm-wide revenue ($M)	Ownership
Captrust	$480	2,975	$140	$255	Employees, GTCR*
Retirement Plan Advisory Group (platform)	$300	1,750	$100	$2,000	NFP
NFP	$200	2,200	$161	$2,000	Madison Dearborn Partners*, HPS Investment Partners*, employees
SageView Advisory Group	$115	1,200	$43	$47	Aquiline Capital Partners*, employees
Hub (formerly GRP, platform)	$51	3,375	$6	$2,400	HUB
Hub International	$45	2,000	$60	$2,400	Hellman & Friedman*, employees
Arthur J. Gallagher	$45	1,700	$75	$8,000	Public
OneDigital/Resources	$41	2,300	$70	$600	Onex, New Mountain Capital*, employees
Pensionmark (platform)	$41	3,583	$41	$42	Employees, Captrust
CBIZ	$40	1,406	$32	$1,000	Public
Marsh & McLennan Agency	$37	1,500	$30	$2,000	Public
USI Insurance Services	$23	1,800	$75	$2,000	KKR*, employees
Strategic Retirement Partners (affiliation)	$15	825	$15	$15	Firm owners
Alliant	$14	600	$11	$1,700	Stone Point Capital*, employees
Cerity Partners	$12	600	$11	$1,700	Lightyear Capital*, employees
Alera Group	$2	150	$2	$600	Genstar Capital*, employees

Source: Wise Rhino Group
*Private-equity firm

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Getting physical and fiscal in the workplace

Combining financial wellness with traditional wellness programs can highlight their value

BY EMILE HALLEZ

Getting more employers to opt for financial wellness programs might mean positioning them right next to physical wellness programs, said guests at the RPA Convergence Aggregator Roundtable and Think Tank in December.

Most big employers provide wellness programs to their workers, but it can be difficult to quantify the return on investment for physical wellness, attendees said. But adding financial wellness as part of that overall wellness package could help.

"Wellness programs are really being scrutinized in the benefits they provide or don't provide," said Pam Popp, chief inclusion officer at Lockton Companies. "There's interest in marrying financial wellness into the broader wellness picture."

80%
PORTION OF AMERICANS WHO EXPERIENCE FINANCIAL STRESS

OVERALL VALUE

Showing the benefits in savings and debt reduction that can result from financial wellness could help benefits professionals highlight the overall value of workplace programs. But not every company is sold on the idea of financial wellness, and even if they make such programs available, a minority of employees use them.

"Not every employer feels like it's necessary," said Rick Shoff, managing director of Captrust's advisor group. "We're not going to get 100% adoption of our advice and wellness offering. But we have 40% — and for that 40%, it really matters."

For employees, "it's 100% adoption, when they need it," Shoff said.

Companies are incorporating it as part of their human resources strategy, he said. "The fastest-growing part of our business is providing wellness and advice."

Some business owners are reluctant to add financial wellness options, but explaining such programs in the context of mental health can help, said Glenn Spencer, CEO of Prime Capital Investment Advisors. Telling clients that as much as 80% of Americans experience financial stress, and then asking them what they think that statistic looks like among their own workforce, can make the choice clearer, he said.

"The question becomes, 'If your company could do something to help [workers] reduce their financial stress, that is cost-effective to the company, would you do that?'" Spencer said. "Then it becomes, 'Can you prove there will be an ROI on it?'"

Getting employees engaged with a program is another matter. Advisers can show their value by making it easy to find the program, whether it is provided by through the adviser, the record keeper or another party.

"Our experience is that if you meet with people, and they tell you what they want to do, and you give them instructions … 15% to 20% of people [will follow through]," Spencer said. "You have to make it super simple for them. If the tech is just offered to them, they won't go."

ehallez@investmentnews.com

Leading the next innovation wave

Future ideas will come from RPAs, their clients and largest employers

In the U.S. retirement savings system, progress has generally emerged first in the institutional market, through the innovations of some of the largest employers in their role as plan sponsor, before later taking hold in the broader marketplace and becoming industry standards.

Examples of this trend can be seen in the adoption of plan design best practices like auto enrollment and auto escalation, as well as investment lineup advances like white-labeling and the broad-based use of institutional investment structures like collective investment trusts and separate accounts.

The largest employers are well positioned to continue leading the next waves of innovation thanks to their scale, bargaining power and access to professional resources. However, ongoing fee and other fiduciary litigation may discourage such innovation going forward.

The Defined Contribution Institutional Investment Association is seeing a huge increase in engagement from the retirement plan adviser community in the development of thought leadership on future best practices. This trend is a leading indicator that future innovations will come as much from RPAs and their clients as from the largest employers. It also confirms that we are in the midst of a convergence of philosophies and best practices across industry segments.

LEW MINSKY

CLOSING COVERAGE GAPS

So what systemic problems still need to be solved as we move forward in our long-term journey toward retirement security?

When we survey DCIIA members from across the industry ecosystem — including megaplan sponsors in our Plan Sponsor Institute and advisers who work with smaller employers from our RPA Advisory Committee — we consistently hear that they are focused on a few common areas:

1. Changing the mindset on savings/accumulation to ensuring that retirement savings are ultimately delivering sufficient lifetime income;

2. Making sure the retirement savings system works for all Americans by closing coverage gaps and finding ways to reach those who have access to the system but are currently being left behind; and

3. Facilitating better outcomes through the institutionalization of the system.

Moving toward a more holistic approach can be an effective way to shift toward greater implementation. To that end, DCIIA recently developed a series of brief white papers and

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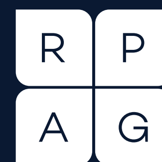

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To offer PEPs or not? That is the question

Pooled employer plans present an incredible opportunity but will the market adopt them?

Pooled employer plans under the SECURE Act could completely change the defined-contribution industry, or they could have very little impact. They present an incredible opportunity to pool plans to mitigate work and fiduciary liability as well as to lower costs — but the question is whether the market will adopt them.

FRED BARSTEIN

Though record keepers and third-party administrators are most aggressive and will most likely act as the pooled plan providers, retirement plan advisers will still likely drive sales.

What are DC aggregators and elite RPAs planning?

At the 2020 *InvestmentNews* RPA Convergence Aggregator Roundtable and Think Tank, there were mixed opinions. As John Jurik, Gallagher's national practice leader for retirement plan consulting, said, "PEPs are opportunities, challenges and threats, all in one."

SMALL AND LARGE PLANS

According to a forthcoming research publication by Defined Contribution Institutional Investment Association's Retirement Research Council, 55% of elite RPAs were undecided about whether they would offer PEPs to clients and prospects, while 26% indicated that they would. Most said they would use a third party, mostly likely a record keeper, to be the pooled plan provider. Eighty-four percent said they thought PEPS would make sense for plans with less than $5 million in assets, but a significant percentage said that even plans with up to $100 million would be good candidates. (Respondents in the survey could select more than one market.)

Through PEPs, DC plans of such size could limit their litigation risk, offload administrative work and be innovative, DCIIA president and CEO Lew Minsky said. Institutional investment consultants like Aon and Mercer have been among the first to offer PEPs as a way to serve smaller plans, which in their world might be those with $100 million or more in assets.

Most attendees at the Aggregator Think Tank said PEPs would be focused on smaller plans. Fidelity's offering will target plans with 30 or fewer participants, but others thought PEPs would attract larger plans.

PEPs will also replace multiple employer plans, said John Cunningham, executive vice president at Alliant Insurance Services. PEPs are more of a marketing tool than a way to improve coverage, as smaller employers can already use Simple 401(k)s or similar plans, he said. However, about 90% of PEPs will fail, Cunningham said.

RETROFITTING

Jeff Cullen, managing partner at Strategic Retirement Partners, said, "Most record keepers don't understand PEPs and are trying to retrofit their current models. Most likely to succeed are those that are innovative."

> MOST AGGREGATORS … ARE WAITING TO SEE HOW THE PEP MARKET DEVELOPS.

PEPs will allow advisers to manage more plan assets, which is especially needed as experienced RPAs are aging.

At the 2020 Record Keeper Roundtable and Think Tank, Darren Zino, vice president and head of retirement sales at Transamerica, noted that the company's pooled programs were one segment that beat expectations in 2020. But he warned that clients, especially larger plans, want to have their cake and eat it, too. They want to lock down features that minimize work and fiduciary liability, but they still want customization.

Like broker-dealers, most aggregators and RPAs are waiting to see how the PEP market develops. But many have FOMO, or fear of missing out, and are closely watching the space. If there is ever a federal mandate requiring companies of a certain size to offer payroll-deducted, participant-directed retirement plans, PEPs could explode.

But that could be a double-edged sword. DCIIA's Minsky warned that companies like Amazon and Square that have strong relationships with smaller employers could leverage low-cost PEPs as a way to access participants. Who could better offer a rich digital experience with the ability to know what the participants are most likely to buy?

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.*

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RECORD-KEEPER

Gathering the RPA record-keeper community together to identify the issues they face and discuss solutions

On Dec. 14 and 15, *InvestmentNews* sponsored its latest RPA Convergence Record-Keeper Roundtable and Think Tank. This virtual event brought together leaders from across the record-keeper community to discuss the current state of the industry.

The two-day event kicked off with participants sharing their goals, and Fred Barstein discussed the primary themes record keepers must manage today. Those issues were helping participants, the business realities of a maturing market, cybersecurity and new laws, especially privacy laws.

The discussions that followed focused on the opportunities and challenges firms face, which led to potential solutions. In the next several pages, you will find Emile Hallez, Fred Barstein and some participants sharing insights on these conversations.

These topics will be discussed throughout the year on RPAconvergence.com, a site IN launched in partnership with The Retirement Advisor University to provide the RPA community with a one-stop resource for the news these dedicated experts need to improve their businesses. This site complements our annual Think Tanks focused on the CIO, record-keeper, aggregator and broker-dealer segments of the retirement plan adviser community.

— *George Moriarty*

Risks record keepers see with PEPs

The forthcoming plans present challenges and opportunities, record keepers say

BY EMILE HALLEZ

Retirement plan record keepers see some promise in pooled employer plans, but they also anticipate even more risk to their businesses, regardless of whether they provide them.

Almost indisputably, the first pooled employer plans, or PEPs, that launch will help increase private-sector retirement plan coverage for workers, at least slightly. But those plans, with their promise of low fees, could further erode already thin margins. Offering PEPs also could threaten the good relationships record keepers have with third-party administrators.

Guests who attended the RPA Convergence Record Keeper Roundtable and Think Tank also pointed to another long-term risk — that PEPs ultimately flop. That would be a strike against the private retirement savings system, with Congress watching a centerpiece of the SECURE Act fail. Should that happen, attendees said, federal or state governments could become more aggressive in trying to expand retirement plan coverage through their own programs.

POWERFUL OUTSIDER

An even bigger worry they have is that a powerful outsider such as Amazon could step into the business.

"We're entering the PEP market in the micro [segment]," meaning coverage for startups and businesses with fewer than 20 employees, said Adrian Hodge, division manager in Fidelity Investments' retirement business. "We're going to test and pilot it in that small space."

CONTINUED ON PAGE 42

Challenges come in.
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RPA CONVERGENCE

Record keepers look beyond the pandemic

COVID-19 and the reality of remote work have led companies to rethink how they operate

Of the various segments of the defined-contribution industry, record keepers are the most mature, consolidated and powerful. Advisers are closer to the clients, but record keepers own the data and provide the platform to reach clients. Leaders of the top record keepers attending the RPA Convergence Roundtable and Think Tank Dec. 14 -15 shared what is on their minds in the current environment.

FRED BARSTEIN

PARTICIPANT EXPERIENCE

There has been a shift from providing a service to creating an experience for plan participants, said Mike Domingos, head of sales and strategic relationships at Prudential Financial.

And that experience should be an easy one for 401(k) savers, said Kevin Morris, chief marketing officer for retirement and income solutions at Principal Financial.

"Participants, especially those that have accumulated assets, just want to be told what to do," Morris said.

Darren Zino, vice president and head of U.S. retirement sales at Transamerica, said the pandemic and remote work reality have made companies rethink how they operate.

"We were forced to do what we didn't think would work during the pandemic — and many things did work," Zino said. In fact, he said he was concerned that clients will force record keepers to go back to the old model that includes more in-person meetings.

COLLABORATION AND ENGAGEMENT

Amy Philbrook, who recently took over as head of sales at Fidelity's core market group, after heading up its diversity and inclusion division, has a unique perspective on the industry.

"I'm surprised by the complicated partnerships and competitive relationships with advisers," Philbrook said. Not only is the 401(k) world not very diverse — it does not pay enough attention overall to a diverse customer base, she said. "No one seems to be focused on minority-owned businesses."

Financial wellness is an ongoing challenge, said Fidelity vice president Lisa Smith.

"Advisers need to drive participant engagement," Smith said. "The challenge is that many are building their own financial wellness tools."

DEMANDS FOR DATA

A few guests noted that broker-dealers change their technology requests of record keepers "every two-to-three weeks," which makes many hesitant to build systems to more efficiently provide data. And while participant engagement and financial wellness are at the top of advisers' minds, some providers said they think that only a few are willing to lead with those services, sticking instead to what they know well.

"Plan sponsors want help with all employees, but providers want to focus on high-net-worth only," said Tim Rouse, executive director at Spark Institute.

And catering to a diverse range of advisers can be demanding.

"We have to service many different adviser personas, ranging from wealth managers, RPAs, aggregators and consultants," said Mike Shamburger, head of core market at T. Rowe Price's retirement plan services. That company is in a unique position as a world-class money manager and record keeper serving both the small market, which is in early stages, and larger plans that represent a more mature part of its business.

Though record keepers, particularly Transamerica, are interested in pooled employer plans, some have concern that plan sponsors want the locked-down protection of outsourced 3(38) and 3(16) services, along with customization.

At the end of the Think Tank, there were enthusiastic discussions about ways for record keepers to collaborate:

- Plan and participant data.
- Research.
- Implications and use of blockchain.
- Lobbying.
- Cybersecurity.
- Best practices post-pandemic.

The industry is consolidating, with more big deals expected in 2021. But prices and interest in record keeping are at an all-time high. Transamerica's global parent put a high priority on U.S. retirement, for example, Zino said. The almost $20 trillion in assets and 90 million participants are hard to ignore. And record keepers, in partnership with advisers, consultants, aggregators and broker-dealers especially, are well-positioned, carrying best practices developed during the pandemic into the future.

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.*

Top 10 defined-contribution plan record keepers

Firm	Total DC assets ($B)	Number of plans	Number of participants (M)
Fidelity Investments	$2,500	33,700	25.8
Vanguard*	$1,500	1,500	5
Empower Retirement	$884	67,000	12
TIAA	$655	15,000	5
Prudential Financial	$520	declined to provide	4.7
Voya Financial	$482	51,000	6
Alight Solutions	$459	185	4.8
Principal Financial**	$382	41,000	8.4
Bank of America*	$310	21,800	4
T. Rowe Price	$128	5,826	2.3

Source: Companies (data are as of Sept. 30 unless noted)
*as of Nov. 30
**as of June 30

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RPA CONVERGENCE

Some 401(k)s seldom change providers

Record keepers say big DC plans are often priced so low that no one wants to bid for them

BY EMILE HALLEZ

Retirement plans are increasingly slow to change providers, and that is becoming a challenge for the record-keeping industry, said guests at the RPA Convergence Record Keeper Roundtable and Think Tank.

Across plans of all sizes, advisers and consultants can have little incentive to recommend record-keeper changes, attendees said at the two-day event on Dec. 14-15. But among very large plans specifically, those with at least $1 billion in assets, changes can be rare for another reason, they said.

In some cases, "large plans can't find anyone to bid on them," said Tim Rouse, executive director of the Spark Institute. In many cases, plans of that size have already secured competitive pricing, and the cost has been driven "down so much it's going to be tough for another provider to take that plan over and make a profit," Rouse said.

"The margins just aren't there to move a big plan over," he added.

RETENTION

Record keepers benefit from seeing plans turn over, but there could be more of a focus on retaining clients in the future, said Mark Dence, national account director at American Funds.

> AMONG VERY LARGE RETIREMENT PLANS ... CHANGES CAN BE RARE.

With big plans having low administrative costs, "that's probably pretty good for the marketplace," if not for turnover, he said.

"We always lean into sales, but I wonder if in the future we're going to be more

CONTINUED ON PAGE 42

Possible benefits clash at work

Data needed to offer financial wellness may trigger privacy concerns

Employers and employees recognize the link between employees' financial well-being and their physical and mental health. In 2018, MetLife released a study showing that 61% of employees rated their financial wellness as good or excellent. However, by 2020 that figure fell to 49%.

With this growing fear of financial insecurity, companies are stepping up to provide help to their employees. Bank of America, in its 2019 Workplace Benefits Report, showed that 53% of companies offer financial wellness programs, up from only 24% back in 2015. Financial wellness programs, although not always well defined, generally involve a holistic view of employees' financial position.

While an employer showing empathy for its workers is commendable and ultimately beneficial for both the employees and its corporate goals, there is rising tension between providing meaningful holistic financial help and maximizing each employee's privacy expectations.

TIM ROUSE

PRIVACY RIGHTS

On Nov. 3, a substantial majority of California voters passed the California Privacy Rights and Enforcement Act, which substantially expands individual privacy rights. Spark Institute was instrumental in helping design the CPRA so that companies with California employees can continue to offer financial wellness at least until Jan. 1, 2023. Spark continues to work with California to ensure that employees can continue to have access to robust employee benefits beyond that date.

DAVID LEVINE

Key questions that need to be addressed:

- Do your financial wellness programs protect the company by preserving employees' expectations of trust and privacy?
- Is there transparency so that employees understand what they need to share to optimize their benefit from a financial wellness program?
- What aspects of the programs create tension or conflicts between wellness and privacy?

KEVIN WALSH

The coming challenge for employers, policy makers and service providers will be balancing these apparently conflicting interests.

If the goal is to address workers' stress, then it's necessary to know their concerns broadly. Telling someone that they should save more for retirement is not helpful if that individual is drowning in student loan or credit card debt. Employees may worry about providing that information, though.

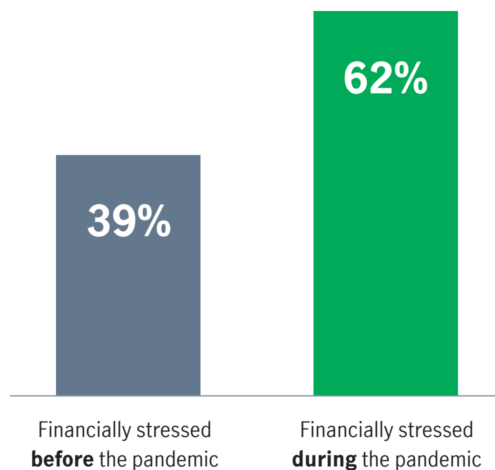
In a recent article from the Society for Human Resource Management, "Watching the Workers," employees expressed suspicions about data their employers collected on them. An SHRM survey asked whether workers trusted their employer to protect their data. The results showed 52% did, but 48% did not.

CONTINUED ON PAGE 42

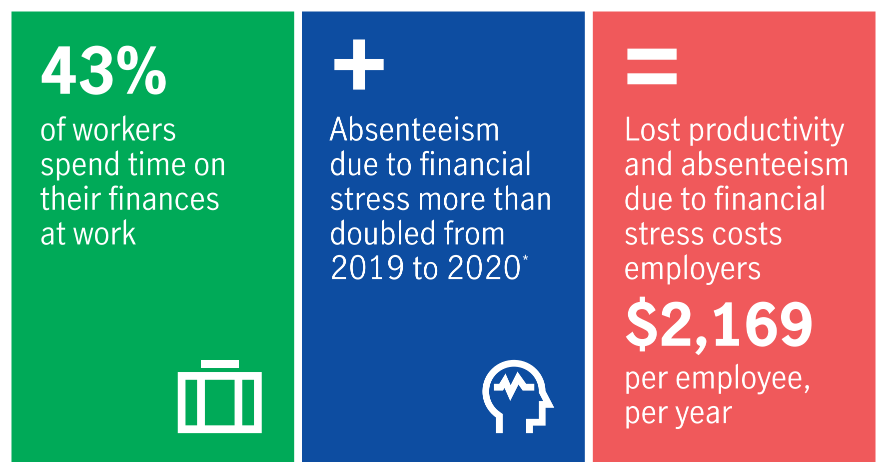
Financial *stress* is on the rise

Financial stress is growing among American workers as the pandemic drags on. And when employees worry more, they're less productive. Plan sponsors, financial professionals, and recordkeepers can help alleviate financial stress by taking steps to help improve financial wellness. It's good for employees *and* employers.

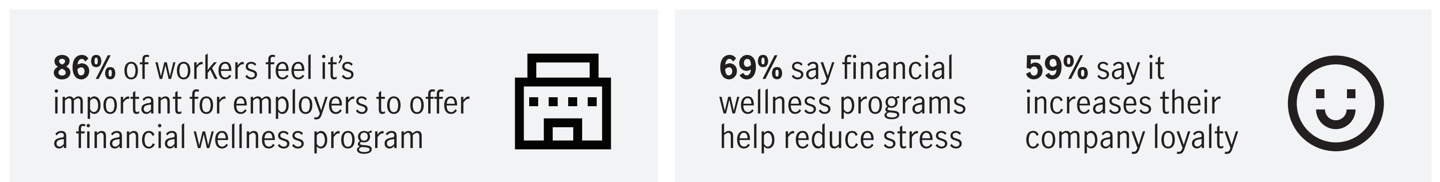
The pandemic has increased financial stress



Financial stress raises costs for employers



Financial wellness programs can help



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John Hancock financial stress survey, John Hancock and Greenwald & Associates, 2019. A survey of more than 3,500 workers to learn more about individual stress levels, their causes and effects, and strategies for relief. John Hancock's seventh annual financial stress survey, John Hancock, Greenwald & Associates, July 2020. This information is general in nature and is not intended to constitute legal or investment advice. Greenwald & Associates and John Hancock are not affiliated, and neither is responsible for the liabilities of the other. This report presents the results of research conducted by Greenwald & Associates on behalf of John Hancock. The objectives of this study were to (1) quantify the financial situation and level of financial stress of John Hancock plan participants; (2) determine the key triggers of financial stress; (3) understand the extent to which actions, including actual financial behavior and planning activity, ameliorate stress; and (4) assess retirement preparation and readiness. This was an online survey of 589 John Hancock plan participants. The survey was conducted from July 28 through August 14, 2020, with an average survey length of approximately 19 minutes per respondent. Respondents were located from a list of eligible plan participants provided by John Hancock. All statistical testing is done at 0.95 and 0.99 significance levels. The maximum margin of sampling error at the 95% confidence level is ± 4.1%.

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RISKS WITH PEPS

CONTINUED FROM PAGE 36

Record keepers see different potential for PEPs than retirement adviser aggregator firms do, with the latter entities focusing more on applicability for midsize and large employers, Hodge said

"The aggregators seem to think the PEPs are going to go way upmarket," he said. "It's really about Congress's way to address coverage."

Should PEPs fail to meaningfully expand retirement plan access, expect more legislation to address that, Hodge said.

Earlier this month, Raymond James surprised the retirement adviser world when it announced plans to buy plan provider NWPS, citing opportunities with PEPs.

DIFFERENT SEGMENTS

There is potential for PEPs to take off with midsize employers, said Vince Garzarella, vice president of retirement plan services for mid and large markets at Lincoln Financial Group.

Such companies are often experiencing rapid growth or are longstanding businesses with minimal resources, Garzarella noted. PEPs can apply in both cases, as "it's a lot easier for them to not have to make decisions, in that [plan] structure," he said.

Conversely, the advent of PEPs will lead plan sponsors to negotiate for lower prices, thus threatening providers' margins, he noted.

Retirement plan advisers will likely opt for PEPs for two main reasons, Hodge said. Nonspecialist plan advisers who do more wealth management business will see PEPs as an easy way to provide access to a plan for those clients, he noted, And some plan specialists who act as 3(38) fiduciaries see PEPs as a way to scale up their business.

RECORD KEEPERS' PLANS

Some record keepers, including Transamerica and Voya, are not acting as pooled plan providers — at least not immediately. Transamerica instead is acting as a record keeper for a forthcoming PEP provided by Lockton, and Voya will do the same in partnership with Aon.

Part of the challenge in the upcoming PEP world is that companies that have long offered pooled plans of some variety, such as multiple employer plans, will have to find ways to differentiate their services.

"We're trying to figure out how do we still grow," said Darren Zino, head of U.S. retirement sales at Transamerica. "This is a huge part of our business … [People] are talking about these things like they were born yesterday, and they really weren't."

Some providers are also waiting on further guidance from the Department of Labor about what arrangements will be allowed, such as whether the same company can provide the plan and investment options, said Tim Rouse, executive director of Spark Institute.

"Nobody wants to build out something that isn't going to get approved," Rouse said.

Others, including Transamerica, are more interested in the SECURE Act's "group of plans" provision, which beginning in 2022 will allow multiple 401(k) plans to file a single Form 5500, as long as the plan design, trustee, fiduciaries and administrator are the same.

HURT FEELINGS

Guests at the RPA event said a record keeper's decision to provide a PEP could hurt its relationships with third-party administrators, another group with a massive stake in the business.

> **PEPS WILL LEAD PLAN SPONSORS TO NEGOTIATE FOR LOWER PRICES.**

"Ninety-eight percent of our plans are sold through a TPA for the generalist market, with a generalist adviser — that TPA is pretty beneficial," said Mark Dence, national account director at American Funds. When a record keeper becomes a pooled plan provider, "if you do have a large TPA network, what is the message there?"

American Funds has explored a way for a PEP to accommodate multiple TPAs, but "it just doesn't work," Dence said.

"My greater concern is if PEPs don't work to solve the coverage problem at the small end of the market … that's where [there is] the threat of an Amazon coming in," Hodge said. "Amazon has accounts with 70% of American households."

If a company like Amazon wanted to provide individual 401(k)s, it could make contributions and investments very easy decisions for customers, allowing them to round up purchase amounts, with the excess going to the retirement account, he said.

TECH THREAT

One hurdle for a fintech player like Amazon would be regulation — retirement assets are heavily regulated, unlike the consumer goods the online giant sells, Dence said.

However, such a venture would likely be a wider play for data, meaning that a big fintech entrant wouldn't necessarily need to maximize profits on a retirement plan business, guests said.

Tech companies also have the resources to provide high-quality services and experiences, and that would be bad news for record keepers, said Ben Thomason, executive vice president at Vestwell.

"My concerns are when a company like Google or Amazon decides to enter the business … They're going to build something utterly fabulous," Thomason said.

ehallez@investmentnews.com

FACING FEARS

CONTINUED FROM PAGE 40

A recent HR Metrics & Analytics Summit survey went further and found that employees' main fears about data collection were:

1. Insecure software.
2. Incompetent IT departments.
3. Previously lost data.
4. A lack of transparency about how data are being protected.

FLIP SIDE

Financial wellness programs have become widely available because they have been shown to boost productivity. However, employees are concerned companies could abuse the data needed to make these programs effective. For instance, they may worry that companies could share their data with third parties without their knowledge or permission.

The flip side to this privacy dilemma is the real benefit that financial wellness provides to employees. The Bank of America report explored these benefits and found that financial stress causes employees to be less productive, have increased absenteeism and be distracted by financial anxieties. As a result, 62% of employers feel "extremely responsible" for their workers' financial wellness, compared to 13% of employers in 2013. In 2020, 72% of employers saw an increased usage of financial wellness resources.

You cannot assess your employees' financial well-being without knowing their situation. But who owns the data? Who is liable for decisions made based on an analysis of data collected? If an algorithm crunches data to give financial advice about saving in an HSA or contributing more to your 401(k), is anyone legally responsible for the advice? Is the employer who relied on the vendor's algorithm culpable? Or is the vendor that came up with the algorithm?

Although there is no one way to structure a financial wellness program, an employer may, with a combination of voluntary disclosure and messaging help build an environment of trust.

Tim Rouse is executive director of the Spark Institute. David Levine and Kevin Walsh are principals at Groom Law Group.

SOME 401(K)S

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deliberate in paying attention to retention," he said.

Retaining individual participants after they leave an employer or retire is also becoming more important as retirement income options are added to 401(k)s, attendees said.

"An adviser doesn't want to hear that, but as a record keeper, I need revenue, I need my margins. And I might want to keep a participant in-plan," said Ralph Pallante, director of strategic execution at OneAmerica.

SAME GOALS

After this story was published online, OneAmerica clarified that record keepers and advisers have the same goals in serving participants, but that with regard to revenue, there is a challenge among financial professionals in "finding a balance, because there are more people retiring than new participants being added on."

Keeping participants in the plan is a trend that has regulators' support, Rouse noted.

"There has been a push for a number of years now by the folks in Washington — they want to see participants remain in-plan, because the plans are generally cheaper [than IRA options], and there is a fiduciary overseeing the plan," he said.

Employers also benefit from keeping participants in their plans, as more scale gives them bargaining power.

But there is another angle to that issue, which is the cognitive decline that can occur as participants age, Rouse said. Employers are not experts on that, and they may not want the responsibility of helping those participants after they retire, he said. For example, how does a plan sponsor handle the responsibilities if it notices a participant's cognitive decline?

"We want them in the plan because they have large account balances … [but] we can't be responsible for an elderly population in that regard," Rouse said.

ehallez@investmentnews.com

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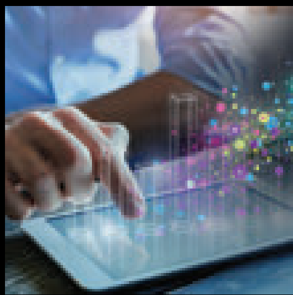

IN launched an all new content destination, fintechforadvisers.com, showcasing cutting-edge fintech trends for technology-driven advisers. The focus on fintech helps advisers stay up-to-date on current technologies in wealth management that can help drive future growth.

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M&A

CONTINUED FROM PAGE 28

is that smaller firms that are part of an aggregator might find themselves becoming part of a company that isn't a good fit, he said.

"For the smaller firms, stay tuned. You're going to have some groups, with all good intentions, that have decided to merge," Cunningham said. "Some people are going to … exit some of these aggregator firms, [having] decided that new home wasn't the home for them."

This is not lost on many sellers, who want their business to mesh well with the buyer's, said Joe DeNoyior, president of Washington Financial Group.

25%
PORTION OF STAKE IN CAPTRUST HELD BY GTCR

BACK TO BASICS

"The sellers are becoming much more conscious of [whether] this [is] the right fit for the principals of the selling firm," DeNoyior said. "We can call it whatever we want, but it's an investment in people and process."

The industry will continue to consolidate over the next five years, though the pricing at high multiples of EBITDA could start to come down sooner, attendees said.

Firms that aren't contenders to buy or be bought need to focus on growing the old-fashioned way, said Jeff Cullen, managing partner at Strategic Retirement Partners.

"There are a lot of firms in the industry … that can't afford to pay these eye-popping multiples several times a year," Cullen said. For those firms, "if I want to grow as fast as others, I need to have a focus on organic growth."

What RPAs should keep in mind is that scale is more about efficiency than bulk, he said. And in the current environment, in which there are few RPAs that don't already have a wealth management business, firms should get back to the basics.

ORGANIC GROWTH

"Most advisers started out with a focus on the participant. And as their businesses grew, they got farther away from the participant," Cullen said. "The opportunity is getting back to the way many of us started."

Captrust, the largest independent RPA, this year got a cash infusion from Chicago-based GTCR, representing a 25% stake in the firm.

"For us, the opportunity set hasn't changed in 14 years, and I suspect it won't change for the next 14," said Rick Shoff, managing director of Captrust's advisor group.

Even if firms are on acquisition tears, a true indication of a company's health is its ability to increase sales internally, or through organic growth, Shoff said.

"There are still some hidden gems out there that we haven't seen yet," he said of potential acquisition targets. But over the coming years, "I think there will be a lot of buyers in a trough of disillusionment about what they bought."

ehallez@investmentnews.com

WELLNESS

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ciary solutions at Raymond James. "It's difficult to have someone else's technology and bake it into your firm's technology ecosystem. It's next to impossible, and then you have compliance issues [as well]."

It is more efficient for broker-dealers to build their own systems that can work with all the different record keepers, he said.

"You can have a single adviser with great intent, but the delivery of financial wellness to his or her larger book of business is going to be disjointed by the dependency they have with different record keepers," MacQuattie said.

Some fintech financial wellness services are getting around the data access issue by using participants' credentials, with their permission, to log into accounts with record keepers and pull data from them, said Shawn Daly, head of DC experience and product management at MassMutual.

"Where record keepers are going to need to shift is, instead of worry about generating data feeds, they're going to have to have agreements with these fintechs," Daly said.

Data sharing is something most record keepers struggle with, said Abigail Benham, vice president of national accounts at John Hancock Retirement. While it is unlikely that most record keepers will settle on a single financial wellness service, they could come together on a consistent format for data and basic system design that would make things more efficient for all of them, Benham said.

Retirement Plan Advisory Group rolled out its own program this year, though it previously partnered with other financial wellness providers, including Dave Ramsey, said Jesse Taylor, vice president of new business development for the firm.

OPPORTUNITIES AHEAD

"There's a lot of opportunity out there in the wellness space," Taylor said. But "you still need to focus on the paternalistic side of the plan." Without automatic features and good plan design, financial wellness might not have much effect in helping workers save.

A massive benefit for advisers is that financial wellness could serve as the bridge between retirement saving and wealth management, the latter increasingly being an objective for plan advisers, guests at the event said.

"It's the retirement plan advisers that are feeling the need to support the wealth management opportunities that are within their existing books of business," Hammons said.

Of course, many participants who would benefit from financial wellness services would not qualify for wealth management business. To help participants who could use help beyond financial wellness but don't have enough money to become wealth management clients, some broker-dealers are using the opportunity to train their less-experienced advisers.

"This is a great way to bring people up, get some prospects, cut their teeth," Taylor said. "They've seen it as a great personal-development program for themselves."

ehallez@investmentnews.com

KEY TO SUCCESS

CONTINUED FROM PAGE 30

creases value more than acquisitions do.
- Recruiting, onboarding, training and retaining talent, especially among millennials, who may not fit into the traditional adviser model.
- Creating efficiencies as fees decline.

COVID-19 has presented opportunities and challenges. Firms had to pivot, but once they did, they found clients willing to interact remotely. For some firms, sales were not affected.

THE FUTURE

COVID-19 has accelerated many trends in the DC industry. Plan sponsors have increased concern about and more awareness of the needs of their workforce. Aggregators and RPAs are in the best position because resources, people and partners are focused on them. And they are benefitting from an increasing number of plans, participants and assets under management.

Aggregators and RPAs can also partner with less-experienced advisers and buy wealth managers to build out their practices. The need, technology and capital are here.

DC AGGREGATOR FIRMS ATTENDING

- Alliant Retirement Consulting
- Captrust
- Gallagher Benefit Services
- Hightower
- Hub International
- Lockton Investment Advisors
- Marsh & McLennan
- PensionMark
- Prime Capital
- RIA – OneDigital
- SageView
- SRG – OneDigital
- SRP

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.*

INNOVATION

CONTINUED FROM PAGE 32

related resources discussing in detail the concept of a "retirement tier" as a way for plan sponsors to deliver a range of products, solutions, tools and services that support the lifetime income needs of participants who are near, entering or in retirement.

Closing the coverage gap and making the retirement savings system more inclusive have been key areas of focus for DCIIA and the DCIIA Retirement Research Center. We are monitoring the potential impact of pooled employer plans alongside the expanding landscape of state Secure Choice programs. Emergency savings programs and a broader focus on financial well-being may be used to make the system more effective and inclusive.

BIG IMPACT

Many major market players are betting on PEPs having a big impact in the micro and small-plan markets. Some of the largest employers may be drawn to them as a way to reduce litigation risk and allow internal resources to focus on their core business. And based on recent conversations with several record keepers, it is clear the integration of emergency savings programs will be high on their service enhancement priority list in the new year.

Finally, on the investment front, recent conversations about moving beyond a myopic focus on fees and toward a focus on value and driving better outcomes have been promising.

While the fear of litigation still looms large, discussions around the potential to capture the benefits of illiquidity, democratizing access to alternatives, and the role of environmental, social and governance solutions are natural extensions of this broadening focus.

Lew Minsky is president and CEO of the Defined Contribution Institutional Investment Association, a nonprofit dedicated to enhancing the retirement security of America's workers.

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BROKERAGES

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"In the next election cycle the PAC will review its decision making criteria in light of the actions that contributed to the appalling violent assault on the U.S. Capitol," spokesperson Bill Halldin wrote in an email.

Likewise, Goldman Sachs, which is pushing its way steadily into the retail financial advice industry, is "pausing our donations to elected officials and plan to conduct a thorough assessment of how people acted during this period," said spokesperson Patrick Scanlan.

JPMorgan is pausing all contributions from its PAC for six months.

"The terrible events from the last week have prompted us to pause and re-evaluate our PAC giving strategies to ensure we are supporting candidates that share our commitment to diversity, inclusivity and a strong economy for all," spokesperson Patricia Wexler wrote in an email.

"We believe participating in the political process is essential, and fully intend to continue to support our PAC moving forward — but it will look different," she added.

SCHWAB BACKS OUT

Charles Schwab Corp. said that it has halted all contributions to lawmakers, after initially announcing a pause to "give the firm an opportunity to evaluate the best path forward to fulfill our long-standing commitment to advocate on behalf of individual investors and those who serve them," the company said in a statement.

On his LinkedIn profile, Schwab CEO Walt Bettinger wrote: "Violence, takeovers or intimidation are never the answer to challenges or issues facing us as individuals or as a nation."

bkelly@investmentnews.com

SCHWAB

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swing states won by Biden. In the aftermath, several financial firms, including Schwab, and financial industry trade associations announced they would temporarily halt political donations — either to lawmakers who rejected the presidential vote or to all politicians.

Schwab went a step further on Wednesday and permanently shut down its political spending.

"In light of a divided political climate and an increase in attacks on those participating in the political process, we believe a clear and apolitical position is in the best interest of our clients, employees, stockholders and the communities in which we operate," Schwab said in a statement. "Schwab will donate all remaining funds in the PAC to worthwhile recipients that have received regular support from the firm in the past: The Boys & Girls Club of America and Historically Black Colleges and Universities."

Schwab's PAC contributed $541,000 to political campaigns during the 2020 election cycle, according to Federal Election Commission data through late November.

"As a champion for the 'Main Street' investor, we have long believed in advocating for an appropriate regulatory landscape for individual investors and those who serve them," Schwab said. "But in today's hyper-partisan environment, it is becoming more difficult to stay true to our long-standing commitment to bipartisanship while fulfilling our role of advocate and educator."

Schwab vowed to continue to shape policy by lobbying lawmakers and regulators even though it is shutting off its political donations. In 2020, Schwab spent $1.97 million on lobbying through Sept. 30, according to the Center for Responsive Politics.

"While we will not contribute financially through our PAC, we are confident our voice will still be heard in Washington," Schwab said.

mschoeff@investmentnews.com

TRADE GROUPS

CONTINUED FROM PAGE 3

$1.7 million to lawmakers' 2020 campaigns, also has suspended its political action committee activity "pending review and a discussion with the leadership of ICI's Board of Governors," ICI spokesperson Matthew Beck said in a statement.

Likewise, the Insured Retirement Institute, which represents the retirement income sector and spent approximately $275,500, is talking to the firms it represents about political giving.

"It's a discussion we've just started with our members," said IRI spokesperson Dan Zielinski.

The Securities Industry and Financial Markets Association, a major financial services trade group that spent about $523,500 on 2020 campaigns, did not respond to a request for comment.

Interest groups typically donate to incumbent lawmakers who serve on committees with jurisdiction over areas that affect their membership, such as the House Financial Services Committee, the House Ways and Means Committee and the House Education and Labor Committee.

Lawmakers who serve on those panels who have been active on investment-advice or retirement-savings policy in recent years and who objected to the presidential election results include Reps. Blaine Luetkemeyer (R-Mo., Financial Services), Warren Davidson (R-Ohio, Financial Services), Mike Kelly (R-Pa., Ways and Means), Dave Schweikert (R-Ariz., Ways and Means), Virginia Foxx (R-Va., Education and Labor) and Tim Walberg (R-Mich., Education and Labor).

mschoeff@investmentnews.com

BLACK ADVISERS

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The response to the riots, for example, appeared light compared with the aggressive police tactics BLM protesters faced over the summer, according to Danielle Burns, head of business development at impact investing firm CNote.

"To be clear, these stark divisions are those between how Black people are treated versus white people," Burns said. "The Black Lives Matter protest in Washington last summer was greeted with a massive, militarized police presence, even though those protests had been largely peaceful, versus that violent mob, which work for it."

Notably, a number of brokerages halted political donations after the riots and companies issued statements condemning the violence that occurred. Financial institutions, however, will need to become more involved in diversity efforts to move the needle on racial injustices, Paré said.

"The events [on Jan. 6] are a reminder that companies can't just issue these grand statements about Black Lives Matter and expect that alone to be enough," he said. "The forces fighting diversity aren't going anywhere and to promote diversity and inclusion isn't a 'one and done' — it's an ongoing effort."

"THE INDUSTRY NEEDS TO DOUBLE DOWN ON DIVERSITY EFFORTS."

DANIELLE BURNS, CNOTE

planned the insurrection on public forums and yet encountered very light and in some cases apparently accommodating police presence."

The scenes that unfolded, with individuals "sporting racist symbols and acting violent," illustrated the clear lack of law enforcement compared to the protests that followed the death of George Floyd, according to Frank Paré, president and founder of PF Wealth Management Group and former president of the Financial Planning Association.

"These forces that are pushing against efforts of diversity and inclusion aren't going away and they aren't peaceful," Paré said. "These individuals have always been around, and under the current administration they exerted themselves."

One rioter was shot and killed by police inside the Capitol building and an officer later died of injuries sustained during the violence. Three other rioters died of apparent medical emergencies, according to news reports.

CALL TO ACTION

The disparity in the handling of the U.S. Capitol mob compared with the Black Lives Matter protest makes it more important than ever for the advisory industry to take action toward building an inclusive economy that leaves no one behind, Burns said. "This is a clear reminder that the industry needs to double down on diversity efforts."

"The ways in which these events show how some populations are given preferential treatment lay bare what has been the status quo for many underrepresented communities," she said. "These inequalities flow into preferential treatment and lack of diverse representation that exists in the financial system as well. And if we want a thriving society that raises up all of us, we need to

Still, as an adviser Paré understands his duty to help clients achieve their financial goals for the reasons that are important to them irrespective of what happens in Washington, D.C.

"I have to do the best I can to remain apolitical when providing planning advice," he said. "I believe the risk of allowing my politics — emotions — to dictate the advice I provide to clients is that it could potentially lead to bad investment advice rooted in my emotional responses to political events than more relevant factors."

LONG-TERM VIEW

When it comes to emotions associated with the desecration of Capitol Hill, Ariel Investments Chairman, Co-CEO and CIO John Rogers said during a webinar last Thursday that he was grateful he thought long term and didn't let his emotions dictate how he invests portfolios regularly.

"When it became clear that Georgia was going to elect two Democratic senators, and on top of the unrest, my projection was that we would have had a down market," Rogers said. "So it's just a reminder that long-term investing is the best way to invest. The markets have this amazing way to discount the future, and to not worry about the current emotions of the moment."

Mellody Hobson, co-CEO and president at Ariel Investments, was also anticipating a harder day in the market because the visuals of the Capitol Hill riots were so disturbing, she said.

"I also think there is something to be said that the Senate went right back in undeterred," Hobson said during the webinar. "That spoke volumes about the democratic process not being affected."

ncasperson@investmentnews.com

'MISSING'

CONTINUED FROM PAGE 4

retirement age. Other cues are a lack of contact information for participants and no clear policies for how to deal with undeliverable mail or uncashed checks, the DOL noted.

It outlined best practices for keeping track of former employees who have balances in the plan, such as contacting them periodically, including

> **"ANY TIME A REGULATOR GIVES YOU A ROAD MAP, YOU ARE WELL-SERVED TO FOLLOW IT."**
>
> JASON ROBERTS, CEO, PENSION RESOURCE INSTITUTE

through social media or next of kin, if necessary. Plans can also ask participants for updated contact information when they log on to access their accounts, among other suggestions.

Further, employers should use plain language to tell participants about their benefits, including the need to take required minimum distributions when applicable, the regulator said. When employees leave a company, the separation process should include getting updated contact information for the plan participant.

If an employer can't find a participant, the DOL pointed to free and paid online search programs and public records. If participants don't respond, employers can reach out to a former employee's colleagues or check the Social Security Death Index.

The issue of missing participants is no small matter. Often workers who are automatically enrolled in 401(k)s pay little attention to their accounts, and in many cases are unaware they even have one. Upon termination from a job, they may have accrued enough to keep their assets in the plan, meaning the account isn't automatically cashed out.

PILOT PROGRAM

In 2016, the DOL started a pilot program to address the issue. It recovered about $327 million in missing participants' plan assets in 2017 and about $115 million in 2018.

The new guidance will clearly help plans to avoid DOL investigations and ensure they keep track of their participants, Roberts said.

"The takeaway for advisers is to proactively engage with their plan sponsors on these issues," he said. "Any time a regulator gives you a road map, you are well-served to follow it."

ehallez@investmentnews.com

GOOD AS GOLD

CONTINUED FROM PAGE 4

largest nonbank depository for precious metals and gold futures.

The arm's-length service of buying and holding physical gold is part of Weiner's selling point to try to get investors on board with the idea of replacing dollars with gold for the buying and selling of the bonds.

"We've done the research, and if you're holding gold in a depository, you have about 50 basis points of carry cost," he said. "Even if you're owning gold or gold futures in an ETF, there's a carry cost."

It's true that while gaining exposure to gold can be dirt cheap, at just 40 basis points for the SPDR Gold Shares ETF (GLD) or 18 basis points for SPDR Gold MiniShares ETF (GLDM), there is still a cost.

NOT JUST A LUMP OF METAL

While Weiner makes a convincing case for gold as a small inflation hedge in a world where central bankers and governments are not even pretending to care about debt levels, he isn't arguing for a gold-bug-style race to the precious metal. But he is saying that if you're going to own gold, why not earn some interest on the tangible asset while not paying a fee to own it.

"Before Monetary Metals, gold is just a pet rock, or just a lump of metal, in the words of Warren Buffett," Weiner said. "That's true about a lump of metal, and it is speculation. But when you put a yield on that, it becomes a financial asset."

Weiner also acknowledges the uncertainty around the price of gold, which does fluctuate and is only up about 70% over the past five years. But the value of the dollar fluctuates as well, and that's what Weiner is pitting payments in gold against.

"There is uncertainty about the future price of gold, but the dollar is being relentlessly debased, and the value of gold cannot be debased," he said.

Weiner rightly cites the Federal Reserve's target inflation rate of 2% per year, which translates to an equal 2% debasement of the dollar. And just because the Fed has been falling short of its inflation target is no reason to assume it will stop trying.

"You're not making a huge bet on the price of gold because the tail risks are all in the direction of a radically higher gold price, because the global central banks have gone all in on unprecedent monetary policy in the wake of 2008, and with COVID they've have gone even further," he said. "Risk of inflation went up dramatically last year. With the CARES Act and supplements to it, we're heading toward $6 trillion deficits. With those kinds of deficits, you have to be asking where it all is going. Meanwhile, you look at gold sitting there in the corner."

jbenjamin@investmentnews.com

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BUTOWSKY

CONTINUED FROM PAGE 4

brother, and Butowsky admitted in the tweets he had made serious mistakes in past assertions about Aaron.

FIRST TWEET

"During 2017 and 2018 I made a number of comments stating or implying that Aaron Rich, the brother of Seth Rich who was tragically murdered in July 2016, had been involved in downloading and transferring emails from the DNC to WikiLeaks and receiving payment in exchange," Butowsky wrote in his first tweet.

He then wrote: "I never had physical proof to back up any such statements or suggestions, which I now acknowledge I should not have made. Accordingly, I now retract and apologize for any statement I have made asserting or implying that Aaron Rich downloaded or transferred DNC emails to WikiLeaks or received payment in exchange."

"Ed Butowsky, the wealthy conservative who was involved in Fox News's fallacious story on murdered DNC staffer Seth Rich, is apologizing to Rich's brother Aaron for suggesting he stole Democratic emails," Sommer wrote on Twitter. "The retraction is presumably part of an upcoming legal settlement."

Butowsky declined to comment to *InvestmentNews* but forwarded a message that matched the apology to Aaron Rich on Twitter.

In August 2017, Butowsky was named in two high-profile lawsuits related to the later retracted Fox News story about Seth Rich. The two lawsuits also named Fox News and a Fox News reporter, Malia Zimmerman. One suit was brought by Mr. Rich's parents and the other by Rod Wheeler, an investigator looking into Mr. Rich's death for his parents.

LAWSUITS DISMISSED

The defamation lawsuits were dismissed by a federal judge in New York a year later.

"Anybody who did anything negative to me as a result of the lawsuit will pay," Butowsky told *InvestmentNews* after the lawsuits were dismissed. "I'm going to sue the hell out of a lot of firms. I want to see these people choke on their nerves and go through the same crap I had to go through."

Charles Schwab, the largest custodian for registered investment advisers like Chapwood, kicked the firm off the platform in 2018. Butowsky later sued the company for $100 million claiming defamation, with that complaint winding up in arbitration.

Seth Rich's killer has not been found.

"I take full responsibility for my comments and I apologize for any pain I have caused," Butowsky wrote in the third since-deleted tweet. "I sincerely hope the Rich family is able to find out who murdered their son and bring this tragic chapter in their lives to a close."

bkelly@investmentnews.com

DIVERSITY & INCLUSION IN FINANCIAL ADVICE 2020

Pathways for Improving the Industry's Performance

While the advice-seeking market is becoming younger and increasingly composed of women and minority members, advisers remain overwhelmingly older, male and Caucasian. This report, based on the results of The American College of Financial Services' Diversity & Inclusion in Financial Advice Survey conducted by IN Research, recognizes the challenge and opportunity today's demographic changes afford.

Specifically, the report examines:

- Where the advice industry is now in terms of diversity and inclusion
- The impediments to change including limited entry points and expectations regarding revenue generation
- Why taking steps to greater diversity and inclusion makes good business sense
- Examples of the programs and policies that work and those that don't

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