OCTOBER 25-29, 2021

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TEAM COVERAGE: 2021 SCHWAB IMPACT CONFERENCE PAGE 12

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KEEP CALM AND RETIRE LATER

CLIENTS WHO DECIDE TO CLAIM SOCIAL SECURITY BENEFITS EARLY BECAUSE OF THE WORRISOME HEADLINES ABOUT THE PROGRAM'S FINANCES CAN END UP COLLECTING LESS IN THE LONG RUN PAGE 8

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INSIDE

OCTOBER 25-29, 2021

This year's 40 Under 40 honorees gathered in New York and shared their visions for the industry.

David Foster found his niche when he realized his donations weren't having the desired impact.

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DOL's ESG rule proposal bodes well for 401(k)s

BY EMILE HALLEZ

THE DOL EARLIER this month issued its much-anticipated rule on the use of ESG investments in retirement plans, effectively walking back two Trump-era rules that were finalized last year.

The proposed rule bodes extremely well for ESG investment managers, especially because the regulator clarified that target-date funds and other default products that use the investment criteria are permissible in 401(k)s.

> **KEY POINTS**
> - The proposed rule seeks to clarify that ESG factors can be financially material.
> - It also allows ESG as a default investment option in 401(k)s.

The single Department of Labor rule proposal, "Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights," would modify requirements outlined in the two rules from last year, "Financial Factors in Selecting Plan Investments" and "Fiduciary Duties Regarding Proxy Voting and Shareholder Rights."

With the proposed rule, ESG funds in many cases could have an advantage over others. But the DOL went a step further, noting that it is retaining the so-called "tie-breaker" test for investments, meaning that all else being equal, financially immaterial factors can give one product an edge over another. The proposal also clarifies that ESG can be material when it comes to proxy votes that plan sponsors make on behalf of participants.

"These ESG factors can be financially material," acting head of the Employee Benefits Security Administration Ali Khawar said. "When these are financially material factors, you shouldn't be thinking you're choosing this because they are ESG. You are choosing them because they are the financially best options for the participants."

EXECUTIVE ORDER

Early in President Joe Biden's term, in an executive order focused on the climate crisis, he announced an intention of revisiting the rules. In March, the DOL disclosed that it would reexamine the rules under the Admin-

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Wells' head count falls; indies are 'underutilized'

BY BRUCE KELLY

AS IT PROCEEDS with its overhaul of various business lines involving financial advisers, Wells Fargo Advisors continues to shed advisers.

On Oct. 14, it reported 12,552 financial advisers under its roof. That's a quarter-over-quarter head count decline of 267, or 2.1%, and an annual decline of 1,241, or 9%.

In a conference call with analysts and investors to discuss the bank's earnings, CEO Charlie Scharf broke down its wealth management businesses into four parts — bank, traditional wealth management advisers, online and independent advisers — and said the bank has overlooked some pieces in the past.

"We feel we have underinvested in the online piece and the independent piece, for sure," Scharf said.

During a conference call with analysts in July, Scharf made a similar comment, saying that that Wells Fargo's online brokerage services and platform for independent advisers, who can work as brokers or registered investment advisers, had been "underutilized."

REVAMPING WEALTH UNIT

Wells Fargo is in the middle of revamping its wealth management franchise, and such changes often lead to a reduction of the number of financial advisers at large enterprises. The company is cutting its international wealth management business, resulting in advisers leaving the firm, and it's also

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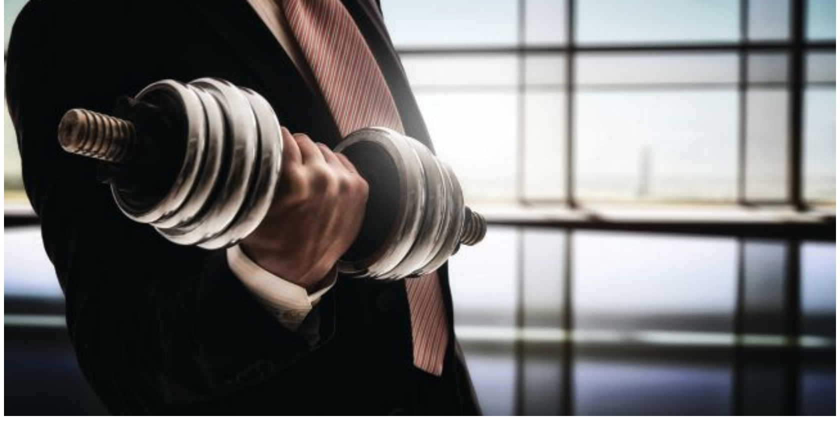
CHARLIE SCHARF



Merrill steps up adviser training, sees record revenue in Q3

BY BRUCE KELLY

AFTER CALLING A time-out on training due to Covid-19, Merrill Lynch & Co. Inc. is ramping up its new adviser development program that launched in June with 750 advisers, and hiring is underway.

The program, called ADP internally, draws potential trainees from other parts of the company, according to the firm. Some could be already licensed to sell securities but don't have the background in financial advice.

Merrill's parent, Bank of America, released its third-quarter earnings Oct. 14, including updates on its giant wealth management business.

18-MONTH PAUSE

Historically, Merrill has hired about 2,000 financial advisers into its training program annually, according to the company. With 18,855 financial advisers across its variety of platforms at the end of the third quarter, financial adviser head count is down 3% compared to June and 8% year over year.

That's in large part the result of an 18-month pause in hiring trainees during the pandemic, according to Merrill Lynch.

The new ADP program not only cuts out the practice of cold calling for potential clients, but it is designed to be a full-fledged talent management strategy that will integrate career paths and training for multiple roles within the company, the firm said in May.

Meanwhile, like its competitors, Merrill Lynch clocked record-high financial results in a number of areas as the stock market continues to move upward.

Merrill reported record revenue of $4.5 billion for the three months ending in September, up 19% from the same period last year. It also hit record client balances of $3.1 trillion for the quarter, an increase of 21% year over year.

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Morgan Stanley assets hit new high

BY BRUCE KELLY

MORGAN STANLEY'S wealth management business continued to increase net new assets over the summer, adding $135 billion for the quarter ending in September to reach a new quarterly high, according to the company's third-quarter earnings release.

That included assets it acquired with its purchase of Hyas Group, an institutional consulting firm with $43 billion in fee-based assets that manages retirement money for smaller businesses.

Morgan Stanley, with close to 16,000 financial advisers, closed the acquisition for Hyas Group last month.

Hyas Group serves 600,000 plan participants who have access to educational content and analytical tools available through the Morgan Stanley at Work Financial Wellness platform.

The purchase demonstrates Morgan Stanley's continued appetite to build the firm with acquisitions, though it's nowhere near as large as some previous deals. In February 2020, Morgan Stanley said it was buying ETrade Financial Corp. for $13 billion in stock. A year earlier, it said it was buying Solium Capital Inc.'s stock plan business for $900 million. Last year it also completed its $7 billion purchase of fund manager Eaton Vance.

Morgan Stanley's wealth management group reported net revenues for the third quarter of $5.9 billion, compared with $4.7 billion in the year-ago period, an increase of 25.5%.

Meanwhile, pretax income of $1.5 billion in the quarter resulted in a reported pretax margin of 25.8% or 27.7% excluding the impact of integration-related expenses.

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Social Security announces 5.9% COLA for 2022

BY MARY BETH FRANKLIN

THE SOCIAL SECURITY Administration announced Oct. 13 that retirement benefits will increase by 5.9% in 2022, the largest cost-of-living adjustment in 40 years.

Social Security benefits rise automatically when the consumer price index for urban workers increases in the third quarter of the current year over the corresponding third quarter of the previous year.

Over the past 12 years, Social Security COLAs have averaged a meager 1.4%, including a 1.3% boost in 2021. The 5.9% COLA that will apply to benefits starting in January is the largest increase since the 7.4% COLA in 1982.

The 5.9% COLA will boost the average monthly retirement benefit to $1,657 next year, up $92 per month from this year's $1,565 average benefit. The 5.9% COLA also increases the maximum retirement benefit, currently $3,148 per month, to $3,345 for someone who retires at full retirement age in 2022.

Anyone who is 62 or older and eligible to receive Social Security in 2022

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Bitcoin futures ETFs debut to unprecedented demand

BY JEFF BENJAMIN

THE RACE IS on among futures-based Bitcoin exchange-traded funds, with two launching last week, a third expected Monday, and at least a half-dozen more that could launch by the end of the year.

If last Tuesday's debut of the ProShares Bitcoin Strategy ETF (BITO) is any indication, the U.S. market is hungry for easy access to anything that provides exposure to cryptocurrencies.

The fund gathered more than $1 billion in its first two trading days, eclipsing a record set in 2004 when SPDR Gold Shares (GLD) reached the $1 billion mark in its first three days of trading.

"The ETF market was much smaller in 2004, but BITO's demand is unprecedented," said Todd Rosenbluth, director of mutual fund and ETF research at CRFA.

While ProShares enjoyed the classic first-mover advantage in the ETF space, Valkyrie Funds put a positive spin on its position as second, launching the Bitcoin Strategy ETF (BTF) last Friday and seeing a third of the trading volume of BITO by midday.

EARLY CHALLENGES

While acknowledging the lack of the first-mover advantage, Valkyrie Funds chief investment officer Steven McClurg said BTF might also avoid some of the early challenges BITO might face in the form of inflows forcing adjustments to the strategy, which invests exclusively in Bitcoin futures contracts.

Not only has BITO already bumped up against its futures contracts limit for October, forcing it to purchase November contracts, but it had to employ its ability to temporarily increase the share creation fee to 10 basis points from 1 basis point to help stem the pace of order flow on the second day of trading.

That creation fee has since dropped back down to 1 basis point and the futures contracts limit will double for No-

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Worden Capital's demise signals danger for investors

BRUCE KELLY

ONADVICE

The continued nuisance of firms and brokers that lose lawsuits and then run out on them was highlighted this month by the shuttering of a small broker-dealer based on Wall Street, Worden Capital Management, and the barring of its owner and CEO, Jamie Worden, from the securities industry.

At the end of last year, the Financial Industry Regulatory Authority Inc. fined Worden Capital Management $350,000 and ordered it to pay restitution of $1.25 million as part of a settlement; the key issue was the firm being accused of failing to have in place the oversight to catch brokers' excessive trading, known in the industry as churning.

Investors and clients of Worden Capital Management will be harmed. Jamie Worden alone faces a staggering 11 ongoing investor complaints seeking $6.8 million in damages, according to his BrokerCheck profile. Many of the charges stem from allegations he failed to supervise and allowed churning. Investors suing him will likely never see a penny.

At the center of this problem is Finra, which oversees more than 3,000 brokerage firms. Regulators at Finra are good at sounding concerned when asked about such firms, but unpaid arbitration awards are a long-standing issue.

Finra recognizes the problem and in the past couple of years it has been working on getting a new rule in place that could give investors some help.

Unpaid arbitration awards have been a consistent stain on the retail securities industry. Brokers have been walking away from paying investors for years.

The Public Investors Advocate Bar Association reviewed all publicly available 2020 arbitration awards on Finra's website and found 19 customer awards totaling $5 million went unpaid, out of a total of 64 awards and $20.9 million won.

BLACK EYE FOR INDUSTRY

To be fair to Finra and its staff, the total dollar amount of unpaid arbitration awards has come down in recent years. But the percentage of investor awards that are not paid each year remains nearly the same, 25% to 33%, which means it remains a black eye for an industry whose biggest firms are currently touting record profits during Covid-19.

The closing of Worden Capital Management represents millions of dollars of potential client claims that will not get paid.

By the time Finra arrived to douse the flames at Worden Capital Management, when it issued the fine late in 2020, it was too late — the house had already burnt down.

"This was just another boiler room operation, and Jamie Worden's brokers were

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Should celebrity profiles count as investing advice?

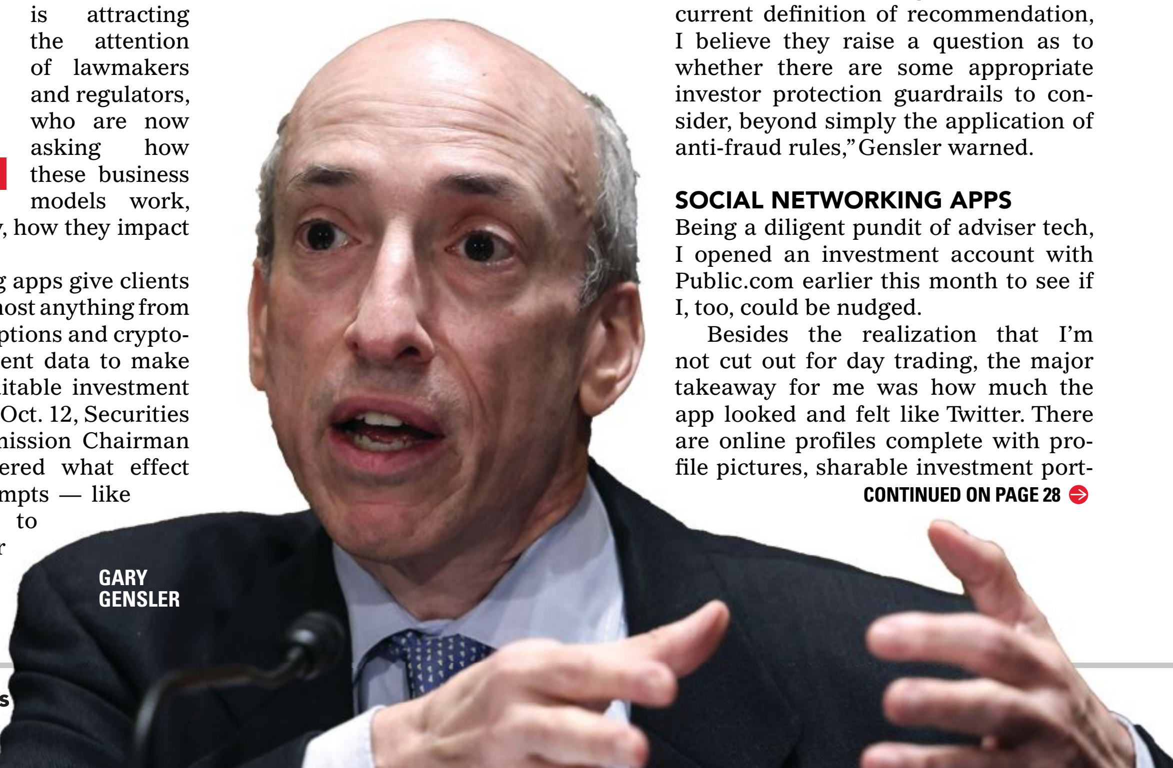
Mobile investing apps exploded in popularity post-pandemic and some analysts say they could draw hundreds of millions of new retail investors by the end of next year. That meteoric rise is attracting the attention of lawmakers and regulators, who are now asking how these business models work, and more importantly, how they impact consumers.

SEAN ALLOCCA

ONTECH

Free online trading apps give clients the ability to trade almost anything from individual stocks to options and cryptocurrency, and use client data to make suggestions about suitable investment products. In a speech Oct. 12, Securities and Exchange Commission Chairman Gary Gensler wondered what effect these behavioral prompts — like encouraging clients to trade more often or steering clients into high-risk, high-fee products — have on investing outcomes.

"When do these design elements and psychological nudges cross the line and become recommendations?" Gensler said.



GARY GENSLER

The answer is fundamentally important to the future of advice and could change the fiduciary relationship these companies will owe clients under securities laws moving forward. "Even if certain practices might not meet the current definition of recommendation, I believe they raise a question as to whether there are some appropriate investor protection guardrails to consider, beyond simply the application of anti-fraud rules," Gensler warned.

SOCIAL NETWORKING APPS

Being a diligent pundit of adviser tech, I opened an investment account with Public.com earlier this month to see if I, too, could be nudged.

Besides the realization that I'm not cut out for day trading, the major takeaway for me was how much the app looked and felt like Twitter. There are online profiles complete with profile pictures, sharable investment port-

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5 highest paid jobs in financial advice

BY BRITTNEY GRIMES AND DEVIN MCGINLEY

Here are the highest paying jobs within the finance industry, according to the latest InvestmentNews Compensation and Staffing Study. The rankings include years in the business and designations received, along with salary.

5 BUSINESS DEVELOPMENT OFFICER
Median annual base compensation: $187,500
Average years of experience: 20
Designations:
CFP: 32%
CPA: 42%
CFA: 0%
Series 7: 11%

4 PRACTICING PARTNER
Median annual base compensation: $200,000
Average years of experience: 21
Designations:
CFP: 75%
CPA: 10%
CFA: 9%
Series 7: 23%

3 PRESIDENT
Median annual base compensation: $210,000
Average years of experience: 27
Designations:
CFP: 75%
CPA: 22%
CFA: 13%
Series 7: 22%

2 CHIEF INVESTMENT OFFICER
Median annual base compensation: $225,750
Average years of experience: 21
Designations:
CFP: 38%
CPA: 10%
CFA: 69%
Series 7: 14%

1 CEO/MANAGING PARTNER
Median annual base compensation: $285,000
Average years of experience: 26
Designations:
CFP: 62%
CPA: 10%
CFA: 16%
Series 7: 28%

EDITOR'S NOTE

Succession planning is essential

When I decided to write about succession planning this week, it seemed obvious to make a "Succession" parallel. But alas, I haven't watched that yet.

However, that's probably for the best. Succession planning deserves a serious discussion, because advisers of every size firm need to take a close look at their succession plan and make sure that they have plans in place.

I have seen a friend benefit from a proper succession plan for his smaller firm. He found his exit, securing his plans for retirement, and for his family's future. He shared with me that he took this step after seeing a peer wait too long to plan that succession, which created severe stress when that adviser needed to exit suddenly.

GEORGE B. MORIARTY

The failure to plan left money on the table, and clients underserved. To the thousands of small to mid-sized firms out there, succession planning is of incredible importance.

But it's not just a small firm story. Middle- to large-sized firms can't lose sight of this either, because a lack of clarity in any enterprise can cause massive impacts. As Ted Lasso saw with Nate at the end of Season 2, failing to nurture your succession plan can lead to key players being snapped up at an inopportune moment.

Advisers who put off planning for the future leave themselves open to unnecessary risks when they should be relishing the fruits of their labor.

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Advisers beware: Bitcoin ETFs are a game-changer

Investing in Bitcoin went from exotic to routine last week when the first Bitcoin futures ETF started trading in the United States. The fact that clients now can put some money into Bitcoin futures contracts via the familiar process of buying an exchange-traded fund, instead of going through the maneuvering required to hold it directly, makes investing in the cryptocurrency much more accessible to U.S. investors.

That means advisers who have been steering clear of digital currencies need to study up and be prepared to talk their clients through the pros and cons of this asset class.

The cryptocurrency market is now worth $2.7 trillion, Bloomberg estimated last week, but many market participants aren't yet believers. Stumbling blocks for the skeptics include crypto's volatility, fears of fraud and outright disbelief that crypto assets have any intrinsic value. In that vein, JPMorgan Chase CEO Jamie Dimon recently described Bitcoin as "worthless."

Up until now, there have been practical considerations that tended to deter many retail investors. Many brokerages wouldn't make crypto purchases for their customers, which meant investors had to go to a crypto exchange or an online brokerage to acquire Bitcoin or other cryptos. People could set up their own digital wallet in which to store their cryptocurrency, but there were scary stories of people who lost crypto worth considerable sums because they couldn't remember their password.

ADVISERS SHOULD BE PREPARED TO TALK TO THEIR CLIENTS ABOUT INVESTING IN BITCOIN.

Bitcoin-linked ETFs were a long time coming because the Securities and Exchange Commission has been among the skeptics, citing concerns that cryptocurrencies could be susceptible to fraud and manipulation. In fact, it's been eight years since the first Bitcoin ETF proposal was filed with the SEC in 2013.

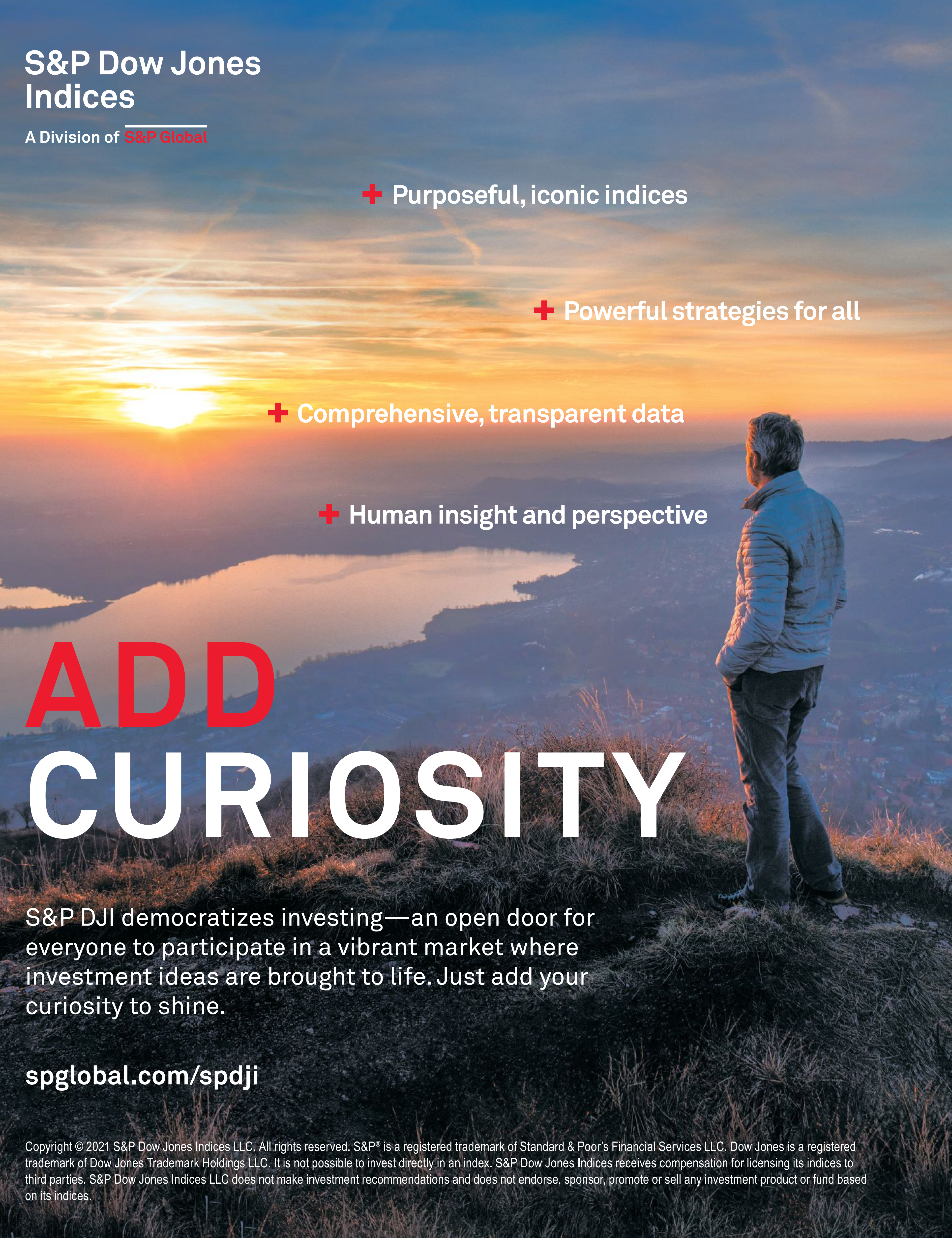
What the SEC is currently allowing is ETFs that invest in Bitcoin futures — which trade on the Chicago Mercantile Exchange and are regulated — rather than funds that invest directly in Bitcoin, which is not regulated. The ProShares Bitcoin Strategy ETF that began trading last Tuesday fits that profile.

But the use of Bitcoin futures raises other issues. While investing in Bitcoin has always entailed dealing with the cryptocurrency's volatility, some observers say Bitcoin futures ETFs are likely to be even more volatile. Bitcoin futures ETFs could also underperform Bitcoin because the process of rolling forward into new contracts can be costly.

Moreover, ProShares' groundbreaking Bitcoin Strategy ETF looks pricey by ETF standards, at 95 basis points. Before the week had ended, though, the ProShares ETF was facing price competition, as VanEck said its Bitcoin futures ETF that's about to start trading would cost 65 basis points.

The ProShares ETF attracted more than $1 billion in just its first two days of trading, which demonstrates the extent of the interest that's out there in cryptocurrencies. Advisers should take note and be prepared to talk to their clients about investing in Bitcoin.

Subscription Questions: Please email customerservice@investmentnews.com or call 978-671-0449 (in the U.S. and Canada).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+ Human insight and perspective
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MANAGING SOCIAL SECU EXPECTATIONS

DON'T LET CLIENTS SABOTAGE THEIR RETIREMENT PLANS BECAUSE OF FEARS ABOUT THE PROGRAM'S FINANCES. ADVISERS CAN HELP CLIENTS PUT TRUST FUND SOLVENCY WOES INTO PERSPECTIVE.

BY MARY BETH FRANKLIN

AT A TIME WHEN MORE Americans rely on Social Security than at any other time in the program's 86-year history, political brinkmanship and alarmist headlines are undermining public faith in the nation's bedrock retirement system. Those concerns are tempting some people to grab their benefits as soon as they can.

But claiming Social Security benefits early out of fear has a similar result to selling stocks in a down market: It turns perceived losses into real ones.

For financial advisers who have crafted retirement plans based on assumptions that clients will claim their Social Security benefits at full retirement age or later, a client's decision to claim reduced benefits early may require some income adjustments or budget trade-offs.

Waiting until full retirement age or later to claim produces a larger monthly benefit for life. Benefits increase by 8% per year for every year an individual postpones claiming them beyond full retirement age up to age 70. Someone whose full retirement age is 66 who waits until 70 to file for benefits can increase their annual checks by 32% compared to what they would receive at full retirement age. And each year when there is a cost-of-living adjustment, that COLA will be applied to a larger benefit base.

For married couples, maximizing retirement benefits for the higher-earning spouse can translate into a larger survivor benefit for the remaining spouse. Planning for a survivor benefit is critical since 80% of women survive their husbands by an average of 14 years.

The significance of the COLA's impact on benefits will be clearly felt next year, when Social Security recipients will get a 5.9% increase in benefits, the largest annual boost in 40 years. Anyone who is 62 or older and eligible to claim Social Security in 2022 will benefit from next year's COLA — even if they haven't yet claimed benefits. The COLA will be factored into their monthly benefit amount when they file for Social Security in the future.

Advisers should remind clients that Social Security represents only a portion of their retirement income. Even in the unlikely event that benefits are cut in the future, illustrating the impact of a potential cut in Social Security benefits can demonstrate that their retirement will still be secure — if somewhat less comfortable than previously imagined.

LONG-TERM OUTLOOK

More than 175 million covered workers are paying taxes on up to $142,800 of their wages in 2021. Those payroll taxes fund more than $1 trillion in payments for 65 million current beneficiaries, including retired and disabled workers, their family members and survivors of deceased workers.

Today's workers expect to collect their own retirement benefits in the future based on their average lifetime earnings and payroll tax contributions throughout their careers. But Social Security is not sustainable over the long term at current benefits and tax rates.

The Social Security Board of Trustees' 2021 report shows the nation's primary retirement program will be unable to pay full benefits beginning in 2034, one year sooner than previously forecast, because the combined trust fund reserves for retirement, survivor and disability benefits would be depleted.

But trust fund depletion doesn't mean bankruptcy, despite headlines to the contrary. Ongoing revenue from payroll taxes would be sufficient to cover about 78% of scheduled benefits 13 years from now — unless Congress acts before then to shore up the system's long-term finances and fully fund scheduled benefits.

A recent report from the Center for Retirement Research at Boston College found that workers who were shown headlines emphasizing the depletion date planned to begin claiming Social Security a year earlier on average than those in a control group.

"News coverage of the Trustees Report often emphasizes the trust fund depletion date and de-emphasizes the ability of ongoing revenue to support three-quarters of scheduled benefits," authors Laura Quinby and Gal Wettstein wrote in the recently published paper. "If workers respond to their misperceptions, they might adjust their behavior in ways that could either harm or enhance their retirement security."

A recent survey of more than 1,000 Americans 45 and older conducted by annuity provider PlanGap found 70% of respondents had "a lot" or "a great deal" of concern that they wouldn't receive their full Social Security benefits, while 55% had little or no confidence that the government would solve the Social Security solvency problem without reducing their benefits.

Social Security's long-range funding shortfall is driven largely by demographics. Declines in fertility and increases in longevity are resulting in a lower ratio of workers to beneficiaries as baby boomers retire. The ratio of workers paying into the system to

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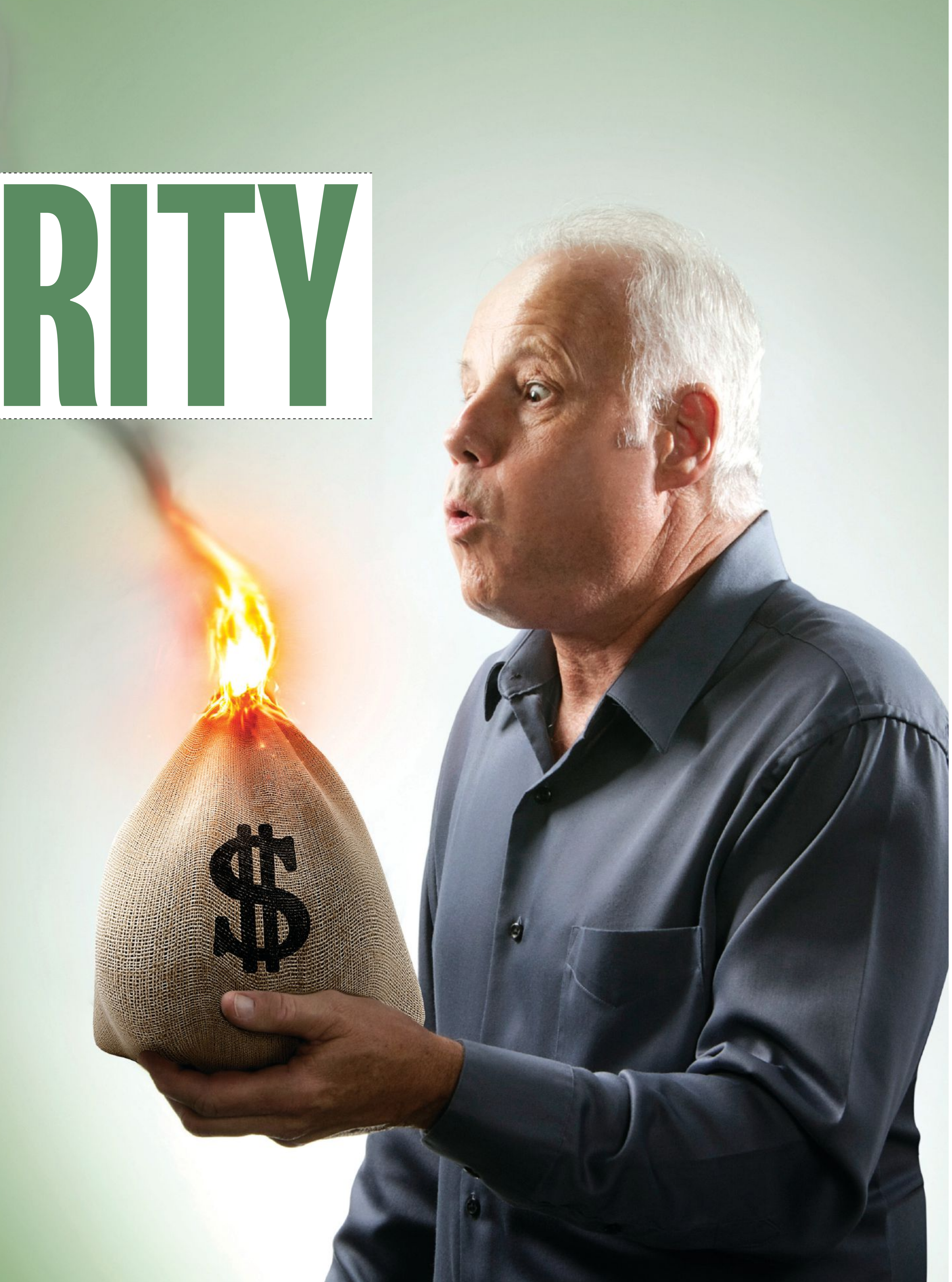
RITY



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support each beneficiary is expected to fall from 2.7 in 2021 to 2.3 in 2033 — a far cry from the 5-to-1 worker-to-beneficiary ratio in 1960, when today's 62-year-olds were born. Given current tax rates and benefits, the system needs a worker-to-beneficiary ratio of about 2.8 to function at a pay-as-you-go level, meaning that tax revenue approximately equals benefit payments.

SELF-FINANCING PROGRAM

In addition, last year's pandemic-induced recession led to massive job losses, reduced payroll tax collections and involuntary retirements of some older workers.

Social Security is self-financing. More than 93% of its income comes from payroll taxes paid by employers, employees and self-employed individuals, and federal income taxes paid by about half of the program's beneficiaries on a portion of their benefits. It also receives interest income on the trust fund reserves.

For many years, Social Security took in more in taxes than it needed to pay benefits, resulting in the accumulation of trust fund reserves. In 2010, total expenditures began to exceed tax revenues, but interest on the trust fund reserves helped fund benefits while the trust fund balances continued to grow. Starting this year, however, Social Security's cost is projected to exceed total income, including tax revenues and interest. As a result, trust fund reserves are projected to decline steadily from their current peak of $2.9 trillion to zero in 2034.

NEED FOR ACTION

Although Social Security's expected shortfall has been forecast for decades, there have been no successful comprehensive reform efforts like that approved in 1983 — the last time it teetered on the brink of insolvency.

Since then, there have been two bipartisan commissions and one failed attempt by former President George W. Bush to privatize a portion of Social Security. Increased partisan squabbling on Capitol Hill over spending priorities and tax policies in the wake of the Covid-19 pandemic and the divisive 2020 election has left little room for debates over Social Security reforms.

A majority of House Democrats are expected to introduce a bill to expand Social Security benefits and pay for that by imposing payroll taxes on workers' earning over $400,000 per year. The Social Security 2100 Act seems more a political document than a serious effort at improving trust fund solvency. Even if it wins House approval, it would likely be killed by a Republican filibuster in the Senate.

And each passing day without legislative action comes at a cost.

To illustrate the magnitude of changes needed to maintain Social Security solvency over the next 75 years, the latest trustees report points to two hypothetical options.

The first is an immediate 3.36-percentage-point increase in the payroll tax rate, from the current 12.4% to 15.76%, evenly divided between employers and employees. Self-employed workers pay the full rate.

Alternatively, the trustees said an immediate 21% reduction in scheduled benefits for all current and future beneficiaries or a 25% reduction for newly eligible beneficiaries only would also solve the long-range shortfall.

> **"THE LAST THING ANY FINANCIAL ADVISER WANTS IS FOR THEIR CLIENTS TO MAKE A POOR RETIREMENT DECISION OUT OF FEAR."**
>
> JOE ELSASSER, PRESIDENT, COVISUM

But if action is deferred for several years, the changes necessary to maintain Social Security solvency become concentrated in fewer years and fewer generations. If action were deferred until the combined trust fund reserves become depleted in 2034, it would require a 4.2-percentage-point increase in the payroll tax rate, to 16.6 %, or a 26% across-the-board reduction for all beneficiaries, the trustees report said.

Historically, most changes have been phased in over time to minimize the impact on current retirees. Future solutions will likely include both tax increases and benefit changes.

Lawmakers have a broad list of policy options to consider. The Social Security Administration Office of Chief Actuary provides cost estimates for more than 140 proposals, including increases in taxes or reductions in benefits to improve trust fund solvency or, in some cases, to expand benefits for vulnerable beneficiaries, which would increase the long-term trust fund deficit.

Some of the more commonly discussed proposals to improve trust fund solvency include raising the amount of earnings that are subject to the payroll tax, increasing the payroll tax rate, boosting the retirement age, modifying the benefits formula and changing the annual cost-of-living adjustment calculation. (See sidebar.)

THE ADVISER'S ROLE

"Advisers should create retirement income plans under current Social Security rules but develop a contingency plan if Congress can't agree on a funding solution," said Joe Elsasser, president of Covisum, which focuses on optimizing Social Security claiming strategies and developing tax-efficient retirement withdrawals. "Put it in the context of an overall retirement income plan and stress-test it to make sure clients are still OK."

Covisum offers a free calculator to demonstrate the impact of a future reduction in Social Security benefits.

For example, assume you have a 62-year-old single female client in average health with a full retirement age benefit of $2,500 per month. If she claims benefits at 70 and lives until 85, she will receive nearly $574,000 in lifetime Social Security benefits, more than $100,000 more than she would have received if she claimed reduced benefits at the early age of 62, assuming no future benefit cuts.

But even if benefits were cut by 26% in 2034, her lifetime benefits would still be larger if she waited until age 70 to claim them and died at 85, compared to claiming early at 62, although the difference would not be as large — about $60,000 more. The longer the client lives, the greater the value of delaying benefits.

"Of course, every situation is different, but the last thing any financial adviser wants is for their clients to make a poor retirement decision out of fear," Elsasser said. "A reasoned decision that considers the client's longevity, additional retirement income, and the potential for multiple benefits in the case of married couples can add thousands of dollars to a retirement strategy."

(Questions about new Social Security rules? Find the answers in my 2021 ebook at MaximizingSocialSecurityBenefits.com)

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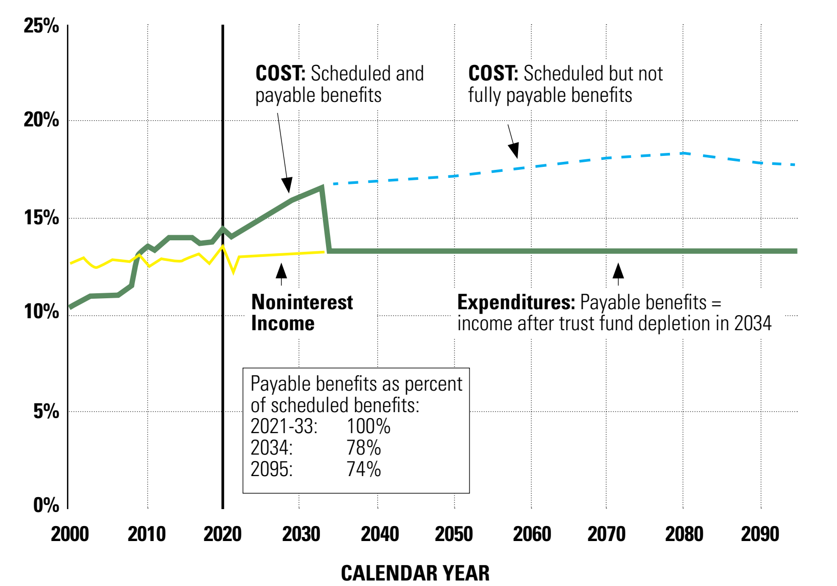
8 WAYS TO REFORM SOCIAL SECURITY

Legislative proposal	Portion of Social Security shortfall that would be eliminated
Immediately increase FICA tax, currently 12.4%, to 15.8%	**101%**
Gradually raise FICA tax, currently 12.4%, by 0.1 percentage point each year until it reaches 14.8% in 2047	**56%**
Apply 12.4% FICA tax on earnings above $400,000	**60%**
Apply 12.4% FICA tax on all earnings	**65%**
Use less generous chained CPI to calculate cost-of-living adjustment	**19%**
Reduce Social Security benefits for higher-income retirees with adjusted gross income over $60,000 for singles, $120,000 married	**13%**
Gradually raise full retirement age to 68	**13%**
Gradually raise full retirement age to 70	**47%**

Source: Office of the Chief Actuary, Social Security Administration

OASDI INCOME, COST AND EXPENDITURES AS PERCENTAGES OF TAXABLE PAYROLL

(UNDER INTERMEDIATE ASSUMPTION)



Source: 2021 Social Security Trustees Report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The 3 keys to attracting Gen XYZ as clients

BY NICOLE CASPERSON

THE YOUNGER GENERATIONS of investors — also known as Gen XYZ — have a different expectation of their relationship with their wealth manager, and advisers that embrace digital communication, transparency and relatability will be the ones with a competitive edge.

That's the takeaway from a fireside chat with Anand Sekhar, vice president practice management & consulting at Fidelity Investments during the *InvestmentNews* Future of Our Business + 40 Under 40 awards last Wednesday in New York City.

A confluence of industry trends — like the upcoming generational wealth transfer, the growing investor appetite for personalized experiences, and increased interest in environmental, social and governance investing — have led more Gen XYZ investors to start working with a new financial adviser compared with their baby boomer counterparts.

Between May 2020 and May 2021, 42% of advised Gen YZ investors and 28% of advised Gen X investors switched their primary advisers compared with just 1% of boomers, according to Fidelity's annual Investor Insights Study.

The study found three primary drivers for why investors are leaving their advisers, Sekhar said. The first is engagement frequency, which is more valued by Gen XYZ, particularly during the pandemic as investors want to be more hands-on with their investments and wealth building via digital channels.

> **"IF OUR CUSTOMERS ARE CHANGING, WE HAVE TO CHANGE AS WELL."**
> ANAND SEKHAR, FIDELITY INVESTMENTS

"The hypothesis for why that is, I think, is that our industry has adapted in a positive way with the rise of the CFP and the rise of planning centric firms," he said. "We have the opportunity as an industry to really present how you are en-

CONTINUED ON PAGE 13

Next-gen advisers address the challenges facing the industry

BY DEVIN MCGINLEY

THE BREAKNECK PACE of industry consolidation presents a web of new challenges for early-career advisers, according to a discussion among past and present *InvestmentNews* 40 Under 40 winners.

Merger and acquisition activity in the industry is on track for another record year. Billion-dollar RIAs, once unicorns, now number in the hundreds. Private equity interest in the industry's recurring revenue streams appears poised to keep the consolidation rolling.

The industry's next generation grappled with these trends during the Future of Our Business event, held in New York last Wednesday.

At the firm level, industry consolidation means tougher competition, particularly for smaller shops.

"The pace of change is really quick so you can't be complacent," said Leah Jones, director of financial planning at Hightower Bethesda. "Practices need to evolve to stay competitive with larger organizations. The only way you can do that is by leveraging technology."

Indeed, the proliferation of advisory technology and outsourcing solutions allows advisers to broaden their service offerings, attendees said. Advisers just need to be cognizant of their value proposition and know when to refer clients to an outside specialist.

"You can compete with a big firm by showing that depth," said Katie Brown, founder and principal of Morton Brown Family Wealth.

Small firms can compete in a consolidating industry, but they need to make early decisions about how to structure

CONTINUED ON PAGE 13

Top (left to right): Matilda Sung, Amanda Campbell, Nicole Dunham, Christine Damico. **Second:** 40 Under 40 honorees. **Third:** Anand Sekhar. **Bottom** (left to right): Liz Skinner, Ka'neda Bullock, George Moriarty.

GEN XYZ

CONTINUED FROM PAGE 12

gaging and what your engagement means."

FEE TRANSPARENCY

Advisers interested in capturing Gen XYZ clients also have to embrace fee transparency, Sekhar said. "Anytime we study how much clients should pay their adviser, it's like a scatterplot and that's horrible," he said. "Prices are all over the map."

This year has pushed advisers to embrace financial planning to help clients navigate volatility caused by Covid-19, and while more investors are engaged with planning, advisers also need to be very clear with the way they charge fees on those services.

Relatability is another key component when catering to Gen XYZ investors. However, to be more relatable to diverse generations of investors, firms should employ diverse individuals who can share related experiences with different clients.

"Regardless of diversity, inclusion of heritage or history is relatable," Sekhar said. "The experience of individuals that have walked in your shoes is so important to the client."

He added: "Our industry has a … call to action around inclusion because our census data is showing that there's going to be wealth transferred and our country is more diverse than ever before."

AGE DISPARITY

On top of that, there's an age demographic and gender disparity amongst advisers, Sekhar said. The average age of financial advisers is between 51 and 57 years old. The CFP Board estimates that 23% of certified financial planners are women.

"I once heard at a conference that the industry is called 'stale, male and pale,'" Sekhar said. "When I heard that my heart was broken because that should not be our industry. The reality is that if our customers are changing, we have to change as well."

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NEXT-GEN

CONTINUED FROM PAGE 12

their businesses, especially in a profession that often figures equity into its compensation packages. As Brown put it, new firm owners need to make a "conscious decision between a lifestyle practice and building an enterprise."

NEXT-GEN CLIENTS

The next generation client also can be a challenge for the advice industry and advisers of all ages will need to adapt to sharing more of themselves.

Younger clients are more willing to provide information with advisers and connect with them on a personal level, according to attendees. Gaining their trust, though, means advisers will have to share more of themselves and be creative in spreading their message on social media, podcasts and other platforms.

In fact, getting to know more about clients' personal goals may be the only way to keep them on track for the long term.

Ka'Neda Bullock, founder and CEO of Master Plan Investment Group, pointed out that deep knowledge of clients can help reorient them in down markets.

"It's not just about market performance," Bullock said. "It's about what you're trying to achieve and why you invested."

That may be especially important for younger investors, who have little experience with prolonged downturns. Forty-year-old investors today, after all,

"IT'S ABOUT WHAT YOU'RE TRYING TO ACHIEVE AND WHY YOU INVESTED."

KA'NEDA BULLOCK, CEO, MASTER PLAN INVESTMENT GROUP

were just entering their prime earning years in 2008. The brief pandemic crash notwithstanding, many of them have benefited from a bull run their entire investing lives.

But reminding clients of their goals and helping them along their personal journey requires a shift from basic know-your-customer compliance to proactive and ongoing conversations about goals, risks and trade-offs.

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Is custody commoditized? The #3 custodian says yes

Whether you're an RIA looking for a more optimal custodial relationship or you're a registered rep looking to move to the RIA environment, the selection of a custodian is a key business decision. But in today's marketplace, RIAs are increasingly pressured to deliver a unique client experience while balancing the growing complexity of investor needs. It begs the question, is custody enough, or should RIAs expect more from their partnership? InvestmentNews Create spoke with Steve Earner, Senior Vice President of RIA Affiliation at LPL Financial, the #3 custodian and Fortune 500 firm supporting the independent advice marketplace. Earner shared the key factors RIA firms need to consider when making a change.

STEVE EARNER
Senior Vice President, RIA Affiliation
LPL Financial

InvestmentNews Create: What makes selecting a custodian different today from the process in the past?

STEVE EARNER: Fee compression and demand for additional services have had a large impact on how the role of the custodian continues to evolve. We've seen a lot of consolidation at the custodian level, as well as among RIA firms themselves, while new RIAs are being created at an increasingly rapid pace. The playing field now consists of a few large custodians and a few smaller, more specialized custodians. RIA firms of all sizes looking to switch or add a custodian — or for registered representatives considering launching their own advisory business — now need to consider the role they expect the custodian to play in their practice and evaluate their choice based on value rather than cost.

InvestmentNews Create: What are some of the criteria that go into helping an advisor make the best choice regarding a custodian?

STEVE EARNER: Custody is a commodity. All custodians can execute trades and perform recordkeeping, so you'll find there isn't much of a difference there among the various custodians. Where firms start to differ is actually beyond custody. First, it's important to understand the custodian's business model and the various ways they make money. Are they exclusively focused on advisors and RIAs, or do they also have lines of business that could compete with your RIA to attract end investors?

Then consider the level of day-to-day support they provide. Is your level of support contingent on the size of your RIA? Will you have dedicated support from a team that knows your particular business, or will you be contacting an 800 number when you need service?

Beyond just custody, where can they add value as a business partner? How are they helping you provide a seamless client experience? How can they help you manage costs? How can they help you manage different functions of your business that you may need help with? And of course, how can they help you grow?

And finally, where are they making strategic investments? The industry is only going to become more complex and demanding. That's why at LPL, we're focused on investing in technology, services, and growth support, like providing capital for RIAs to be able to make investments or acquire businesses. These are top areas that RIAs will need continued support.

InvestmentNews Create: How can a custodian support your firm and its growth?

STEVE EARNER: As an RIA, you are running a business as well as supporting advisors in the delivery of advice to clients. You have to consider both of those roles and how your custodian can support your comprehensive needs.

The right custodian should be able to support your firm's organic growth as well as possible growth through acquisition or merger. Regarding the former, does the custodian provide help in selecting or providing the right technology and making sure the team understands it and gets the most out of it? Can they offer a tech stack, help an advisor build their own tools, or create a custom combination depending on what's right for that advisor's particular business needs? Do they provide guidance and access to outside providers of certain functions, such as investing or compliance, so advisors can spend more time with clients? Can they provide marketing resources? Do they offer practice management guidance to help the business run more efficiently?

Regarding acquisitions, mergers or tuck-ins, will the custodian act to facilitate advisor matchups and provide financing to assist the transaction?

One big concern for many wirehouse breakaways is their residual brokerage business. Those advisors should ask how the custodian can help them. Would they buy that book of business? Would they support the advisor in operating a hybrid business? Could they support one or two advisors at the new firm who wanted to continue their brokerage relationships? A custodian's ability to customize their offering and serve the advisor in the specific way needed is an important consideration.

InvestmentNews Create: If there's anything an advisor dreads most — whether it's an advisor considering becoming an RIA or one who's adding a custodian or switching to a new one — it's the onboarding of clients once a custodian has been selected. What should advisors be asking custodians about the transition process?

STEVE EARNER: Advisors should really dig deep and learn whether there will be specific people at the custodian dedicated to helping them, both in the transition and afterward. Is the custodian committed to providing that dedicated team of people who really get to know the advisor's business and whom the advisor and their people can rely on and call, or will there be an undifferentiated mass of "support staff"? Is there a designated relationship manager who leads the custodial team throughout the transition and makes sure everything goes smoothly and that the entire process is communicated thoroughly?

For brokers coming to the RIA world, there's often the additional challenge of not knowing what they don't know about a world where the compliance, tech tools and procedures are somewhat different. They should make sure their custodian has deep knowledge of the brokerage world, as well as the advisory world, so they can knowledgeably help the advisor make the transition.

InvestmentNews Create: Any takeaways?

STEVE EARNER: Choosing a custodian is a big decision, but don't make it just about custody. Your RIA is unique, and the level of support and capabilities is unique. Choose the custodian that not only checks the custody box, but knows your business and your goals, and can lean in to provide the individualized support and services you need to serve your clients and help you flourish. ■

To find out more visit www.LPL.com/RIA

This is a sponsored special feature developed by the InvestmentNews Create and supported by LPL Financial.

Charles Schwab strategists put global inflation into perspective

BY JEFF BENJAMIN

Inflation isn't something financial advisers or their clients should be losing sleep over right now, but it is here, and it is real, according to market strategists speaking last Tuesday at the annual Schwab Impact conference.

In her opening presentation, Liz Ann Sonders, managing director and chief investment strategist at Charles Schwab Corp., put the current state of inflation into context by explaining that "there are more differences than similarities with 1970s-style stagflation."

However, Sonders said, "psychology also comes into play," and she underscored the growing wage pressures along with the supply-and-demand imbalances.

Citing a "fragile system" that includes a "global energy crisis and supply chain bottlenecks," she said the market impact of "inflation might protect us from the Fed before the Fed has to protect us."

REALITIES OF INFLATION

When it comes to investing through and around the realities of inflation and the Federal Reserve, Sonders advised "focusing more on factors than sectors."

"Rapid-fire rotations offer a time-tested benefit of rebalancing," she said, suggesting a deviation away from traditional calendar-based rebalancing toward "a version of buy low, sell high."

Meanwhile, Jeffrey Kleintop, managing director and chief global investment strategist at Schwab, spun a classic silver lining message. "Global growth is slowing, but it's not slow," he said.

Kleintop is forecasting global growth above 4% in 2022, which would mark the first time in 50 years that global growth was above that level for two consecutive years.

"Fortunately, the globe may be past the worst of the supply chain logjam, but it could still take a while for delivery times to return to normal," he said.

Regarding comparisons to the hyperinflation of the 1970s, Kleintop acknowledged that the growing wage pressure is a classic indicator of sticky inflation, but explained that "recently unions have been winning wage increases that are lower than the rate of inflation."

Even higher energy prices look like a bright spot to Kleintop, who said rising energy prices have a "history of boosting earnings."

"The impact of inflation on global markets may be a net positive," he added.

Kathy Jones, a fixed-income analyst at Schwab, said she expects the Fed to start raising rates next year based on expectations for continued inflation.

"The market has already priced in a couple of rate hikes in 2022," she said. "The big question is inflation. By any measure, inflation is above the Fed's 2% target."

But Jones expects that "inflation will mellow out as some of the supply-and-demand elements come into balance. It is important how the Fed responds to this. The degree of inflation is likely to reflect the degree of tolerance the Fed has for inflation going forward."

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Schwab on track for TD account transitions in 2023

BY BRUCE KELLY

Charles Schwab Corp. is gearing up for the massive move of financial advisers who custody client assets with TD Ameritrade Inc., and will begin preparing and educating advisers about that change in the second half of next year, with the actual shifting of client accounts — dubbed a "conversion" — taking place in the last six months of 2023.

Charles Schwab said in 2019 it was buying TD Ameritrade Holding Corp. for $26 billion. In mid-2020, the merger was approved by the antitrust division of the Department of Justice, paving way for the eventual move of thousands of financial advisers from TD's custody platform to Schwab's.

There are roughly 20,000 RIAs in the wealth management space who manage about $4 trillion in client assets, *InvestmentNews* reported last year, citing industry consultants. Schwab Advisor Services, TD Ameritrade Institutional, Fidelity and Pershing already control 80% of the market.

In a presentation to investors from 2019, Schwab reported a 30% share of the custody market. Combined with TD, that would create a service platform for more than 14,000 RIAs, some of whom already use both to split up client assets.

HIGH ANXIETY

Switching accounts from one firm to the other is one of the most anxiety-producing events in the work life of a financial adviser. That means there's a lot of work on tap for the back offices at both Schwab and TD.

"From an integration standpoint, we are still really deep into the conversion planning process, and our primary focus is to make this as seamless a transition as possible," John Tovar, managing director of institutional wealth management services for TD Ameritrade, said during a virtual presentation last Wednesday at the annual Schwab Impact conference.

"We are mapping out all the different processes, requirements, systems mapping and more," Tovar said. "Our plan is to begin communicating and getting the integration going from an adviser perspective in the second half of 2022."

"As far as an actual conversion date, or moving the accounts and assets of TD Ameritrade over to the Schwab platform, we are still targeting that for the second half of 2023," he said. "We do have an unwavering commitment to all advisers who go through this process, but we will ensure that you are prepared, well informed, get information and training material well in advance of the conversion."

Meanwhile, TD Ameritrade client accounts will get new account numbers on Schwab's custody platform.

"New account numbers will be assigned with the conversion over to the Schwab platform," Tovar said. "That's just based on internal system differences. The good news is that all the attributes on the existing client accounts will come over, meaning things like standing instructions, transactional history and more."

Schwab has begun paving the way for the transition. In August 2020, the company said it would integrate TD Ameritrade's thinkorswim and thinkpipes trading platforms, as well as iRebal, an institutional portfolio rebalancing tool.

The discount brokerage plans to combine TD's trading platform with its own platform, StreetSmart Edge, to provide a unified trading experience for clients.

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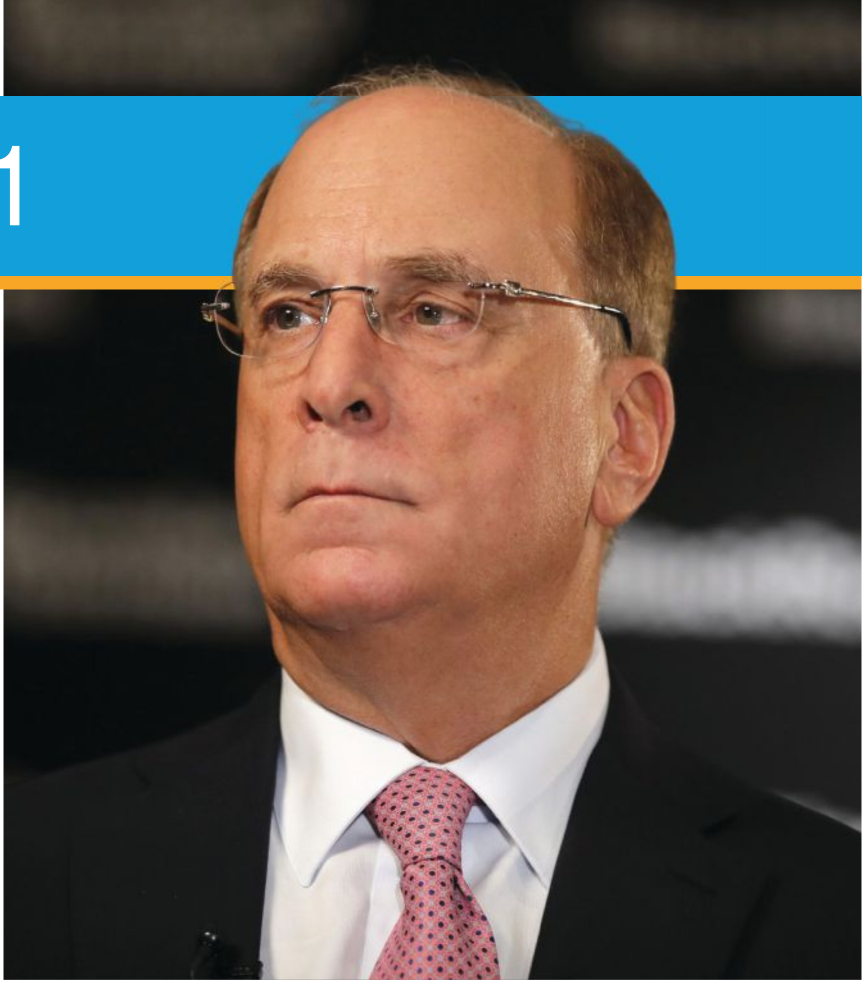

BlackRock's Fink argues for more private equity

BY JEFF BENJAMIN

In the category of "talking your book," BlackRock Inc. is not being shy about encouraging investors to move beyond traditional portfolio models to include higher allocations to alternatives, specifically private equity.

During a session last Wednesday at the Schwab Impact conference, BlackRock executives, including CEO Larry Fink, leaned hard into the notion of increasing exposure to illiquid investments for diversification and enhanced returns.

"The drive toward more illiquid investments in equity and debt have exploded because we've seen so many more investors worldwide accept illiquidity," said Fink, who suggested allocations as high as 30% to alternative investments make sense for long-term investors.

"Historically, private investing used to be based on more value oriented and cash-flow oriented, now it's more growth oriented and still value oriented," he said.

However, he warned advisers and investors not to get too caught up in the appeal of less liquid private investments.

"I would urge every asset owner to make sure you understand your liabilities, so that in a market shock, you don't have to divest," Fink said. "We saw that during the financial crisis when some foundations had to sell for liquidity."

REALITY OF INFLATION

Fink and the other BlackRock representatives stressed the growing reality of inflation as one of the reasons for diversifying beyond traditional portfolio models based on allocations of 60% stocks and 40% bonds.

Jon Diorio, managing director and a member of BlackRock's product and platform group, said that to help reconcile the "mismatch between allocations and expected returns," investors might need to hold as much as 20% of their portfolios in private investments, up from less than 5% on average today.

Diorio said the modern 60-40 portfolio should look more like 50% stocks, 30% bonds and 20% alternatives.

As the public equity markets have gradually contracted, the private market has tripled in size over the past 10 years, said Lynn Baranski, managing director and global head of investments for BlackRock Private Equity Partners.

"Over the past 20 years, private equity has outperformed the public markets," she said, citing the wider universe of companies to choose from.

And while the biggest rub against private investments is often the limited liquidity, Diorio pointed out that the average holding period of mutual fund investors is 4½ years, raising the question: "Do investors really need all that liquidity?"

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Infrastructure bill could pave way for more spending

BY MARK SCHOEFF JR.

A bipartisan bill that would overhaul the nation's roads, railways, internet system and electric grid is stuck in legislative limbo, but if it breaks free and gets through Congress, it could be the catalyst for more infrastructure spending in the future, experts said last Tuesday.

The approximately $1 trillion infrastructure legislation received Republican and Democratic support when it was approved by the Senate earlier this year. But it has been stuck in the House while Democrats negotiate over the Build Back Better Act, a $3.5 trillion package of social and climate spending and tax reform that incorporates much of the Biden administration's economic agenda.

If the infrastructure bill breaks free from the logjam, it could lead to more infrastructure spending, said Frank Kelly, senior political advisor at DWS Group, an asset manager.

"This is a huge, transformational infrastructure plan here that hopefully gets approved probably in the next month, two months," Kelly said during a session last Tuesday at Schwab Impact. "It's the beginning of something, too. I think this is something the markets may miss. This isn't necessarily a one-and-done thing. Now that you've made that turn, and we're moving more and more into sustainable infrastructure and investment, Congress comes back next year and does more, and the year after and the year after."

'FORCE MULTIPLIER'

The federal spending on infrastructure will be augmented by state and local spending, Kelly said.

"It's sort of a force multiplier for investment in sustainable infrastructure, which, I think, is very exciting, and it's long overdue," Kelly said.

In addition to funding new roads and bridges, the infrastructure bill includes substantial spending to expand high-speed internet, develop renewable and clean energy and build a network of charging stations for electric cars.

"THIS ISN'T NECESSARILY A ONE-AND-DONE THING."

FRANK KELLY, SENIOR POLITICAL ADVISOR, DWS GROUP

"Policies are in place at the state and local levels to get this green spending done," said Frank Greywitt, portfolio manager for global infrastructure securities at RREEF Alternative Investments, a DWS division.

The panelists said companies that would benefit from the infrastructure bill include those in the communication, clean energy and utility sectors, as well as airport and toll road operators.

But first Congress must pass the infrastructure bill, and the prospects remain dicey. Progressive Democrats are refusing to back the infrastructure bill until the Build Back Better Act advances, while centrist Democrats are pushing for immediate House action on the infrastructure bill.

Democrats are using a parliamentary maneuver known as budget reconciliation for the Build Back Better bill that sidesteps a Senate Republican filibuster. But going down that path means all Democrats in the Senate and almost every one of them in the narrowly divided House must agree on the measure.

'HELD HOSTAGE'

It may take several more weeks to sort things out, while the infrastructure bill hangs in the balance.

"There is a risk [the infrastructure bill] doesn't get done," Kelly said. "It's being held hostage, if you will, politically to this large $3.5 trillion proposed budget reconciliation bill."

But Kelly expects the infrastructure bill eventually will pass in Congress.

"It's just too much of a win," he said.

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Taking steps to find and hire diverse talent

BY BRUCE KELLY

As the United States becomes more diverse, the broad financial advice industry, from giant wirehouses to one- and two-person registered investment advisory firms, is trying to hire more women, Hispanics, Blacks and Asians.

The industry has given lip service to the effort for decades but currently appears to take the work to become more diverse seriously. There's a lot to overcome.

Take Merrill Lynch, a leader in the training of financial advisers.

Last August, a few months after George Floyd's death, Merrill Lynch for the first time in five years released statistics about the diversity and makeup of its 17,500 financial advisers.

The numbers showed some improvement at Merrill in the hiring of women and minority financial advisers, notably an increase in women to 21% of advisers compared to 18% five years earlier. Meanwhile, 23% of advisers were "ethnically diverse" at Merrill last year, compared to 15.5% in 2015.

While the financial advice industry has made some progress in becoming more diverse, it still has a long way to go, particularly if it wants to look more like Generation Z, which is projected to become majority nonwhite by 2026, according to a presentation last week at the Schwab Impact conference.

"We really believe that talent is what sets firms apart," said Leslie Tabor, director of business consulting services at Charles Schwab Advisor Services. "Your people are your most important asset."

When hiring, the goal for executives and firm leaders is to broaden their potential talent pool and professional networks, Tabor said, including diverse groups attached to local business associations and chambers of commerce.

Consider simple steps, from shaking up your social media connections to attending more diverse industry conferences, Tabor said, citing *InvestmentNews'* Women Adviser Summit meetings as an opportunity to build a diverse network.

Internships are another way to attract diverse employees, she said. And now that working remotely has taken hold during Covid-19, some firms are considering hiring more diverse employees who don't live in the firm's immediate geographic area.

THREE PHASES

Indeed, there are three phases of an employee's work "life cycle" for leaders at firms to consider, Tabor said.

The first, the interview process, should "lay the foundation for inclusive first impressions." Then, hiring should "foster welcoming experiences when an employee joins a firm," including assigning the new employee a mentor.

Finally, when the employee settles in to working, firms should create "equitable opportunities for employees to succeed," Tabor said, and not assign menial or mundane tasks to one group of workers.

A warning: Firm websites offer potential employees an important first glimpse of the business, Tabor noted, and if a job seeker is not represented, he or she will likely move on.

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Are ESG data too much of a good thing?

BY MARK SCHOEFF JR.

Investors hungry for information about environmental, social and governance investing are encountering a sumptuous buffet but not always feeling nourished.

Investors considered ESG factors across $17 trillion in professionally managed assets in 2019, according to US SIF, and the number of ESG products and amount of ESG data are soaring.

But a report by Capital Group released during the Schwab Impact conference shows that people are still struggling to implement ESG for a wide range of products.

"There's so much information available to investors that, actually, the proliferation of data is becoming quite daunting," Jessica Ground, global head of ESG at Capital Group, said during an Impact session. "Part of the challenge is that sometimes this data is telling you different things about the same company or about the same product. There's more ESG data than ever before, but it's not agreeing on what is good."

LACK OF CONSISTENCY

In Capital Group's survey of 1,040 global investors, conducted in June, 53% said the biggest challenge in incorporating ESG data, ratings and research in their investment decisions is a lack of consistency in ESG scores. Limitations on ESG scores caused by varying company disclosures was cited by 50%, while 45% pointed to difficulties in interpreting and analyzing third-party data.

Even two of the most prominent ESG ratings providers — MSCI and Sustainalytics — differed on ESG scores for the same universe of companies, Capital Group found.

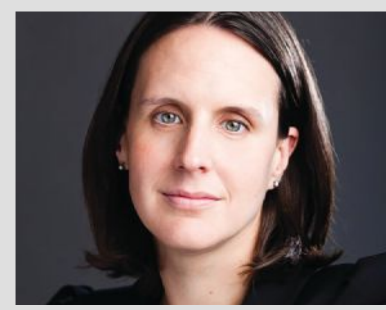
"The number of times they agree on what is good or bad is incredibly low," Ground said. "If these information providers that have made a business about defining ESG can't agree what is good, it's not really surprising that a number of you feel that greenwashing is very prevalent in the asset manager industry."

Ground gave an example of the struggle to find information on one important ESG factor: human capital.

"Everybody will say employees are really important and then even figuring out something like average salaries … is incredibly difficult," she said. "If you're saying your people are your greatest asset, we'd kind of like to be able to kick the tires on it."

The Securities and Exchange Commission is working on proposals that would require public companies to disclose climate risk and human capital factors that could affect their operations and financial performance. Republican lawmakers have opposed mandatory ESG disclosures, asserting the agency is pushing a political social agenda.

Howard Coleman, chief investment officer at Coldstream Wealth Management, said ESG disclosure would have to vary from industry to industry but should be consistent for companies within a sector.



"THERE'S MORE ESG DATA THAN EVER BEFORE."

JESSICA GROUND, GLOBAL HEAD OF ESG, CAPITAL GROUP

"A uniform set of disclosures … across industries is really critical, and that's just what's being developed now," he said. Coleman stresses to clients that they don't have to sacrifice returns when using an ESG strategy.

"It's one of the biggest misconceptions that some of our clients have," he said. "Over time … [ESG investing] will either outperform or perform equally to the markets."

The key to ESG investing is to use it throughout a portfolio instead of relying on one fund or ESG score, Ground said. She compared it to leading a healthy lifestyle based on diet and exercise instead of asking your doctor for a particular medicine.

"We believe that building healthy and sustainable portfolios requires a holistic approach," she said.

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New rules for a tech-driven world

BY EMILE HALLEZ

The pandemic has forced the working world to evolve technologically much faster than at any time in recent history, effectively rocketing it forward 10 years in 20 months.

That is here to stay, futurist Mike Walsh said last Tuesday in his presentation at the Charles Schwab Impact conference. "There is going to be no return to normal," he said. "We're not going to get 2019 back."

Walsh proposed three new rules for the world going forward, the first of which is: "There is no digital disruption, just digital delivery." The second, which many now have experience with, is: "There is no remote work. There is only work." His third rule: "Artificial intelligence will not destroy jobs, but it will change them."

The business models of Tesla Inc., Netflix Inc., Uber Technologies Inc., Spotify Technology and other companies have shown a shift from products to platforms and from transactions to experiences, he said.

For adults of the future who are children today, "their expectation of how the world needs to work is going to be dramatically different from that of any generation that came before," he said.

For financial advisers, "your ability to partner with those [technology] platforms is going to be key to your success," Walsh said.

A big part of that is how data will be used to gain more understanding about clients' needs and how advice is provided, he said. By being forced to operate remotely, the world used tools that it basically had for decades, he noted.

"Remote work is just the beginning of a much larger revolution that is changing the nature of business itself," Walsh said.

Workers value the important things in life more than their jobs, and companies need to recognize that, adjusting their businesses not just for profit, but for purpose, he said.

"It's not just about paying people well. It's about understanding what motivates them more than anything else," Walsh said.

With the rise of artificial intelligence, humans are becoming more important than ever in the world of financial advice, he said.

"We've actually seen the counterintuitive rise of the importance of human advisers and human interaction as we've gained greater complexity and more technology," he said. "We've actually been here before."

Walsh referred to the industrial revolution, when many workers' jobs changed from one manual task to another — such as from weaving textiles to maintaining the machines that took over the weaving. Cloth sales increased, and the number of people employed in that industry quadrupled.

"What we're seeing now is something much more interesting than just a return to normal after a global pandemic," he said. "This truly is the dawn of a new world."

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72% AVERAGE PORTION OF A CLIENT'S INVESTED ASSETS MANAGED BY FIRM THAT'S THE CLIENT'S PRIMARY SOURCE OF RETIREMENT ADVICE, VS. 28% FOR FIRMS THAT AREN'T THE PRIMARY RETIREMENT ADVICE PROVIDER.
SOURCE: HEARTS & WALLETS

Serial spouse has options for claiming Social Security

With gray divorce on the rise among American couples who are 50 and older, it's important for financial advisers to be aware of the complicated Social Security rules regarding claiming options for ex-spouses and surviving ex-spouses.

MARY BETH FRANKLIN

ONRETIREMENT

One reader recently asked for advice on his mother-in-law's Social Security claiming options. She's 64 and doesn't have the minimum of 40 quarters of covered earnings needed to claim Social Security benefits on her own earnings record. But his mother-in-law was married twice and divorced twice, which gives her several ways to tap into her exes' Social Security benefits and enroll in Medicare.

"She is looking to retire in the next one to two years," the reader wrote. "She was married to her first husband for over 10 years and remarried at the age of 49 to her second husband for 12 years, from whom she has since divorced. Her first husband remarried, but he is now deceased. She is trying to claim ex-spousal benefit, but we are not sure which spouse to claim it from and how to get started."

RUBIK'S CUBE OF RULES

There is certainly a Rubik's cube worth of Social Security rules to unpack in this scenario: married, divorced, married, divorced, widowed.

Because both of her marriages exceeded the minimum requirement of at least 10 years of marriage to be eligible to claim Social Security benefits as a divorced spouse, she can collect benefits on either ex-spouse. A divorced spouse can apply for benefits on a former spouse's record even if he or she hasn't retired, as long as the couple has been divorced at least two years before applying.

Normally, if you remarry, you lose the right to collect benefits on your former spouse's record unless your later marriage ends by annulment, divorce or death. Since her second marriage ended in divorce, she is now free to claim survivor benefits on her first ex-spouse. And even though her first ex remarried, she can still claim survivor benefits and it won't affect the amount of survivor benefits that his second wife receives.

Because retirement benefits and survivor benefits represent two different pots of money, the woman in this case can choose to collect reduced spousal benefits first and switch to full survivor benefits at her full retirement age.

Spousal benefits are worth 50% of a working spouse's full retirement age benefit amount if the spouse claims at her full retirement age or later. Survivor benefits are worth 100% of what the deceased spouse was receiving or entitled to receive at the time of death — assuming the surviving spouse is at least full retirement age.

Both spousal and survivor benefits are available earlier — as young as age 62 for spousal benefits and age 60 for survivor benefits — but in both cases, benefits are permanently reduced if claimed before full retirement age.

But even if she claims reduced spousal benefits first, and those retirement benefits are permanently reduced for claiming early, it will have no impact on her survivor benefits if she waits until her full retirement age to claim them.

KEY POINTS

- A woman who married and divorced twice has several ways to claim Social Security.
- A marriage must last 10 years to claim as a divorced spouse.

A WRINKLE

There's another wrinkle. Some people who were born in 1955 or later have different full retirement ages for retirement benefits and survivor benefits. Assuming the reader's mother-in-law was born in 1957, her full retirement age for receiving retirement benefits as an ex-spouse is 66 and 6 months, but her age to receive full survivor benefits is 66 and 2 months.

So her optimum strategy would be to collect reduced spousal benefits now and switch to full survivor benefits later. But if she is still working, she would be subject to earnings restrictions that could reduce or even eliminate her benefits if she earns more than $18,960 this year. In that case, she should wait until she retires in the next year or two to collect reduced spousal benefits when she would no longer have to worry about restrictions on earned income.

Later, she could switch to full survivor benefits on her other ex-husband's record when she reaches her full retirement age for survivor benefits of 66 and 2 months. And if her second ex-husband dies, and his survivor benefits are bigger than those of her first ex-husband, she could switch again.

Finally, because she is an eligible divorced spouse, she can enroll in Medicare at age 65 on her ex-husband's earnings record.

For information on what you need to apply for a divorced spouse's benefits, see www.ssa.gov/forms/ssa-2.html.

(Questions about Social Security rules? Find the answers in Mary Beth Franklin's 2021 ebook at MaximizingSocialSecurityBenefits.com.)

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Congress is taking aim at the largest IRAs

Congress has set its sights on mega-IRA balances, in large part due to recent reports about Peter Thiel's $5 billion Roth IRA. But some of these proposals will impact many other clients with smaller individual retirement accounts and Roth IRAs.

IRAALERT
ED SLOTT

Keep in mind that these are only proposals. They may not become law or if they do become law, they may be changed from their current form. But clients are hearing about these proposals and want to hear from you as their adviser on potential proactive planning moves they might start setting in motion now to be better prepared.

First up are the provisions targeting super-sized IRAs, which are defined as those with balances exceeding $10 million. The proposal prohibits making additional contributions to IRAs and Roth IRAs for those who have total retirement account balances (the combined total of all IRAs, Roth IRAs, and company plan retirement accounts) in excess of $10 million, and whose income exceeds $400,000 for single individuals or $450,000 for married joint filers. Both conditions must apply.

This provision would be effective starting next year but will have almost zero impact on these clients, since the maximum that can be contributed annually to IRAs and Roth IRAs is currently only $6,000 (or $7,000 if age 50 or older). These amounts don't even show up as a blip for owners of mega-RIAs. They are not even one-tenth of one percent of that $10 million, so this proposal really accomplishes nothing. Plus, the bill still allows contributions to company retirement plans, where much larger contributions can be made regardless of income.

GIANT RMDS AT ANY AGE

But the next provision can really make a dent in mega-IRA balances. If the same two conditions apply (combined retirement balances exceed $10 million and income over the same $400,000/$450,000 limits), there would be a required minimum distribution of 50% of the amount by which the combined retirement balance exceeds $10 million.

This would apply at any age, not just at 72, when RMDs apply under current rules. In case you were wondering whether the 10% early distribution penalty applies to RMDs for someone under age 59½ (like a Peter Thiel), the bill waives the 10% penalty on this RMD.

Now it gets worse — for those with $20 million or more in combined retirement savings (and over the income limits). The RMD would jump to a 100% RMD on combined balances in excess of $20 million, or the entire balance in both Roth IRAs and company Roth plans, if that amount is less. The RMDs would first have to come out of all Roth accounts (Roth IRAs and company plan Roths), and then from other retirement accounts, until the full RMD is satisfied. This is in addition to the 50% RMD above, based on a convoluted calculation that even most experts do not understand.

This provision is likely to apply to very few people, but any adviser who has one of these clients should get the word out now. For example, under these mega-RMD provisions, Peter Thiel (at whom they were aimed) would essentially have a $5 billion taxable RMD from his Roth IRA, because he is under age 59½ and, other than his original $2,000 Roth IRA contribution in 1999, it's all earnings.

One way Thiel and others with these gigantic IRA balances might get around this is to keep their income under the $400,000/$450,000 limits. Wealthy clients who could be affected by these mega-RMDs should start planning now to keep income low, since this provision, if enacted, would be effective next year.

R.I.P. BACK-DOOR ROTHS

Now to the provisions that will affect many more of your clients. The proposals include an all-out ban on back-door Roth IRAs and mega-back-door Roth IRAs (from company plans), regardless of income level, so this means everyone.

If you have clients who have been taking advantage of these provisions, especially the lucrative mega-back-door Roth, which can allow up to $58,000 this year to be contributed to after-tax plan accounts and converted to Roth IRAs, generally tax-free, this may their last chance. So make sure to have your clients get these done before year-end. The proposed ban would be effective after this year, like the other provisions mentioned above.

ROTH CONVERSION LIMITS

Congress also wants to eliminate Roth conversions from pretax funds for high earners (with incomes over the same $400,000/$450,000 limits), but this provision wouldn't be effective for more than 10 years!

At first, the effective date on this provision (which is stated as beginning in years after Dec. 31, 2031) looked like a

THESE ARE ONLY PROPOSALS. THEY MAY NOT BECOME LAW.

typo. But it has since been confirmed. While Congress says it wants to rein in Roth conversions for higher earners, it's still desperate for the conversion revenue from this group to make the 10-year budget projections work. This shows you that Congress can't really let go of Roth conversion income. They still need it to balance the books.

Your clients will have at least a decade on this, but since Congress has tipped its hand, start planning now, while tax rates are still relatively low, to have your higher income clients begin a series of annual Roth conversions while they can. This strategy will be especially effective to begin before they become subject to RMDs at age 72. Since RMDs can't be converted, the conversion strategy will cost more once RMDs begin.

The overall strategy for these provisions is to begin lowering income and traditional IRA balances. Alert your clients who want to hear from you with planning ideas on these issues.

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

Getting clients the most for their giving

In some respects, David Foster has been living his advisory niche for most of his life. But it wasn't until about three years ago that he realized he could incorporate his passion for philanthropy into his financial advisory practice.

NICHEADVISER
JEFF BENJAMIN

The founder of Gateway Wealth Management in St. Louis, Foster credits his parents with instilling in him a general sense of gratitude and appreciation that he shoulders with enthusiasm.

"It's kind of my mission in life to convince people to give away more money to people who are not related to them," he said.

While that might sound like a bold and even presumptuous statement, it is less of a hard sell than it is about living by example.

Now 35 and married with three kids under the age of 7, Foster and his wife realized a few years ago they had already saved enough for retirement that they would be fine if they just stopped socking money away.

They didn't stop saving for retirement or derail any other responsible financial planning, but they did get more serious about their philanthropic endeavors. And, thus, a niche advisory practice was born.

"About three years ago the practice was growing, my wife was working, and we started to have some extra money, so we tried to figure out how to give money away and we learned it's actually quite difficult," he said. "It's challenging because it's hard to know where your money is going, who to give to and how to make the greatest impact. I figured if I'm having a hard time there are probably lots of wealthy people having the same problem."

GETTING PERSONAL

Unlike traditional philanthropic consultants that connect donors with various charities and nonprofit organizations, Foster is committed to making philanthropy as personal as possible by "not just leading with your heart, but also using your head."

His general philosophy around giving is along the lines of the Effective Altruism movement, which could be roughly summed up as finding the best way to make an impact with charitable giving.

Beyond the necessary due diligence to ensure donations aren't just lining the pockets of people sitting at the top of some foundations, Foster stresses that "not all philanthropy is created equal."

"Some nonprofits are better than others, and it can be by hundreds and thousands of times better," he said. "Part of what I help people determine is where is the money going. I try to steer people in good directions, by trying to uncover their passions. But what you care about isn't enough. What's more important is the impact you're making."

Similar to investing, Foster said there is even a risk tolerance to be considered when making charitable donations.

"There is very little risk in donating to malaria nets, because you know where the money is going and you know what the impact is," he said.

But some causes supported by charitable donations, such as the decades it took for the Supreme Court to legalize gay marriage, can be open-ended, requiring patience and faith.

Foster promotes the niche through his Gateway Giving podcast and by blogs posted on his website. And he stresses that he is a financial planner first and foremost, and he isn't yet set up to charge a separate fee for philanthropic advice.

"You can't determine how much you have to give unless you've first done some modicum of financial planning, or at least you shouldn't do that," he said. "The financial planning helps you determine how much you can give and when and how."

PRIMARY DRIVER

While it's natural to associate charitable giving with tax management in the financial planning process, Foster believes charitable tax deductions aren't a true philanthropist's primary driver.

"Taxes are certainly factored in, and I've rarely run across anybody who wants to maximize their tax bill, but research shows that most advisers think minimizing the tax bill is more important while donors generally think the most important thing is the impact," he said. "The driver is they want their money to do some good and if they can also get a tax benefit that's just gravy."

While Foster is clearly passionate about his niche and he hopes he is attracting like-minded clients, he is also noticing more of his original clients embracing philanthropic attitudes.

"At some point, you will have a hard time buying more satisfaction with more money when there are billions of people who live on a tiny fraction of my income," he said. "Giving feels good and you should embrace that. I'm buying that good feeling and there's nothing wrong with that."

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NICHE ADVISER

DAVID FOSTER, founder

NICHE FIRM
Gateway Wealth Management, St. Louis, Missouri

NICHE
Philanthropy

PRO TIP
"I didn't know if this was a viable niche, but in my case I kind of didn't care. I didn't need any new clients, because I find this valuable and the podcast is fun and if I never got a penny from it, it would have been OK. I'm going to do a thing that I enjoy even if it doesn't lead to any more business."

How embedded financial tools are being embraced by advisers as a differentiator

I recently tweeted about embedded gifting on Instagram, which is a way to donate to a cause from an Instagram Inc. story right through the app, conveniently using parent company Facebook Inc.'s payment platform. Consumer companies are adding traditional financial services functions like savings, lending, insurance, investing and financial plans (and gifting!) to their apps — and it's happening quickly.

GUESTBLOG
DANI FAVA

But isn't planning a deeply complex financial tool that's only used by financial advisers with their wealthy clients?

Nope. At least not anymore.

Planning is so central to everyone's lives that it's now available almost everywhere. Welcome embedded planning.

Think about it this way. When it comes to finances, a person can plan for anything. They can plan to get out of debt, buy a car, a house, send their kids to college, retire — you get the idea. So maybe it does make sense to do this in the same app with which you're spending money — or saving money. American Express Co. and Walgreens Boots Alliance Co. certainly think so, based on their recent launches of embedded planning.

American Express believes a consumer may want to create a full financial plan, complete with toggles for job promotions and inflation as well as important life events. The company believes it so much that it funded a startup and will embed the feature into its credit card experiences. Soon, customers will be able to see the impact their American Express debt has on their financial plans. Or they'll be able to plan for big purchases on the app that will help them fund the purchase.

BOTTOM OF FORM

And the best part? It's free, there-by democratizing access to holistic financial planning. And planning needs democratizing. According to a Schwab survey, "54% of Americans who have a written a financial plan feel 'very confident' about reaching their financial goals, while only 18% of those without a plan feel the same level of certainty … Despite the benefits of planning, Schwab's survey shows only a third (33%) of Americans have a financial plan in writing. Among those without one, 42% say it's because they don't think they have enough money to merit a formal plan, 22% say it's too complicated, and 19% say they don't have enough time to develop one."

You could argue that American Express is a traditional financial services company and therefore it's not surprising that they would add planning features. After all, remember when AmEx used to have financial advisers? True. In that case, let's look at Walgreens — the place where you pick up prescriptions and diapers. It recently entered financial services with payments, launching its own store card, Scarlet.

Launching a store card is not groundbreaking. As a matter of fact, Walgreens is arguably late to the game. For years, retailers have been offering consumers branded store cards with the goal of driving customer loyalty and spending while also saving on merchant fees.

But Walgreens stepped into the arena not only with a store card, but also with direct deposit, bill pay, peer-to-peer payments and financial planning (or at least goal management).

GOOD FOR CONSUMERS

So what does this mean? Well, for financial advisers it means that more clients are becoming familiar with — and using — financial planning tools. This is good for consumers; financial planning will become a household term, and financial wellness tools and education will be accessible in more places. For retailers, the race is on. Embedded financial tools are becoming differentiators. If a consumer's financial plan is on American Express's app, chances are they'll be more engaged with and loyal to American Express. This will put pressure on competitors to add value in similar ways.

MORE CLIENTS ARE BECOMING FAMILIAR WITH — AND USING — FINANCIAL PLANNING TOOLS.

As more and more mainstream companies not known for financial planning adopt embedded finance, a wider array of consumers will become more comfortable with using digital planning tools in their everyday lives. This gives financial advisers a promising opportunity to provide consumers introduced to planning through embedded finance with a unified digital experience where they can understand how every financial decision they make can affect their holistic financial picture today — and tomorrow.

It's up to advisers to help clients build on the embedded finance they have been exposed to by providing them with digital planning tools that address all, as opposed to some, aspects of their financial lives.

Dani Fava is head of strategic development at Envestnet. Follow Dani on Twitter @ENVDani.

WELLS

CONTINUED FROM PAGE 2

integrating its private bankers into its bigger wealth management business.

A company spokesperson noted that financial adviser revenues continue to rise and the rate at which advisers are leaving the firm is slowing.

"Our average adviser productivity is up more than 21% since last year to a high of $1,141,000 per adviser," the spokesperson wrote in an email. "This represents the last significant quarter of international [adviser] departures. We also experienced retirements along with some departures from both Wells Fargo Advisors and the Private Bank."

And the firm is adding large advisers, those with $1 million or more in annual revenue, the spokesperson added.

The bank's Wealth and Investment Management group, which includes Wells Fargo Advisors, reported increases in revenues and assets in line with the rise of the broad stock market in the past 12 months.

Wealth and Investment Management revenue in the quarter increased 10% year over year and reached $3.62 billion, primarily due to higher asset-based fees on higher market valuations, according to the company, while total client assets of $2.1 trillion increased 13% in the same time, primarily driven by higher market valuations.

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ESG RULE

CONTINUED FROM PAGE 2

istrative Procedure Act and going forward would not enforce provisions in the Trump-era rules. The president followed with another executive order in May that directed the DOL to consider issuing a rule that would revise or rescind the two rules.

The rules from the end of the Trump administration did not expressly prohibit 401(k)s and other retirement plans from including investments with environmental, social and governance criteria from being included, but they contained language that ESG proponents characterized as having a chilling effect. However, the investment selection rule did effectively prohibit plans from using ESG-specific funds as default options, which was a major blow to those products.

The DOL addressed that concern, saying that "[i]f a fund expressly considers climate change or other ESG factors, is financially prudent, and meets the protective standards set out in the department's QDIA regulation … there appears to be no reason to foreclose plan fiduciaries from considering the fund as a QDIA."

But it noted that the proposal "adds a new requirement that the collateral-benefit characteristic of the fund, product, or model portfolio must be prominently displayed in disclosure materials provided to participants and beneficiaries."

The DOL began a 60-day public comment period after the proposed rule was published in the Federal Register Oct. 14. The regulator could make changes when drafting a final version.

One area that commenters will likely address is a requirement in the proposal that plans that use the tie-breaker test for investment selection disclose that, along with their reasons for doing so, in participant communications, said George Michael Gerstein, co-chair of fiduciary governance and ESG at Stradley Ronon.

The rule "is going to greatly accelerate the adoption of ESG," Gerstein said. And while the proposal "largely encapsulates longstanding DOL guidance," it directs plan fiduciaries to consider the effects that government action will have on ESG.

"The effect of that can be quite dramatic, because the government has made it quite clear … that it has the power to issue rules," he said.

But like the Trump administration, the Biden DOL is sidestepping the issue of exactly what ESG is, he said.

"It can actually reference up to 40 different issues. One of the ones I think of that gets overlooked is cybersecurity," Gerstein said, noting that that is a governance factor. "People don't necessarily associate it with ESG."

E, S AND G

The proposed rule focuses on environmental factors, and that's because of executive orders President Biden has issued on climate change, Khawar said. But social and governance factors can be just as financially material to consider in tie-breaker situations.

"This proposal does come against a backdrop of two executive orders the president issued," Khawar said. "[Climate] is just one important part of the overall context here … I wouldn't take away from the proposal a belief that … the climate issues [are] the most important."

For example, labor issues in a supply chain could end up being material in a fiduciary's consideration of an investment.

POLITICAL DIVIDE

Democrats and Republicans had dramatically different views of the DOL's proposal. In a statement, Republican Reps. Virginia Foxx of North Carolina and Rick Allen of Georgia said that "the Biden administration is taking its radical climate change and pro-union boss agenda too far — this time jeopardizing Americans' retirement savings."

Democratic Sens. Patty Murray of Washington and Tina Smith of Minnesota praised the proposed rule for ensuring that "financial advisers can consider ESG criteria in their investment decisions — for example, whether investments that are financially beneficial also promote racial justice, address climate change or protect human rights."

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SOCIAL SECURITY

CONTINUED FROM PAGE 3

will profit from the 5.9% COLA — even if they haven't yet filed for benefits — so there's no need to rush to file for Social Security before January. The 2022 cost-of-living adjustment, along with every other COLA awarded from the time individuals turn 62 until they file for benefits, is included in their future Social Security benefits.

The formula for calculating COLA means Social Security increases could be meager or nonexistent for the next few years because inflation would have to continue at relatively robust levels to exceed the current high bar. The last time there was a significant COLA, of 5.8% in 2009, Social Security benefits were flat for the following two years.

The 5.9% COLA for 2022 also affects how much beneficiaries can earn from a job without jeopardizing any of their benefits if they claim Social Security before their full retirement age.

EARNINGS CAP

In 2022, individuals who are under full retirement age for the full year will be able to earn up to $19,560 per year without forfeiting any benefits, up from $18,960 this year. If their earnings from a job exceed that cap, they would lose $1 in benefits for every $2 earned over the $19,560 limit. The earnings cap doesn't apply to pensions, investments or other forms of unearned income.

In the year someone reaches full retirement, there's a more generous earnings cap. In 2022, they would be able to earn up to $51,960 in the months leading up to their full retirement age, up from $50,520 this year. The full retirement age increases to 66 and 4 months in 2022 for those born in 1956. If their earnings exceed that limit, they forfeit $1 in benefits for every $3 earned over $51,960 next year. Any benefits lost to the earnings cap are restored in the form of higher monthly benefits at full retirement age.

"Costs are expected to continue to climb in 2022, and we expect that to lead to continue erosion in the buying power of Social Security benefits," said Mary Johnson, a Social Security and Medicare analyst for The Senior Citizens League. "While the higher income in 2022 is welcome, it could also mean higher taxes and even higher Medicare Part B premium costs for those who pay income-related premium surcharges."

Employers and employees each pay 7.65% of wages to support Social Security and Medicare.

In 2021, the 6.2% portion of the payroll tax that funds Social Security applies to the first $142,800 of gross earnings. A 5.9% COLA increases the maximum taxable wages to $147,000 in 2022, so workers who earn $147,000 or more next year will pay an extra $260 in FICA taxes.

Most retirees should see an increase in their net Social Security benefits in 2022 even after factoring in Medicare Part B, which are usually deducted directly from Social Security benefit.

(Questions about new Social Security rules? Find the answers in my 2021 ebook at MaximizingSocialSecurityBenefits.com)

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BITCOIN ETFS

CONTINUED FROM PAGE 3

vember. But the message is clear: The first U.S. Bitcoin futures ETF is blazing a trail and taking its lumps.

With VanEck expected to join the party Monday with its own futures-based Bitcoin ETF, pressure on contract limits could ease more. But the question remains as to whether the strategy that allows ownership of futures contracts will be able to track Bitcoin's spot price in a way that satisfies investors.

"The reason people are buying this isn't because they understand the roll of futures contracts, it's because they are excited to get exposure to Bitcoin," said Eric Balchunas, ETF analyst at Bloomberg Intelligence. "I think these will mostly be used by traders."

While ETFs investing in futures contracts might be ideal for traders, financial advisers might end up pulling their hair out trying to manage clients' expectations and reactions to what could be extreme volatility.

EXTREME VOLATILITY

Nate Geraci, president of The ETF Store, described the futures-based ETFs as "suboptimal."

"They will not perfectly track the spot price of Bitcoin," he said, explaining that futures contracts are priced based on the anticipated price of Bitcoin and that the ETFs are only permitted to own futures.

"If you have the futures curve in contango, with the out months at a higher price than near months, you get a negative roll yield," Geraci said. "As you roll when futures contracts are in contango, that has a negative impact on the fund."

Of the first three Bitcoin ETFs, ProShares enjoys the first-mover advantage, Valkyrie stands out as having the most cryptocurrency chops, and VanEck is taking the lower-cost path, cutting 30 bps off its competitors' 95 bps fund fee.

Steve Larsen, president of Columbia Advisory Partners and co-founder of cryptocurrency education community PlannerDAO, doesn't believe the futures-based access is ideal but he does understand the appeal among financial advisers and investors.

"Everybody has been waiting for an easy way to access crypto using their existing brokerage account," he said. "This may not be ideal, but it certainly checks the box on ease of use."

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WORDEN CAPITAL

CONTINUED FROM PAGE 4

cold-calling the country," said Scott Silver, a plaintiff's attorney who is representing one client with a complaint against the firm. He has been contacted by other Worden Capital Management clients but said he turned them down because of concerns about whether an award could be collected. "This should have been on Finra's radar screen ages ago."

"This place was a churn and burn shop," Silver said, referring to excessive trading of clients' accounts, which drives up commissions for brokers. "Now, Worden Capital folds up its tent, Jamie Worden moves on as a rich man and the clients are left high and dry."

'RECOVERY CAN BE A CHALLENGE'

Jaimie Worden could not be reached for comment, and a message left with his attorney, Michael Utilla, was not immediately returned. Utilla said separately he was not authorized to comment about his client.

"Customer recovery can be a challenge across the financial services industry and dispute resolution forums, and we remain committed to working with all stakeholders on this important issue," a Finra spokesperson wrote in an email. "Finra remains focused on reducing the amount of unpaid awards in the Finra forum."

Some background: When an investor has a complaint against a firm or broker, he or she sues in an arbitration forum overseen by Finra. If the client works with a broker at a large firm, they're in luck; big firms have the deep pockets to pay the investor if he or she wins the claim and gets damages.

Not so if the client has a broker at a small firm like Worden Capital Management, a tiny shop that had 49 brokers and financial advisers at the end of last year.

Such firms typically have little or no capital on hand for emergencies and wafer-thin insurance policies, and they close down before investor complaints can be adjudicated or paid.

"THIS WAS JUST ANOTHER BOILER ROOM OPERATION ... COLD-CALLING THE COUNTRY."

SCOTT SILVER, MANAGING PARTNER, SILVER LAW GROUP

Worden Capital Management opened in 2009 and its 12-year history is littered with brokers who failed clients. A search of Finra's website reveals more than a dozen of Worden Capital Management's brokers have been barred or suspended from the industry, primarily for allegations of excessive trading and churning.

STARKLY TO THE CONTRARY

One broker was even barred twice, by the Securities and Exchange Commission and Finra, for the rare double securities industry bar.

Put another way: 13 of the firm's 49 brokers have been barred or suspended, or 26.5% of its salespeople. That's a disgrace.

Worden Capital Management's website is no longer working, and its telephone mailbox is full, so no message could be left for the firm. On its LinkedIn page, the firm declares: "We hold ourselves to a higher standard while helping you achieve your investment goals."

The evidence cited above points quite starkly to the contrary. It's now departed, but Worden Capital Management lived too long a life, harmed investors and damaged the reputation of the financial advice industry and its advisers.

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CELEBRITY PROFILES

CONTINUED FROM PAGE 4

folios and news feeds full of recent trading activity highlighting gains and losses. The platform already boasts about 1 million users and when they open the app, the first thing they see is other investors talking about their investments and sharing stock picks.

The app even gives users visibility into the profiles and watch lists of high-profile celebrities who also use Public.com, like NFL player Bobby Wagner and WNBA athlete Kayla McBride, so users can invest like their favorite personalities.

The social-media-driven upstart is part of a growing swell of support for apps that not only allow investors to trade all sorts of securities, but let investors share and connect with like-minded traders. Recent entrants like eToro USA offer similar experiences.

CELEBRITY ENDORSEMENTS

The next question Gensler and company will likely ask: Does sharing the portfolio strategy of a high-profile investor with potentially hundreds of thousands of followers count as a recommendation?

It certainly feels like one.

The influence that a single tweet can have on the markets was evident earlier this year when Tesla Inc. CEO Elon Musk — who sports nearly 61 million followers on Twitter — tweeted about GameStop Corp.'s stock, leading it to surge 93% on a single day last January.

Musk's social media activity has already been heavily scrutinized, particularly his discussions of cryptocurrencies like Dogecoin, which has exploded almost 10,000% since October 2020 thanks in large part to his tweets, according to Forbes.

Gensler will need to look at these practices to make sure any necessary guardrails are in place to protect investors when celebrities use social networking to endorse certain stocks or asset classes.

RECATEGORIZED AND DEFINED

The commission recently concluded a public comment period on digital engagement practices and the popular trading app Robinhood, and the company that owns it, Robinhood Markets Inc., has already submitted a letter warning the agency that new rules will face challenges in court.

THESE NEW APPS CERTAINLY COME WITH NEW AVENUES FOR CONFLICTS.

Digital platforms have done wonders in upping the user experience and attracting a greater number of participants to the markets, opening them up to a whole new cohort of investors who would have otherwise been excluded. But these new apps certainly come with new avenues for conflicts that may have to be recategorized and defined.

The ease with which Musk moved the markets is an example of the power social media can wield with investors. It also demonstrates the potential for celebrities to manipulate the markets, moving in and out of stocks while using social media apps to tout those positions.

What Gensler needs to figure out is how to ensure retail investors won't be left holding the bag.

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