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² Nationwide L.inc Advisory provides a 7% simple interest roll-up rate on the

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³ VARDS, vards.com (July 15, 2018)

⁴ Rates as of 8/19/2019. Rates are subject to change.

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THE ROBO EFFECT

Digital advice was supposed to overwhelm financial planning. Here's what actually happened.



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- ▶ Client portals
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- ▶ Planning platforms

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Columbia Total Return Bond Fund

Intermediate Core-Plus Bond Category | **SRBFX**

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All data as of 09/30/19. Morningstar Ratings are based on a Morningstar Risk-Adjusted Return measure.

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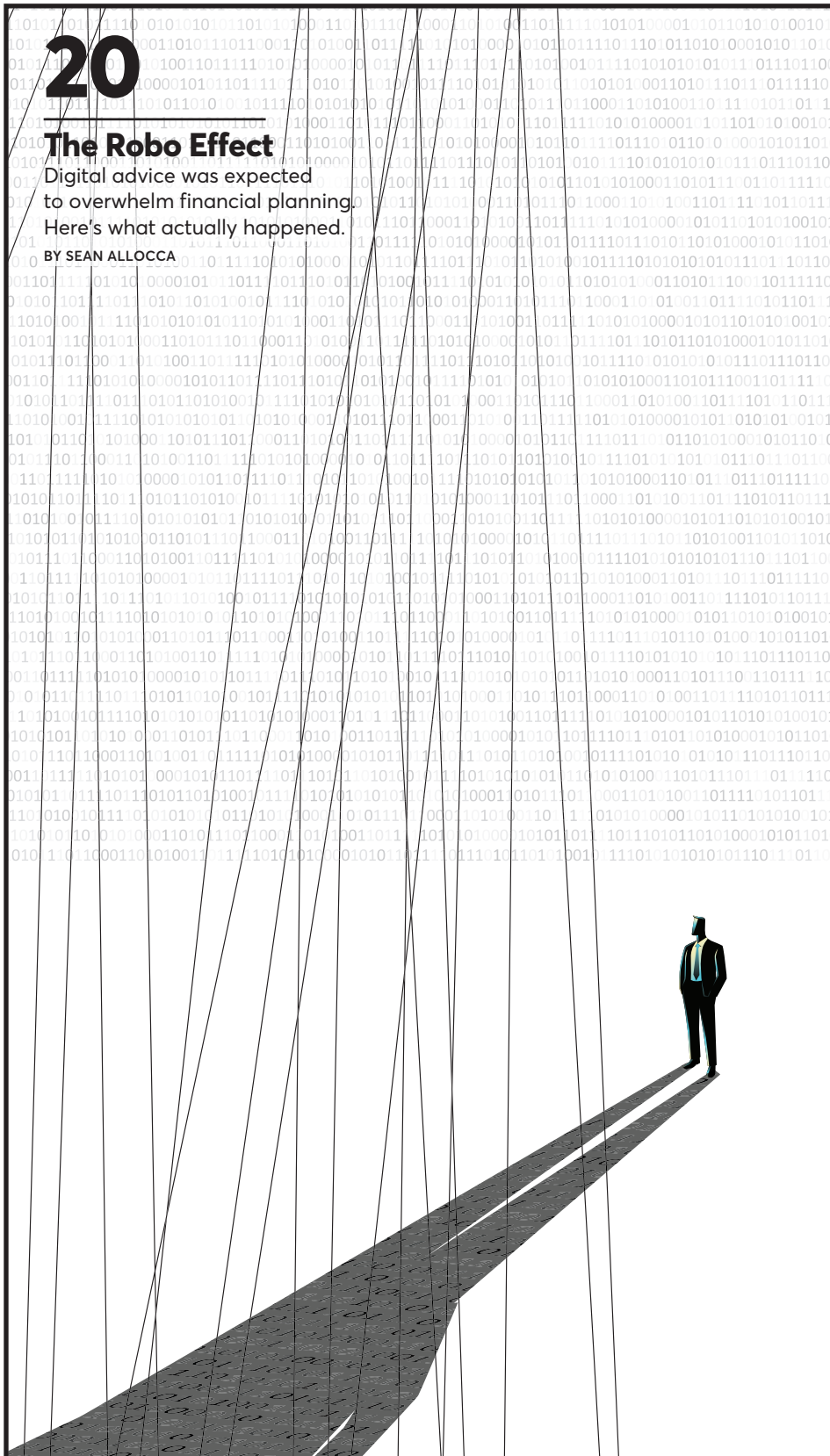


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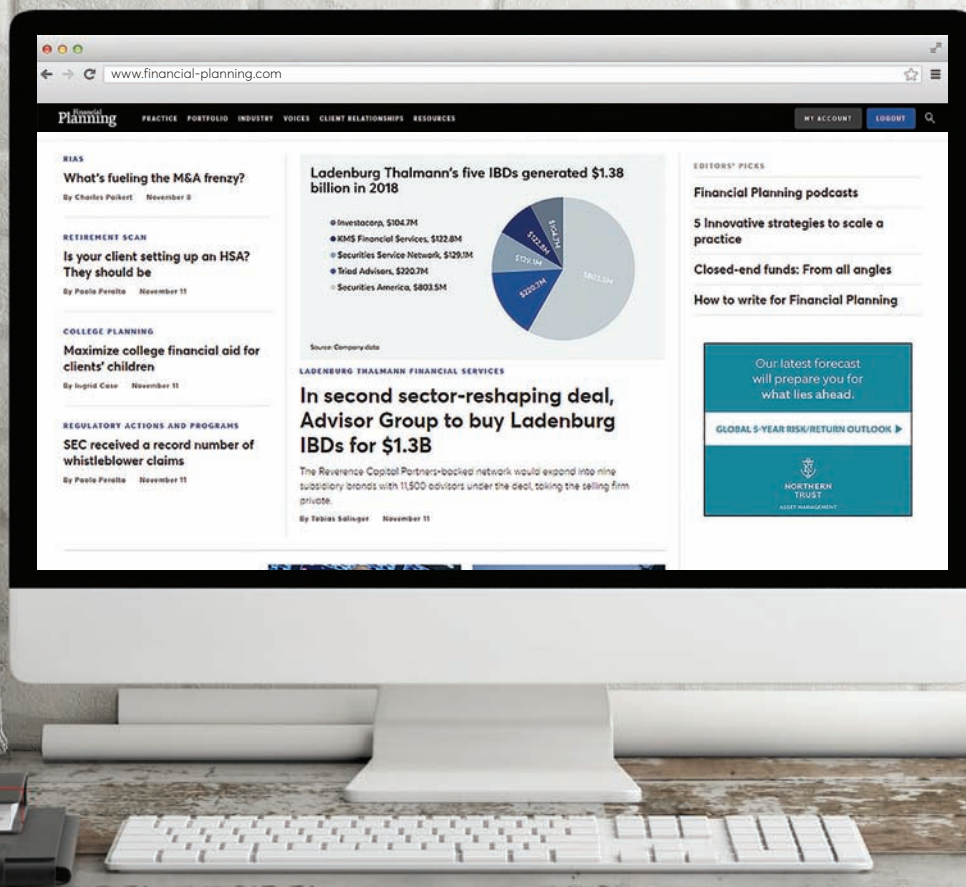
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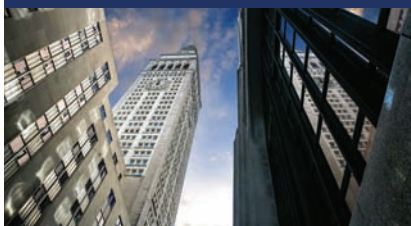
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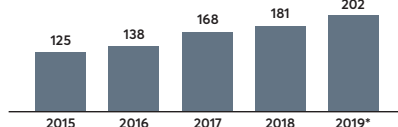


Why can't these advisors get paid?

When an unusual recruiting deal between Credit Suisse and Wells Fargo went awry, years of broker frustration, severe attrition and litigation followed. Also at stake: Up to \$245 million in back pay. Read more here: <http://bit.ly/2Plrlbz>

GUIDE TO GROWTH

Wealth management M&A transactions on pace for another record year



Source: Echelon Partners investment bank and consulting firm; *2019 is post-Q2 estimate

M&A transactions' record year

Financial advisors, who have turned into expert dealmakers, are helping RIAs tap into a greater share of the record M&A volume that's reshaping wealth management. Learn more here: <http://bit.ly/2WJn6y4>

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Cedar Creek, Michigan

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Financial Planning is sharply focused on what matters most to advisors — their clients, their practice, and managing their client's portfolios.

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FinancialPlanning

Editor's View

Most Transformative Advisor Software?

These tools will revolutionize ... wait. No. These tools will evolve the financial planning industry.



Advisors are inundated with software pitches that promise to help them cut costs, slash time spent on back-office tasks and communicate better with clients. But which tools will gain traction and become genuinely transformative for wealth management?

During a recent visit to *Financial Planning*, planner and founder of XY Planning Network Michael Kitces named five he expects will become even more prevalent over the next few years. First, however, a caveat.

"I'm excited to see our industry move to the next stage, but we move glacially slow," he told me. "There are a zillion advisors working with a zillion clients. Transformation is never fast. In our industry it's almost always more evolutionary than revolutionary."

With that, let the revolution — no, the evolution — begin. Here are the software tools Kitces sees growing in importance:

- Business intelligence
- Tax planning
- Student loan planning
- Rebalancing
- Health care planning

For many more predictions, please see the findings of our annual Tech Survey, beginning on page 20. What's the No. 1 financial planning provider? Who do advisors rely on most for portfolio management? Just as importantly, what isn't changing and why?

"What jumped out at me is how much advisors believe robo advice will shape wealth management, but how little adoption is actually taking place," says Associate Editor Sean Allocca, who analyzed the data and wrote the main story, "The Robo Effect."

"As fee compression squeezes margins, advisors will need to differentiate and find new client bases that have historically been underserved. That means adopting new technology to help service clients with less investable assets," Allocca says.

It doesn't have to happen overnight. Careful deliberation is healthy. But planners need to take a hard look at their tech stack. The time to do so is now. —Chelsea Emery



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Benchmark

DATA-BASED INSIGHT FROM FINANCIAL PLANNING AND SOURCEMEDIA RESEARCH

Retirement Advisor Confidence Index

Retirement Confidence Rebounds

The latest RACI survey finds clients more chipper about their financial futures, though still stressed about geopolitical uncertainty.

By Kenneth Corbin

Clients are "cautiously optimistic" about their plans for retirement and, despite serious lingering concerns about the global economy, are looking more favorably at equities and target-date funds, according to the latest Retirement Advisor Confidence Index, *Financial Planning's* monthly barometer of business conditions for wealth managers.

An advisor stressed the importance of talking clients through the short-term fallout of headline-grabbing events like elections or tariff wars and keeping them focused on a sound, long-term plan.

"Although people are fearful of the trade wars we have prepared our clients for the long term so they do not worry so much about the short-term volatility," the advisor said.

The component of RACI that measures confidence in equity-based securities jumped 4.4 points to 57.6 in the most recent month, a mark that was 12.8-points higher than the same period last year.

RACI scores above 50 denote an increase in investor confidence, while scores below that mark signify a decline.

Investor confidence in equities zigzagged through the middle part of the year. Still, the most recent RACI equities score of 57.6 was the highest mark since April.

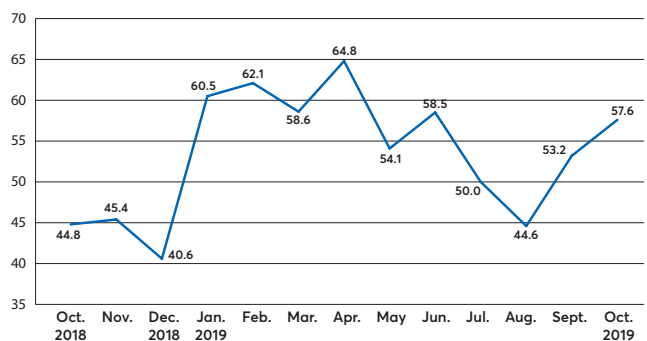
"As the volatility dropped this month, clients' portfolios shifted some from cash to equities," one advisor says.

The overall RACI composite for the most recent month posted a modest increase to 51.4, up 1.5 points from the previous month and up 4.8 points from the same period last year. But it was the first time overall confidence had climbed above the 50-point mark since June.

One advisor describes "a bit of optimism coming back to the markets causing greater inflows into equity investments."

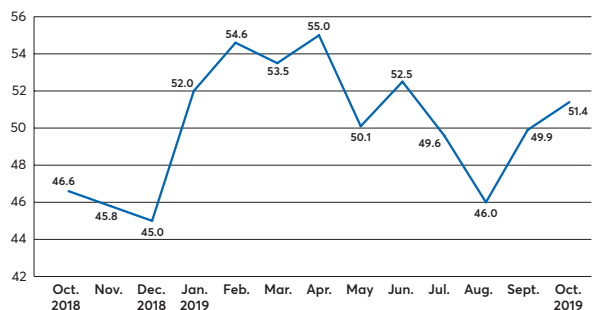
Clients also showed a renewed confidence in target-date

CLIENT ASSETS USED TO PURCHASE EQUITIES



Source: SourceMedia Research

RETIREMENT ADVISOR CONFIDENCE INDEX



Source: SourceMedia Research

funds. The RACI component that measures confidence in that asset class posted 50 in the most recent period, rebounding 3.2 points from the previous month and up 8.2 points from the same period last year.

Notably, the current month was the second in the year (April was the other) that target-date funds posted a score of 50. The last time that class had seen a score higher than 50

The Retirement Advisor Confidence Index, published in partnership with ADP®, is created by the editors of Financial Planning and is based on a monthly survey of about 300 advisors. Visit financial-planning.com for more results.

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Benchmark

was January 2018.

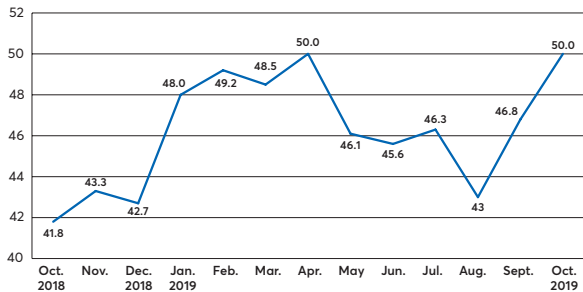
Meantime, clients showed a mild increase in their appetite for risk. The component of RACI that measures risk tolerance checked in at 46.8, up 5.6 points from the previous month, for the second consecutive month-to-month increase. Advisors say factors that have tried clients' risk tolerance include a potentially messy Brexit, trade wars and domestic political

turmoil. Risk tolerance hasn't posted a RACI score above 50 since June.

Some advisors take a sanguine approach to such uncertainties, and even see an upside.

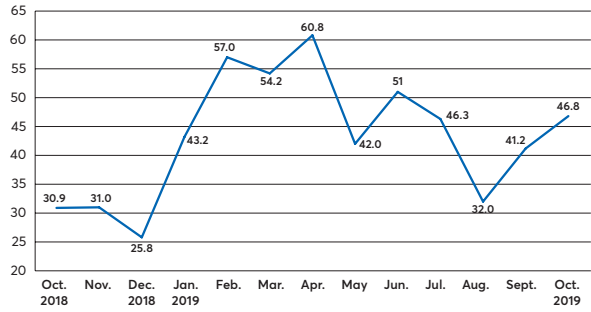
"Some clients are jittery," one says. "In the grand scheme of things, that's probably a good thing. I worry when everything looks rosy and clients want to be more aggressive." **FP**

CLIENT ASSETS USED TO PURCHASE TARGET-DATE FUNDS



Source: SourceMedia Research

RISK TOLERANCE



Source: SourceMedia Research

Kenneth Corbin is a Financial Planning contributing writer in Boston and Washington. Follow him on Twitter at @kecorb.



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DATA-BASED INSIGHT FROM FINANCIAL PLANNING AND SOURCEMEDIA RESEARCH

Financial Wellness Report

Assessing Clients' Financial Wellness

Red flags for planners include a lack of retirement savings and health insurance. More broadly, "financial literacy is a major issue," one advisor says.

By Charles Paikert

Despite the wealth of resources available to clients, advisors say they are worried about their clients' grasp of a number of key financial areas, including financial literacy, savings, retirement and insurance.

Almost one-third of clients are not financially literate, meaning they do not have sufficient knowledge and skills to make informed decisions about their monetary lives, according to advisors surveyed by *Financial Planning's* most-recent Financial Wellness Report.

"Financial literacy is a major issue," one advisor said. "If a client doesn't understand the basics of finance and investment strategies, it makes giving

advice to them meaningless."

This difficulty has far-reaching ramifications. For one, financial stress — often caused by poor planning and misunderstanding — can lead to higher health care costs, according to SourceMedia research.

The impact can also trickle down to the next generation: Three-quarters of clients had either minimal or adequate savings for their children's college expenses, according to about 300 advisors surveyed by *Financial Planning* in October.

Sensitivity is critical when it comes to working with clients who are less confident about financial concepts. "The

best thing I've learned is not to make them feel inferior or afraid of money and investments," one financial advisor said.

Showing clients "a visual representation" of financial concepts was helpful, one advisor noted, while another suggested clients with less financial knowledge bring in a family member to help them grasp new concepts.

Recommendations Affected

Advisors with less-experienced clients found it affected their investment recommendations. "If a client's literacy level is lower, I will encourage them to save more," a respondent explained. "And I might recommend [investment] strategies that are more or less risky depending on their literacy level."

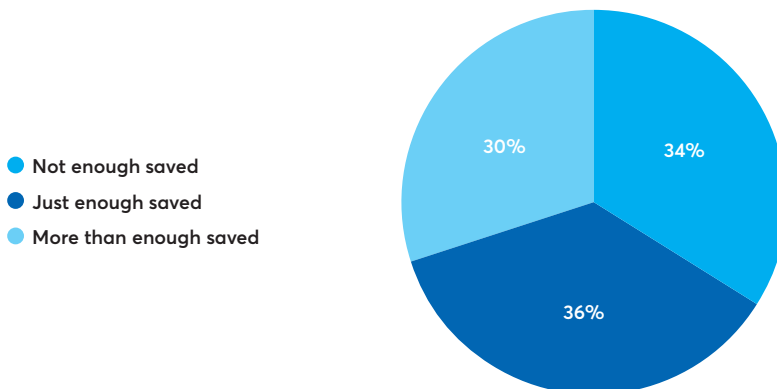
While it's often easier to work with financially literate clients, advisors pointed out that sophisticated ones can be troublesome. "Sometimes it's worse if they're financially literate," one planner said. "They're good people, but sometimes they think they know everything."

"If clients [think they] are financial experts, they take my advice less seriously," said another.

Top Concern

The lack of adequate retirement

Have Clients Saved Enough for Retirement?



Source: SourceMedia Research

The *Financial Wellness Report*, published in partnership with ADP®, is created by the editors of *Financial Planning* and is based on a survey of about 300 advisors in October. Clients were segmented by age and investible assets: less affluent (less than \$250,000), mass affluent (\$250,000 to \$999,999), HNW (\$1 million to \$9.9 million) and UHNW (\$10 million and more).

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savings remains a top concern for planners. While respondents said that 30% of their clients had more than enough saved for retirement, 34% reported clients had not saved enough and 36% indicated their clients had saved "just enough."

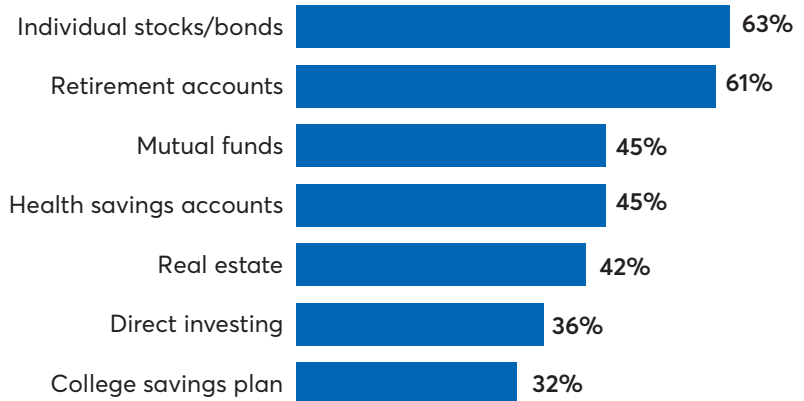
"It seems to be getting harder for people to hit the goals I feel are necessary for a worry-free retirement," one advisor said.

Another advisor's clients are struggling because they didn't save or invest enough while working. "They were under the impression that their jobs had a retirement plan set up for them," the planner said.

The lack of adequate emergency savings and health insurance coverage also remain concerns. Thirty-four percent of advisors surveyed said their clients didn't have enough money for an emergency; and 36% reported that their clients had "just enough" money for unexpected expenses.

One quarter of clients do not have any health insurance, according to advisors surveyed, and 34% had only minimal health insurance. "The increasing cost of health care in this country is an emerging need that more clients need to understand for their financial

Where Gen X Clients Put Their Money



Source: SourceMedia Research

wellness," one wealth manager said.

The concern is well-founded. For example, the median annual cost of a home health aide is almost \$50,000, according to a recent study by Genworth Financial, and the annual cost of a private room in an assisted living facility is close to \$100,000. Those costs are expected to increase to \$66,000 and \$131,000, respectively by 2027, Genworth estimates.

Familiarity With Taxes

On a more cheerful note, clients show familiarity with tax strategies, helping relieve advisors' worries about financial

wellness. Around two-thirds were very knowledgeable or extremely knowledgeable about tax strategies, including capital gains, estate tax exemptions, charitable contributions deductions, retirement plan contributions and DAFs.

Compensation is an integral part of clients' financial wellness. When salaries or comp packages rise, planners said they overwhelmingly advise clients to increase their allocation to investments and retirement savings.

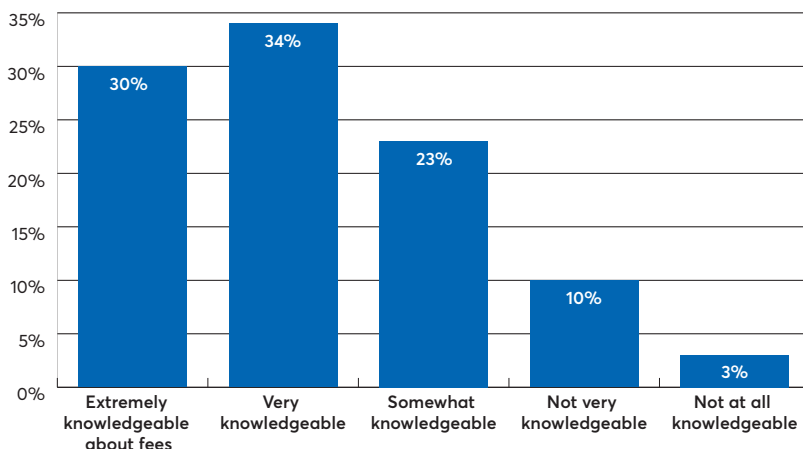
A majority of planners also said they advised clients to not change the amount of their spending on health care, debt payments, non-discretionary items such as mortgage payments, as well as discretionary items like vacations and entertainment.

Overall, advisors said clients listened well and "with a positive mindset to follow our recommendations and advice." They added that it helps to tailor messages to clients' level of understanding.

"I decide how much and what kinds of information to give my clients based on their financial literacy," one advisor said. "I also try to provide additional resources to help increase their overall financial knowledge." **FP**

Charles Paikert is a senior editor of Financial Planning. Follow him on Twitter at @paikert.

Yes, Clients Do Pay Attention to Fees



Source: SourceMedia Research



A Mess of an Estate Plan

My client stood to have to probate 60 stocks, an out-of-state property and valuable collections. How I headed that off.

By Carolyn McClanahan

Advisors constantly look for ways to differentiate themselves to grow their businesses. It's not easy. Selling yourself through investment management is useless and even providing financial planning is becoming old school.

But there is a way to pull ahead — become known as a financial problem solver.

That means getting into the dirt with clients about hard issues related to money. Relationship challenges, career upheaval, illness, aging and death all present opportunities to help clients with the yuck that life sometimes throws their way. When you are willing to deal with the yuck, clients flock to your door and tell their friends. Everyone wants help during tough times.

How do you position yourself as a financial problem solver? First, be open to asking about what is not going right in your client's life. Then offer a hand without expecting anything in return.

Let me illustrate. One client told me his

dad was in his late 80s and still managed his own finances and hand-filed his tax return. He knew his dad had amassed a significant estate with many moving parts.

My client's worry? He was the executor of his parents' estate and had little clue about what his dad was doing. His mother was not involved in any of the financial decisions. The only professional help his dad had ever engaged was an attorney to complete his estate planning documents.

My client is a busy, successful businessman and did not relish the thought of having to clean up a complicated situation when his father died. He also knew that his dad would never hire someone to provide an opinion on the structure of his estate or to help with investment management.

My Response

My response to the client's concerns was to offer to meet with his father to review his

assets and estate planning documents. In this way, I could help my client better understand his dad's situation. My client positioned my offer in this way and told his dad it would help him know what to do if his dad ever needed his help. My client promised his father I wouldn't try to recruit him as a client.

Looking for a way to differentiate your practice? Become known as a financial problem solver.

My client and I drove to the father's house, where his dad stated that he planned to live to 105 and did not understand why his son thought there was a situation to be figured out. Nevertheless, the father shared with me a list of his holdings, his tax return and his estate planning documents and allowed me to review them.

What a mess! He had about 60 directly held stocks and stock certificates, a couple million dollars in retirement plans, property in New York (he lived in Florida), old stamp and coin collections and a collector car. In all, his net worth was about \$6 million.

But it got worse. The father had completed estate planning documents that created a trust — and nothing was titled to the trust. Additionally, the trust left a large percentage of the estate to charities and

(Continued on page 14)



Is It Time to Hire a CTO?

Many large firms have found this has raised the quality of service for their clients. But what if you're a small firm?

By Kelli Cruz

As a consultant, I take special note of how companies build out their C suite and I've come to a few conclusions over the years. For one, many larger firms I work with have hired chief technology officers and, for the most part, they have found this investment in staff and resources has raised the quality of service for their clients.

"If you are a technology-forward firm, you need to make the investment in technology," one of my clients told me.

But what do CTOs do exactly?

Among their many responsibilities, CTOs determine their company's short- and long-term business needs and invest in systems to support those objectives. To be more specific, they might have a hand in database architecture and development, technology infrastructure and data, as well as vitally important information security.

To get an even better sense of this role, I spoke to Dan Jurgovan, CTO at JMG

Financial Group. (JMG is not a client.)

I soon learned that CTOs perform many more vital tasks than the definition above would suggest. According to Jurgovan, one of his team's primary objectives is implementing new software and training.

"The employee is the client," he tells me. To support their end client — their company — he and his team provide in-person meetings and training sessions, and they create video training for employees to access on demand.

Jurgovan collaborates with the COO to make sure employees have what they need and are happy with the technology.

One of my clients, Bartlett Wealth Management, has a team of three, including the CTO, dedicated to cybersecurity, maintaining and maximizing asset management systems, and providing help desk support to the firm's 65 employees.

For new employees who have never

worked in a firm that provides onsite tech help, this service gives them a "wow experience," says Bartlett Wealth's CTO, Matt Whalen.

The team recently implemented Zoom Room software, which enables the

If a firm can't afford dedicated tech support, I urge it to create subject matter experts for each tech system or software it uses.

firm's Cincinnati and Chicago offices to video conference with clients and each other.

This important project not only enhanced client interactions, but allowed many of the employees who had never met in person to meet virtually.

Small Firm Solution

For smaller firms that do not have a dedicated CTO, I find the roles of IT manager, database manager and portfolio reporting specialist take its place. If my clients cannot afford to invest in dedicated tech support, I encourage them to create subject matter experts for each technology system or software the firm is using.

These experts fill important roles, some of which include interfacing with tech vendors, staying current on software updates and training the rest of the team. I recommend rewarding those who hold such tech responsibilities through your

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¹WealthManagement.com's 2017 Independent Broker-Dealer Report Card published April 2017.

²WealthManagement.com's 2018 Industry Awards announced September 2018. ³Investment Advisor Magazine's Broker-Dealer of the Year Poll published 2017.

⁴Financial Planning's FP50 List of Top Independent Broker-Dealers published 2016. ⁵InvestmentNews Research published April 2019.

incentive compensation plan.

A majority of firms that I work with are convinced technology is critical to the success of their firms. I'm seeing an increase in the number of technology initiatives they use, including CRM systems, performance reporting and financial planning software, data storage, document management systems and cybersecurity programs.

By using these tools, firms can free

By using technology, firms can free partner and advisor time to service existing clients and look for new business. The extra time to work with clients increases retention and referrals.

partner and advisor time for business development. When technology streamlines administrative tasks, partners and advisors can allocate more time to service existing clients

and look for new business. The extra time to work with clients improves responsiveness and increases client retention and referrals.

"The goal of every advisory firm is to provide a high-touch experience," says Matt Sonnen, CEO of PFI Advisors. "As a firm's client base becomes larger, the only way you can achieve this is through leveraging technology." **FP**

Kelli Cruz is a Financial Planning columnist and founder of Cruz Consulting Group in San Francisco. Follow her on Twitter at @KelliCruzSF.

A Mess of an Estate Plan

(Continued from page 11)

about \$5,000 each to 13 grandchildren, with the rest going to his sons after his wife died.

I'm sure you see what is wrong with this picture. My client would have to probate 60 stocks and the New York property, plus charities, and 13 grandchildren would breathe down his neck for their shares of the estate.

Not only that; his father was leaving assets to charity that were tax free and leaving assets to his sons that would be heavily taxed. If he left the retirement plans to charity, the charities wouldn't have to pay a dime in taxes.

Once the son realized the enormity of the task at hand, he was happy to accept a slight increase in his quarterly fee during the time we assisted his father. We charge a flat fee based on complexity, and my client knew I had my work cut out for me.

Though the situation was messy, the fixes were easy. We had the dad change the beneficiaries of his IRA accounts to the charities and changed

the trust beneficiaries to his wife, then his sons. He gave the grandchildren \$5,000 each as an immediate gift and removed them from the documents.

The son and his dad opened a retail custodial account for the trust and transferred every stock into it. He sold the New York property and got rid of the car. He went on managing his stocks and doing his taxes by hand.

When providing help, don't expect a quid pro quo. You may get the satisfaction of doing a good deed, or you may get more.

Unfortunately, my client's dad did not live to 105. He died about two years after we helped him straighten out his holdings. I estimate we saved the family about \$600,000 in income taxes and probate and estate administration costs. We also saved my client many hours of his life not probating an estate. My client was very grateful.

Long-term payoffs

A key lesson I draw from this case is this: When providing help, don't expect

anything in return. Solving problems and offering insight without expectation of quid pro quo eventually comes back to you — maybe just in the satisfaction of doing a good deed, but more often you get more work from the client and referrals to boot.

In this case, after my client settled his dad's estate and took care of his mother's living situation, he noted that he was going to keep all of his dad's stocks even though they had received a step-up in basis. His mom didn't need the money if the stock market dropped. I reminded him that he was a fiduciary not only to his mom, but also to his brothers and that it might be a good idea to get their input on his plans.

I smiled when I later got an email from my client with copies of emails from his three brothers. One said let it ride in stocks, the other wanted a balanced portfolio and the third wanted something conservative.

My client hired us to manage his mom's trust. We worked with the four brothers and created an investment policy to which they all agreed. **FP**

Carolyn McClanahan, a CFP and M.D., is a Financial Planning columnist and director of financial planning at Life Planning Partners in Jacksonville, Florida. Follow her on Twitter at @CarolynMcC.



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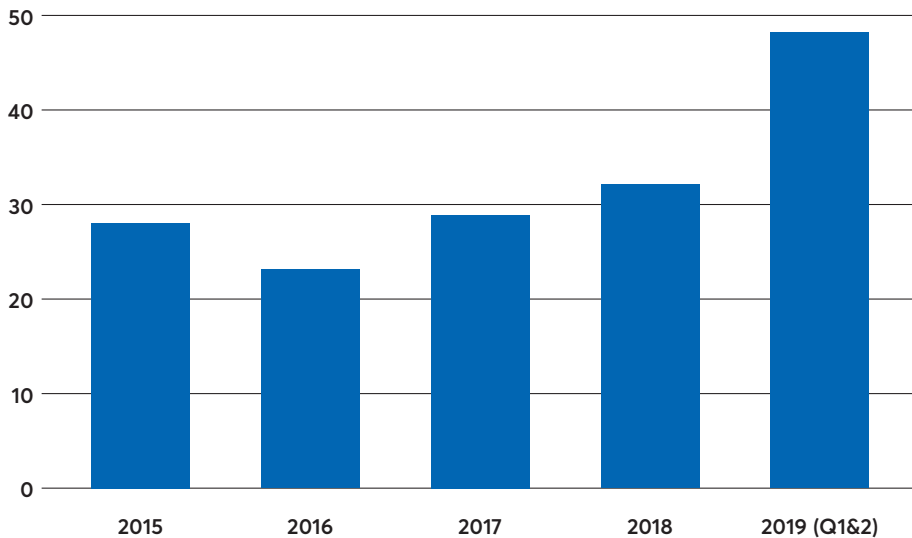
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¹Prevalence of Disabilities and Health Care Access by Disability Status and Type
Among Adults – United States, 2016

\$1 Billion-Plus RIA M&A Deals



Source: Echelon Partners

A Lending Firm Debuts As an M&A Matchmaker

SkyView Partners' new digital platform for RIA buyers and sellers joins a crowded field.

By Charles Paikert

A new digital matchmaker has opened up shop for financial advisors looking to buy or sell an RIA.

The lending firm SkyView Partners has launched the Advisory Practice Board of Exchange, a website that hopes to increase M&A deal volume, especially for smaller advisory firms.

"There can be as many as 50 buyers for every seller," says SkyView's chief executive, Scott Wetzel.

He adds that such an imbalance means

that too many deals fall through because many sellers are inexperienced and don't have representation.

Deals That Never Close

"It's been our experience that 'for sale by owner' transactions commonly do not close," Wetzel says.

"There are disagreements over valuation and sellers often don't have experience in a sophisticated M&A transaction."

To remedy this, the new site will require

that sellers be represented by an mergers and acquisitions consultant.

The APBOE website joins a crowded field of more than a dozen matchmaking sites, including those run by FP Transitions, Succession Resource Group, Advisor Legacy, Charles Schwab and Succession Link 2.0.

While there are often more buyers than sellers, deals don't get made because sellers lack representation.

SkyView Partners doesn't consider these sites as direct competitors, according to Wetzel.

"We're like Zillow in real estate," he says. "It's another way to get exposure for a listing. You can still list with other agents."

Sellers that are using the APBOE.com website can also search for prospective buyers based on what SkyView calls a "proprietary ranking methodology gauging buyer creditworthiness and preparedness to acquire a practice."

SkyView isn't charging a fee for searchers to use the new site, but it hopes that having more M&A transactions will require debt financing and stimulate the firm's lending business, Wetzel says.

David Grau Sr., the president of FP Transitions, sees the SkyView platform



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RIA IQ

as "a resource for buyers and sellers to connect with bank financing."

He adds, "As a lender, requiring a consultant to support sell-side engagement is just smart business,"

Does SkyView's new site have the potential to increase the volume of RIA M&A deals?

The record pace of M&A is "driven by high valuations, the lure of scale and a strong stable of thoroughbred acquirers."

When FP Transitions introduced its digital marketplace for independent advisors, more than 20 years ago, "we met with a lot of naysayers," Grau recalls.

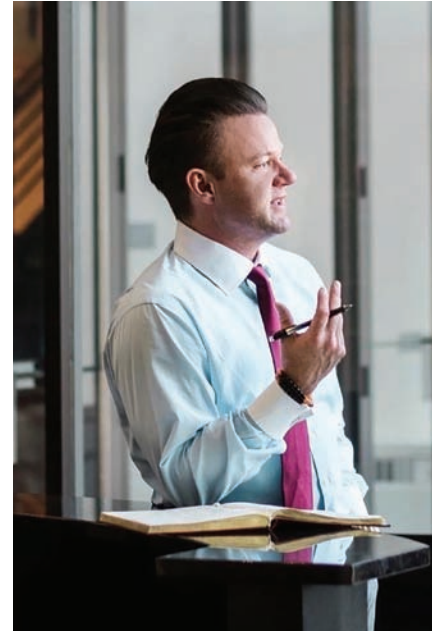
But, he adds, "we significantly increased the volume, the value and

the quality of M&A transactions for RIA's and registered reps in this industry. No reason to be pessimistic about this effort."

Two leading industry M&A consultants also applauded the arrival of the matchmaking site.

"The record pace of M&A activity is being driven by high valuations, the lure of scale and a strong stable of thoroughbred acquirers," says David DeVoe, founder of DeVoe & Co. in San Francisco.

"There's a lot of interest in finding the right match and advisors have various options to determine their course," he adds. "SkyView's new program is one more option and is seeking to take the 'RIA dating website' to the next level. "



SkyView CEO Scott Wetzel hopes his company will become an RIA M&A matchmaker.



Certainty is good.

This material is not a recommendation to buy, sell, hold or roll over any asset, adopt a financial strategy or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Clients should work with their financial professional to discuss their specific situation.

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While some M&A websites have struggled, "it is exciting to see someone take a fresh look with a new value proposition," says Echelon Partners CEO Dan Seivert.

"There is no question sellers and buyers [with less than] \$150 million in AUM and \$1 million in revenue have been frustrated."

Buyers paying annual fees are often frustrated with sites that list deals that don't meet their criteria, Seivert says. It's also "really difficult for sellers to wade through all the poor-fitting buyers," he adds.

"The whole experience ends up being like Monster.com, where the company looking to hire receives 1,000 ill-fitting

resumes," Seivert says.

"If it takes a lender to solve this problem, then by all means we welcome their efforts to help solve the succession transaction frustration."

'Sweet Spot'

Wetzel says he expects that RIAs with between \$50 million and \$500 million in AUM will be the "sweet spot" for the new site.

But larger firms may also participate. When SkyView launched its lending service last year, it expected to do business with RIAs that had managed assets of between \$50 million and \$250 million.

As it turns out, Wetzel says, "our

A Crowded Field of RIA Matchmakers

[Advisor Legacy](#)

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Source: Echelon Partners; company data

average firm has close to \$400 million in AUM." **FP**

Charles Paikert is a senior editor of Financial Planning. Follow him on Twitter at @paikert.

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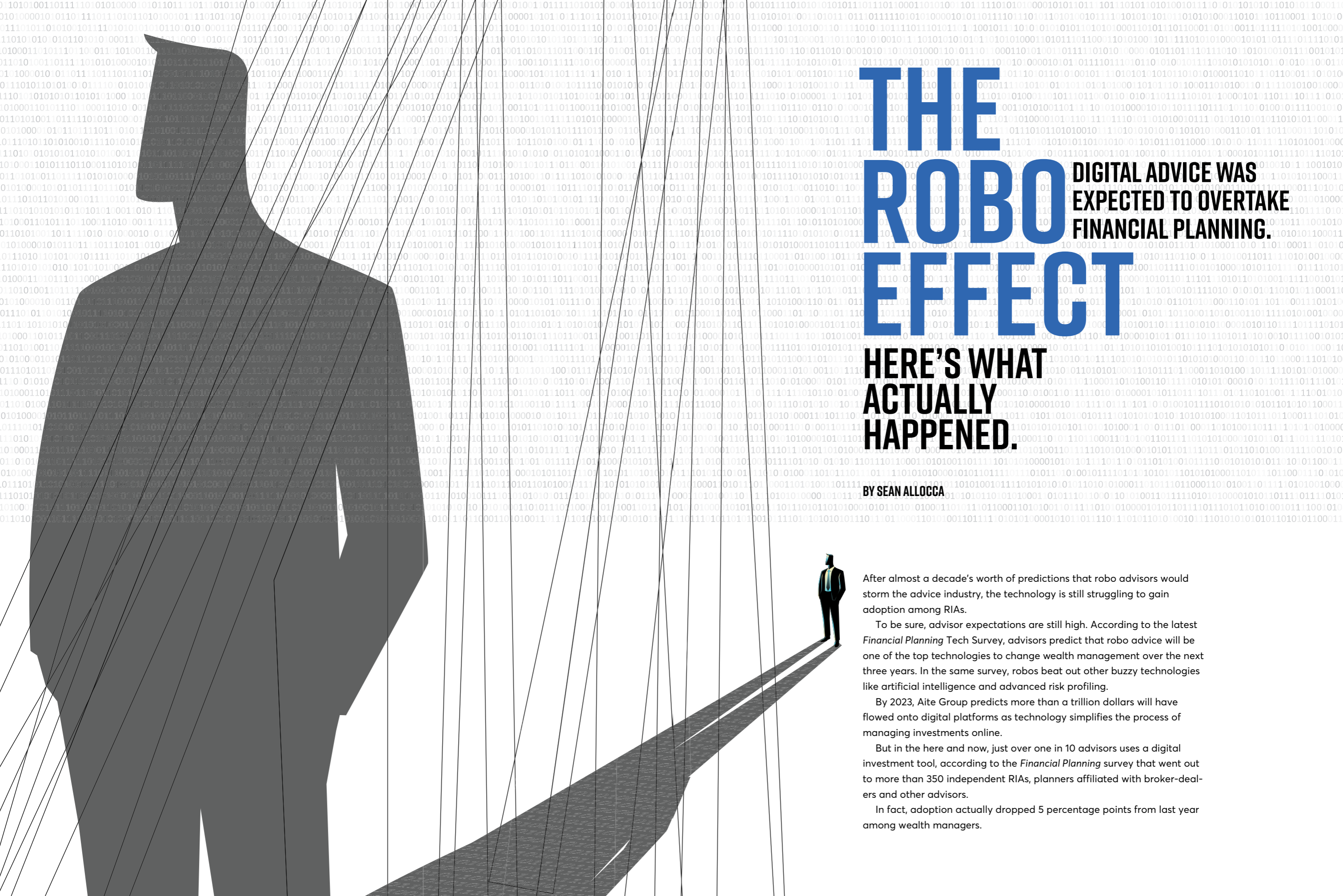
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THE ROBO EFFECT

DIGITAL ADVICE WAS EXPECTED TO OVERTAKE FINANCIAL PLANNING.

HERE'S WHAT ACTUALLY HAPPENED.

BY SEAN ALLOCCA

After almost a decade's worth of predictions that robo advisors would storm the advice industry, the technology is still struggling to gain adoption among RIAs.

To be sure, advisor expectations are still high. According to the latest *Financial Planning Tech Survey*, advisors predict that robo advice will be one of the top technologies to change wealth management over the next three years. In the same survey, robos beat out other buzzy technologies like artificial intelligence and advanced risk profiling.

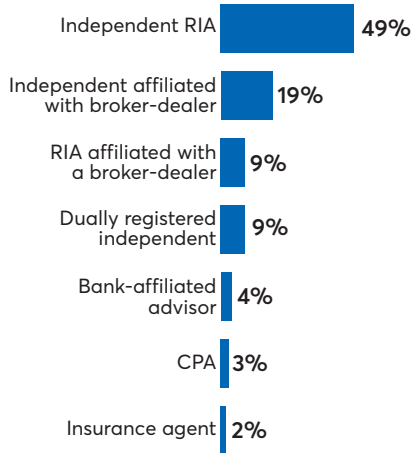
By 2023, Aite Group predicts more than a trillion dollars will have flowed onto digital platforms as technology simplifies the process of managing investments online.

But in the here and now, just over one in 10 advisors uses a digital investment tool, according to the *Financial Planning* survey that went out to more than 350 independent RIAs, planners affiliated with broker-dealers and other advisors.

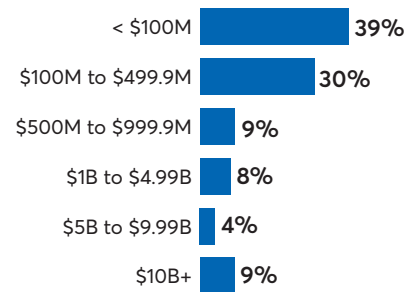
In fact, adoption actually dropped 5 percentage points from last year among wealth managers.

Special Report: Tech Survey

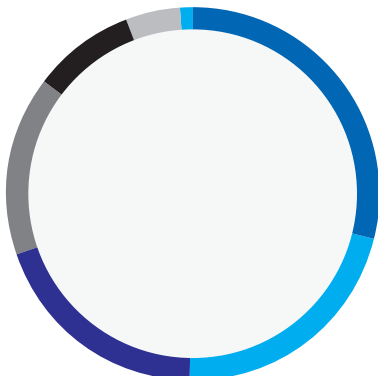
Role/Firm Affiliation



AUM



Respondent Age



- Under 25: 1%
- 25-34: 16%
- 35-44: 22%
- 45-54: 30%
- 55-64: 20%
- 65-74: 9%
- 75+: 5%

The success of robo technology will hinge, in part, on its transformation from a single direct-to-client platform into a bionic advisor toolkit that automates back-office tasks, creates onboarding efficiencies and deepens online client experiences.

Robo developers hope that in the coming years, advisors will continue to bolt on robo technology to gain access to the growing cache of digital assets, which are expected to surpass \$1.26 trillion by 2023, according to Aite.

Shortsighted Advisors

Except that, based on the way things are going, that's just not going to happen. There isn't a straightforward answer why, but the simplest one may be advisor shortsightedness.

It turns out that many clients are still willing to pay the traditional 1% fee on assets, with the median advisory fee for RIAs still hanging at a robust 98 basis points annually, according to a 2019 survey by RIA in a Box, a wealth management technology provider.

For most advisors, the specter of fee compression is still on the horizon.

"At this time, I don't think my clients are looking for me to have a robo," says Chris Chen, a CFP with Insight Financial Strategists in Boston, who provides a robo option to clients.

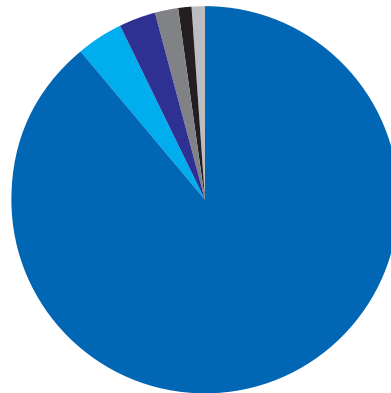
"In my experience, clients come to wealth managers because of the

personal attention to their specific situations. Robos can't do that."

In his firm's case, robo technology means bypassing the burdens of account-opening and onboarding by making the online experience easier, but Chen says his robo advisor is still working out other kinks like automating account transfers from outside providers.

"There is still a fair amount of hand holding," Chen says. "It is not all robo yet."

Robo Solution



- Don't use 89%
- Schwab Intelligent Portfolios 4%
- Other 3%
- Betterment 2%
- Fidelity Go 1%
- FutureAdvisor 1%

Watching and Waiting

The advice business has been good for advisors, says Joe Ziemer, vice president of communications at the New York-based robo advisor Betterment.

The established firms are simply going to take their time and see how everything "shakes out," he adds.

"What you're seeing is an industry that is trying to figure itself out," Ziemer says. "Firms have been thinking about this for a really long time, and they're still working out what that means."

Betterment, the leading independent robo advisor, says it works with 500 RIA firms on its Betterment for Advisors network.

The firm does not break down AUM on its advisor platform, but says it is currently managing \$20 billion in assets on both its retail and business-to-business segments.

However, only one in five advisors is



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using a robo advisor or is in the process of adopting one, according to a separate Aite study of 400 advisors, fielded in the second quarter of this year. Almost half of the RIAs surveyed said they aren't interested in leveraging a robo platform.

With steady AUM fees and a robo technology that is still battling growing pains, independent advisors may simply not be able or willing to compete on price in the low-end emerging wealth marketplace.

The typical robo client is generally between 25 and 40 years old holding less than \$100,000 in assets available for investment.

"RIAs don't see the profit in the short term," says Scott Smith, a senior analyst at the consulting firm Cerulli Associates, based in Boston. "They don't have a broken business."

But with robo technology having proved successful for the large incumbents — like Vanguard and Schwab with \$112 billion and \$33 billion in AUM respectively — on digital platforms, advisors looking to gain scale may need to woo emerging wealth clients who have less investable assets per account but represent a growing digital channel.

Unplanned Obsolescence?

If adoption numbers don't improve, says Will Trout, a senior analyst at Celent, "the advisory community will find itself increasingly hollowed out," and the independent channel may not enjoy the same successes that it has had over the previous decade.

Full-service wealth management firms currently manage just over 7% of the total digital assets, according to

the Aite report. That will have to change, Trout says.

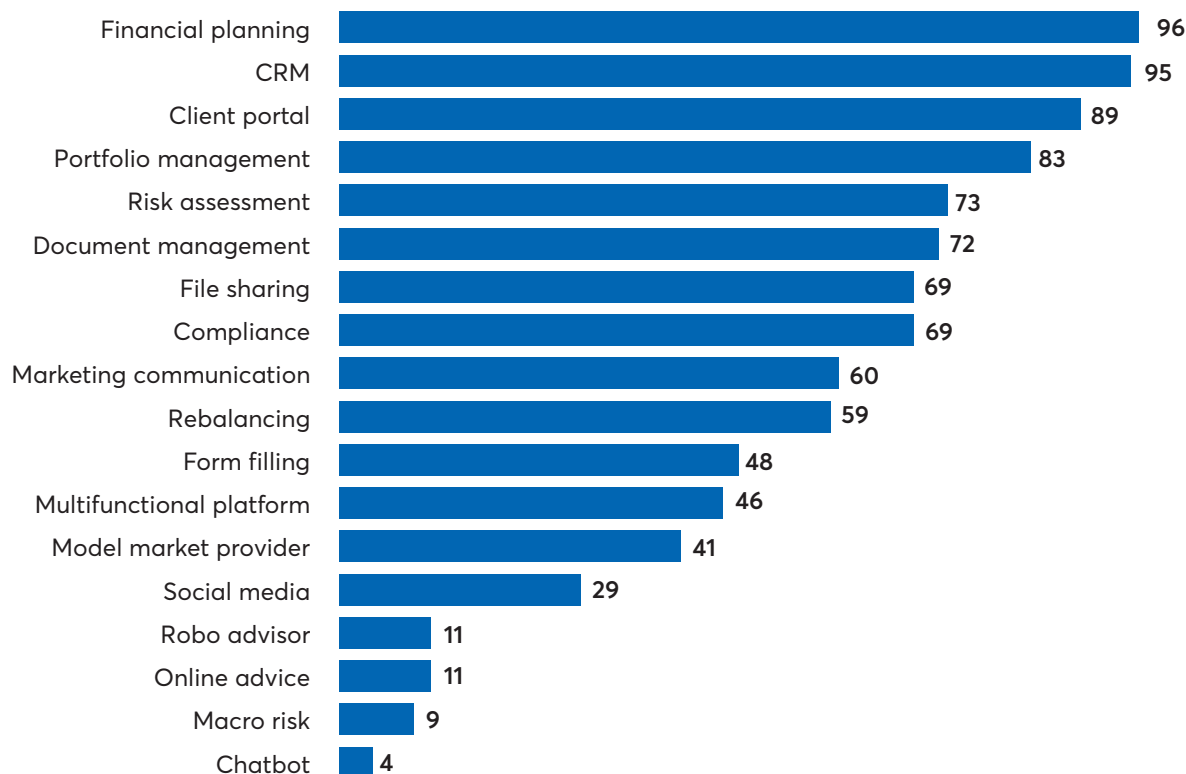
In the next five years, full-service wealth management firms are projected to take on additional assets and make up almost 18% of total assets by 2023, according to the Aite study.

Filling the Void

If independent advisors have been reluctant to embrace the technology, other channels are beginning to fill that void. Discount brokerages are expected to top 46% of all digital assets by 2023, up from just 34% in 2018, according to the Aite report.

A prime example is Charles Schwab. The discount brokerage giant recently retooled its robo offering and switched to a subscription-based model for its premium Intelligent Portfolio accounts in an effort to shift toward younger

Tools Used by Advisors



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Special Report: Tech Survey

clients. By rethinking its core business model, Schwab says it topped \$1 billion in net new assets in the first three months the service was in operation.

"Ultimately, the advisor has to go through a business transformation and change the way the practice is operated," says Alois Pirker, research director for Aite Group's Wealth Management practice. "That's incredibly hard to do."

Mutual fund companies, including Vanguard and BlackRock, held the most assets with 42.1% of total digital AUM last year, according to the study. Advice startups like Betterment and Wealthfront accounted for just 15.9%.

Even more ominously for the independent robos: all four of the market exits that are cited in the report — Hedgeable, SheCapital, IncomeClub and Bicycle — were startups.

There is pushback from independent robo advisors.

'Early Days'

"There is too much hype that adoption requires a change in business model," Ziemer says.

He observes that some of the independent firms on Betterment's platform serve the same types of clients they have previously, even after technology adoption.

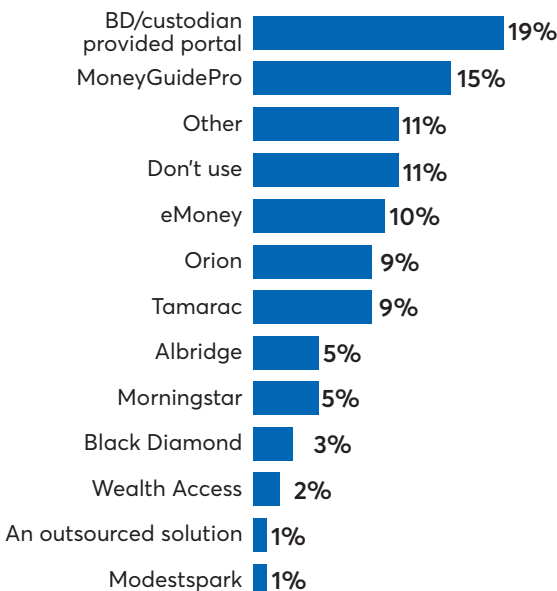
Ziemer also says that since portfolio management has largely been commoditized, advisors don't need to build complex portfolios anymore and can maintain a similar business model using ETFs on an automated platform.

"This is still early days for robos working with advised clients and once there is widespread adoption, robo technology will just be the standard," Ziemer says, although he admits that

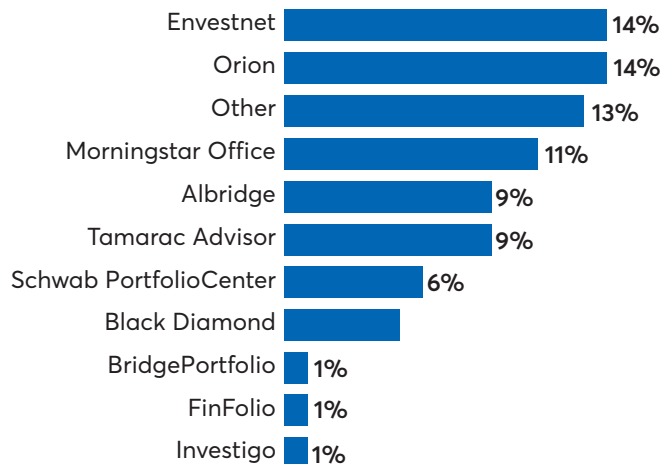


"Ultimately, [technology] is the pressure point that RIAs will have to respond to if they want to stay in business," says Aite Group's Alois Pirker.

Client Portal



Portfolio Management



the adoption rates reported in the *Financial Planning Tech Survey* seem a "little light."

A Secret Weapon

Robo technology can act as a secret weapon for RIAs, according to Trout. Automation has long been the instrument of choice for firms looking for growth and robo advisory platforms are particularly well suited to that end, he says.

Robo tools check most of the boxes to increase efficiencies — risk profiling, paperless onboarding and portfolio maintenance — and are available to advisors at relatively low cost.

"We will see greater adoption as the economics of the business demand it," Trout says. "It's hard to justify doing any of those processes manually anymore."

But that may be easier said than



"The advisory community will find itself increasingly hollowed out" if it doesn't start to incorporate more digital advice tools, says Celent's Will Trout.

done. Firms that have made the most successful digital transformations have done so through thoughtful decision making. The most important task: analyzing one's book of business.

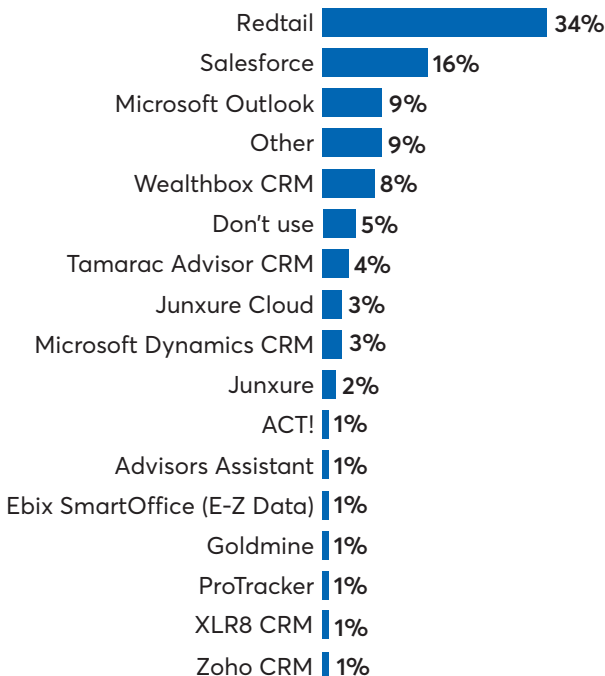
Advisors will have to optimize fee revenue by determining which types of clients are profitable in a full-service model and which are better served using automation.

"Without taking a hard look, you are really just shooting in the dark," Trout says.

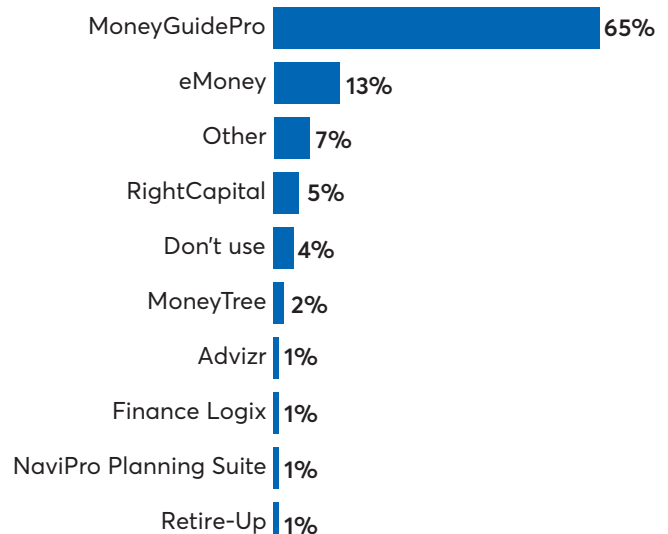
Cost and Effect

While advisors have been shielded from the worst of fee compression, digital platforms are offering wealth management products at bargain-basement prices that could soon affect how RIAs

Client Relationship Management



Financial Planning



Special Report: Tech Survey

will have to price their own products and services, says Nick Hofer, the president of Boston Family Advisors.

"We are not seeing the robo adoption, but we are seeing robos influencing the industry," Hofer says.

And while robo advisors may not

be taking business away from the RIA, the tools, without question, have further compressed the margins, he says. Independent advisors may not be able to survive with their current fee model.

Thinner Margins

With fees hovering around 1% of AUM for now, advisors are increasingly operating on thinner margins.

Long a staple of the financial planning services, asset management fees have been commoditized by new technologies and inexpensive robo platforms, which may soon push portfolio management fees even lower as well.

"Margins are being squeezed and portfolios are available for much cheaper now," Pirker says. "Advisors need to provide more services to defend the same pricing model."

With thinner margins, there are only two ways to boost profitability, he says. The first is to take on additional assets. The second is to use technology to bring down costs. Either way, technology plays a major role.

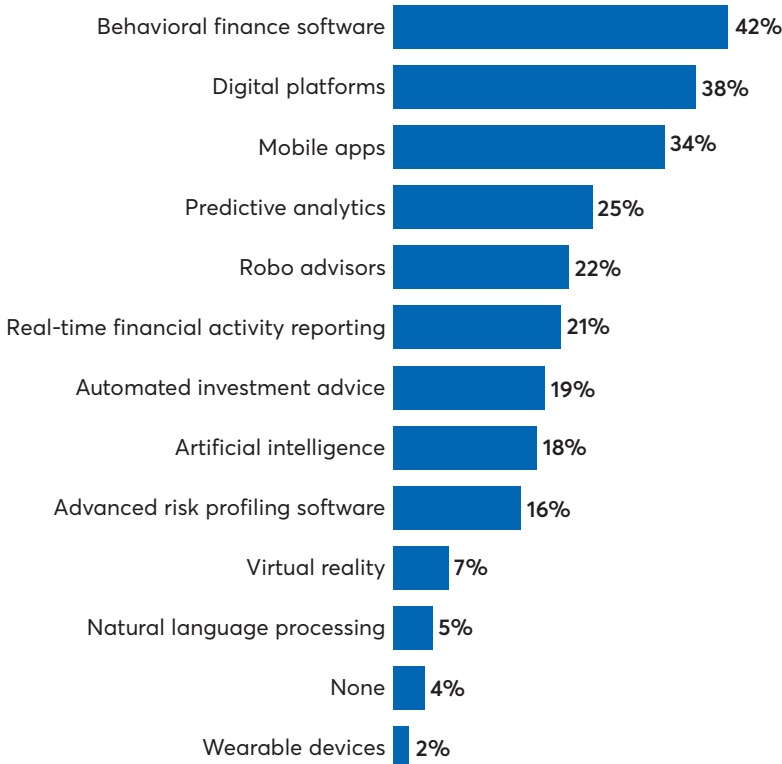
"Ultimately, that is the pressure point that RIAs will have to respond to if they want to stay in business. They will have to deal with it sooner or later," Pirker maintains.

"Digital will play a leading role in shaping those business models." **FP**

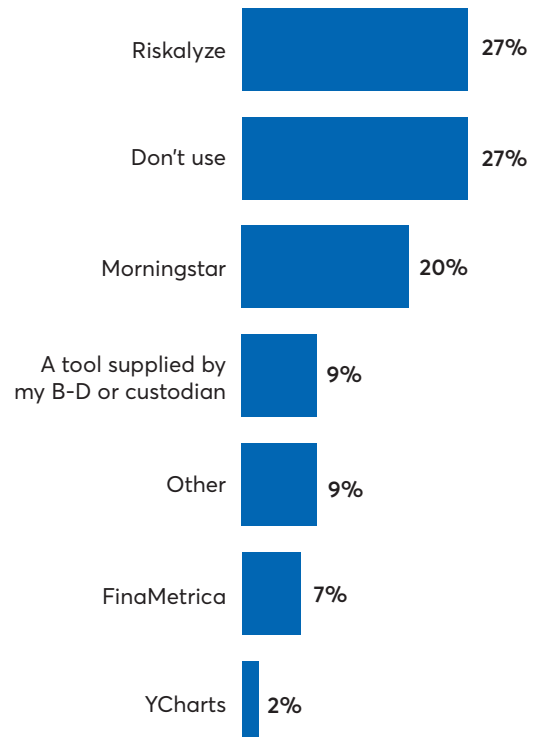


Sean Allocca is an associate editor of Financial Planning. Follow him on Twitter at @sjallocca.

Tech That Will Change Wealth Management



Risk Assessment



Planning Software's Blind Spot

Technology tools are pitched to planners as time savers, but that's not how advisors are actually using them. It's time developers caught on.

By Michael Kitces

The advice itself isn't the hard part. It's the time it takes to deliver it.

For an advice-giving professional, the time needed for planning and analysis, plus gathering relevant information and translating it for clients, is arduous.

To address this roadblock, a number of planning software solutions — billed as streamliners of processes and builders of efficiencies — have entered the market. But while they are designed to simplify planning, survey results suggest they actually add time to the planning process.

The most time-consuming part of creating a financial plan is reaching an understanding of the client's circumstances. In fact, the CFP Board defines planning as a seven-step process, under new standards that took effect late this year:

1. Establish and define the client

relationship

2. Gather client data and determine goals and needs
3. Analyze the client's financial situation
4. Develop planning recommendations
5. Present the recommendations
6. Implement the recommendations
7. Monitor progress and update.

Limiting Client Growth

In practice this planning process typically takes at least three meetings, along with some real work in between — particularly to analyze and develop planning recommendations.

Consequently, we found that the median time to create and deliver a comprehensive plan is 10 hours, with a mean of 15 hours.

Of course, the process typically does not end at the delivery of the plan, because it takes time to implement the

recommendations and because monitoring must begin. Advisors spend an average of 34.5 hours in the planning process in the first year.

Given the time-consuming nature of the planning process, the median cost of a stand-alone plan is \$2,225. At a median time to construct and deliver of 10 hours, that amounts to a typical professional rate of \$223 per hour.

The planning process is so time-consuming that the median cost of a stand-alone plan is \$2,225. What's more, the time it takes to deliver a plan limits the number of clients an advisor can serve.

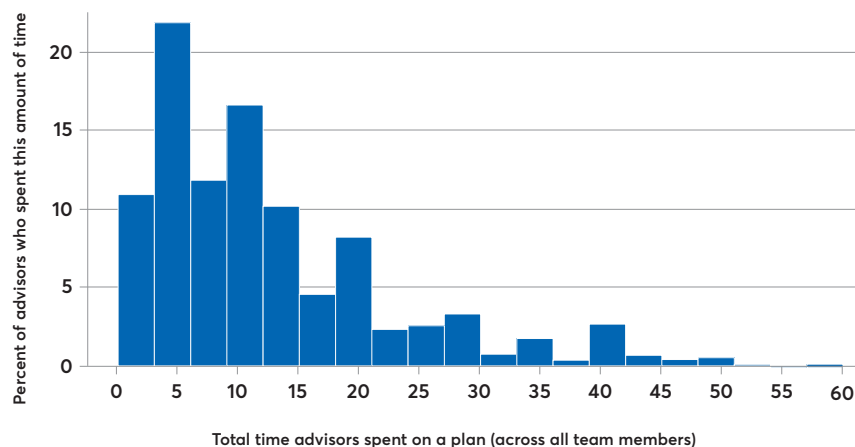
What's more, the time it takes to deliver a comprehensive plan limits the number of clients an advisor can serve.

After all, in a typical 2,000-hour work year, an advisor needs to spend at least one-quarter of the time on professional development and managing the business.

There simply wouldn't be the capacity to take on more than about 40 new clients, which would equate to roughly three per month — and that's with no other clients to serve. In reality, the advisor might not have the capacity to take on more than one or two new clients a month.

Accordingly, there has been a growing demand for planning software solutions that ease this investment of time. For planners, it's a matter of advisor productivity and capacity to construct and deliver plans more efficiently. For advisors who already

Time Spent on Producing a Financial Plan



Source: How Financial Planners Actually Do Financial Planning, Michael Kitces, 2018

Special Report: Tech Survey

have a book of clients, it's often not feasible to do time-consuming planning at all.

The Software Effect

Technology can bring great efficiency to repeatable, scalable processes, but it's not clear that planning software actually saves advisors much time.

Of the seven steps defined by the CFP Board, more than half pertain to client-facing meetings and activities — things that technology alone would struggle to replace, expedite or improve upon.

That's not to say individual parts of the process cannot be made better with technology. Data gathering might occur via account aggregation technology instead of asking the client how much they have in each account.

The more personal aspects of establishing the relationship — like delving into more qualitative goals and the entire goals discovery process itself, presenting the plan, implementing the plan and sustaining client involvement — needs human involvement.

This work typically requires three upfront in-person meetings as well as implementation and client monitoring and review meetings. Technology can't

do much to improve on this.

While a subset of self-directed consumers might use technology to do all of this themselves, the point of hiring an advisor is to have a professional to guide and support them.

In fact, arguably the only stages that can be materially impacted by technology efficiency are the analysis and recommendation stages, where all the number crunching occurs.

This means even if better technology saved advisors half the time of the analysis and recommendations stage and a quarter of the time for the data gathering phase, it would still be a 28-hour planning process in the first year, down from 34.5 hours. That is an improvement, but planning would remain a time-consuming process.

Feeling The Impact

Realizing time savings in client interactions, meanwhile, is contingent on how quickly clients absorb information and advice, how receptive they are to changing their outlooks and attitudes, and how willing they are to implement recommendations.

Time savings of any kind would be welcome of course, yet it turns out that advisors don't necessarily save time

with planning software.

The average advisory firm preparing a plan using third-party software spends anywhere from 11.7 hours (Advizr) to 15.6 hours (eMoney Advisor) to a high of 17.2 hours (RightCapital).

These are non-trivial differences, which suggest there are material differences in the depth and time efficiency of various planning software tools. Yet notably, the most time-consuming advisor software has the highest user satisfaction ratings.

In fact, we found that comprehensiveness, customizability, interactivity and the ability to present information in a polished manner were the factors that most directly correlated to each planning software platform's user satisfaction rating. Ease of use and simplicity ranked at the bottom.

With the growth of account aggregation software, it would seem that data gathering would be expedited. Yet our research showed the opposite to be true. Advisors who use such tools to automate their data gathering spend more time in the gathering phase. That's because automating aggregation allows planners to go deeper in the more enriching, qualitatively driven goal discussions with clients.

This tendency suggests that good software doesn't make advisors faster and more productive. Instead, it makes them better at their jobs.

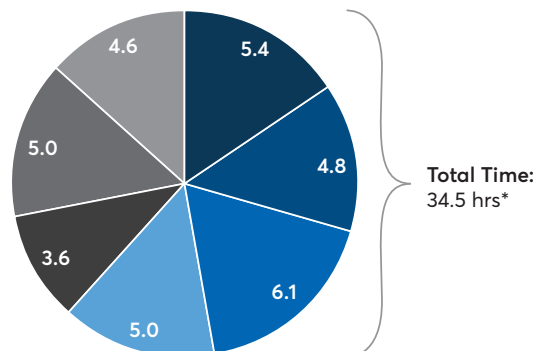
Better, Not Faster

The significance of the fact that planning software makes advisors better but not faster is twofold.

First, it suggests that an effort in the broker-dealer community to develop simpler and easier planning tools is destined to fail. To the extent that brokers don't want to use planning software because planning itself is too time-consuming, software alone doesn't

Hours Spent on the Planning Process In the First Year

- Establish relationship
- Gather data
- Analyze data
- Develop recommendation
- Present plan
- Implement plan
- Monitor plan



*Time for the full advisory team to do financial planning in the first full year.
Source: How Financial Planners Actually Do Financial Planning, Michael Kitces, 2018

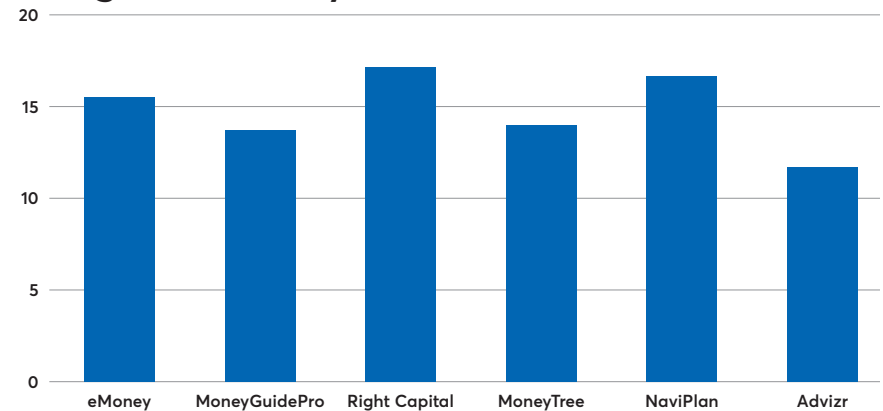
appear capable of closing this gap. After all, as noted, even software that reduces the time it takes to create a plan by 50% reduces the overall time of the process by only about 20%.

Second, advisors tend to reinvest time saved in the initial data gathering to go even deeper, not faster. It turns out that the biggest constraint to doing planning more expediently may not be software at all, but broker training. While the data shows advisors who use planning software tend to go deeper with the technology, having CFP certification is the single greatest determinant of being able to realize time savings in the planning process.

CFP certification actually seems to create time savings and enhanced productivity for the advisor team. This effect appears to be driven in large part by the fact that the more knowledgeable CFP certificant doesn't need to rely so heavily on staff support in executing the planning process, precisely because they feel equipped to resolve issues on the spot.

Furthermore, as advisors become more experienced, they also become more efficient. The experienced CFP with 20-plus years of experience gets

Hours Spent Creating a Financial Plan Using Third-Party Software



Source: How Financial Planners Actually Do Financial Planning, Michael Kitces, 2018

through the first-year planning process in only 29 hours, but an experienced non-CFP takes 52 hours on average.

The other significant implication is that recent efforts from the leading software companies to go down-market into simpler planning software — like eMoney Advisor's Foundational Planning and MoneyGuidePro's new MoneyGuideOne — may be missing the true opportunity in the space, which is to go upmarket into more comprehensive planning software solutions.

The wish-list items of surveyed advisors skewed toward greater

comprehensiveness, more depth and more tools for modeling complex situations interactively with clients. But simplicity isn't even a top 10 request.

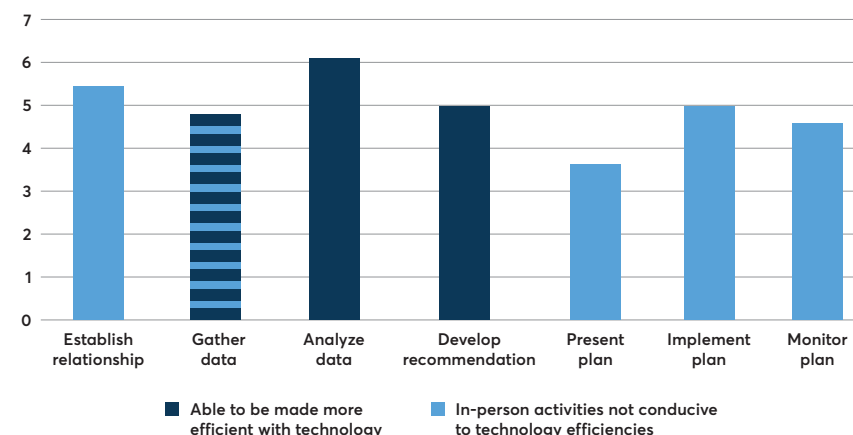
This means in the end that firms struggling with planning software adoption are trying to solve with technology what is actually a human capital and advisor training problem. The ultimate solution lies in incentivizing brokers to get CFP certification and in adopting a more planning-centric approach.

Software companies are neglecting wholesale how real planners use their software — that is, to go deeper and demonstrate their value.

The key point is simply to recognize that as the technological tools become more and more capable, the ultimate value proposition of planning software technology is not to make advisors faster and more productive per se, but rather to help make advisors better. **FP**

Michael Kitces, CFP, a Financial Planning contributing writer, is a partner and director of wealth management at Pinnacle Advisory Group in Columbia, Maryland; co-founder of the XY Planning Network and AdvicePay; and publisher of the planning blog *Nerd's Eye View*. Follow him on Twitter at @MichaelKitces.

What Technology Can Make More Efficient



Source: How Financial Planners Actually Do Financial Planning, Michael Kitces, 2018

Even in Advertising, Digital Advisors Face Uphill Battle

Personal Capital is the latest digital-first firm to spend on TV and magazine ads.

By Sean Allocca



Marketing is one of the largest spends for wealth management firms. In 2019, 13% of firms said they'd boost spending on digital advertising, according to a Broadridge study.

Born out of the financial crisis, digital-first independents have cultivated messaging that presents them as modern and more transparent alternatives to Wall Street.

They're now increasingly taking that tack to mainstream advertising, as incumbents have managed to either match or pull ahead on pricing, features and assets under management.

Independents say such messaging is one of the levers they still can pull in their favor as they fight for client awareness and assets, even though they acknowledge incumbents' ad budgets are much larger.

"We're never going to outspend the Vanguards or the Schwabs," says Porter Gale, Personal Capital's chief marketing

officer. "We just have to be smarter and more creative."

Digital wealth manager Personal Capital launched a marketing campaign aimed at reshaping the firm's image, across a range of media including print, television, online and social media. The national campaign, along with focused strategies in Seattle and Denver, includes ads in magazines such as *The Economist* and *The New Yorker*, and emphasizes the firm's access to human advisors.

The campaign is an attempt to challenge some of the larger incumbents that have entered the marketplace in recent years — and taken on significant assets in the process.

Vanguard's Personal Advisor Services

and Schwab's Intelligent Portfolios, for example, have amassed \$115 billion and \$34 billion in assets, respectively, and also offer access to human advisors.

"Yes, we're challenging the legacy players in wealth management," Gale says. "The research showed that we are perceived as just the tools and technology. What is not getting recognized is that we have really amazing advisors as well."

**"We're challenging the legacy players in wealth management."
—Porter Gale, Personal Capital**

Personal Capital reached the \$10 billion milestone in July — adding \$2 billion in assets since the beginning of the year.

The launch came after a fresh injection of \$50 million in capital in February, which was when the firm first hired Gale, the former vice president of marketing at Virgin America.

The Redwood Shores, California-based firm also announced Fidelity Investment's former CMO, James Burton, will join its executive ranks.

The Ultimate Goal

"The ultimate goal is to become a household name," Gale says. "Other players are trying to bring tools to the marketplace. We've been doing it for over 10 years."

Breaking through in advertising will be a challenge, though.

For comparison, Fisher Investments

— which took serious criticism for remarks its founder Ken Fisher made at an industry conference — is well-known for its exuberant spend on marketing. Fisher has said the company spends around 6% of revenue on marketing, more than triple the industry average.

The Personal Capital TV spots have had 775 national airings since September, according to iSpot.tv, a website that tracks television commercial metrics.

The total estimated spend on the placement of the ads was approximately \$211,150.

A recent Fisher Investments ad cost an estimated \$45 million over almost 14,000 airings over a four-year span, according to iSpot.tv data.

That's almost equivalent to Personal Capital's \$50 million capital raise earlier this year.

A Large Spend

Marketing is one of the largest spends for wealth management firms, according to a 2019 survey by Broadridge. Out of the 406 advisory firms surveyed, the plurality planned to spend more on social media (19%), in webinars (14%) and in digital media advertising (13%).

Almost one in 10 advisors planned to hire new in-house marketing staff.



Personal Capital's CMO Porter Gale says the goal is for the firm to become a household name.

"Branding and marketing is extremely critical in growing market share in the investment advice business," says Bill Winterberg, founder of the fintech blog FPPad.

"The challenge for Personal Capital is that, even after 10 years of being in business, the company's brand awareness is significantly smaller than the industry incumbents," he adds.

To keep up with the crowded digital advice space, Personal Capital launched a high-yield savings account.

In a similar move, earlier this year Betterment launched a national ad campaign headlined by TV spots featuring Maggie Siff, actress on the hit Showtime series "Billions," that aired in prominent spots during the U.S. Open tennis championship. Betterment did not comment on the cost of the campaign at the time.

The Achilles' Heel

Marketing has been the Achilles' heel for most digital wealth managers, says Will Trout, a senior analyst for Celent. Firms can spend on TV and print ads, and on social media impressions, he says, but eventually all businesses need to show a pathway to profitability.

"The new branding and marketing is attractive, but won't move the needle in itself," says Trout. "The economics of the standalone robo model in whatever form are just too tough."

Personal Capital does have one of the most popular affiliate marketing programs among financial services firms, according to a number of current and former industry bloggers.

The program taps paid bloggers to direct prospective clients to free financial tools on the firm's website. Personal Capital then hopes to upsell

those customers with premium services.

Wealthfront was among the first of two robos to settle an enforcement action with the SEC, in part for failing to fully disclose that it paid for referrals.

However, Personal Capital may be able to differentiate itself from competitors without utilizing digital marketing campaigns, Winterberg says. Specifically, the digital hybrid advisor has more options to allocate customer portfolio holdings than other incumbents, and offers a more modern, digital experience to clients.

A Crowded Space

To keep up with the crowded digital advice space, Personal Capital launched in June a high-yield savings account, as well as a tool for savings and planning.

Robos such as Betterment and Wealthfront have looked to high-yield accounts to draw in cash — though recent Fed rate cuts have upped pressure on firms to cut yields they had been touting to consumers.

In addition, the hybrid digital advisor also launched a tool designed to guide clients' financial choices and aggregate client accounts.

The software connects directly to clients' bank accounts, including Personal Capital Cash, and is free to all consumers on the firm's website.

Personal Capital now has more than 2 million users who hold over \$41 billion in cash or money market accounts on its platform, and over 150 advisors who manage those accounts, according to the firm.

After a decade in the digital advice space, Personal Capital will need to commit to reinventing itself, Gale says.

"It's essential to demonstrate that we know the importance of the 'personal' in our name and that we're here to help," she says. **FP**

Sean Allocca is an associate editor of Financial Planning. Follow him on Twitter at @sjallocca.

Get the Most From Tech Vendors

When attending a conference, there are 4 rules for pinning down what your firm needs.

By **Wes Stillman**

The tech vendors lining the exhibit halls at RIA industry conferences have valuable information to impart. But without the right approach, advisors can come away more confused about their firm's tech needs than when they started.

Here are four rules for advisors to help find the right tools — while fighting information overload.

1. Don't let the tail wag the dog. The twin goals of improving efficiency and facilitating client engagement should drive the firm's tech choices — fear of regulation and cybersecurity breaches should not.

That's because the right platform can weave together a firm's technology with a flexible cybersecurity layer that rests atop the RIA's operating environment, shielding the entire operating environment and interactions with the firm's tech vendors.

That layer of cybersecurity means you only need to log in once to move

between platforms within the firm's operating environment. It eliminates the need for separate logins and passwords to access the CRM system, another for the portfolio management system, and so on.

2. If the conversation feels familiar, move on. IT departments of former employers may have stifled advisors' attempts to work a certain way. Fortunately, independent RIAs no longer have to conform to preexisting protocols. Instead they can construct a technology environment that suits how they want to work.

For example, with a flexible cybersecurity umbrella in place, an RIA can be set up to share files, work remotely, use personal devices and more.

The RIA's tech environment can be flexible enough to support all of this, and still implement best practices for cybersecurity compliance and meet regulatory requirements.

3. No two firms "tech" the same way.

Most RIAs have a CRM, a portfolio management system and financial planning software. But all firms do not use these things in the same way. Some RIAs build their entire business around the CRM, others use it as a giant Rolodex and not much else. The same goes for portfolio management software. Advisory firms with an emphasis on tax planning use financial planning software very differently than firms that focus on other areas.

Realistically assessing whether an offering can support an RIA's operations will avoid ending up with tech that does not work for your firm.

4. Get granular. When evaluating new technology, advisors need to ask for details about how an application or service works. Questions like: Can this work with my personal devices, my PC and a virtual environment? How will all of these things be secured? Does everyone at the firm need to use firm-owned devices only or can they access and manage firm applications from personal, non-managed devices? Ask risk management questions, too: if my device is lost, stolen, damaged or dies, can I still work? How will I access my data? Will clients be protected?

Vendors may not offer solutions that make sense for an RIA.

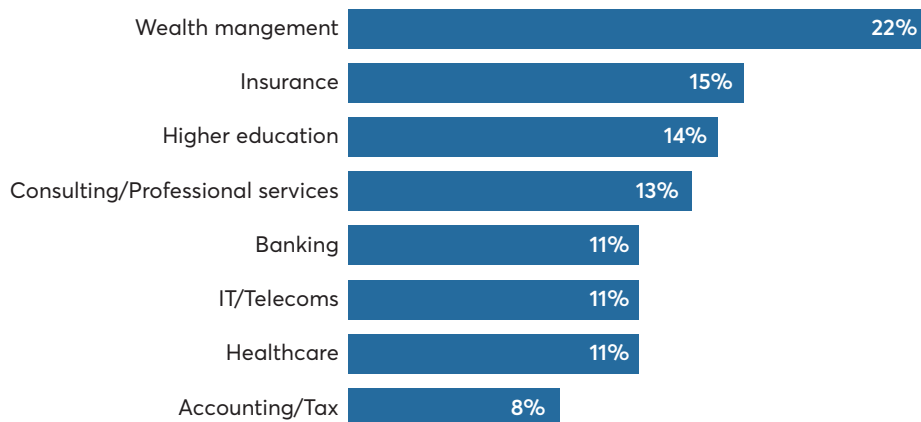
Most importantly, advisors must be clear on what they want to do with their firms going into the conversation — or risk having technology vendors define this for them. **FP**



Attendees of *Financial Planning's In|Vest* conference in New York receive a tech demonstration.

Wes Stillman is the CEO of Lenexa, Kansas-based RightSize Solutions.

Prevalence of Sexual Harassment by Industry Sector



Source: SourceMedia research, 2018

Breaking the Culture Of Sexual Harassment

Two incidents brought predatory behavior into focus and sparked change at XYPN.

By Ann Marsh

Mary Carroll strolled past tables of revelers as the Barenaked Ladies delivered a staccato jam on stage at TD Ameritrade's National LINC conference for advisors in 2016. Frosted plastic balls filled with LED lights glowed in the dark, changing the colors of table centerpieces. Carroll, who now works for advisor billing firm AdvicePay, leaned in for a closer look at one.

As she did, the man she'd been dating for three months, Alan Moore, co-founder of XY Planning Network, was threading his way toward her through the crowd from the bar, carrying their drinks, one in each hand.

As Moore approached, a man came up behind Carroll and placed his hand just above her behind. The back of her hot pink shirt separated into a split seam that formed the shape of an inverted V.

"He proceeded to put his hand all the way up to her bra strap ... on her bare skin under her shirt," Moore says.

"We both totally froze," she says.

"I'm embarrassed to say it," Moore says, but "I didn't know what to do. I was standing in a conference where I was an exhibitor, wearing an XYPN T-shirt. Could I throw a drink on him? Hit him?"

Overreacting risked making a bad impression on Carroll and might have gotten him evicted from the conference. "It would not have been a good look for a new boyfriend," Moore says.

Thoughts along these lines raced through both of their minds. As the man attempted to engage Carroll in conversation, she stepped to the side and walked away with Moore. They never learned his identity.

"I ended up doing nothing," Moore says. "I still am not sure if that was the right decision."

The evening — and an earlier, far more serious alleged assault Carroll eventually confided to Moore — galvanized not only Moore, but also the company he founded with Michael Kitces, to try to curtail sexual predation in the industry. The next year, during their keynote talk at their annual conference, the co-founders announced a strict policy to counteract sexual harassment and discriminatory behavior at its events. They have mentioned it in their keynotes in the two years since.

Last year, the Financial Planning Association and eMoney adopted policies to counter the problem. Upon learning of Carroll's experience, TD Ameritrade said it's reviewing its event communications. "We've always had strong rules," TD spokesman

Practice

Joseph Giannone says. "What we intend to do is to better communicate those rules to attendees so there is no mistake what is permissible."

This is the kind of change Sonya Dreizler, an investment consultant to financial firms, and Carroll, who married Alan Moore and is now known by her married name Mary Moore, say is needed to catalyze a cultural shift in the profession.

To that end, Dreizler has collected more than 40 stories from people, including Mary Moore, in an ongoing series titled "Do Better." The stories run the gamut from women who've experienced sexual assault to others who recount being on the receiving end of demeaning comments about their gender, and still others who believe their employers, intentionally or not, failed to recognize or promote them because they are women.

"I'm writing [the stories] for people to read them and understand them and sit with them," says Dreizler, adding that the series includes some of her own experiences.

The series doesn't identify any alleged predators, nor any of the storytellers, though some later identified themselves as contributing writers.

A third of women in a broad-based SourceMedia survey last year reported a



"I'm to the point where I don't take any responsibility for what happened," says Mary Moore, of AdvicePay, of a sexual assault she says began while she was sleeping.

high prevalence of sexual misconduct in the wealth management industry. The survey, which also covered workers in many white-collar industries, found the highest such reports in financial services.

After Dreizler's series launched this month, Moore decided to post on Facebook that she had authored one of the accounts.

A third of women in a SourceMedia survey noted a high prevalence of sexual misconduct in wealth management.

"This is how we will break the culture of sexual harassment," says Moore about why she is going public regarding the two incidents she says she experienced, one at the conference and one at a unrelated party earlier on that was attended by people in the industry.

At that party, Mary Moore fell asleep on a couch after having a couple of strong drinks. She says she awoke to find a man on top of her, her underwear pushed aside and his fingers inside of her. "I sat straight up and moved backwards," she says. "That was when he stopped. ... He mumbled, 'Sorry,' and ran from the room."

In The Wake Of #MeToo

Going public with both incidents came out of a long-fought and deeply personal awakening, as Moore describes it, one that many other women throughout the country, and the world, are undergoing in the wake of the #MeToo movement.

Mary Moore's personal evolution from target of predation to outspoken advocate mirrors the kind of change that voices like Dreizler's are calling for: They want blame placed where it belongs, on the shoulders of the predators, and lifted off the targets of abuse, where it often lands.

To do so, individuals and companies need to wake up to the pervasiveness

of the problem, Dreizler and Mary Moore believe. Of paramount importance is listening to those who've experienced sexual assault and taking them seriously, they say.

People who encounter negative responses, including outright disbelief, when they recount abuse are at heightened risk for developing post-traumatic stress disorder and other health risks, according to a 2018 study by the National Institutes of Health.

The same night as the alleged assault as she slept on the couch, Moore sought out another woman in the industry and told her what had just happened. "Oh, he wouldn't do that," she recalls the woman saying, before adding that the man had a longtime girlfriend. "She just totally brushed it off."

After that, Moore says, "I basically shut off" about the alleged assault. But her attempt to put the incident behind her, without facing and reckoning with its impact, set up an internal conflict.

"I experienced so many emotions," she says. "I blamed myself with it all: If I wouldn't have had a drink at that party. If I wouldn't have decided to stay. If I had decided to go home. If I wasn't so stupid. I was just blaming myself about what happened."

Months later, she and Alan Moore began dating. Over a year elapsed before she told him about that night. When she did, she brought the subject up as if she expected to be disbelieved. She got a very different reaction.

"He was mad for me. He was sad for me," she says. "I felt so heard that what happened to me was awful [after] the first person I told totally dismissed it. ... That was when I started to accept and not take blame for it."

Mary Moore, who around that time had begun seeing a therapist, had yet to bring up the experience in her sessions, a not-uncommon phenomenon among sexual assault victims

determined to leave the past behind them. Now, as she began to revisit that night in a therapeutic setting, she saw what happened in an entirely new light.

"I'm to the point where I don't take any responsibility for what happened," she says. "I had been asleep, so there is no way I was consenting to that in any way."

In the immediate wake of her subsequent encounter at the conference, her knee-jerk response was to blame herself in that instance as well.

"I said to Alan, 'I should never have worn this shirt to this convention,'" she recalls now.

"You should be able to wear anything you want," Moore says she recalls him replying.

XY maintains an explanatory page online regarding safety and security at its events. "Need help?" the page asks. "Complete the form on this page and an XYPN representative will respond with urgency."

The page details behavior the company deems to be harassment, including unwanted sexual attention; offensive comments about gender, gender identity and expression; sexual images in public spaces and stalking. The network reserves the right to expel attendees, including sponsors, in

response, without refunds. It encourages people to call 911 when warranted.

"Remember alcohol is not an excuse!" the page says.

Many firms that hold industry conferences, including Schwab, Morningstar, Pershing and Fidelity, have harassment policies. But none said they have an online form conference attendees can use to report alleged abuse.

"I blamed myself with it all: If I wouldn't have had a drink at that party. If I wouldn't have decided to stay." —Mary Moore

A spokesman for TD Ameritrade said the company had been unaware of Moore's experience four years ago.

"TD Ameritrade does not tolerate or condone this behavior, which is contrary to our core values and what we stand for," spokesman Giannone says. "The safety and security of our event guests is top priority. We're going to take this opportunity to review our event communications to ensure we send a strong message about our policies and expectations."

Dreizler says two other major conference organizers, neither of which she was at liberty to identify, have said they are considering new policies.

That people are paying attention to their stories — amid media coverage, Twitter conversations and people contacting them directly to share their experiences — is a relief to Dreizler and Mary Moore.

Both of them overcame their own strong reluctance to speak publicly.

"One of the reasons it's taken me so long to put it out is fear on my part," Dreizler says. "One is fear of negative backlash, personal and professional, and the other fear is that I would be yelling into the void and that nobody would care. Or the only people who would care are the victims."

Dreizler happened to attend the Tiburon CEO Summit earlier this month when Ken Fisher, founder of Fisher Investments, made crass remarks about women from the main stage that have been widely criticized and ultimately hurt Fisher's business.

She was among the attendees who broke the conference's confidentiality clause and publicized what they heard.

Dreizler says she no longer wants to talk about Fisher; instead, she wants to give people like Moore the floor. "Women want to be heard," she says.

The planner and *New York Times* contributor Carl Richards echoed that theme on Twitter, urging people to ask women about their experiences in the industry and to take the time to hear them out: "There is a TON of pain out there."

When she learned she was pregnant with her daughter, Ada, in November 2017, Moore's pain rose up again.

As her pregnancy continued, the jumble of her conflicting emotions hardened into resolve.

"I was thinking about all the ways I could protect my kids," Moore says. "I started wanting to share my story." **FP**

Ann Marsh is a senior editor and the West Coast bureau chief of Financial Planning. Follow her on Twitter at @Ann_Marsh.



Sonya Dreizler on a panel at Tiburon CEO Summit, with Ethic Investment cofounder Jay Lipman.

Vanguard Without Bogle

Worries about the proliferation of new funds are high among Bogleheads.

By Allan S. Roth

The question isn't whether Vanguard will change without its founder, the late John Bogle, but rather how it will change. "I always felt Jack acted as a check on management's behavior," wrote Jonathan Clements, a former *Financial Planning* columnist, on his blog HumbleDollar. "With his death, that check is no longer there."

Since 1996, when Bogle stepped down as CEO, Vanguard has launched ETFs and many new funds. These include target-date retirement funds, introduced in 2003, which provide balanced, diversified portfolios to millions of retirement plan participants.

"Vanguard will continue to innovate and disrupt the financial services industry," Rebecca Katz, head of corporate communications, said at the 2019 gathering of Bogleheads in October. She added that Vanguard would be investing in client experiences

and advice, referring to Vanguard Personal Advisory Services.

Yet I don't view this as a threat to advisors. I happen to embrace low-cost advice from Vanguard and other low-cost robo and hybrid advisors because low fees are good for consumers. I think good advisors should not be worried, since much good advice cannot be replicated via technology.

Bogleheads and other industry watchers have worried Vanguard will veer away from being owned by clients. Indeed, Matthew Brancato, a principal and global head of the portfolio review department, was asked at the gathering whether Vanguard will demutualize. It's a valid concern. You need look no further than Prudential Insurance, once a mutual owned by its policyholders and now a publicly owned company.

Many of us were relieved when he answered the question no. In my opinion, being client-owned is the best way to stay client-focused.

One common Bogleheads' concern is the proliferation of new funds. In fact, Brancato read aloud from an index card handed to him on stage asking what Bogle would have thought about the new Vanguard Commodity Strategy Fund (VCMDX), which was launched on June 25.

Brancato acknowledged an interview where Bogle said no to commodities, but he noted the fund is a commodities

futures fund, not a commodities fund. I don't think anyone thought Vanguard was building storage tanks for commodities like oil or corn.

Here's what Brancato left out: In the aggregate and before costs, not a penny has ever been made in the futures market. To be fair, it is possible to collect a premium by going long on futures, as insurers do.

And he didn't note that the index the fund uses as a benchmark, the Bloomberg commodities index, had a negative 4.32% annual return in the 10 years ended Sept. 30, 2019. At least Vanguard didn't launch the fund when commodities were hot.

There are some signs of client discontent. Many Vanguard Flagship clients (over \$1 million in assets) are upset that they are no longer assigned an individual representative and that this year the firm eliminated the Vanguard Advantage cash management banking features. Only about 2% of clients who qualified for such an account had one, and only about half of those used it actively, Katz noted.

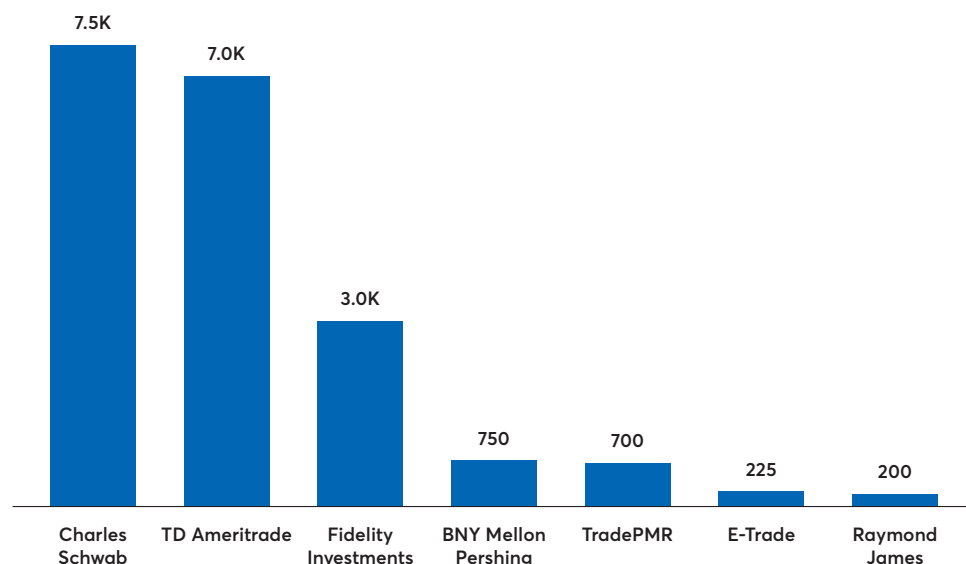
Vanguard now has fierce competition with low- or no-cost funds and no commission trades, she said, adding, "that's a good thing because it's all about the investor." That perfectly encapsulates the Bogle culture. We should embrace that what is good for our clients is also good for us as advisors. **FP**



Since the death of Vanguard founder John Bogle, some have worried about the firm's direction.

Allan S. Roth, a Financial Planning contributing writer, is founder of the planning firm Wealth Logic in Colorado Springs, Colorado. He is a board member of the John C. Bogle Center for Financial Literacy and writes for AARP the Magazine. He's also taught investing at three universities. Follow him on Twitter at @Dull_Investing.

Number of RIA Clients at Custodians



Source: Company data, 2019

Tackling Transparency for \$1

Startup custodian Altruist looks to compete with established, multitrillion-dollar players through automation and disclosures.

By Jessica Mathews

Jason Wenk built a \$2 billion RIA. Now he wants to reshape the custodial marketplace with a new startup that takes aim at conflicts of interest and automation.

Can he pull it off?

"Our thoughts were: What would be the right way to do this, and can we make that work from a business model perspective?" Wenk says of his custodian, Altruist.

He's leaning, in part, on his experience founding the RIA, Retirement Wealth Advisors, as well as FormulaFolios Investments, a \$3.2 million robo advisor for independent planners. But with his new venture, he's going

up against a different kind of competition. Whereas the fragmented advisory marketplace is filled with thousands of small firms, the custodial business is dominated by a few multitrillion-dollar titans.

Charles Schwab and TD Ameritrade Institutional each house the assets of over 7,000 RIAs. BNY Mellon Pershing and Fidelity Investments also dominate the independent space, not to mention numerous smaller players like Raymond James or TradePMR.

"I suspect smaller RIAs will welcome competition, but the incumbents offer a lot more than just custody and trading services,

and they've been doing this a long time," says Tyler Gellasch, executive director of Healthy Markets Association, a nonprofit that promotes market structure reform.

Wenk sees an opportunity to level the playing field for small advisors, who lose out on many benefits their larger peers enjoy. For example, in exchange for keeping assets on their platforms, custodians provide billion-dollar RIAs with hundreds of thousands of dollars to spend on their tech stack, Wenk says. Large RIAs can also leverage their size when negotiating with vendors.

"If you're a \$50 million state-registered RIA, not only are you not getting soft dollars, but when you go to hire your tech vendors, you're probably not even getting discounts," Wenk says.

Altruist, which will clear through DriveWealth, offers commission-free trading for equity, ETFs and mutual funds, custody services and a proprietary tech stack spanning everything from two-minute account opening to billing and performance reporting systems. (Altruist isn't building its own financial planning software or CRM.)

Advisors will pay \$1 a month per account for all of this. The first 100 accounts are free.

While it's the technology and user experience Wenk expects to stand out to

Practice

advisors, the “right way,” he says, is sending best execution reports, laying out mutual fund revenue sharing agreements, keeping cash balances low through fractional shares and avoiding soft dollars.

“There will never be a way that you could buy something and not know that we get paid for it,” he says, noting that this will end up costing Altruist approximately a 66% revenue cut off the top. To “make the math work,” he says, he’s banking on a high degree of automation to keep expenses low.

Skeptics of the new entrant’s lofty goals question whether Altruist can provide efficiencies that are unique in the field.

“Thousands of physics and engineering Ph.D.s have spent decades trying to save fractions of seconds and fractions of pennies,” Gellasch says. “It’s going to be extraordinarily challenging for any new entrant to be doing that in a materially more efficient way.”

“All custodians look for opportunities to leverage automation where they can,” wrote a Fidelity Investments spokeswoman in an email.



Altruist’s Jason Wenk sees an opportunity to level the playing field for small advisors.

RBC Correspondent Services, which services approximately 500 RIAs, according to an Aite Group custody report, has already figured out a way to keep costs down. It launched RBC Black in 2017, a platform with deep integrations into Redtail, CircleBlack, MoneyGuidePro, Riskalyze and VestMark-ONE. The platform costs \$175 per advisor a month, per the report.

**“There will never be a way that you could buy something and not know that we get paid for it.”
—Altruist’s Jason Wenk**

“I think there’s always room for innovative players to step into a crowded market and introduce new technology and economics,” says Greg O’Gara, who researches RIA custodians at Aite Group.

Altruist has gained early traction. Wenk’s goal was to have 50 advisors collectively managing \$1 billion in assets on their platform by the end of this year. The firm currently has about \$2 billion in assets on its beta platform and over 300 RIAs in its queue to be onboarded after launch. The company raised \$8.5 million in Series A funding in September, according to Crunchbase.

Wenk aims to differentiate his firm’s disclosures by making them more thorough and digestible for both advisors and clients.

“[How custodians make money is] disclosed — no one’s lying to anybody — but again, if we’re being very transparent, the majority of clients aren’t reading those items in detail. And I would say a good portion of advisors aren’t spending a lot of their time and attention combing through these little nuances of how custody works,” Wenk says.

While Altruist isn’t charging commissions for trading on ETF and equities — fees that have recently been dropped by many retail brokerages — it also won’t charge them on mutual funds.

Because NTF platforms are filled with share classes ripe with 12b-1 fees, these platforms can end up being more expensive for the client, even though they may sound cheaper to advisors and be more lucrative for the custodian, Wenk says. By eliminating those platforms, Wenk hopes to make it easier to compare client costs.

Indeed, Altruist accepts revenue sharing from asset managers, Wenk says, but it will publish a list of who these asset managers are and how much they are paying Altruist. This information will come up when advisors select funds on the custodian’s portfolio builder, he says.

In addition to the execution form required by the SEC under Rule 606, Altruist will send advisors its own quarterly best execution report, Wenk says, adding that the company is still filling out details of what will be included.

In terms of cash, Altruist will allow advisors to buy fractional shares of both ETFs and mutual funds for clients, so clients can keep less money in cash.

Altruist will have a default sweep option at a rate of approximately 0.50%. Money market funds will not be a default option, but will be available for advisors to use when constructing portfolios, Wenk says.

Depending on how these plans are executed, O’Gara says transparency could be a way for Altruist to stand out.

Gellasch is skeptical as to whether Altruist will be more transparent than existing competitors, but he welcomes the effort.

“There isn’t a lot of cost transparency now, so we would welcome greater disclosures of not just conflicts of interest and order routing incentives, but also things like execution quality,” he says. **FP**

Jessica Mathews is an associate editor of Financial Planning. Follow her on Twitter at [@jessicamathews](https://twitter.com/jessicamathews).

A Path to Disclosure

CFPs at Northwestern Mutual have a template to follow in explaining their conflicts of interest to planning clients.

By Tobias Salinger

This conversation could get awkward.

More than 1,000 CFPs affiliated with Northwestern Mutual have to make their conflicts of interest clear and explain how they manage them in clients' best interests.

The insurer and broker-dealer has created a disclosure document intended to comply with the CFP Board's new code of ethics and standards of conduct. In the document, advisors tell planning clients outright that they're incentivized to "sell Northwestern Mutual insurance products to a client often" — and for the highest possible commissions.

CFPs at Northwestern also have an interest in selling permanent life insurance with higher initial premiums than term products. They're encouraged "to sell more expensive products and services to you which will have the effect of increasing my compensation," the document states. They can be paid on an ongoing basis for selling a

Northwestern variable annuity in a brokerage account with less than \$50,000, but not for selling a mutual fund, the brochure says.

"I know that in the long run, I will benefit most by serving you well," it says later. "Your interests and my interests align in this respect because I rely heavily on the referrals I receive from satisfied clients. This in itself helps to mitigate the material conflicts of interest described above."

Financial Planning obtained the remarkable eight-page template, titled "my commitment to you as a CFP professional." The traditional brokerage and insurance incentives don't stand out as much as the firm's "sincere effort to explain those conflicts clearly," says Barbara Roper, director of investor protection for the Consumer Federation of America.

"I've read a lot of these types of documents over the years, and this is clearer than

most," she said in an email.

The brochure lays bare every form of compensation, each conflict relating to insurance and investment product sales and Northwestern's explanation of how its advisors manage the conflicts. CFPs can alter the template with the firm's approval before distributing it to clients.

"Some Northwestern advisors have customized the template, while others will use it as is," says spokeswoman Betsy Hoylman.

Northwestern CFPs inform their planning clients that they are incentivized "to sell more expensive products and services to you."

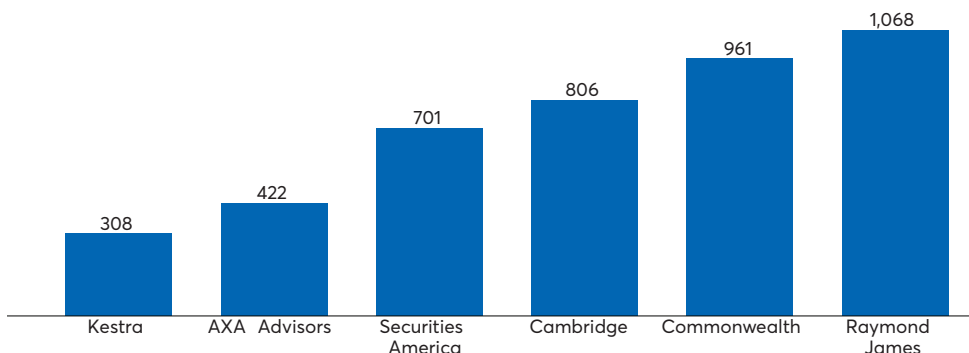
"Northwestern Mutual advisors build lifetime client relationships based on trust," Hoylman said in an email. The template provides "transparent disclosure language they can use with clients to further strengthen these relationships," she says.

Tens of thousands of CFPs affiliated with BDs are grappling with changes after the new rules went into effect on Oct. 1. The advisors will become subject to CFP Board enforcement in July.

In a public comment last year calling for delaying the standards, eight giant BDs — including three wirehouses, LPL Financial and Edward Jones — noted they then

The IBDs with the Most Reported CFPs

But nearly half of IBD firms don't disclose their CFP numbers.



Source: Company data

had some 18,200 CFPs.

The template is a byproduct of negotiations with the issuing organization for planning's most respected certification, held by 85,000 CFPs. In the summer, the CFP Board delayed the enforcement date nine months.

The CFP Board's rules go further than the SEC's Regulation Best Interest — which is now on a similar implementation timeline — by imposing a fiduciary duty on all financial advice. The new requirements prompted questions as to whether BDs would shun the mark altogether.

The board believes that the rules are "a workable framework for any CFP professional," says General Counsel Leo Rydzewski. "Even those who operate in a fee-only environment have conflicts of interest that they also have to disclose and manage."

CFPs can disclose conflicts orally when providing advice that isn't planning-related, but planning clients must receive them in writing, he notes. Much of the information listed in the CFP Board's roadmap guide for compliance already appears in other documents like SEC Form ADV.

Other disclosures can run up to hundreds of pages longer than the template, though, and they use much more dense legalese and jargon. Some conflicts described in the document would apply to nearly any BD, while

others — such as a prohibition on fixed index annuities — are more unique to Northwestern. Cash sweeps, revenue sharing, 12b-1 fees, sales loads and other commissions remain widespread.

Besides commissions for selling Northwestern products, the firm's representatives earn cash bonuses based on production, credits and subsidies toward retirement and health care benefits, training allowances, awards, travel, gifts, prizes and other forms of compensation.

One fiduciary stalwart gives the CFP Board some credit: "Time will tell. But at least they've set the bar at the right level."

Northwestern insurance commissions can amount to as much as 55% of the first-year premium of a policy or contract for life, disability, long-term care insurance or annuities. Renewal commissions, persistency fees and service fees may also figure in the mix.

Insurance sales relate to compensation for investment advice and planning. The investment product compensation grid gives higher pay to representatives selling Northwestern insurance, and each must meet minimum insurance production requirements.

Northwestern manages this conflict by limiting "virtually all compensation increases based on production" to 5%

or less and paying the rep each year based on the previous year's revenue, the brochure states. Bonus programs also focus on long-term production and proportional pay.

"Specific programs within Northwestern Mutual's compensation for insurance products were designed intentionally to minimize compensation that could incent sales behavior that is in material conflict with a client's best interest," the brochure states.

"Consistent with Northwestern Mutual's philosophy," it adds, "the grid is intended to foster recommendations made in the client's best interest by encouraging holistic planning to meet both the investment and insurance needs to help ensure financial security."

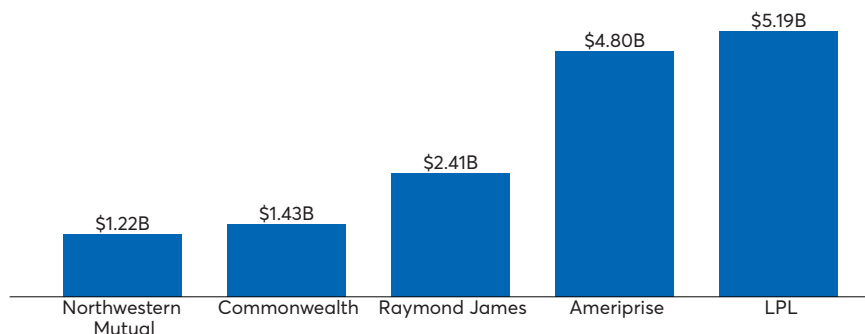
For Knut Rostad, president of the Institute for the Fiduciary Standard think tank, the section about managing conflicts of interest isn't convincing.

Northwestern "admits to their complex and opaque conflicts," he says. "This is good. But then the firm says, in its form disclosure, these conflicts are 'self-mitigated' by the same complex and opaque incentive system. The upshot: Conflicts don't matter; CFPs have nothing to mitigate."

Roper, a fellow outspoken fiduciary stalwart, views it differently. The fact that besides disclosing them, the CFP professional "still has to manage the conflicts, and act without regard to those conflicts, and make recommendations that are in the client's best interests" is critical, she says.

"If it works as intended, the CFP Board fiduciary standard should help ensure that CFPs working in firms with significant conflicts will still find a way to do what is right for their client," Roper says. "Time will tell. But at least they've set the bar at the right level." **FP**

Top 5 Independent Broker-Dealers by 2018 Revenue



Source: Company data

Tobias Salinger is a senior editor at Financial Planning. Follow him on Twitter at @TobySalFP.

Cetera Embraces 401(k)s

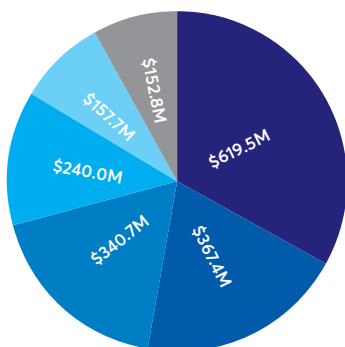
The IBD network's AdvicePay integration could help the firm convert more retirement plan business into wealth management clients.

By Tobias Salinger

At a meeting of 150 business professionals attended by the head of retirement plan solutions for Cetera Financial Group, just two of the employees who make at least six figures said they had ever had their 401(k) advisor reach out to them. The next question: Did they have financial advisors?

"It was the same two people," says Jon Anderson, Cetera's head of retirement. "They're saving a significant amount of money, yet they don't really know whether they have a plan on track for a retirement [that will meet] their goals."

Cetera IBDs Generated \$1.88 Billion in Revenue in 2018



- Summit Brokerage Services, \$152.8M
- Cetera Financial Specialists, \$157.7M
- First Allied Securities, \$240.0M
- Cetera Financial Institutions, \$340.7M
- Cetera Advisors, \$367.4M
- Cetera Advisor Networks, \$619.5M

Source: Company data

Cetera is focusing on 401(k)s at a time of rapid changes at the network, but the concept of converting 401(k) participants into full wealth management clients may be as old as defined-contribution plans themselves.

With 401(k)'s, the statistics clearly show the scale of potential business: assets in DC plans rose 7% year-over-year in the second quarter to \$5.8 trillion, according to the Investment Company Institute. Cetera's five broker-dealers manage nearly \$30 billion across 12,000 retirement plans.

Still, only about 3,000 of the network's 8,000 advisors serve 401(k) plans — and just 50% of the industry's advisors have at least one form of employee retirement plan in their books, Anderson says.

Cetera and other wealth and asset managers aim to help advisors expand the share. The network is currently searching for a CEO, but Moody's Investors Service's latest periodic review cited its stability.

On Nov. 6, Cetera hired an ex-Charles Schwab veteran as its chief strategy and execution officer. The firm has added record new assets in recruiting and acquisitions this year.

Cetera's AdvicePay integration is paving the way for advisors to engage 401(k) participants more often by bundling various kinds of fees together.

Anderson describes the approach as paradoxically being "very low-tech," even though the whole thing has been

made possible by technology.

AdvicePay's software for electronic payment processing enables Cetera's 401(k) advisors to combine their participant advice fee with those of other kinds of advice and consulting on either a fee-for-service or subscription basis.

Cetera has also launched resources for 3(38) services, in which advisors — rather than sponsors, who are often small business owners — manage the fund lineup, selection and trade execution. The network offers advisors training, third-party administrator and reporting services.

Advisors who manage 401(k) plans drive greater scale and client satisfaction, according to Anderson. A year after Genstar Capital purchased a majority stake in the firm for a reported \$1.7 billion, Cetera also rolled out more outsourced marketing services for advisors under a collaboration with FMG Suite.

An additional retirement planning tool called SetIncome opened this past summer. The increased home-office support has come alongside M&A activity for the company.

Following the acquisition of certain assets of Foresters Financial's U.S. BD and RIA, the network announced plans to fold its smallest IBD, Summit Brokerage Services, into its largest — Cetera Advisor Networks. **FP**

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For a survivor with dual citizenship, there is the option of moving back to the home country after the spouse dies.

An Expensive Exception

Without the marital deduction, a certain category of married clients will have challenges inheriting property outright.

By Ingrid Case

In the United States, married people inherit from their spouses without paying estate tax. Most of the time.

The unfortunate exception involves marriages between a U.S. citizen and a foreign national. If they are your clients, it's a big hitch in their estate planning.

Under U.S. law, if the American citizen is the first to die, the surviving foreign national spouse can't use the standard marital deduction to inherit property outright. The entire estate is subject to this rule.

The current \$11.4 million estate tax exemption makes this a problem only for wealthy couples. In 2026, however, the exemption is scheduled to revert to \$5.49 million, so estate planning will become more complex for more mixed-nationality couples. Without the marital deduction, these couples

have less attractive options.

The foreign spouse, if he or she was domiciled in the U.S. when the deceased spouse died, can become a U.S. citizen.

If dual citizenship is an option — some countries allow this, some don't — this could let the foreign spouse maintain sentimental ties and retain the option of moving back to his or her original country after the U.S. spouse's death.

If the foreign spouse decides to gain U.S. citizenship, it's important to complete the process before the American spouse dies. After his or her death, the survivor has just 15 months to become a citizen, move the money into a trust or pay estate taxes. That's typically not enough time to complete the citizenship process, although it is possible to gain another 12 months by paying a penalty.

Citizenship is the option the clients of Hui-chin Chen, a planner at Pavlov Financial Planning in Arlington, Virginia, most often take. "Either the green card holder becomes a citizen or the couple are planning to move abroad," she says. "Green cards are supposed to be temporary."

If citizenship doesn't appeal, a qualified domestic trust (QDOT) is an alternative. The assets go into a trust for the surviving spouse, who receives income from the trust but cannot spend the principal without showing hardship or paying estate tax on the principal that exits the trust.

A QDOT can be set up before or after the U.S. citizen's death and can buy the surviving spouse time to obtain citizenship. The freshly minted American can then unwind the trust and take the inheritance tax-free under the marital deduction. No matter when the trust is funded, its creators can decide which assets to include in the trust, with the inheriting spouse paying estate tax on any excluded items that push the estate over the tax threshold.

That could solve the problem for the inheriting spouse but create a new issue for the couple's children. Assets in a QDOT are essentially taxed twice: once in the first estate, which

Client

is treated as tax deferred, and again in the second spouse's estate. Retirement plans in a QDOT also suffer adverse tax consequences, because disbursements include both growth and principal.

If neither citizenship nor a QDOT is a good fit for a couple, there are other options. An estate tax treaty between the U.S. and the foreign citizen's country may allow the foreign spouse to inherit outright, at least in part, without paying U.S. estate tax.

For instance, treaty agreements let German and French nationals (but not Brits) inherit half of an American spouse's estate, tax-free. For an estate of more than \$22.8 million, that could matter. Survivors must choose either treaty provisions or a QDOT—not both, says Bruce Stone, a partner at Holland & Knight LLP in Miami.

His advice is to title more property in the foreign-born spouse's name, including annual gifts from the U.S.

spouse. The more the foreign spouse owns, the less estate tax will be due.

Stone further counsels keeping close records of where, when and how much the foreign citizen spouse contributed to the couple's wealth. "The spouse who died first is assumed to have contributed everything, so the burden is on the survivor to prove that he or she made a contribution," he says.

If the U.S. citizen gives gifts to the foreign spouse in ways that would otherwise be eligible for the marital deduction, taxes are due on everything above \$155,000 annually — an amount that goes up every year, says Carlyn McCaffrey, a partner at McDermott Will & Emery in New York. Under these rules, a joint account is a gift. "Gift taxes apply from day one," McCaffrey says.

Mutually owned real estate is also a gift, but taxes aren't due immediately. "There's a special provision that says that joint ownership doesn't involve any

immediate gift tax," she says. "But if you sell it, you have to pay the gift tax."

Keep in mind that gifts to children and charities made before death can also help shrink an estate below the tax threshold. Remember, however, that asset shifts could come back to haunt a client who later divorces.

Life insurance in an amount that would cover the tax bill is another option, though one that might be prohibitively expensive if the couple's wealth is significantly more than the estate tax exemption. A survivor could also take the tax-free insurance payout and fund a QDOT with the estate overage, thereby deferring taxes.

If most of a couple's wealth is overseas, they could move to another country and the U.S. spouse could renounce American citizenship while the American spouse is still hale and hearty. Die within 10 years, however, and Uncle Sam will still collect his due. **FP**

Maximize College Financial Aid

With careful planning, your client's children can be among the 72% of U.S. students who get need-based assistance.

By Ingrid Case

Most planning clients would love to send their children to a highly selective college. Far fewer are happy to pay the tuition, which can top \$70,000 a year.

Still, they might be heartened to learn that about 72% of U.S. college students get financial aid. With some careful planning, your clients' children can be among them.

In this quest, two documents loom large: the Free Application for Federal Student Aid and the College Scholarship Service Profile. Most U.S. colleges and universities, including state schools,

use FAFSA to determine need. About 400 schools — typically the more selective and therefore more expensive options — use the CSS. A group of 25 to 35 schools, called the 568 Presidents' Group, use a combination of the two.

The gap between a school's sticker price and the expected family contribution is the amount of need-based aid a student is eligible to receive. That help might come as government grants, school grants, work-study jobs or loans.

Both the FAFSA and CSS look at how much income and assets the student

and the family have. But they consider these assets differently, says Ian Aguilar, a partner at Mellen Money Management in Ponte Vedra, Florida.

"The CSS Profile is more in-depth and looks at more assets," he says. "Generally speaking, your expected family contribution will come out higher with the CSS."

CSS results are also more open to an individual school's interpretation than those of FAFSA. Families fill out both applications the year before their child starts college, then repeat the application for the next year, and the next, until

the child's education is complete.

Each application considers financial information from the previous year. If a student will begin school in the fall of 2021, the family will fill out aid applications in 2020 using the 2019 tax return, and current income, savings and assets. Thus, it's crucial to sort out planning for aid during a student's sophomore and junior years of high school.

To understand how client families can maximize their eligibility for need-based financial aid, it's important to know how the FAFSA and the CSS calculate the expected family contribution.

Student Income and Assets

For the 2018-19 school year, students could earn up to \$6,570 before FAFSA expected them to contribute some portion of income to pay for college. To earn more than that, a kid would need to work for more than 17 hours a week, 52 weeks a year at \$7.25 an hour. That's not a bar most students would clear.

If a student does earn more than \$6,570 annually, 50% goes toward the expected family contribution. There is no protected amount of student assets.

The aid calculation takes a much smaller percentage of parents' income and assets.

Because college expenses take such a big bite of whatever a student has, children should have minimal or no assets in their own names. "Put the money in a retirement account," suggests Greg Gorski, a planner at Blue Sky Financial Group in Pleasant Hill, California. For children with a bank account, "consider what they'll need for school and spend money on those things: clothes, a computer." A car is another option.

The same is true of assets in an UTMA or any account held jointly by parent and child. "I generally tell my clients to make sure that all those custodial savings accounts are spent by

the junior prom," says Sean Pearson, a planner in Conshohocken, Pennsylvania.

Because parents have financial responsibilities that most students do not, both aid applications protect more parental income and assets. The exact amount depends on a complicated calculation that considers the parents' ages, number of children and other factors.

Beyond that number, FAFSA and CSS expect parents to put 22% to 47% of adjusted gross income toward college expenses. It's therefore helpful to minimize adjusted gross income.

"If someone is working a standard 9-to-5 job and there are no bonuses or options, there may not be much you can do to lower income," says Robert Falcon, owner of Falcon Wealth Managers in Concordville, Pennsylvania.

Clients with more complex situations have other avenues. Stock options, if a factor, shouldn't be exercised in a year the application will reflect. Get bonuses deferred, if possible. If you own a business, accelerate expenses and delay sending out invoices.

Should parents pay off car loans?

All parents should pay off balances on credit cards, car loans and student loans. Pay for home repairs or improvements. Make estimated tax payments or contribute to a Roth IRA or other retirement fund. Maximize HSA payments.

Charitable and medical deductions can also help, if they're large enough.

Both the FAFSA and the CSS see parental income as the primary source of the expected family contribution. The calculator takes just under 6% of parents' non-retirement assets. The FAFSA doesn't consider home equity, retirement assets or assets owned by a family business as potential sources of college funding, though it does count 401(k) contributions as income for the

Tuition Costs Have Risen Steeply Over the Last 30 Years

Private four-year institution

- Tuition for 1989-1990: \$17,860
- Tuition for 1999-2000: \$23,890
- Tuition for 2009-2010: \$30,670
- Tuition for 2019-2020: \$36,880

Public four-year institution

- Tuition for 1989-1990: \$3,510
- Tuition for 1999-2000: \$5,170
- Tuition for 2009-2010: \$8,420
- Tuition for 2019-2020: \$10,440

Source: College Board, "Trends in College Pricing 2019"

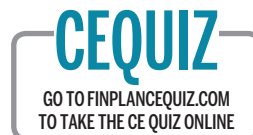
year they're made. The CSS may consider some part of all these assets.

Should clients try to pay down a mortgage? "That depends on whether the FAFSA or CSS is what you're looking to maximize," says Kenneth Waltzer, a planner at KCS Wealth in Los Angeles. He cautions that families might pay off a home and then need that cash after all.

Both the FAFSA and CSS assess the equity in vacation homes and investment properties. Paying down the mortgage on an investment property may make sense.

Although it's good to think strategically about financial aid, "you don't want to derail other financial planning goals," Pearson says. At the end of the day, it's good to have assets that can help pay for college, even if they don't put families in a perfect position to receive financial aid. **FP**

Ingrid Case, a Financial Planning contributing writer in Minneapolis, is a former senior editor for Bloomberg Markets magazine. Follow her on Twitter at @CaseIngrid.





General Electric announced major changes to its defined-benefit plan in October.

Buyout vs. Pension: Which Is Best for Clients?

Advisors can become go-to experts with these insights.

By Ed Slott

Which is better: Buyouts or pensions? It's the kind of high-value advice that makes clients appreciate paying a financial planner. The right decision can be a retirement game-changer — and so can a wrong one.

In October, General Electric became the latest U.S. company to announce major changes to its defined-benefit plan.

At the same time, the multinational conglomerate announced it would be freezing benefit accruals for approximately 20,000 active employees.

The company further said it would be offering lump-sum buyouts to about 100,000

former employees who have not yet begun their pension benefits.

The company's actions are further evidence of the demise of DB plans and of the popularity of buyout programs.

Since the IRS has recently, again, approved lump-sum windows, this trend can only be expected to grow.

Thus it's more crucial than ever that advisors have a working knowledge of how DB plans work in order to determine whether an offered lump-sum buyout makes sense for a client.

A lump-sum buyout (also known as a

lump-sum window) is a limited opportunity for DB plan participants to elect a lump-sum distribution in exchange for giving up future periodic payments.

Most DB plans pay a reduced benefit for participants who leave employment before normal retirement age, but on or after the plan's early retirement date (typically age 55).

Many non-ERISA plans still follow some or all of the ERISA rules, or similar rules because of tax code or state law.

Participants who leave before the early retirement date can receive a deferred benefit if they leave with a vested benefit.

The Employee Retirement Income Security Act is a federal law that regulates DB plans and other employer-sponsored retirement plans. DB plans sponsored by governments or churches are generally exempt from ERISA.

However, many non-ERISA plans still follow some or all of the ERISA rules, or similar rules because of tax code or state law requirements. ERISA-covered DB plans must provide certain protections for spouses.

First, a married participant's benefit must be paid in the form of a qualified joint and survivor annuity — unless the participant elects another form of

payment and the spouse consents.

A QJSA pays a benefit over the participant's lifetime and, if the spouse outlives the participant, pays the spouse a benefit over the spouse's remaining lifetime.

Second, ERISA-covered DB plans must treat a married participant's spouse as the beneficiary – unless the participant designates another beneficiary and the spouse consents.

Offering a lump-sum buyout to former employees who have not yet begun their pension benefits (as GE will do) is, at present, legal.

By contrast, the legality of window programs for retirees already in pay status is not as clear. The IRS has flip-flopped twice on whether those programs are valid.

In 2012, the IRS issued several private-letter rulings concluding that lump-sum buyouts for retirees do not violate the required minimum distribution rules that apply to DB plans.

But in 2015, the IRS changed course and said it intended to amend the RMD rules to make such buyouts invalid. That never happened, and in March 2019 the IRS had another change of heart when it issued Notice 2019-18, in which the IRS announced that lump-

sum windows for retirees were, at least for the time being, permissible.

Any analysis of whether a client should sign off on a lump-sum buyout offer should include these factors:

How much would the client receive?

The amount of the lump sum is calculated by determining the present value of the client's future payments, using interest rate and life expectancy assumptions. The lower the interest rate assumption, the higher the lump sum will be. A lump sum offered in the current environment of very low interest rates is likely to be at its peak.

This may be a key reason now to take the buyout. If interest rates increase, a future buyout (if one is offered) will be a lower amount.

Even if the client wants the security of a guaranteed pension, it still may pay to take the optimum buyout now and, with the help of the advisor, create a pension through annuities or other lifetime income plans that offer long-term security.

What's the financial health of the plan and plan sponsor?

The possibility of a client's former

employer going out of business with an underfunded DB plan is a factor favoring a lump-sum distribution, as existing or future periodic payments would be reduced in that eventuality. Although the Pension Benefit Guaranty Corporation, a quasi-governmental agency, ensures pension benefits, its guarantee applies only up to a maximum amount.

Offering a lump-sum buyout to former employees who have not yet begun their pension benefits is, at present, legal.

(For 2019, the maximum monthly guaranteed benefit, payable as a single life annuity at age 65, is \$5,607.95.)

Advisors should also make clients aware that the PBGC continues to have its own severe financial difficulties, casting some doubt on its ability to pay any guaranteed benefits in the future. Although the PBGC is essentially an insurer, that insurance won't help if the PBGC doesn't have the funds to pay the full cost of the loss.

If a pension is desired, a client will likely gain more long-term security by going with a regular insurance company that can provide annuities with better guarantees, as opposed to relying on the company or the PBGC.

Before Taking a Lump-Sum Buyout Offer

- **Terms of the buyout:** The client must understand not only the amount of the lump sum, but also the amount of pension payments that would be forfeited. Although tempting, the lump sum amount may be less than the total of lifetime pension payments.
- **Employer's financial stability:** Concerns about the plan sponsor's financial health may be a factor favoring a lump sum. Although pension payments up to a certain amount are guaranteed by the PBGC, the PBGC's financial problems may make it risky to count on that insurance.
- **Interest rates:** Lump sums are calculated by taking into account interest rates. The lower the interest rate at the time of the buyout offer, the higher the lump sum.
- **Longevity:** Lump sums are also calculated by considering life expectancies. A healthy client should consider retaining pension payments, while a client with medical issues should consider taking the lump sum.
- **Client's financial habits:** A spendthrift client may be better off passing up a buyout offer. A client inclined to invest responsibly is a better candidate for a lump sum.
- **Investment risk:** Once a lump sum is taken, the investment risk shifts to the client.
- **IRA rollovers:** Pension payments cannot be rolled over to an IRA, but lump sums can be rolled over. IRAs require RMDs, but otherwise allow flexibility for withdrawals.

Source: Ed Slott & Co

How is the client's (and beneficiary's) health?

If a retiree receiving a single life annuity is in good health and expects to outlive her life expectancy, then passing up a lump sum might make sense — again, assuming that there is confidence that the employer will remain solvent.

The same is true if the client is receiving a joint life annuity and the retiree and her beneficiary are healthy. On the other hand, for someone facing medical issues, taking the buyout offer might be the right decision.

Client

Know the client

An unexpected payment of tens — or even hundreds — of thousands of dollars can be tempting to any client. It is up to the advisor to make sure the client understands what they are giving up, and that the lump-sum amount may be less than the total amount of their lifetime pension payments.

A married client must receive consent from the spouse before electing to take a lump sum.

Also keep in mind that some clients cannot handle receiving a large check. We have all seen problems in past buyouts where a lump sum meant to last a lifetime was gone within two years through squandering or poor investments. This must be avoided.

A client lacking financial discipline might be better off passing up the buyout offer in lieu of retaining monthly pension payments.

A client inclined to invest responsibly might be a better candidate to accept the buyout.

What is the best investment for an IRA rollover?

If a client takes a lump sum, the investment risk and responsibility shift to them. The advisor can recommend an appropriate IRA investment, given the client's age, risk tolerance and financial situation.

Ideally, the investment would generate enough income to replace the lost pension.

Under the tax code, only so-called eligible rollover distributions are eligible for rollover. Annuity payments do not qualify as eligible rollover distributions. So, DB plan annuity payments are typically fully taxable in the year received and cannot be rolled over. On



A client's health should be considered when they are deciding whether to take a lump sum.

the other hand, DB lump-sum payments are eligible for rollover to an IRA. IRA withdrawals are flexible enough to take advantage of low tax brackets or convert funds to a Roth IRA, but RMDs are required for traditional IRAs.

When will pension payments end?

DB plan annuity payments end upon the death of the pension beneficiary.

By contrast, an IRA into which a lump sum is rolled over can be structured to stretch out benefits over a longer period.

Can spousal consent be obtained?

Plans offering a lump-sum window program must comply with the QJSA and spousal consent rules discussed earlier. Therefore, a married client must receive consent from the spouse before electing a lump sum. In some cases, the spouse may be reluctant to give up QJSA spousal protection.

Lump-sum rollovers tax rules

Before a DB lump-sum payment can be rolled over, an RMD must be taken if the lump sum is paid in or after the year the client attains age 70½. RMDs

are taxable and cannot be rolled over.

The IRS has special rules for calculating RMDs in this situation.

A DB plan can calculate the portion of the lump sum that is an RMD by using the defined-contribution plan RMD rules and treating the lump-sum amount as the client's account balance as of the previous Dec. 31.

Alternatively, the plan can treat one year of annuity payments as the portion of the lump sum that is an RMD. Except for the RMD portion, the lump sum would be subject to automatic 20% withholding for federal income taxes and possibly an additional amount for state tax withholding. Automatic withholding would not apply if the lump sum is directly rolled over, which is the preferred method.

The proliferation of lump-sum buyout programs opens up a whole new window of opportunity for advisors. They need to be ready to take advantage of it. **FP**

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Ed Slott, a CPA in Rockville Centre, New York, is a Financial Planning contributing writer and an IRA distribution expert, professional speaker and author of several books on IRAs. Follow him on Twitter at @theslottreport.

Navigating the Investment Portfolio Torture Chamber

How sequence of returns can affect retirement survival.

By Craig L. Israelsen

The success of a client's retirement portfolio can be defined as follows: remains solvent while providing the needed annual income for the rest of the client's life.

Toward that end, every client needs to do their part to facilitate that success — such as not withdrawing too much money and utilizing an asset allocation strategy that gives their

portfolio a chance to do its job.

The natural challenge in meeting the stated objective is the fluctuating performance of the underlying investments in the portfolio, combined with the periodic withdrawals made by the client. In short, this is an investment portfolio torture chamber.

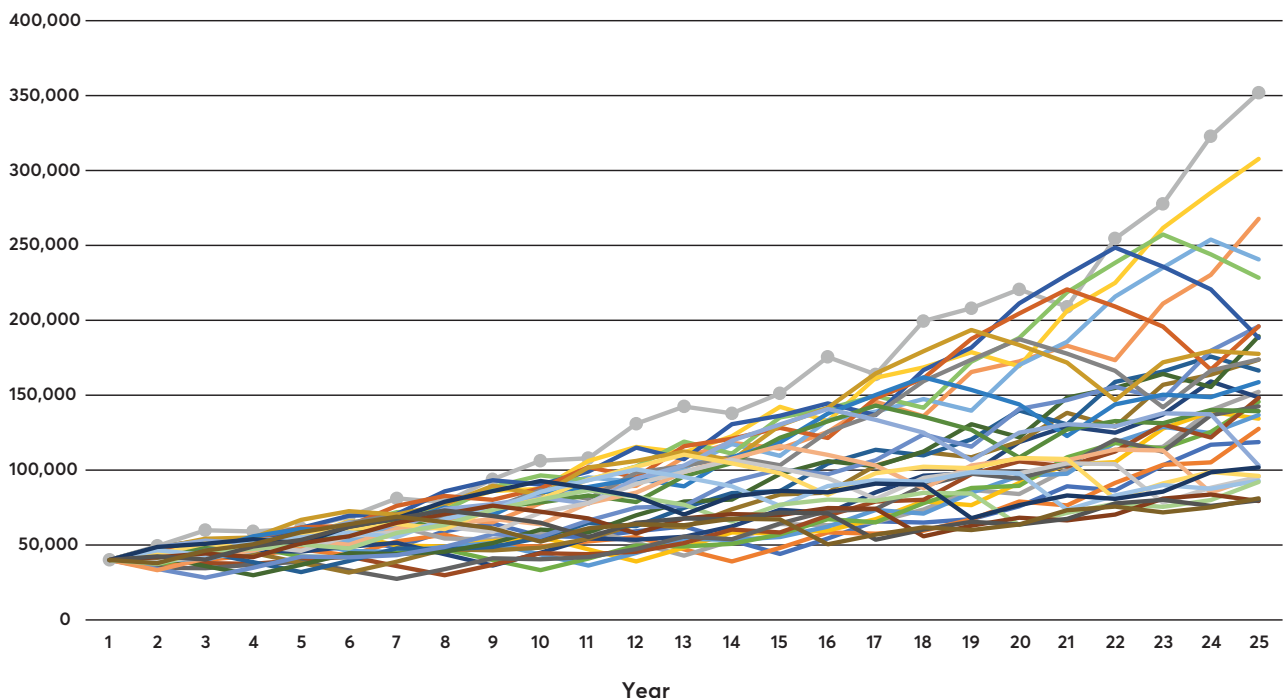
Advisors need to help clients understand and meet these challenges,

and the following analysis may help in that process.

The retirement portfolio asset allocation we use in the analysis is based on four primary asset classes: large-cap U.S. stock, small-cap U.S. stock, U.S. aggregate bonds and U.S. cash. Large stock is represented by the S&P 500, while small stock is represented by the Ibbotson Small Stock Index

Many Paths

Annual withdrawals across 34 rolling 25-year periods at a 4% withdrawal rate.



Results derived from the analysis of 34 rolling 25-year periods
\$1 million assumed starting balance in retirement account
Asset allocation: 40% large U.S. stock, 20% small U.S. stock, 30% bonds, 10% cash
100 bps annual portfolio cost. Data source: Steele Mutual Fund Expert, calculations by author

Portfolio

from 1961 to 1978, and the Russell 2000 from 1979 to 2018. U.S. bonds are represented by the SBBI U.S. Intermediate Government Bond Index from 1961 to 1975, and the Barclays Aggregate Bond Index from 1976 to 2018. U.S. cash is represented by 90-day Treasury bills.

These are the only four primary asset classes for which performance data are available back to 1961.

In practice today, you will likely use more than these four asset classes in your clients' portfolios to achieve optimal diversity.

The annual returns of these indexes were reduced by 100 bps to reflect the cost of actual investment products as well as an advisory fee.

The portfolio asset allocation is 40% large U.S. stock, 20% small U.S. stock, 30% bonds and 10% cash (with annual rebalancing). For context, the average 25-year annualized return over 34 rolling 25-year periods for this 40/20/30/10 portfolio was 9.5% from 1961 to 2018.

Each rolling period represents a 25-year retirement window with a

unique sequence of returns and a unique return. Each year's withdrawal took place at the end of the year and was based on 4% of the portfolio's balance at the end of the prior year — somewhat like RMD rules.

This analysis did not impose a COLA on the annual withdrawals. The starting balance in the portfolio was assumed to be \$1 million. The portfolio was rebalanced annually.

Let's start with an examination of all 34 rolling 25-year periods from 1961 to 2018. Picture this as a simulation of 34 different clients, each one starting into retirement one year later than the previous client.

Shown in "Many Paths" on the previous page are the annual withdrawals for all 34 clients. Each colored line represents a client and their withdrawals each year for 25 years. The highest gray-colored line has dots where each represents the portfolio withdrawal each year.

Clearly, each client had a unique experience based on the variation of the lines in the graph. Some were more

fortunate (the lines near the top) and some less so (lines near the bottom of the graph). Why? Two reasons: The absolute performance of the portfolio over each 25-year period and the specific sequence of returns over each 25-year period.

As shown in "Best and Least-Best," the ideal 25-year period was from 1975 to 1999. This period started after the equity declines of 1973 and 1974, and finished before the equity market losses that started in 2000. This was a perfect 25-year window that produced an average annualized return of 13.43%.

As a result, the client withdrew a total of \$3.75 million pre-tax dollars (or an annual pre-tax average withdrawal of \$150,028) and had \$9.49 million remaining in the portfolio after 25 years.

Amazingly, the withdrawal in the 25th year was over \$350,000.

By contrast, the most recent 25-year period, from 1994 to 2018, was the least desirable for a client.

Over the past 25 years, the portfolio produced an average annualized return of 6.51%, which meant the client withdrew a total of \$1.54 million pre-tax dollars (or an annual pre-tax average of \$61,440) and had an ending portfolio balance of \$1,848,430.

It's important to stop right here and examine how good the worst-case scenario actually is. Over the past 25 years the client pulled out \$1.54 million pre-tax dollars and finished with \$848,430 more than they started with.

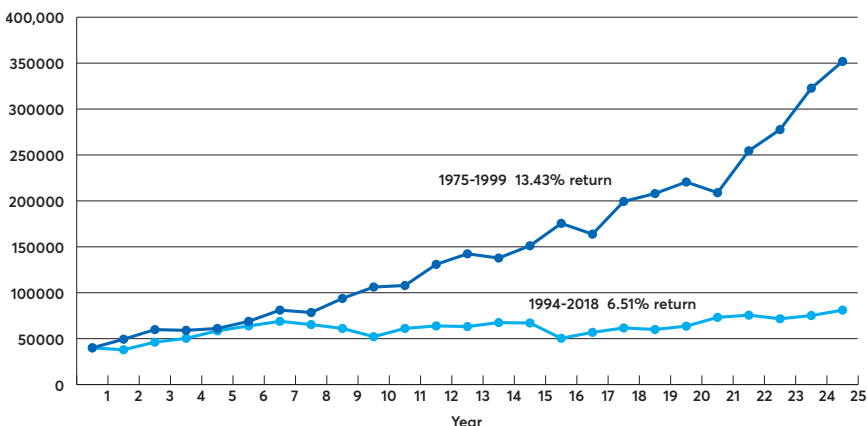
As the graph indicates, perhaps the worst-case scenario is more accurately described as "least best" — because the outcome was still rather impressive.

The average annual withdrawal for all 34 clients, assuming a 4% withdrawal rate, was \$88,826 pre-tax (the average of all the lines in "Many Paths") and the average ending portfolio balance was \$4,079,724.

This is a remarkably encouraging

Best and Least-Best

Annual withdrawals across two 25-year periods at a 4% withdrawal rate.



Results derived from the analysis of two 25-year periods. \$1 million assumed starting balance in retirement account. Asset allocation: 40% large U.S. stock, 20% small U.S. stock, 30% bonds, 10% cash. 100 bps annual portfolio cost. Source: Steele Mutual Fund Expert, calculations by author

result for clients. It demonstrates that clients who withdraw 4% of the prior year's portfolio balance have a high likelihood of seeing their portfolio grow — maybe significantly — throughout their retirement years.

Perhaps this awareness could reduce the fear of running out of money that haunts many clients. Take note that this assumes a portfolio allocation that is at least 60% equity, and overall portfolio expenses that don't exceed 100 bps.

Now we need to address the issue of sequence of returns, illustrated in the graph of the same name. We are using these two different 25-year periods (1983 to 2007 and 1969 to 1993) because the overall return, assuming a lump sum investment, was essentially the same (9.66% for the first period and 9.48% for the second).

However, the annual withdrawals were considerably different because of the sequence of returns in the portfolio.

The 25-year window starting in 1983 was clearly superior to the window that began in 1969. The returns in the first six years for the favorable period were 17.25%, 5.58%, 25.30%, 12.80%, 0.76% and 13.70%.

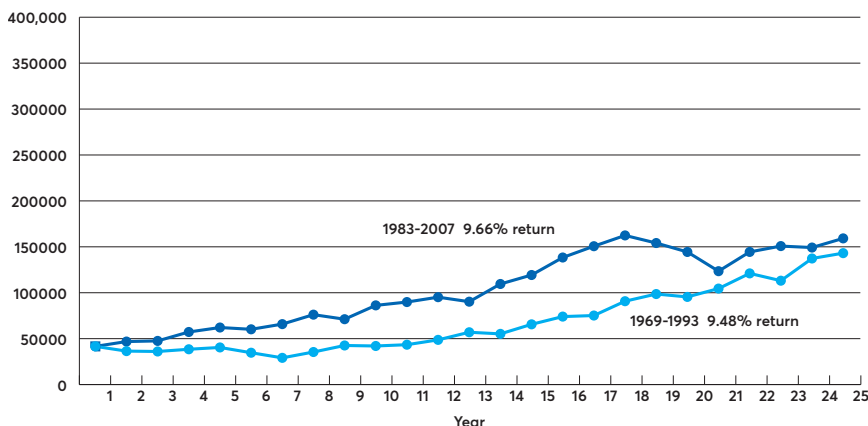
The returns from 1969 to 1974 tell a very different story. They were -8.97%, 2.80%, 11.08%, 9.45%, -10.95% and -13.06%. Three losses within the first six years made a powerful difference, even though the portfolio recovered in later years and finished the 25-year period with nearly the same overall return as during the 1983 to 2007 period.

The favorable 1983 to 2007 period allowed the client to withdraw a total of \$2.57 million pre-tax (for an average annual pre-tax withdrawal of \$102,828) and have a remaining balance of \$3.94 million after 25 years.

The client with the less-favorable sequence of returns withdrew a pre-tax total of \$1.67 million (an annual average of \$66,644 pre-tax

Sequence of Returns

Annual withdrawals across two 25-year periods at a 4% withdrawal rate.



Results derived from the analysis of two 25-year periods. \$1 million assumed starting balance in retirement account. Asset allocation: 40% large U.S. stock, 20% small U.S. stock, 30% bonds, 10% cash. 100 bps annual portfolio cost. Source: Steele Mutual Fund Expert, calculations by author

dollars) and had \$3.78 million remaining after 25 years.

Because the two different time periods had nearly identical 25-year performances, the ending portfolio balances were nearly the same. But because of the differences in the sequence of returns, there was a difference of approximately \$900,000 in total money withdrawn — in favor of the period that had better returns in the first six years.

A nonfavorable initial sequence of returns in a portfolio must be managed by liquid assets outside the portfolio.

So what do we learn from all this?

1. A growth-oriented retirement portfolio that annually cost the client 100 bps performed admirably under the stress of a 4% withdrawal system. In every case, the portfolio survived intact for 25 years. Clients with a prudently diversified growth-oriented portfolio can live their retirement years with much less fear if they are simply withdrawing 4% of their portfolio

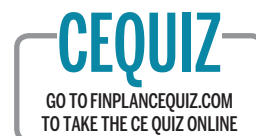
balance each year.

2. A portfolio does what it does based on the performance of the underlying assets. A nonfavorable initial sequence of returns in a retirement portfolio must be managed by liquid assets outside the portfolio — such as a cash account. A client who has 12 to 24 months of living expenses in a savings account would be an example of this approach.

A portfolio will have ups and downs, but a well-diversified one will probably generate a return in the range of 6% to 13%, averaging around 9%.

That level of return is clearly more than adequate to handle a 4% withdrawal rate. **FP**

Craig L. Israelsen, Ph.D., a Financial Planning contributing writer in Springville, Utah, is an executive in residence in the personal financial planning program at the Woodbury School of Business at Utah Valley University. He is also the developer of the *7Twelve* portfolio.





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From: Planning to Maximize Financial Aid for Your Client (online only)

1. Which of these is not considered by the FAFSA as potential sources of college funding by families?

1. Home equity
2. Retirement assets
3. Assets owned by a family business
4. All of the above

2. Once a student earns income beyond FAFSA levels, what percentage of that money must go toward the expected family contribution for college?

1. 25%
2. 100%
3. 50%
4. 75%

From: Navigating the Investment Portfolio Torture Chamber

3. In the analysis presented, what was the average ending balance for 34 example clients who had a portfolio with a starting balance of \$1 million — made up of 40% large-cap U.S. stock, 20% small-cap U.S. stock, 30% bonds and 10% cash — over 34 rolling 25-year periods from 1961 to 2018, assuming a 4% withdrawal rate?

1. \$4,079,724
2. \$6,525,078
3. \$10,426,794
4. \$2,145,675

From: 7 Potential Tax Windfalls for Clients (online only)

4. If a client has a business meal the IRS labels as "not lavish or extravagant," how much of a tax deduction may they be able to claim?

1. 25%
2. 45%
3. 15%
4. 50%

From: Buyout vs. Pension: Which is Best for Clients?

5. Which IRS ruling allows for lump-sum annuity payments from employers to retirees who have already begun annuity payments (otherwise known as the lump-sum window?)

1. Notice 2019-18
2. Notice 2019-09
3. Notice 2017-19
4. Notice 2018-15

6. What is the current maximum monthly guaranteed benefit — payable as a single life annuity at age 65 — insured by the Pension Benefit Guaranty Corporation?

1. \$7,562.25
2. \$5,607.95
3. \$8,253.05
4. \$6,295.93

From: Retirees Are Losing Ground on COLA. How Can Advisors Compensate? (online only)

7. In 2020, retirees will pay what percentage more, on average, for health care insurance premiums, according to the National Active and Retired Federal Employees Association?

1. 1.6%
2. 2.5%
3. 4.4%
4. 5.6%

8. On average for 2020, Social Security retirement benefits for an individual retiree will rise by what monthly amount?

1. \$24
2. \$50
3. \$75
4. \$40

From: Why Advisors Should Care About 401(k) Fiduciaries (online only)

9. As a 3(16) 401(k) fiduciary, the services you offer would include which of the following?

1. Filing and signing the plan's annual Form 5500
2. Signing off on distributions to participants
3. Verifying whether a Domestic Relations Order meets the requirements of a QDRO
4. All of the above

From: Worst-Performing Muni Funds Over 3 Years (online only)

10. Which of these funds has the lowest expense ratio?

1. iShares Short Term National Muni Bond ETF
2. SPDR Nuveen Blmbg Barclays Street Municipal Bond ETF
3. DWS Short Term Municipal Bond A
4. BNY Melon Natl Short Term Municipal Bond M

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Financial Planning

Amassing Emergency Funds

Stunned by the cost of in vitro fertilization, the importance of HSAs came into sharp focus for this planner.

By Edward J. Gay

As planners, we often see clients dipping into their retirement funds to cover the costs of surprise events like a medical issue.

Time and again, I have found myself telling clients to set aside money to prepare for the unexpected, and I was convinced that my wife and I were adhering to this advice.

Little did we know that we would be put to the test.

In 2012, we had already purchased our first home and were making a good double income. So the natural next step was to grow our family. We thought it was going to be pretty straightforward. We thought wrong.

As each month went by without a pregnancy, our emotional stress increased. I could see the toll it was taking on my wife and I felt helpless. It was driving us crazy — we wanted kids badly and we were each wrestling with the mounting pressure. This went on for two years.

Then we were advised to try in vitro fertilization. We quickly learned IVF can cost \$12,000 to \$15,000 per cycle, which includes medication and shots all the way through

the transfer of the embryo. A couple may have to go through multiple cycles to achieve success.

Suddenly, our emergency fund, which we knew was important, became essential to the future we had envisioned — and it didn't seem adequate.

We began to put away even more cash to ensure that we were covered. We stopped going out to dinner, made coffee at home instead of going to Starbucks and eliminated vacations — anything to help increase our emergency fund. All this was not easy.

We also took advantage of an HSA, which is available in high-deductible health plans through an employer and allows individuals and families to put away \$3,500 and as much as \$7,000 per year in pretax dollars. The funds are available for tax-free withdrawal if you use them

for qualified medical expenses, which we did. Using the HSA helped us put money away for the IVF costs and reduce our taxable income at the same time.

No one can prepare you for the emotional

side of trying to have a child through IVF. There are no words to describe the toll this takes, emotionally or physically, particularly for the hopeful mother. Fortunately, we were blessed with our first child, our son Brody, which made the entire process well worth the trials and tribulations.

I recommend that clients have funds to cover at least six months of expenses. But one year of expenses is the best-case scenario.

According to a 2018 MassMutual study, "State of the American Family," just one-in-four American families is prepared for a financial emergency.

I know numerous advisors say clients should have three months of expenses in emergency accounts, but I believe that's too low. I recommend that clients have funds to cover at least six months of expenses. But one year of expenses squirreled away in a safe place is the best-case scenario.

I'm certain many of you, like me, learned the hard way how important planning for emergencies really is. Telling clients our personal stories can inspire others to expect the unexpected and prepare for it. **FP**



Edward J. Gay is a financial planner at Integrated Financial Partners in Worcester, Massachusetts.

To submit a Selfie commentary, email fpeditor@sourcemedia.com.

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— Christian Cordoba, CFP®, RFC®, CFS*,
El Segundo, CA

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