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# P1 Financial Planning

INVESTED IN ADVISORS | JANUARY 2019

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## WHY THIS ADVISOR HELPS CLIENTS GIVE AWAY MONEY

How to turn philanthropy into  
an opportunity to grow AUM



**Seth Corkin**  
of Single Point Partners

# Uber has changed the world. Now it's changing aging, too.



*With the proliferation and constant evolution of smartphones, apps and artificial intelligence, technology may be able to answer many people's fears about aging. Hartford Funds' John Diehl, Senior Vice President of Strategic Markets, uses research from the MIT AgeLab to explain why financial advisors should*

*teach clients about how technology can help them as they age.*

## What are some of the common desires of retirees as they age?

Most people desire to maintain their independence as long as they possibly can. Being able to access and participate in the things that make life worth living defines our quality of life as we age. The possibility of age-related physical limitations can incite anxiety around staying social and sharp, keeping up with the demands of home maintenance, and being able to age at home safely and comfortably.

## How can technology help solve age-related challenges?

In many ways, technology can help retirees live independently. The new, on-demand, sharing economy makes information and services available 24/7, while thousands of apps can be downloaded to make it easier and more convenient to complete just about any chore, regardless of age!

For example, rideshare apps make it possible to request door-to-door transportation at any time, subscription services can ensure groceries — or even ready-to-cook meals — are delivered regularly, and home resource sites can pull a curated list of crowd-sourced service providers for any maintenance need. Whether from a social,

Dr. Joseph F. Coughlin, PhD, Director of the MIT AgeLab, identified five ways technology will help us face the challenges of aging:

- 1 Technology-driven transportation will help us stay mobile.
- 2 It will be easier to work and earn income longer.
- 3 We'll be better able to maintain our social network as we age.
- 4 Apps and connected homes will help us age in place.
- 5 Smart devices will make it possible to monitor our health at home

educational or safety perspective, chances are that an app exists to answer the demand.

## In what ways can technology increase safety?

In addition to healthcare apps that make it possible to remember doctors' appointments and medications, keep track of daily nutrition, and reach out for help in the event of an emergency, a new array of devices can make it easier for your aging clients to live at home and on their own. Homes can now be outfitted with features such as sensors that can monitor movement in the home; stove cooktops that time out and turn off if left on too long; toilets that can measure weight and vitals; and smart appliances, light fixtures and thermostats.

## Why should an advisor teach clients about these technologies?

Advisors who provide information on these services and devices and actually show their aging clients how to use them will demonstrate to their clients that they understand some of the issues that they may be facing and are a source of ideas about how to manage such situations.

To learn more about investor psychology and how financial advisors can better communicate with their clients, go to [hartfordfunds.com](http://hartfordfunds.com)



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## Give Away Clients' Money — Yes, Really

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BY KERRI ANNE RENZULLI

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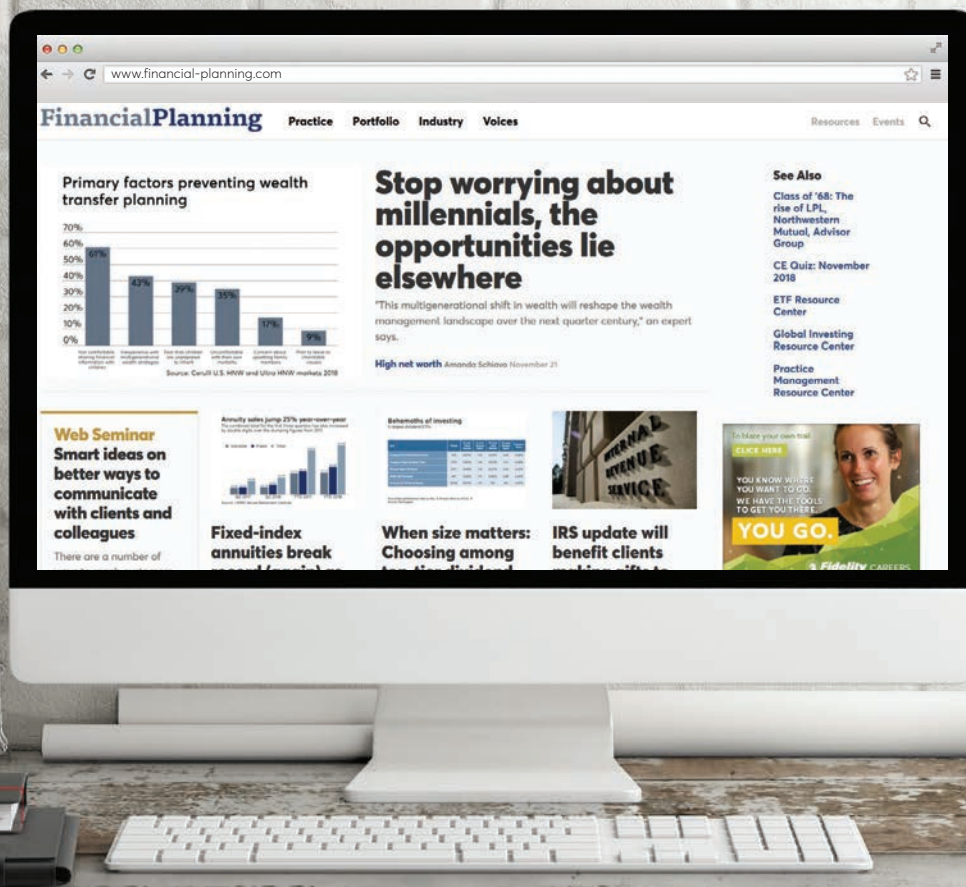
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**WEB SPECIAL**

**LIGHTNING ROUND**  
1 minute with Aaron Schaben  
Executive Vice Pres  
Carson Group

## How You're Wrong About Next Gen

Advisors often make the mistake of assuming only younger clients demand a digitally advanced experience. Carson Group's Aaron Schaben addresses this myth, and also reveals how the Focus IPO has changed the RIA industry, in this Lightning Round video. Watch it here: <https://bit.ly/2A4Sxla>

**GUIDE TO GROWTH**

Investments made in products that promote gender equality

Year	Assets (\$)
2015	\$100
2016	\$645
2017	\$1.3K
2018	\$2.4K

Source: Vests Wealth Partners; data up to June 30, 2018

## Assets Pour Into Equality Funds

As clients increasingly pick investments based on personal values, the number of gender-focused vehicles has climbed to 35 from eight, according to a recent study. But will the funds do as they promise — and how will they perform? Now there is a way to find out. Read more here: <https://bit.ly/2A1tISA>

**EVENTS**

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**Jan. 29-Feb. 1**  
**T3 Advisor Conference**  
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## Editor's View

# Trust Matters

It's more quantifiable than you think — and more valuable.



Advisors struggle with an inherent dilemma when their clients donate significant sums to charity. The more those clients give, the fewer assets planners have to manage.

It's worth overcoming the reluctance. More than three-fourths of advisors say they noticed a positive impact to their bottom line after talking with clients about philanthropy, according to a 2018 U.S.

Trust study. That's because, in part, these discussions foster trust overall, as well as build loyalty with younger clients who want to prioritize social-impact investing.

"Clients want guidance from their advisors about how to vet and select causes, but many advisors are unaware or unprepared to meet this need," writes *Financial Planning* Senior Editor Kerri Anne Renzulli in the main feature, "Give Away Clients' Money — Yes, Really."

How to go about meeting this need? Build trust, first, Renzulli urges. Clients may be wary of being judged for how little they give, or to which causes. Then, lead by example. Daniel Andrews, the founder of planning firm Well-Rounded Success, asks clients to help him select the charities he supports.

"Every year, I give away 2% of my company's top-line revenue to a charity my clients choose," he tells Renzulli. "I feel like it disarms clients. It sets the tone that money is important but that I also feel it is important to give back."

Trust is also vital when it comes to how your practice handles data. What do you say when clients ask who owns their information and what is done with it? Do you even know yourself? Regardless of your answer (if you have one), columnist Bob Veres suggests a solution in his piece, "Who Owns Clients' Financial Data?"

Create an online filing account in each clients' name, he suggests. This account ideally holds the portfolio's performance history, the financial plan and other data.

"Establish this sharing of data as a professional norm," Veres writes. "That way, clients know their data is going to be safe and available."

— Chelsea Emery



"I'll forgive myself for anything I tried and failed, but I won't forgive myself for not trying."

— MICHAEL FARR  
CEO & Founder  
Farr, Miller & Washington  
Founded 1996

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# Benchmark

DATA-BASED INSIGHT FROM FINANCIAL PLANNING AND SOURCEMEDIA RESEARCH

## Retirement Advisor Confidence Index

# Client Appetite for Risk Falters

Amid a shift in focus to portfolio safety, contributions to retirement plans are at an all-time low for this index.

By Harry Terris

Client risk sentiment dropped sharply for the second straight month, reflecting clients' continued worry of stock selloffs and the economy's fundamentals, advisors say.

That's according to the latest Retirement Advisor Confidence Index — *Financial Planning's* monthly barometer of business conditions for wealth managers. At 31, the component tracking client risk tolerance remained deep in negative territory. Readings below 50 indicate a decline and readings above 50 indicate an increase.

"People are worried about 2019, and the volatility of the market is weighing on sentiment," one advisor says.

Clients point to an array of concerns that have set markets wobbling, advisors say: tariffs taking a bite out of trade, high levels of corporate debt, mounting federal deficits and rising interest rates and inflation, as well as stimulus from the tax overhaul wearing off and contributing to a growth slowdown.

Advisors say clients increasingly want to discuss the safety of their portfolios.

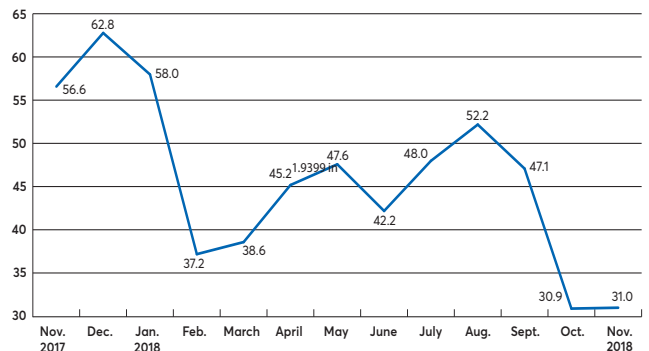
The risk tolerance component helped weigh down the composite RACI, which shed 0.8 points to 45.8, its lowest level since the index was launched in mid-2012. In addition to risk tolerance, the composite tracks asset allocation, investment product selection and sales, planning fees, new retirement plan enrollees and client tax liability.

Advisors say some clients are looking to buy into high-quality equities on market dips. Also, the need to rebalance portfolios after price declines is helping stabilize flows into stocks.

However, clients remain wary overall. "Cash remained on the sidelines," according to one advisor. "No rush to reallocate."

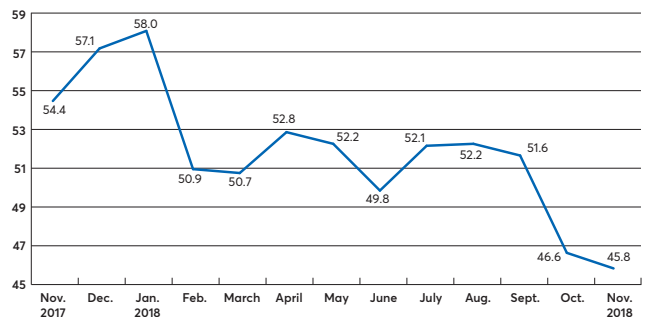
Some advisors say they are counseling clients to invest cautiously. "We believe it is prudent to take a portion of our

### CLIENT RISK TOLERANCE



Source: SourceMedia Research

### RETIREMENT ADVISOR CONFIDENCE INDEX



Source: SourceMedia Research

clients' assets and move them to cash and cash-like instruments given the market cycle and recent volatility," an advisor reported.

Another advisor says that uneasy clients who have shifted into short-term fixed income instruments and cash are likely to keep that position for the time being because "the global political climate and recent economic data does not lead us

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](http://financial-planning.com) for more results.

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# Benchmark

to a bullish outlook.”

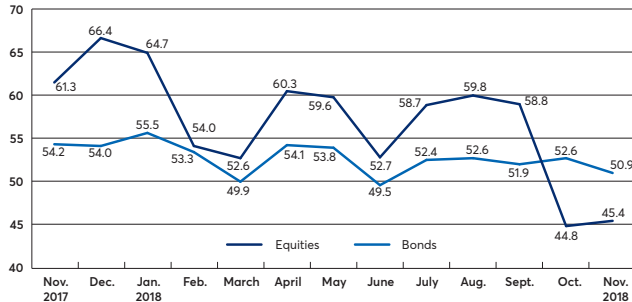
The index component tracking flows into equities remained in negative territory at 45.4. Meanwhile, the component tracking flows into bonds stayed just in positive territory at 50.9.

Deteriorating risk sentiment also reverberated in retirement savings flows. The component tracking the dollar amount of contributions for all retirement plans dropped five

points to 50, its lowest level in the index's history. The component tracking the number of retirement products sold also hit 50, a decline of 0.9 points.

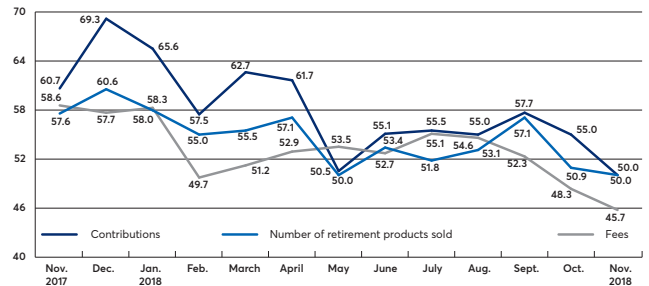
Market conditions and unfavorable trends in retirement savings also hurt revenue, advisors report. The component tracking fees for retirement services dropped 2.6 points to 45.7, its second month in a row in negative territory. **FP**

## CLIENT ASSETS USED TO PURCHASE EQUITIES AND BONDS



Source: SourceMedia Research

## CONTRIBUTIONS TO RETIREMENT PLANS, PRODUCTS SOLD AND FEES FOR RETIREMENT SERVICES



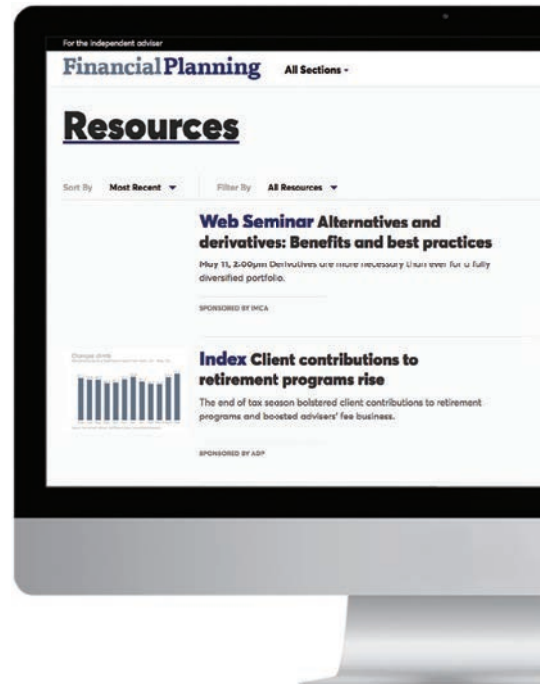
Source: SourceMedia Research

**Harry Terris** is a Financial Planning contributing writer in New York. He is also a contributing writer and former data editor for American Banker. Follow him on Twitter at @harryterris.

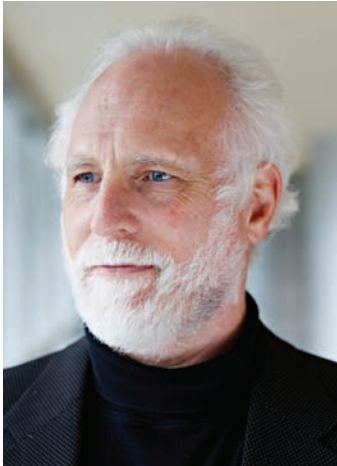
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## A Lock on Client Data

Should it be custodians who holds control over financial data, or clients themselves?

By Bob Veres

Who owns a client's financial data?

This question came up at a roundtable I recently hosted and the subsequent conversation demonstrated that the answer may be more complicated than we realized.

On one hand, a growing number of advisors and their service providers are enhancing their clients' experiences by organizing their finances in online client vaults. At the same time, a countervailing trend is increasingly making it harder to populate those vaults accurately.

Consolidated account statements are one issue, said panelist Eric Clarke, CEO of asset management solution provider Orion Advisor Services. Assets not directly managed by the advisor are included in performance reports, asset allocation software and client vaults, both as a convenience and as a way for the advisor to see a client's full financial picture. This

outside account data is most easily gathered using account aggregation software like ByAllAccounts, Yodlee and Quovo.

The most logical way to have these programs pull in information from outside brokerage accounts, 401(k) plans, bank accounts and credit card sites is for the advisor to collect every client's user name and password for each client account, enter it into the software and instruct it to pull in the latest data every day, week or month. But if the advisor has access to those user names and passwords, that might be considered having custody of the clients' accounts and might trigger the dreaded custody audit.

Instead, the advisory firm will have each client go into a room with a computer hooked up to the account aggregation engine, and the client will input user names and passwords in privacy. The software would store these keys to the data and pull the informa-

tion without giving custody to the advisor.

In theory, this is great. But anybody who uses aggregation programs knows they quickly become an infernal headache. Some financial institutions require customers to change passwords periodically, cutting off the aggregation software's access to account data until the client comes in and enters the new password. Or clients may change passwords without notifying the firm, blocking access to data.

**The Affordable Care Act mandated that patients have the right to their own records. Why should financial services be any different?**

In this era of increased hacking activity and cybersecurity awareness, consumers are being told (I think reasonably) to request two-factor authentication protocols on all their financial accounts. That way, if a hacker were to get hold of a client's user name and password, and try to wire money elsewhere, the financial institution would text-message a code to the customer's cell phone. Did you authorize this transaction? If the scammer doesn't have the customer's phone in hand, the scheme is stymied.

But two-factor authentication also makes it impossible for aggregation software to gather account and performance information for the client's consolidated state-

ments. Increasingly, as clients and institutions ramp up their cybersecurity protections, consolidated reporting becomes less and less feasible.

The roundtable participants then took up the question of who owns the client data? The consensus was that the account information was — technologically, at least — the property of the custodian. Credit card activity information is property of the credit card company, banking records is property of the bank and so forth. In a world where the data doesn't exist unless you can access it, and where institutions control the access, de facto control belongs to the service providers, not the end client.

Joel Bruckenstein, the tech guru who helped facilitate this discussion at the T3 Enterprise conference, suggested a new kind of entity in the financial services world: a centralized client data repository. As he brainstormed with the panel, we eventually realized that clients could actually own their own data if somebody would build this repository and overlay it on the financial services world.

How would it work? Clients would give access to the repository the way they now do to an account aggregation engine, and the repository would become the entity that they log into, which would avoid the hassle of changing passwords and two-factor authentication. Two-factor authentication would give them straight-through access to each credit card, bank or brokerage account. The data now being collected by the account aggregation engines would be collected and consolidated at the repository.

Then, if clients wanted their advisor to create a client portal that organized their financial lives, the advisor could set up an account in eMoney, Box or



In a world where data doesn't exist unless you can access it, control belongs to the service provider.

Everplans, and the clients could specifically give the repository permission to send some or all of their financial data, nightly, to their client portal. Every portal and all the various asset management, CRM and financial planning engines would plug into one data source, one protocol, one API — and each client would have complete control of where the data does and doesn't go.

This puts a lot of trust in one organization, which might have to be a nonprofit, and which would be regulated much like a custodian. Bruckenstein pointed out that, 10 or 15 years ago, if you were to ask your doctor for your medical records, the doctor (or hospital) would routinely tell you that you weren't entitled to them. They owned the data. When the Affordable Care Act came along, it clarified that patients do indeed have the right to their own records and mandated that doctors and hospitals have computerized systems that would allow them to quickly retrieve and easily share this information with patients and other professionals.

Why should financial services be any

different, Bruckenstein asked.

Is there any way advisors can bring clients into this repository world today? Eric Wulff of Aurum Wealth Management Group in Cleveland and Akron, Ohio, said his firm built trust with new clients by telling them, upfront, that they own the data that is collected in the normal course of the planning process.

To back this up, Wulff tells clients that, should they decide to leave his practice, he'll port all their data to a box.com online filing account — including performance history, financial plan and client will, trust and other documents. That way, clients know their data is going to be safe and available, just as with the medical records.

By the end of the roundtable, we thought that, ideally, someday every advisor would set up a box.com account in each client's name, owned by the client, establishing this sharing of data as a professional norm. (Note: I do not have a business relationship with box.com).

That may not be a perfect solution, but for now it may be the best one we have available. **FP**



# Bowen



## Building Trust Amid Skeptics

In today's world, clients and prospects will question your motives, challenge your facts and respond emotionally.

By John J. Bowen Jr.

Investors have grown more skeptical about the financial advice they're getting — and of the professionals offering that advice.

Of course, it's not just the financial services industry that has people wary. Other major institutions — government, corporations and the news media — are all viewed these days with rising suspicion and distrust by a significant number of Americans.

The result: We live in what Michael Maslansky, consultant and author of "The Language of Trust: Selling Ideas in a World of Skeptics," calls a post-trust era. When prospective clients first meet you, they won't immediately give you the benefit of the doubt (as investors in the old days did, we like to think). More likely, their starting point will be uncertainty and doubt about whether they can trust you.

But by adapting how you present yourself and your ideas, you can start to build trust and get investors to engage with you from the first interaction.

Maslansky has presented his insights and strategies to elite financial advisors at my firm's events, and here is an overview of what he shared with the groups.

### Video

How you communicate can be as important as the message.  
<https://bit.ly/2KI6och>

Trust can be hard to come by these days, for a variety of reasons. One being the massive shift in how we consume information in the modern age.

By connecting to the internet or turning on CNBC, investors can feel as if they know as much as the pros about the markets and investing. The key word, of course, is *feel*.

They might not actually be more sophisticated, but they think they are because of

how easy it is to access high-level information. What's more, no one has a monopoly on a point of view anymore.

Anything you might tell your clients or prospective clients has a conflicting argument made by someone else, and that viewpoint is instantly obtainable online. Moreover, those opinions are often presented as facts, rather than a point of view.

**Stay positive. Negativity may work well in politics, but in financial services it only breeds contempt that can lead to rejection or paralysis.**

Armed with all this pseudo knowledge, people enter into conversations with less trust than ever before. In today's world, you can count on clients and prospective clients to question your motives, challenge your facts and respond emotionally, not rationally.

So now you have to actively overcome skepticism just to start a relationship and persuade people.

How can you more effectively say what you want to say in a way that builds trust from the beginning?

Start with the content itself, but shift your approach from one that is initially focused on data to one that stresses context.

Instead of starting with a bunch of facts, for example, start by telling the person why you are going to give

# Bowen

them the facts. Develop a narrative with them that has an overall focus on their goals and long-term plans, which can then be used as a basis to have a conversation that includes all the facts and figures.

Next, consider your tone. Avoid big and bold statements that might not sound credible. Don't overpromise or puff up your abilities. And focus on outcomes. You don't need to tell investors why they should like your motives. You just need to tell them about the things you will help them accomplish.

Try following what Maslansky calls the four principles of credible communication. Here they are, with brief descriptions of each:

**1. Be personal.** The more time you spend talking about products and services and focusing on yourself, the less personal you will seem.

You're better off spending more time talking about the prospect, the client, their goals and preferences, their children and interests and so on.

Sounds obvious, right? Too often, advisors focus on the business side of client interactions — getting through the numbers and the asset allocation decisions and the like — and short-change personal aspects of the conversations. Keep in mind: any conversation you have would benefit if you spend a bit more time on the personal side and less time on the business side.

**2. Be plainspoken.** In the past, if people didn't understand you they would think you were smart — and they'd tend to go along with your suggestions. Now, if they don't understand you, they're going to find someone who they do understand. In one recent coaching program,

Maslansky cited an example of the variable annuity business, where every brochure mentions longevity risk — a concept that, while crystal clear to the advisors, did not resonate with clients. The solution was to reframe the discussion around a simpler idea: not outliving your money.

**In the past, if clients didn't understand you, they'd think you were smart and tend to go along with your suggestions. Now, they'll just find someone else they understand.**

Think about how much jargon is in your daily conversations with clients and how much of it they probably don't understand. Do they really know what correlation is? Or alpha?

Unless your clients have a personality type that deeply values the intricacies of the market, probably not — which means those relationships are at risk. So ask yourself: Do people really understand what you are saying to them, or can you be clearer in your approach?

**3. Be positive.** Negativity may work well in politics, but in financial services it only breeds contempt that leads to rejection or paralysis. Maslansky surveyed a group of investors about whether they wanted investments that helped them "take advantage of opportunities" or investments that helped them "avoid threats."

The vast majority wanted to capture the opportunities. And yet, threats and scare tactics are common when it comes to messaging aimed at retirement savings. And wealth managers have a tendency to talk about how they manage risk. But most clients are not investing to avoid loss. They want to generate some kind of return. If you

focus too much on risk, you miss an opportunity to build trust.

**4. Be plausible.** You have to find ways to build credibility, because nothing else matters if prospects and clients don't believe you.

When Maslansky worked with a global food company trying to change its image, he started with a message that the company was now making healthy food. No one he tested that message on believed it. So he began saying that the firm was striving to make healthier food. That subtle shift got people interested in learning more about it because it was a more plausible message.

In our business, if you ask people whether they will put their portfolio in an investment or put a portion of their portfolio in an investment, interest is much greater when the word "portion" is used. By reducing what you ask for, you can gain more credibility and potentially capture more assets than if you ask for all the assets.

Of course, you might never directly ask prospects to manage all of their money. But the research shows that unless you specifically say the word "portion," people will assume that you are asking them for all their money — and they will be turned off. So be plausible and specific.

Ultimately, you will earn trust by your actions over time. The seeds of that trust are planted the moment a prospective client comes in contact with you.

Given the uphill battle we all face in today's post-trust and alternative facts world, it makes sense to focus as much on how we communicate with others as on what we communicate so investors will engage with us and take our advice. **FP**

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**John J. Bowen Jr.**, a Financial Planning columnist, is founder and CEO of CEG Worldwide, a global coaching, training, research and consulting firm for advisors in San Martin, California. Follow him on Twitter at @CEGAdvisorCoach.



## Heartbreaking Challenge

If Alzheimer's strikes a client, are you prepared to help the family remove his or her right to live independently?

By Kimberly Foss

One in three seniors in America dies with Alzheimer's disease or some other form of dementia, according to the Alzheimer's Association. These diseases kill more people than breast cancer and prostate cancer combined.

In 2018, Alzheimer's and related disorders will cost the U.S. \$277 billion, and by 2050, these costs could reach as high as \$1.1 trillion. Currently, 5.7 million Americans are living with Alzheimer's; by 2050, up to 14 million people could be victims of this disease.

Clearly, the problem of Alzheimer's and related dementia is not going away. In fact, it's getting worse every year. Someone in the U.S. develops Alzheimer's every 65 seconds.

Why do I care about this? Because, like that of many financial planners, the demographic of my practice skews older. For many of my clients—and many of

yours—these statistics are more than a graph or a table in a report; they are a description of real people and their everyday lives.

There's a saying that holds, "They won't care how much you know until they know how much you care." I discovered the truth in this maxim in a powerful way when I was faced with the task of procuring an involuntary mental health commitment for one of my clients.

I've deleted names and changed some of the circumstances in order to respect confidentiality, but the underlying message is faithful to how things really happened.

I had an elderly client, a man, who I had grown to love. He was a financial planning and advising client, and one of the first people to open an account when I launched my firm. Over the years, we succeeded in helping him build a solid portfolio. He and

his wife had stuck with our firm through scary days in the market, including the meltdown of 2008. And they celebrated with us during the long bull run that came after. Not only was our professional relationship solid, but there was, without question, a personal element: a mutual loyalty and appreciation that comes with time and shared experiences.

**An elderly client's family couldn't bring themselves to take the necessary steps, so they asked me to act on their behalf.**

I'll never forget the first time his wife told me about her concerns for her husband. During one of our regular planning reviews, with her husband out of earshot, she leaned toward me and said, "Kimberly, I didn't want to say this in front of Jack, but lately I've noticed that he is forgetting things." She went on to say that her husband of 50-plus years had begun to exhibit many of the classic symptoms of dementia: repeating a question that had been asked and answered in the past 15 minutes; frequently forgetting the day of the week; telling the same story to the same people within a short time period; forgetting how to use the TV remote; and other lapses in cognition that her husband had not exhibited previously. I could see the concern on



# Foss

her face, but he soon returned to the room and we resumed our conference. I put the worry aside for the time being.

**Alzheimer's and other forms of dementia kill more people than breast cancer and prostate cancer combined, according to data from the Alzheimer's Association.**

Over time, his symptoms worsened. Matters came to a head when this previously gentle man started to speak and act abusively toward his wife.

It was clear that this cruel disease was robbing him of everything that made him the person his family and friends loved and admired. Soon, a medical diagnosis confirmed what we all feared.

Everyone knew that this elderly client needed to be housed in a facility equipped to keep him and those around him safe. His wife couldn't bring herself to take the necessary actions, nor could her children. They asked me to act on their behalf, to

request an evaluation for involuntary commitment to a mental health facility. In California, where I live and practice, the part of the state Welfare and Institutions Code governing this matter falls under Section 5150. The family was asking me to take the responsibility of reporting him for a "5150."

To say that this was a heart wrenching experience would be a massive understatement. Here was a client about whom I cared deeply, as I did his entire family. And yet, because of that very personal relationship, I was also the person who would deprive him of his independence and freedom of movement, although not by his choice, but by necessity. As planner and advisor, I could plainly see what had to be done. As his friend, I could hardly bear the thought that I had to be the one to do it.

Cases like these are when the advising relationship becomes intensely personal. It is no longer about portfolio performance benchmarks, risk tolerance, asset mix, or minimum



Almost 14 million Americans will have the disease by 2050, says the Alzheimer's Association.

required distributions. It goes beyond reviewing wills and trust documents and meeting with the CPAs and attorneys. At such times, the relationship becomes one human being caring enough for the other to take an action that, while necessary, is also intensely uncomfortable — to show in unmistakable terms how much you care.

I hope that no one who is reading this is ever placed in the position of having to look into the eyes of a respected client and tell them that they must surrender their independence for the sake of their own well-being.

But I firmly believe that the personal commitment to each client that lies behind such an action is absolutely essential if we are to uphold our claim that we place our clients' interests above our own. In the final analysis, upholding that claim is what differentiates us from all the rest. **FP**

*Kimberly Foss, CFP, CPWA, is a Financial Planning columnist and the founder and president of Emyrion Wealth Management in Roseville, California, and New York. Follow her on Twitter at @KimberlyFossCFP.*

## Alzheimer's By the Numbers

- Alzheimer's is the **6th leading** cause of death in the U.S.
- **5.7 million Americans** are living with Alzheimer's. By 2050, this is projected to rise to **nearly 14 million**.
- **1 in 3 seniors** dies with Alzheimer's or other form of dementia.
- Between 2000 and 2016, deaths from heart disease **decreased 11%** while those from Alzheimer's **increased 123%**.
- **16.1 million Americans** are providing **18.4 billion hours** of unpaid care for someone with Alzheimer's or other dementias.

Source: Alzheimer's Association

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## Walking a Tightrope

A peaceful firm transition requires striking the perfect balance between the interests of founders and successors.

By Brent Brodeski

With the average age of RIA founders now over 60, they and next-generation advisors are increasingly finding themselves in an awkward tug-of-war and, perilously, on the very tightrope that is supposed to bridge the gap between the generations.

Founders want to realize the economic benefits they've earned for a career's worth of toil. Next-generation successors want the opportunity they have rightfully earned to become owners. Clients want a safety net that assures continuity.

As in the book, "Men Are from Mars, Women Are from Venus," founders and next-generation successors often speak entirely different languages. They are in different places and stages, have followed different paths to becoming advisors, have different financial needs and capabilities. And, frankly, they have not practiced balancing on the succession tightrope.

Here's a summary of how I view the typical founder perspective: I started in

commission sales working for a large financial institution. I took a big risk to go independent. I put my personal finances and family at risk. In the early days, I did everything, including taking out the trash. I made big sacrifices, worked long hours, and went into debt starting my firm. There was no backstop. I survived as a result of hard work, dedication, a few good decisions, not screwing up too often and gaining the trust of wonderful clients.

Along the way, I went from a sales representative to top advisor to managing a team and a business. It wasn't easy. I learned most of what made me successful via the school of hard knocks — something the next-generation just does not appreciate. And unlike me, they are not entrepreneurs. Maybe I'll eventually be ready to transition my business to the next-generation, but, of course, I'll expect my successors to show me the money.

My payday will reward me for a career of

hard work. Selling will allow me to realize my own financial independence, provide generational wealth for my family who sacrificed in my absence, and allow me to be generous to causes I value."

**Founders, start early. If internal succession is the goal, allow 10 to 15 years. Otherwise, you may sell your stock for a fraction of what it's worth.**

On the other side of the fence, here's how I view the typical successor perspective: After getting a business degree [and possibly even an advanced degree], I joined a small RIA before it was successful. I earned a CFP on my own dime. I passed on several lucrative opportunities along the way — offers from headhunters and competitors. I dealt with the drama of working for a small firm and a shoot-from-the-hip entrepreneur. The promise of eventual ownership kept me loyal. My personal contribution is a significant reason for the firm's success; the firm would be much smaller were it not for my work. There is no way the founder could have built this, like we did together, on his own. I took excellent care of clients when the founder frequently traveled and lived life large. I professionalized a small practice that otherwise would have floundered. I've pondered starting my own firm but

# Brodeski

remained loyal to the firm and the founder. Now it is my time to assume ownership and control the firm. It is only fair. In fact, it's overdue.

So the question is: How to bridge that gap? The ideal approach would create a scenario that is good for all sides — the founder, successor(s) and clients. And the only way to achieve this is to align interests. Each party needs to understand and empathize with the other parties' perspective, needs and goals. If either the founder or successor plays to win, all tend to lose and the opportunity to maximize value is lost.

## Tips for Gaining Alignment

I've learned lessons regarding alignment the hard way. Here are some ideas that might help avoid the tug-of-war matches I've had.

- **Start early:** Most founders start

thinking about transitioning equity too late. If internal succession is the goal, start 10 to 15 years before you retire. Otherwise, you may find yourself selling your stock for a fraction it's worth.

- **Appreciate the sacrifice:** Founders took risks and contributed a lot to the success of the firm. Successors should empathize in appreciating the founder's entrepreneurship.

- **Be generous:** Founders, however, should overpay successors in the form of equity grants or discounts. This will make them loyal and lock them in. If you start early enough, the initial stock they buy can be leveraged to buy you out later.

- **Don't be greedy:** Both sides could leave bites on the apple. One example, if successors paid extra for a successful transition, all parties could laugh to the bank.

- **You're not that important:** This

applies to founders and successors. Just like 80% of people think they are above-average drivers, founders and successors overestimate their respective importance and contributions. It took a founder, and a team, to get the firm where it is today. Respect this reality.

- **Consider BATNA:** That is, best alternative to a negotiated agreement. What's the backup plan if the parties fail to agree? Smart founders and successors evaluate each other's BATNA, don't overplay their hands and focus on reaching a reasonable outcome for all. The founder-successor tug-of-war is complex, multifaceted and far more dynamic than can be covered in one column. But whether you are a founder or a successor, don't let your emotions, or years of accumulated scar tissue, get in the way of negotiating an aligned, fair deal that can be beneficial to everyone. **FP**

## What's going through their heads

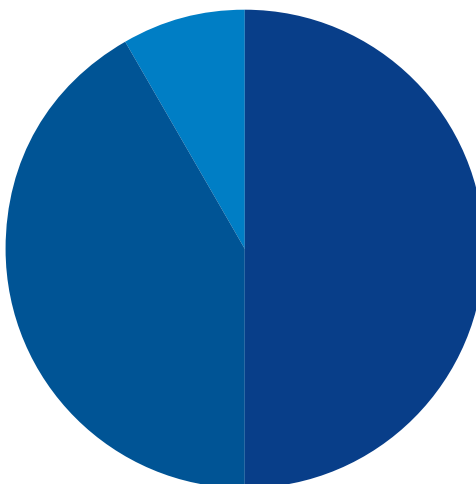
Founder's View	Successor's View
I've been generous with employees, paying above market compensation while I took the risk.	I've made less money here than I could have elsewhere on the promise of eventually owning the firm.
My successors are lucky for the opportunity to buy the company that I built from scratch.	The founder needs to finally share in the spoils since I am responsible for his success.
Of course, my successor(s) should pay me full market value for the firm. It's capitalism.	If the founder wants me to buy the firm, she should loan me money and sell at a discount.
The successor(s) should be happy to borrow money from a bank to pay me FMV. They need to take risk like I did.	I have a mortgage, kids' tuition and would like a second home like the founder. I can't afford a lot of risk.
If my successor(s) don't want to pay me fairly for my equity, I'll sell the company to an outside buyer.	I won't work for the firm if the founder sells externally. I will set up shop and take my clients for free.

*Brent Brodeski is a Financial Planning columnist and CEO of Savant Capital Management in Rockford, Illinois.*

## RIA-Only is a Rare Breed

Advisors with no FINRA licenses make up just 8% of all types of registered representatives.

- RIA-only, 56,472
- Dual registration, 286,799
- BD-only, 343,333



Source: FINRA Industry Snapshot, 2018

## IBD Going Full RIA?

As Commonwealth Financial Network helps advisors convert to full RIA status, some say it is shedding its traditional label.

By Tobias Salinger

When financial advisor Ted Kerr of Touchstone Capital dropped his FINRA license in order to go full RIA in 2017, he and his team needed to get signatures on 20,000 pages of documents.

If he had waited about a year, though, the practice could have avoided the tedious repapering process.

Commonwealth Financial Network has created several ways to help advisors go fee-only, says Devon Cordell, manager of RIA transitions. For example, advisors going full RIA can now send negative consent letters allowing clients to opt out if they wish, without requiring forests of forms.

The firm, the No. 4 independent broker-dealer, launched a specific RIA Services

division with 22 staff members this year. At least 75 advisors have abandoned their Series 7 licenses, with 65 of them registering under the corporate RIA and 10 under their own RIAs, according to the firm.

Most advisors at the largest IBDs are dually-registered, but Commonwealth and rivals like Cambridge Investment Research are boosting their RIA offerings as the movement gains steam. The number of SEC-registered RIAs has jumped by 20% since 2012 to 12,578, according to the Investment Adviser Association and National Regulatory Services.

On the other hand, the potential flow of assets to outside RIAs from corporate platforms threatens revenue losses to IBDs.

But IBDs have stopped short of reining in indie RIAs, such as LPL Financial's recent rollback of a corporate RIA requirement on incoming advisors.

**"The ability to say you're fee-only; it may not seem like a big deal, but I've perceived a change in the way my clients see me."**

The industry has seen a "rapid acceleration" of advisors ditching their FINRA registrations, said Commonwealth CEO Wayne Bloom. He cited the firm's expanding count of fee-only advisors in his keynote speech at the firm's annual conference. Many more advisors are exploring moves to fee-only as well, he said.

"As the transition to fees continues to accelerate throughout the industry," Bloom said, "I think we're on the front end of a wave of advisors dropping their FINRA licenses to be exclusively fee-based."

Kerr of Pittsburgh-area Touchstone and Michael Comstock of Brentwood, Tennessee-based Premier Wealth Management chose different paths in becoming fee-only in 2017. Comstock decided to remain formally affiliated with Commonwealth's RIA as an investment adviser representative.

Out of 30 fee-only



Commonwealth offices with nearly \$7 billion in advisory assets, 26 have become IARs. Comstock said that helped reduce paperwork and the headache of converting brokerage accounts to advisory relationships under the firm's options for 529s and other products.

The move was "a natural progression" for his largely fee-based practice, Comstock said. "It was a philosophical thing that just made sense for us, and where we saw our vision for our company moving forward, and who we wanted to work with."

While he's no longer formally aligned with Commonwealth, Kerr taps the company as he would a consulting firm or service provider, he says. The move from brokerage to advisory accounts was difficult, but his existing clients switched \$5 million worth of dormant assets to advisory accounts.

Kerr echoes Commonwealth executives who now refer to the firm as an "infrastructure provider" more than a BD. Identifying it as a BD does a "gigantic disservice" to its menu of offerings for advisors, he says.



Commonwealth CEO Wayne Bloom speaks at the firm's recent national conference in Austin, Texas.

In a conference panel with Comstock and Cordell, Kerr said going fee-only allowed him to provide more services to clients while altering their relationship in more ways than the flow of assets.

"The ability to say you're fee-only; it may not seem like a big deal, but I've perceived a change in the way my clients see me," Kerr said. "It certainly has substance to it. There are less conflicts of interest. I think I am a better advisor because of it."

Dealing with SEC supervision rather than FINRA represents one of the most

common reasons for making the change, Cordell said. The fee-only side is "where the business is going and where the industry is going," she said.

"It just fits their way of doing business," Cordell said. "It seems to be a very seamless process with the clients who already feel that these advisors are fiduciaries, and they're just able to actually now say they're true fiduciaries."

Bloom said in his speech that the company is not trying to push any particular affiliation for its more than 1,800 advisors. Next year, the firm will give them more custodian choices to make potential fold-in acquisitions easier for advisors, says Managing Partner John Rooney.

Commonwealth started to "cross-train" existing service staff about the RIAs needs before creating a specific RIA unit at its Waltham, Massachusetts-based corporate office, he says.

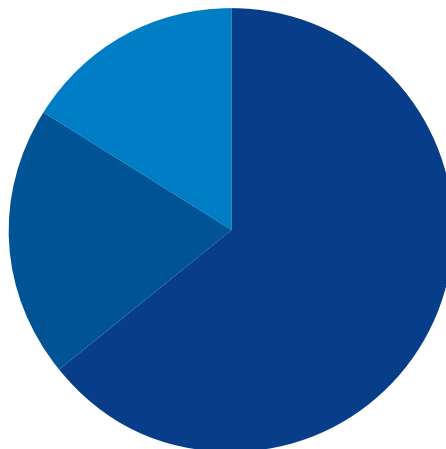
"We made the financial commitment to say, 'Even though it might not be the most efficient business model right now to break these people out, in the long run, it's what we need to do,'" Rooney says. "We need to be able to service the wave of fee-only as it really picks up momentum." **FP**

**Tobias Salinger** is an associate editor of Financial Planning. Follow him on Twitter at @TobySalFP.

## No. 4 IBD's \$1.2B Business

Commonwealth took 64% of its revenue from fee-based advisory services in 2017.

- Fee revenue, \$798.3M
- Commission revenue, \$245.9M
- Other revenue, \$197.4M



Source: Company data

## When it's OK to Hang Up on FINRA

The regulator has warned of phony calls and emails from impersonators.

By Alan J. Foxman

**Q: I recently read a FINRA notice that warned of people impersonating FINRA employees to obtain sensitive information. The notice suggested looking out for overseas phone numbers and email domain names that do not end with "finra.org" as indicators of possible fraud. Are there other suggestions you can offer that we can use to protect ourselves?**

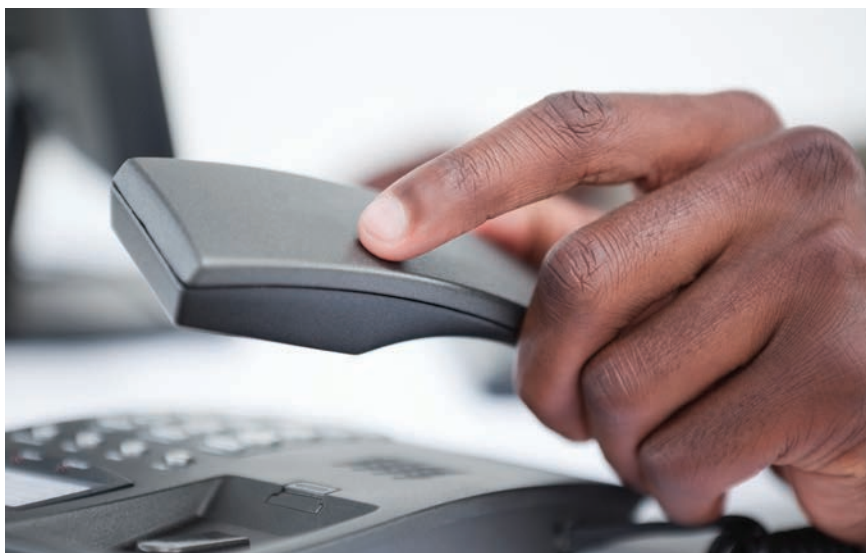
**For example, I would be hesitant to tell potential examiners that I want to call them back through a confirmed FINRA telephone number to verify their identities, but now I'm wondering if that is something I should do.**

A: FINRA issued a notice in July warning member firms of scam artists who are trying to impersonate regulatory officials. The notice was rather short and only specified two incidents so, hopefully, these were the only two cases.

In one instance the imposter refused to provide any information about herself, other than a bogus telephone number. In the other incident, the imposter provided a phony email address that used @finra.org.co.uk as the domain name.

Unfortunately, not all scam artists will be so obvious or inept. Fraudsters continue to enhance and refine their techniques, and it is up to you to be on the lookout.

I not only think your suggestion is a good one, but I also believe that it should be considered standard practice every time you are contacted



Fraudsters continue to enhance and refine their techniques, and it is up to you to be on the lookout.

by a regulator.

First, depending on your position within the organization, any telephone contact with a regulator should immediately be forwarded on to your manager and/or compliance officer. You should never attempt to give out any information beyond your name and that of your supervisor to anyone purporting to be a regulator unless you have been specifically authorized to do so.

Even if the regulator is legitimate, you should not provide any information that you have not been authorized to offer since you may compromise yourself and your employer and inadvertently subject either or both of you to disciplinary actions.

If a regulatory examiner wants to speak with you, it would almost certainly be arranged through your

supervisor or compliance officer beforehand. He or she will schedule the call and provide you with a time and date to speak to the examiner.

In other instances, it is perfectly acceptable to tell the caller that you need to verify their identity (regardless of whether they are from the state, the SEC or FINRA) and that you will call them back after doing so.

Of course it should go without saying that you should not call the number they provide to you when attempting to verify their identity.

Ask them what office they are calling from and then look up that office's number on the regulator's website and call them back at that number.

Callers who object to this practice or respond with threats of disciplinary action should raise red flags. **FP**

Alan J. Foxman is vice president at NCS Regulatory Compliance and a partner at the law firm of Dew Foxman & Haugh in Delray Beach, Florida.

# Give Away Clients' Money — Yes, Really

It may seem counterintuitive, but offering robust philanthropic guidance can be a boon for your practice.

By Kerri Anne Renzulli

Wealthy clients trust few people as much as their financial advisors for information about charitable giving, yet planners can be understandably reluctant to encourage significant contributions. After all, the more clients donate, the fewer assets planners have to manage.

Yet discussions about philanthropy and its related tax advantages can help advisors fortify a strong bond with clients, or, alternatively, fray a weak relationship. That means it's vital to find ways to serve these needs or risk losing clients to competitors who will.

Fewer than half of HNW clients reported being satisfied with the philanthropic consultations they've had with their advisors, according to a recent U.S. Trust study.

"Philanthropy can be a differentiator," says Henry Berman, CEO of Exponent Philanthropy, a membership association for charitable giving. It can strengthen a client relationship over the long term and even extend to multiple generations."

There is a financial benefit as well. More than three-fourths of advisors say they earned more money after talking about philanthropy, according

JOSH ANDRUS

Philanthropy conversations with clients don't have to be uncomfortable, according to Seth Corkin, a financial planner at Single Point Partners.



# Special Report: PHILANTHROPY

to the study, which surveyed 314 advisors and 103 clients with \$3 million or more in investable assets who make charitable gifts.

Sixty percent reported that the talks helped them find new clients, 74% said it deepened existing client relationships and 63% said the talks allowed them to build relationships with the client's extended family, according to the survey.

"The next generation will switch advisors in a heartbeat when there is a wealth transfer if there is no existing relationship with their parents' wealth advisors," Berman says. "So it makes sense to work with the entire family, and philanthropy is one of those legacy issues that people typically want their children and grandchildren to be a part of."

Some advisors are cautious about discussing this topic, perhaps because they worry about losing income. After all, why would an advisor want to help clients essentially deplete the assets they have under management?

"Helping clients give away money makes you a more valuable resource to them," says financial planner Mitchell Kraus, who co-founded Capital

Intelligence Associates in Santa Monica, California. "We've had clients brag about how we've helped them support their favorite cause, and it's become a great referral service for us."

Maybe you realize the importance of speaking with clients about philanthropic goals, but what's the best way to go about it?

**Fewer than half of HNW clients reported being satisfied with the philanthropic discussions they've had with their advisors.**

**Bring the topic up early:** Advisors underestimate how soon clients want to have discussions about philanthropy, the U.S. Trust study found.

Typically advisors prefer to wait until they have detailed knowledge of a client's financial picture or know more about their personal details to bring it up, but clients aren't always keen to wait.

Nearly one-third of clients surveyed said they wanted to talk about charitable giving at their first meeting, while another third said the topic should be raised within the first few meetings.

"It can be tricky to bring up since it is

such a personal thing," says financial planner Seth Corkin of Boston-based Single Point Partners. "You don't want them to think: 'This person is judging me, they don't think I'm giving away enough of my money.'"

One way to gauge a client's views on charitable giving: review several years of tax returns to understand how they gave and how much they gave, Corkin says.

To bring up charitable giving even earlier — say before a client has delivered documentation on past finances — many advisors shift the focus to goals or questions about values to determine how to broach the topic.

"Don't approach a client with 'Are you philanthropic?'" says Arlene Cogen, a financial planner and philanthropic leadership consultant. She suggests asking broad-brush questions that will help you spot their interest in giving. "What do they want to be remembered for? How do they define success? What was important to their success? What was something meaningful that happened to them that was made possible by the money they have?" Make it a discussion of values and life lessons."

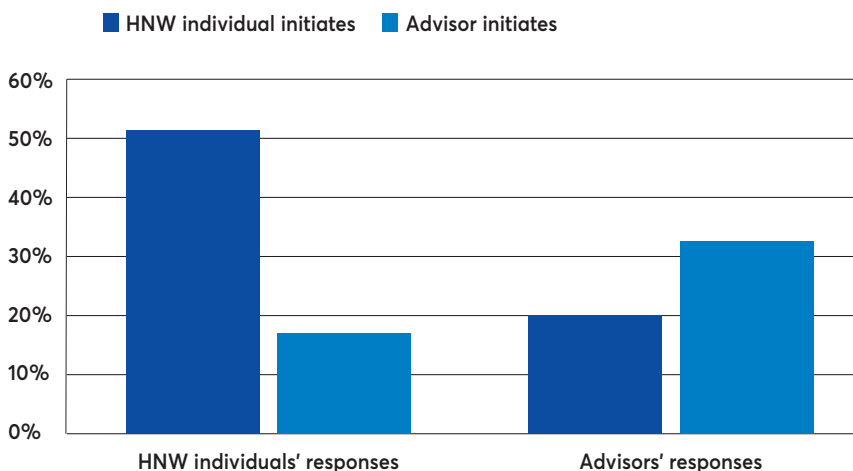
For existing clients, regular estate plan reviews, a large inheritance or a business sale can serve as catalysts to raise the topic again. Ensure the estate plan reflects the legacy a client wants to leave, and in the case of a sudden asset increase, make sure clients understand how charitable giving may reduce their taxable income.

**Make it personal:** Easing into conversations around charitable giving by inquiring about a person's values, passions, goals or background not only saves you from appearing judgmental or pushy, but also can endear you to clients.

Unsurprisingly, advisors tend to be thorough about discussing technical aspects of charitable giving such as using donations for tax benefits or estate-planning purposes. Clients, however,

## Who Leads the Philanthropic Discussion?

A majority of wealthy clients say they bring up the topic first with their planners.



Source: U.S. Trust, The Philanthropic Conversation, 2018

would prefer an initial approach that balances financial topics with more personal suggestions on giving such as their motivations, which charities interest them, their specific philanthropic goals and what legacy they wish to leave.

Clients care about the philanthropic activities in which their advisor or the firm participates. That experience can inspire greater confidence in the advisor's philanthropic advice. More than half of clients surveyed placed greater value on information that came from advisors who also donated.

Daniel Andrews, a financial planner and founder of Well-Rounded Success in Fort Collins, Colorado, says he shares personal stories about his own volunteering and giving efforts in blog posts, on social media and in conversations to show clients he practices what he preaches. Those posts also encourage clients to brainstorm about the nonprofits or volunteer opportunities they might wish to participate in.

## How Advisors Want to Improve

These are the most common areas of weakness in philanthropic planning they say they want to address.



Source: U.S. Trust, The Philanthropic Conversation, 2018

He also asks his clients to help him choose the charities he supports.

Each year he gives away 2% of his company's top-line revenue to a charity chosen by his clients through a survey. He announces his deeds through a banner on his web site. "It sets the tone that money is important, but that I also

feel it is important to give back," he says.

The tax law changes in 2018 have put further pressure on advisors.

"It's more crucial than ever to understand a client's tax situation, and whether they are expected to itemize or take the standard deduction each year, in order to optimize their charitable

## Resources for Philanthropic Clients

- Clients can learn more about the charities that interest them by reading each organization's IRS Form 990 and other financial reports on GuideStar.org. The filings disclose the nature of a nonprofit's work, the amount of money raised and names of board members.
- The sites CharityNavigator.org and Give.org rank charities based on their finances, transparency and accountability. A good guide is to stick with groups whose administrative expenses total less than 25% of their budgets.
- When clients want to target a broad cause like environmental pollution or LGBTQ rights but do not have a specific organization in mind, other digital tools can help them learn more. Myphilanthropedia.org compiles expert reviews on almost 800 charities across 36 causes. GiveWell.org, GivingWhatWeCan.org, and TheLifeYouCanSave.org create shortlists of top-rated organizations that are managing costs effectively and are in need of more funding.
- For smaller or local charities, greatnonprofits.org can aid a client in the search for local people who work with the organization. Advisors might also encourage clients to test out a small charity firsthand by volunteering or donating small amounts at first, to see if they like the charity's programs and level of donor engagement.

# Special Report: PHILANTHROPY

giving each year," Corkin says.

An increase to the standard deduction, for example, means many people who previously itemized and therefore received a tax break for their charitable giving may no longer be eligible for a deduction. Donation vehicles, such as donor-advised funds, can help advisors plan a little more creatively and help clients ease their tax burden.

One approach that's become more attractive in the new tax environment involves lumping donations together in a single year within a donor-advised fund.

"If someone gave \$10,000 per year to various charities, we might recommend contributing three to five years' worth of gifts (\$30,000 to \$50,000 in this example) into a donor-advised fund," says Joshua Stillman, an advisor with Capitol Financial Consultants in Mclean, Virginia. "They can then use the donor-advised fund to grant out \$10,000 per year as they had done before, but from a tax perspective, they might receive more tax benefits as they can itemize deductions in one year and take the standard deduction in intervening years."

Learning about these vehicles also provides advisors with the opportunity

to connect with clients' families.

"If a family sets up a donor-advised fund or private foundation, grantors can include children and grandchildren as donor-advisors or trustees, or at the very least, set aside some annual grants to be made as family decisions," Stillman says. "This can facilitate a family discussion on values, causes and types of organizations the family agrees and disagrees on supporting."

Clients want guidance from their advisor about how to vet and select causes, but many advisors are unaware or unprepared to meet this need.

When clients already have specific organizations in mind, advisors can direct them to do a little online digging by pulling up the organization's IRS Form 990 and other financial reports on GuideStar.org. Such forms can reveal the kind of work the nonprofit is focused on, the money they've raised and who is on the board.

The reasons most clients give for not donating or holding back on giving include a lack of connections to nonprofit organizations and a fear that their gifts would not be used wisely. Advisors, on the other hand, completely

miss the mark thinking their clients are hesitant to give because of fears about not having enough money for themselves or heirs.

**Clients want guidance on how to vet and select causes, but many advisors are unprepared to meet this need.**

This presents a big opportunity for advisors to beef up their general knowledge of philanthropy and get acquainted with nonprofits so that they can become that resource clients are seeking. Of course, walking the balance between helping them do that and coming across as an advocate for a specific nonprofit can be tricky.

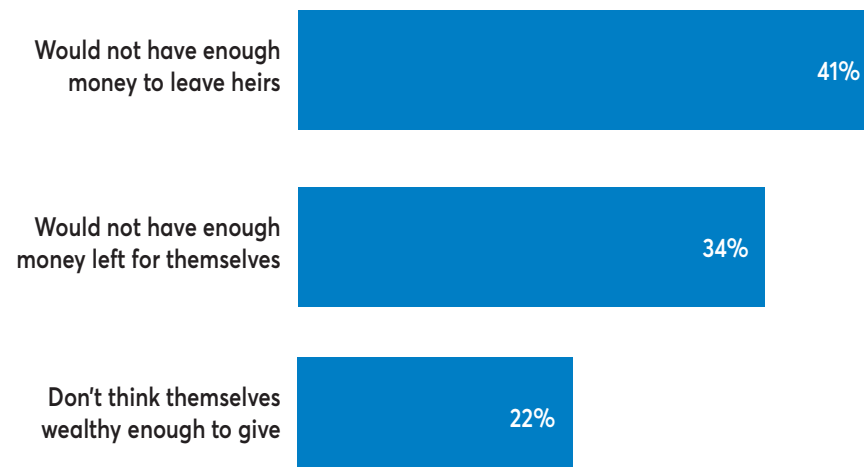
"Planners can be more involved in the actual giving strategy by helping them identify and articulate what causes they want to focus on," Stillman says.

In some cases, it pays to build relationships with local community organizations. Patti Black, a financial planner and partner at Bridgeworth in Birmingham, Alabama, connected with a community foundation that meets with potential donors and coordinates site visits to several nonprofits. That allows Black to steer clients to a helpful resource and makes her appear more knowledgeable.

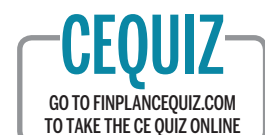
Such strategies can boost clients' confidence in the advice received from advisors and foster greater giving to charities of the families' choice. That's the sort of giving that helps people far beyond the advisor-client partnership. **FP**

**Kerri Anne Renzulli** is a senior editor of Financial Planning.

## Why Advisors Think High-Net-Worth Clients Don't Donate More



Source: U.S. Trust, The Philanthropic Conversation, 2018







If advisors are after a smooth transition, they're going to have to come to terms with giving up control.

## Step Aside — And Mean It

Owners in the middle of a transition should make a clean break to avoid confusion.

By Charles Paikert

Advisors have heard plenty about the need for succession planning. But what can RIA principals and upper management expect when it's time to actually make it happen?

Tim Kochis, who presided over a major management transition when he retired as CEO of Aspiriant in 2012, addressed the topic head-on with consultant David DeVoe at the recent Schwab Impact conference.

Founding partners do eventually have to make a clean break, said Kochis, citing his own experience at Aspiriant. He and Rob Francis, the firm's current CEO, worked out a year-long transition that resulted in Kochis taking a six-month sabbatical from the firm

after Francis took the reins.

The break needs to be "crisp" to avoid confusion, explained Kochis, now a special advisor to DeVoe & Co.

One owner who handed over control to a junior partner continued to come into his firm's office, DeVoe said. By force of habit, employees came to the owner for guidance. The owner provided it — without walking the employees over to the new CEO's office. Big mistake.

Principals who give up day-to-day control can continue to make contributions to their firm. They can — and often should — work with legacy clients, help cultivate prospects

and provide valuable counsel based on their years of experience.

But DeVoe and Kochis stressed that the management transition should be carefully mapped out, and suggested four guidelines:

- **Commit to giving up control.**

This may apply to specific areas or overall firm operations. But most importantly, Kochis stressed, "set a time frame."

- **Communicate your plan clearly.**

Having a plan isn't enough, Kochis said: "Make sure your clients and staff know what it is."

- **Create a process and a timeline.**

The incoming management team will need to learn by trial and error. Carefully detail what you're going to do during the transition — and what you're not going to do afterwards.

- **Engage, monitor and refine.**

It's OK to make changes, even to lengthen the transition timetables, if unforeseen events are calling for it. But whatever you do, Kochis emphasized, "Don't renege!"

Above all, he stressed, when the transition is completed, "It needs to be very, very clear what the founder can and can't do." **FP**

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



According to a new court ruling, an inherited IRA is now up for grabs to creditors if a client files for bankruptcy.

## Creditors Get the Ex's IRA

After declaring bankruptcy, a client may lose retirement assets received in a divorce settlement.

By Ed Slott

Advisors may now have to rethink their guidance on how clients should treat retirement assets acquired during a divorce after a recent bankruptcy court ruling.

The 8th Circuit Bankruptcy Appellate Panel ruled in October that an IRA awarded in a divorce settlement is a property settlement, not a retirement account, and thus is not shielded from bankruptcy.

The ruling relied heavily on a 2014 Supreme Court decision (*Clark v. Rameker*) that found inherited IRAs are not protected under the bankruptcy code. The high court concluded the bankruptcy code exemption

was limited to retirement assets, which it defined as "sums of money set aside for the day an individual stops working."

That Supreme Court ruling had noted that beneficiaries of inherited IRAs must take annual minimum distributions regardless of age, can withdraw funds without limit from the IRA penalty-free regardless of age and cannot contribute to their inherited IRAs to save for retirement.

In the recent 8th Circuit ruling (*In re Lerbakken*, 122 AFTR 2d, Oct. 16, 2018), the court extends the Supreme Court finding to IRAs that are included in a divorce settlement.

This expands creditors' reach.

This case began in 2014, when a man named Brian Lerbakken and his wife finalized their divorce. Lerbakken was awarded his ex-wife's IRA and one-half of her 401(k) plan. For reasons unknown, a qualified domestic relations order was never filed with the plan administrator. It appears the IRA assets were never transferred. In fact, at oral arguments before the court, Lerbakken's attorney confirmed that both IRA and 401(k) plan monies remained in the ex-wife's accounts.

**A recent ruling could alter the landscape of how individuals with retirement plan assets approach bankruptcy filings.**

In January 2018, Lerbakken filed a Chapter 7 bankruptcy petition and listed both the 401(k) and IRA assets awarded during the divorce as exempt property. Under the federal bankruptcy code, assets in a qualified retirement plan have unlimited protection while IRA assets are protected up to \$1,283,025.

The 8th Circuit Bankruptcy Appellate Panel had to decide whether the protections afforded to retirement plan assets extends to those transferred in a divorce.

No, the court ruled. The

401(k) and IRA assets were property settlements, not retirement accounts.

### Bankruptcy vs. Creditor Protection

The distinction between bankruptcy protection and general creditor protection is clear. General creditor protection involves claims other than bankruptcy, such as lawsuits or other judgments. That distinction is not a problem for company plans such as 401(k)s because they receive broad federal creditor protection under the Employee Retirement Income Security Act, or ERISA. IRAs receive no such federal protection; IRA creditor protection is based on state law, which varies.

In New York, for example, (In Re: Todd, Bkcty Ct NY, 121 AFTR 2d 2018-658, March 23, 2018), a federal bankruptcy court ruled that under New York State law inherited IRAs receive no protection in bankruptcy, citing the Clark ruling.

In this case, Laurie A. Todd received an inherited IRA from her deceased mother in 2008 that in January 2018 was worth \$800,000. In

May 2015 she had declared bankruptcy while facing a potential liability of up to \$1.8 million after she joined other family members in indemnifying an insurance company that issued performance and payment bonds for a construction project.

The court concluded that an exemption from bankruptcy funds that have not been saved by individuals for their retirement would be "fundamentally inconsistent with the statute's purpose" and the New York State Legislature's intent.

Thus, it held that no exemption for the inherited IRA is allowed under New York law. The IRA is subject to creditors' claims as property of the bankruptcy estate.

In Illinois, a bankruptcy court (In Re: Hamm – 122 AFTR 2d. 2018-5384 (Bkcty. Ct. IL), July 9, 2018), again citing the Clark ruling, determined that an inherited IRA does not qualify as "retirement funds" that are exempt from bankruptcy, under either federal or state law. As a result, most of the debtor's IRA assets were not protected from bankruptcy creditors.

If the inherited IRA is explicitly protected under state's bankruptcy law, clients can go through bankruptcy proceedings knowing that their inherited IRA assets are safe. However both the Todd and Hamm cases are warnings that state law may treat inherited IRAs in the same manner as federal bankruptcy law and provide no, or very limited, protection for these assets.

### Advisors with clients negotiating a divorce settlement should help them look to other assets that might be better protected in bankruptcy.

While the Lerbakken decision only applies to the 8th Circuit (Arkansas, Iowa, Minnesota, Missouri, Nebraska, North Dakota and South Dakota), all advisors should pay attention, in the event other courts adopt a similar rule. If adopted on a wider basis, it will alter the landscape of how individuals with retirement plan assets approach bankruptcy filings. Most clients have retirement accounts; divorce is often cited as one of the most common reasons for ending up in bankruptcy court.

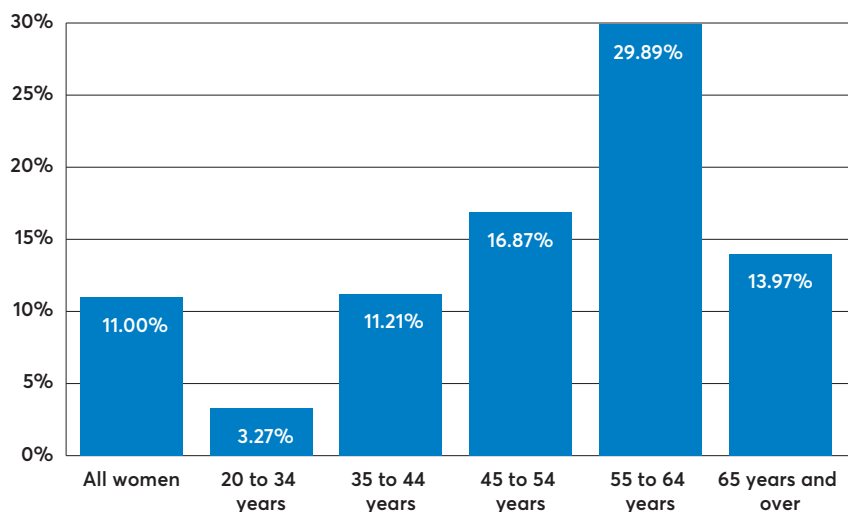
The Lerbakken court had relied heavily on the unanimous Supreme Court decision in Clark v. Rameker, which held that inherited IRAs are not protected retirement funds under the bankruptcy code. The Lerbakken court held that the 401(k) and IRA assets were property settlements, not retirement accounts.

It didn't matter that while the two were married, Lerbakken's wife had contributed to those funds for their joint retirement. As a result, bankruptcy protection was denied.

The bankruptcy panel asserted that the Supreme Court's ruling in Clark v. Rameker "clearly suggests that the exemption is limited to individuals who

## When Divorce Happens

Percentage of divorced women by age



Source: 2018 data from U.S. Census Bureau



## Client

create and contribute funds into a retirement account. Retirement funds obtained or received by any other means do not meet this definition.”

That far-reaching view is a huge stretch of the Clark ruling. Whether this interpretation will hold up before the Supreme Court remains to be seen. One implication of these rulings is that, if they were taken a step further, even ordinary spousal IRA rollovers after death could be exposed to creditors, since the inheriting spouse did not create or contribute to those funds. That seems like a bridge too far.

The Lerbakken decision raises — and leaves unanswered — two important questions:

1. Would the result have been the same if Lerbakken had filed the qualified domestic relations order with

the 401(k) plan and acted to possess the IRA assets?

2. And what if Lerbakken had rolled those assets into his own IRA or 401(k)?

Best practices indicate that a qualified domestic relations order should be filed with the plan as soon as it is executed by the Court; there is no reason to delay this final step. Similarly, IRAs awarded in a divorce proceeding should be transferred in a trustee-to-trustee transfer once court action is resolved. In this case, Lerbakken could have simply retitled the IRA since he was awarded the full account.

**The Lerbakken decision only applies to the 8th Circuit, but advisors should note that other courts could adopt a similar rule.**

Yet these steps might not have helped the debtor after filing for

bankruptcy. The Lerbakken court mentioned this fact only in passing and repeatedly emphasized that the funds were obtained through a property settlement. Retitling the accounts might not have affected this characterization.

On the other hand, what if Lerbakken had rolled those assets into his own IRA or qualified plan prior to filing for bankruptcy? Clearly, his own IRAs and qualified plan contributions would be considered retirement funds entitled to bankruptcy protection.

Would this protection extend to the entire account or would the amount obtained in the divorce be carved out? If there was a carve-out, would it include earnings and losses on the transferred sums? And would the court have denied exemption to the entire account under the reasoning that the

rolled-over divorce assets somehow tainted the account? These questions remain unanswered.

**Starting in 2019, alimony will no longer be deductible for the spouse who is paying. Pre-2019 agreements are grandfathered.**

For now, and until these questions are addressed in any future rulings, in any divorce settlement where a spouse is awarded retirement funds, those funds should be directly transferred to a separate new IRA that doesn't contain any of that spouse's own IRA funds.

This would ensure that the spouse's own IRA funds would not be tainted by being commingled with IRA funds received in a divorce in the event of bankruptcy. Financial advisors should carefully monitor these accounts and

keep those IRA funds separate.

And with the knowledge that retirement funds split in divorce could be vulnerable in bankruptcy, should your clients be negotiating a divorce settlement, help them look to other assets that might be better protected or that could be held by the receiving spouse in a protected trust.

### Impact on Alimony Planning

Beginning in 2019, the new tax law changes the rules on alimony, so it will no longer be deductible for the spouse who pays it and no longer taxable to the spouse receiving it. Pre-2019 agreements are grandfathered.

One strategy I have recommended to advisors to effectively salvage the alimony deduction is to use IRA funds in lieu of alimony. This way, the spouse giving up an IRA is effectively gaining

a deduction since these funds are pre-tax funds that the IRA owner would have paid tax on when they were eventually withdrawn.

But this tactic, even if viable, may not work as well if the spouse receiving the IRA has financial problems that could lead to a bankruptcy situation. Under Lerbakken, the IRA could be exposed to creditors in bankruptcy, so advisors should be careful to take this into account. **FP**

**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.

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## Look Beyond HNW Clients

You might be missing out on a big opportunity to build your book of business.

By Amanda Schiavo

Financial advisors tend to seek out coveted high-net-worth investors, but this isn't the only opportunity for growth.

A large segment of non-wealthy workers could benefit from an expert's perspective and these potential clients are underserved.

Only one-in-three middle-income workers are on track to achieve a comfortable retirement by age 67, research by Aon found. The average U.S. worker will need to wait until 70 to retire, based on savings habits. But the average American says that they will retire at 66, according to a recent Gallup survey.

These potential clients may just need to realize that help is available or know how to find it, says Alex Koury of Values Quest in Phoenix. But what are the best strategies to target this segment?

"The biggest thing we can do as advisors is offer our services and lay out our cost of services to people that really only need, say, the financial plan," he says.

This can break down barriers and change misconceptions because "if

someone knew that they could get their whole planning done for a few hundred dollars to maybe \$1,000 — depending on the complexity of their financial plan — that's a different conversation than automatically assuming that advisors won't talk to you unless you have \$250,000 of investible assets."

Indeed, only 50% of people aged 60 and 69 consider themselves to be advisor assisted or advisor directed, according to a Cerulli survey asking investors how they'd classify their advice orientation.

Advisors who can "credibly connect with investors in this segment can make significant positive impacts in the lives of investors as well as their own practices," says Scott Smith, director of advice relationships at Cerulli.

But there is one trend working in advisors' favor: "Investors' willingness and confidence to operate on a self-directed basis declines with age," Smith says. "Once investors have accumulated assets and are approaching retirement, they

need more hands-on help. Creating a sustainable retirement income stream is much more complex than maintaining an accumulation portfolio."

The real opportunity, though, comes from seeking out that other 50% of retirement aged-people not working with a professional but in need of guidance.

"One opportunity is through financial education workshops," Koury says. "Whether you can set up a workshop through our local library or community college, those are great ways to get in front of people [who] want to learn about financial planning and financial education. You can be a teacher to them, to show them how to put a financial plan together. Those are great ways that are very inexpensive to execute."

Speaking directly to different employers within your community and setting up financial wellness programs for their employees is another way Koury says advisors can reach these clients.

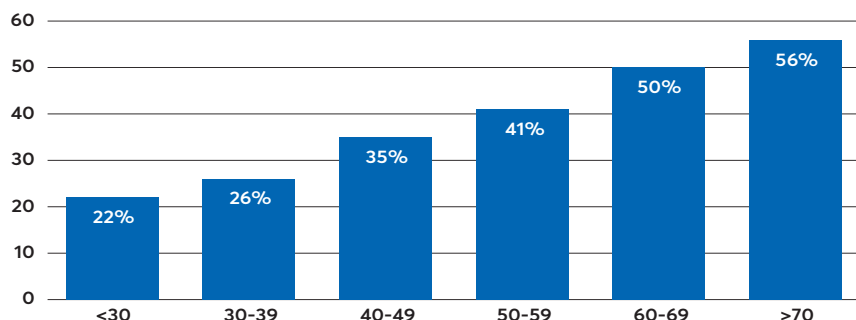
"Most people [who] already have a lot of money and little debt don't need a whole lot of help. But this is always the default, in my opinion, when it comes to marketing and prospecting — looking for those [with] the most money," he says. People who need the most help are the ones who "aren't being paid attention to."

One of the top priorities for advisors is to make sure clients' savings will not dry up during retirement. This is also a top priority for clients since spending retirement money often creates anxiety, says advisor Melissa Sotudeh of Halpern Financial in the Washington, D.C., area.

As a result, she takes her clients through an awareness exercise that

## Households working with an advisor

By age range



Source: Cerulli Associates, U.S. Retail Investor Advice Relationships: Optimizing Engagement, 2Q 2018

stress tests their portfolios in order to see how they'll hold up amid a bear market.

"The typical advice of a 4% withdrawal rate does not take sequence risk into account, and it doesn't account for required minimum distributions, Social Security benefits or the fact that a person's retirement income needs may change over time," she says. "We typically create a plan called a retire-

ment income security plan for our clients, which details a withdrawal sequence and proper portfolio allocation to support an individual's retirement income needs."

It's important to have an idea of how money will flow — and be taxed—from all income sources, Sotudeh adds. When a client's savings are all pretaxed retirement accounts, advisors have to

factor for that, she says.

"We do take into account if it is all pretaxed money because the balance of the pretax account, the value needs to be discounted for the tax impact. So it's lower."

An advisor may be able to come up with a smart plan, but if they are unable to reach the people that need it most, it could all be for naught. **FP**

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**Amanda Schiavo** is an associate editor of Financial Planning. Follow her on Twitter at @SchiavoAmanda.

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## Time to Retire — or Start a Gig?

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The age of fat pension checks and days spent on the golf course are gone. Have planners adjusted to their clients' desires to pick up part-time work?

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By **Nina O'Neal**

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When I hired an Uber to take me home after eating out, I was surprised to get a driver in her 80s. I asked why she was working for the company. "Because it's a lot more entertaining than my husband, and we need the additional income for our retirement," she replied.

Her zippy response led me to wonder: How many retirees are joining the gig economy? According to a 2017 study by Prudential, 31% of those undertaking pick-up work are boomers (54 to 74 years old). Additionally, 75% of the retirees said they were happy with the arrangements and were not considering changing them.

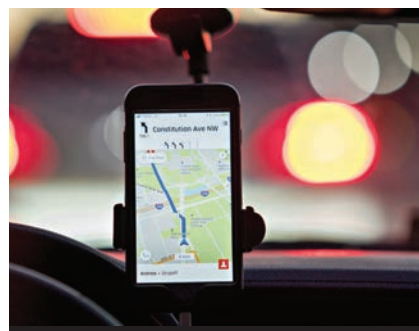
Over the years, the landscape of retirement planning has evolved dramatically. Retirement is no longer perceived as the ultimate end to decades of long service to one company, followed by days spent on golf courses or volunteering as monthly fat pension checks arrive in the mailbox.

What prompted the change?

When Social Security began in 1935, life expectancy was 61. As of 2017, average life expectancy was 78.8, according to the CDC's National Center for Health Statistics. As life expectancy continues to rise, longevity has strained pension funds, Social Security and personal retirement savings. The 4% Rule suggesting how much retirees can take from their retirement accounts may not be enough if a client saved too little, or lived too long.

Clients' views of retirement have also evolved, across generations. At my firm, Archer Investment Management, 55% of the assets under management are owned by Generations X and Y. Many of these clients are skeptical of Social Security. None have substantial pensions. There is a keen understanding that their personal savings will form their retirement savings.

This leads me to ask: Have planners recognized and adjusted, too? We may



An Uber driver said her gig was more entertaining than her husband, and provided needed income.

have to consider a broader view of retirement income options for our clients.

Contract work, consulting or smaller part-time jobs can be a great way for retirees to transition into retirement and reduce withdrawals early in their retirement years, and it can help delay Social Security claims. Better yet, gig employment might provide some additional social life. After all, as I remind my clients, there are seven days of Saturdays after you retire. **FP**

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**Nina O'Neal**, a Financial Planning contributing writer, is an investment advisor and partner at Archer Investment Management in Raleigh, North Carolina. Follow her on Twitter at @noneal510.



There are more flavors of dividend ETFs than ice cream. Spoiler: Ice cream is tastier, but ETFs have fewer calories.

## When Size Matters

Despite the array of potential options for dividend ETFs, a select handful get the most attention.

By Joseph Lisanti

Baskin-Robbins, with its 31 ice cream flavors, has nothing on the ETF industry. Advisors seeking dividend-focused ETFs for their clients have more than 150 to choose from.

But even with that array of flavors at investors' disposal, it's often the portfolios at the top of the asset heap that get the nod. Why? Stability for one — those bigger ETFs are not about to fold because of inadequate investor interest.

Another reason these ETFs have grown so large is simple brand-name recognition. They're from the big asset managers your clients recognize.

Indeed, their sponsors represent four of the five largest asset gatherers in the ETF industry. Cost is another factor: Three of the five are among the cheapest ETFs available. And don't forget seniority: Four of the five are among the oldest dividend ETFs available to investors.

To be sure, this doesn't mean clients need to ignore the rest of the field. If they want to focus on dividends from small- or mid-cap companies, there are ETFs that concentrate on them. Or, if you want to cast a wider net, there are other options. All of the big five screen out some payers, but if clients prefer

everything available, WisdomTree specializes in portfolios that include all dividend payers in a given market or capitalization segment.

**Three of the five biggest dividend ETFs are some of the cheapest in the industry, and four of them are among the oldest.**

Your choices will be determined by your clients' needs. But for an all-purpose general dividend ETF, consider these five big names. Here's a closer look at how these five dividend ETFs differ:

**Vanguard Dividend Appreciation ETF (VIG**, expense ratio: 0.08%) is the biggest dividend ETF with \$30.21 billion in assets. It's based on the Nasdaq U.S. Dividend Achievers Select Index, which requires 10 consecutive years of dividend increases and excludes limited partnerships and REITs. The ETF, which went public in April 2006, also applies proprietary screening criteria that are not disclosed by Nasdaq or Vanguard. Because Vanguard does not reveal end-of-month holdings until the middle of the following month, we can say that as of Oct. 30, VIG owned 182 stocks and that the largest sector holdings were industrials (31.1%), consumer

services (21.3%) and health care (12.80%). For the year ended Nov. 27, VIG had a total return of 8.88%. Morningstar estimates its forward dividend yield at 2.02%.

**Vanguard High Dividend Yield ETF** (VYM, 0.08%), launched in November 2006, has \$22.1 billion in assets. The fund is based on the FTSE High Dividend Yield Index, a subset of the FTSE USA Index. All the dividend payers in that index are ranked by their indicated 12-month consensus dividend yield and roughly the top half of that universe constitutes the benchmark. REITs are excluded.

At the end of October, it held 402 stocks with the largest concentrations in financials (15.70%), health care (13.80%) and consumer goods (13.40%). Through Nov. 27, the portfolio had a 12-month total return of 4.52%. Morningstar estimates its forward yield at 3.24%.

**iShares Select Dividend ETF** (DVY, 0.39%) is based on the Dow Jones U.S. Select Dividend Index. That index excludes REITs and requires constituent companies to have a five-year non-negative dividend-per-share growth rate, dividends paid in each of the past five years, earnings that are at least 67% higher than dividends on average for the past five years, and non-negative trailing 12-month earnings per share. The index (and resulting ETF) includes the top 100 qualifying companies as measured by dividend yield. Available since November 2003, the fund has \$16.78 billion in assets. Largest sector positions are utilities (31.63%), consumer discretionary (13.51%) and energy (10.55%). It had a one-year total return of 3.97% through Nov. 27. Estimated forward yield is 3.93%.

**SPDR S&P Dividend ETF** (SDY, 0.35%) follows the S&P High Yield

Dividend Aristocrats Index, which requires 20 consecutive years of shareholder payment increases. The index is weighted by annual dividend yield; stocks are drawn from the S&P Composite 1500 Index. The ETF, available since November 2005, has \$16.08 billion in assets and holds 111 stocks. Sector leaders are financials (16.35%), industrials (16.17%), and consumer staples (15.58%). SDY returned 7.37 for the year ended Nov. 27. Morningstar estimates the forward yield at 2.86%.

**There are more than 150 dividend ETFs, including small- and mid-cap options. Still, just five get the lion's share of the attention.**

**Schwab U.S. Dividend Equity ETF** (SCHD, 0.07%) tracks the Dow Jones U.S. Dividend 100 Index, which requires member companies to have paid dividends for at least 10 years and have a minimum market cap of \$500 million. REITs are excluded. Potential index components are screened on four factors: cash flow to total debt, return on equity, dividend yield, and five-year dividend growth. Issues are ranked by yield and the top 100 are included. Launched in October 2011, SCHD has \$8.04 billion in assets. Through Nov. 27, the fund had a one-year total return of 4.77%. Morningstar categorizes its sector holdings as consumer defensive (25.32%), industrials (21.41%) and technology (16.93%). Estimated forward yield is 3.24%. **FP**

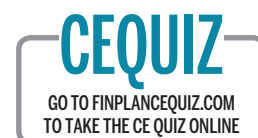
**Joseph Lisanti**, a Financial Planning contributing writer in New York, is a former editor-in-chief of Standard & Poor's weekly investment advisory newsletter, *The Outlook*.

## Behemoths of investing

### Five largest dividend ETFs

ETF	Ticker	3-year Total Return	3-year Sharpe ratio	10-year Total Return	10-year Sharpe ratio	Expense Ratio
Vanguard Dividend Appreciation	VIG	12.09%	1.23	12.68%	0.99	0.08%
Vanguard High Dividend Yield	VYM	10.60%	1.14	13.21%	0.91	0.08%
iShares Select Dividend	DVY	11.28	1.32	12.53%	0.85	0.39%
SPDR S&P Dividend	SDY	12.21%	1.17	13.56%	0.89	0.35%
Schwab U.S. Dividend Equity	SCHD	11.74%	1.17	NA	NA	0.07%

Annualized performance data as of Nov. 27; Sharpe ratios as of Oct. 31. Source: Morningstar





## The Worst-Performing Muni Funds

Higher interest rates and stock market volatility have undermined the decade's gains.

By Andrew Shilling

Over the past decade, the worst-performing municipal bond funds were ... OK?

The 20 muni funds with the lowest 10-year annualized returns showed gains even as higher interest rates and stock market volatility in 2018 hurt the sector.

Returns among these funds were an average 1.78% annualized over the last decade, according to Morningstar Direct. But nine had losses over the last year, through Nov. 6. Those funds posted an average 10-year return of 0.03%.

The top performers of this group had

an average 10-year return of 6.59 but last year's average return was 1.38%.

For advisors with clients invested in poorly performing products, Greg McBride, senior financial analyst at Bankrate, says it's important to stress long-term strategies. "Don't let performance prompt you to abandon an asset class that fits your long-term strategy but is currently out of favor," he suggests telling clients.

Following are the 20 worst-performing muni bond funds over the past 10 years

through Nov. 6. Only funds with at least \$500 million in assets were included. Institutional, leveraged and funds with over \$100,000 minimums were excluded. All data is from Morningstar Direct. **FP**

**Andrew Shilling** is an associate editor of Financial Planning. Follow him on Twitter at @AndrewWSilling.

**CEQUIZ**

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### 20 Wells Fargo California Ltd-Trm Tx-Fr A (SFCIX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
-0.93%	2.58%	0.80%	\$562.82

### 19 Eaton Vance Floating-Rate Muni Inc A (EXFLX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
1.27%	2.53%	0.60%	\$571.80

### 18 Fidelity California Ltd Trm Tax-Free Bd (FCSTX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
-0.49%	2.47%	0.47%	\$719.18

### 17 T. Rowe Price Tax-Free Shrt-Interm (PRFSX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
-0.72%	2.24%	0.51%	\$1,940.35

## 16 USAA Tax Exempt Short-Term (PRFSX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
0.88%	2.20%	0.51%	\$1,517.60

## 14 Nuveen Short Term Municipal Bond I (NSHYX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
0.06%	2.02%	0.51%	\$545.92

## 12 SPDR Nuveen Blmbg Barclays ST MunBd ETF (SHM)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
-0.71%	1.78%	0.20%	\$3,681.88

## 10 Franklin Federal Lmted-Term T/F Inc A1 (FFTFX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
-0.21%	1.75%	0.55%	\$953.79

## 15 Fidelity Limited Term Municipal Income (FSTFX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
-0.33%	2.13%	0.47%	\$2,828.05

## 13 Vanguard Ltd-Term Tx-Ex (VMLTX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
0.01%	2.01%	0.19%	\$26,156.78

## 11 Western Asset Short Duration Muni Inc A (SHDAX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
0.35%	1.77%	0.68%	\$1,077.25

## 9 Northern Short-Intermediate Tax-Exempt (NSITX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
-0.35%	1.63%	0.47%	\$848.92

# Portfolio

8

**Wells Fargo Short-Term  
Municipal Bd C**  
(WSSCX)



1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
-0.21%	1.51%	1.38%	\$4,402.20

6

**BNY Mellon Natl Short Term  
Muni Bd M**  
(MPSTX)



BNY MELLON

1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
0.15%	1.38%	0.51%	\$938.47

4

**JPMorgan Short-Interm  
Muncpl Bd A**  
(OSTAX)

J.P.Morgan

1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
-0.82%	1.29%	0.70%	\$1,563.20

2

**Vanguard Short-Term Tx-Ex**  
(VWSTX)



Vanguard®

1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
0.68%	1.14%	0.19%	\$16,243.76

7

**DFA CA Short-Term Municipal  
Bond I**  
(DFCMX)



Dimensional

1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
0.22%	1.49%	0.22%	\$1,185.64

5

**DFA Short Term Municipal  
Bond I**  
(DFSMX)



Dimensional

1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
0.28%	1.34%	0.22%	\$2,553.09

3

**Federated Municipal  
Ultrashort Instl**  
(FMUSX)

Federated®

1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
1.16%	1.18%	0.36%	\$2,380.15

1

**SEI Short Duration  
Municipal F (STET)**  
(SUMAX)

SEI New ways.  
New answers.®

1-Yr Returns	10-Yr Returns	Expense Ratio	Net Assets (millions)
0.40%	1.02%	0.63%	\$1,335.34

# CE Quiz

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## From: Heartbreaking Challenge

**1.** How many hours of unpaid care are Americans providing for people with Alzheimer's and other dementia-related conditions, according to the Alzheimer's Association?

1. 7 billion
2. 18.4 billion
3. 4 billion
4. 25 billion

**2.** What is the estimated number of Americans expected to be affected by Alzheimer's by 2050, per the Alzheimer's Association?

1. 10 million
2. 15 million
3. 14 million
4. 25 million

## From: Fixing the Accredited Investor Rule (online only)

**3.** At what net worth (discounting their primary residence) can a client qualify as an accredited investor, per an SEC rule?

1. \$2 million
2. \$500,000
3. \$1.5 million
4. \$1 million

**4.** When measuring by income, how much must a single client have earned for each of the past two years and the current year?

1. \$500,000
2. \$200,000
3. \$300,000
4. \$100,000

## From: The Worst-Performing Muni Funds

**5.** Of the funds listed below, which had the worst 10-year return?

1. Vanguard Ltd-Term TX-EX (VMLTX)
2. Federated Municipal Ultrashort Instl (FMUSX)
3. Northern Short-Intermediate Tax-Exempt (NSITX)
4. DFA Short-Term Municipal Bond I (DFSMX)

## From: Donor-Advised Fund Grants Soar to Record as New Tax Law Speeds Donations (online only)

**6.** Grants from donor-advised funds hit what total in 2017, according to a report from National Philanthropic Trust?

1. \$16.21 billion
2. \$10.52 billion
3. 14.68 billion
4. \$19.08 billion

**7.** What percentage of all individual giving in the U.S. do DAFs now represent?

1. 5.2%
2. 10.2%
3. 12.6%
4. 8.2%

## From: Creditors Get the Ex's IRA

**8.** IRA assets are protected up to what amount under the federal bankruptcy code?

1. \$2,500,000
2. \$500,000
3. \$1,283,025
4. \$4,000,000

## From: When Size Matters

**9.** Which of these funds has the highest 10-year Sharpe ratio?

1. Vanguard Dividend Appreciation ETF (VIG)
2. Vanguard High Dividend Yield ETF (VYM)
3. iShares Select Dividend ETF (DVPY)
4. SPDR S&P Dividend ETF (SDY)

## From: Help Clients Give Away More of Their Money

**10.** When considering a donation to a nonprofit, which form below, related to the specific organization, might a client want to review?

1. Form 990
2. Form 8396
3. Form 8379
4. Form 4136

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To earn one hour of continuing education credit from the CFP Board of Standards, please visit our website and answer the questions above. Planners must answer eight out of 10 questions correctly to pass. Credit will count under CFP Board subject A: financial planning process/general principles. The deadline for participation is Jan. 31 2021.

In addition, the Investments & Wealth Institute, formerly the Investment Management Consultants Association, has accepted this quiz for CIMA, CIMC and CPWA CE credit. Advisors must answer eight out of 10 questions correctly to pass. The deadline is Jan. 31, 2021.

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## Two Diagnoses

After learning both his sons suffered from autism, this advisor had to learn to focus on what was still in his control — his reaction.

By Charles Massimo

When my two boys were toddlers, they were diagnosed with autism.

Raising them and my daughter made me grow as a parent, but it has also turned me into a better financial advisor. Over the last 19 years, I've learned some important lessons from being a father, and those takeaways have stood to benefit my business alongside my family.

### Find Your Why

In our job as financial planners, we ask clients about their "Why." But it's important to know what your own is, too.

Mine became crystal clear when my triplets were born. Planning was no longer just about accumulating wealth. I was accumulating wealth for a very specific reason: I needed to make sure my children would be cared for, even when I was no longer there to provide for them.

When I help my clients focus on their top priorities, it's along the lines of that same principle. I coach them not to home in on the ups and downs of the market.

Instead, my clients know exactly what their planning stands for. This helps them sleep better at night.

### What You Can Control

I could not control that I was suddenly responsible for not one — but three — babies. I could not control that both my boys would be diagnosed with autism, or that there wasn't a cure for it.

But I could control how I would react.

I now talk to my clients about how no one can forecast or sway the market, but we can control our response.

Instead of focusing on unpredictable changes, we must target specific goals.

### Live in the Moment

For some, putting their trust in others isn't something that necessarily

comes naturally.

I needed to learn the necessity of putting my faith in others so that my boys could go away to school, and that my daughter could go away to college. I had

to entrust the well-being of my children to others, and I had to learn to let go.

Similarly, it can be difficult for investors to put their trust in us as advisors.

But if investors are partnering with someone that they trust, then an advisor's expertise and knowledge can carry them during rough times.

I urge clients to let go of their concerns and live their best lives. If they have confidence in their planners, I tell them, they won't need to worry too much — and they shouldn't.

**Planning was no longer just about accumulating wealth — I needed to make sure my children would be cared for.**

Trust me, 19 years went by in a flash.

You need to make sure that you are taking enough time to enjoy the people around you and to live in the moment.

As a business owner and a parent, I'm still learning that there is no handbook for any part of my life.

But understanding why, focusing on what I can control and putting my faith in others to lend a helping hand when I need it most has made all the difference. **FP**



Charles Massimo is president and founder of CJM Wealth Management and the father of triplets.

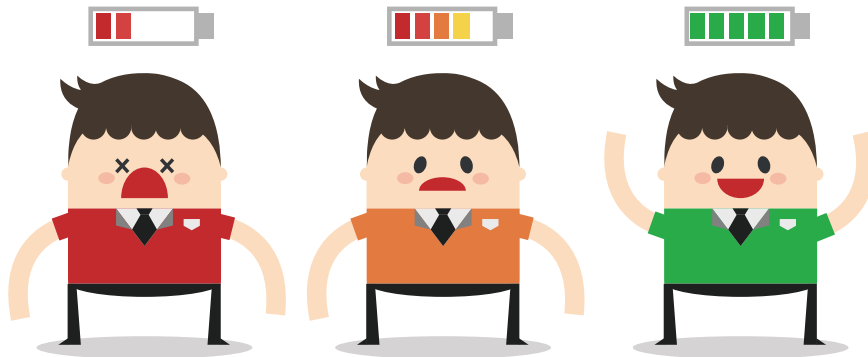
To submit a Selfie commentary, email [fpeditor@sourcemedia.com](mailto:fpeditor@sourcemedia.com). Post your comments online at [financial-planning.com](http://financial-planning.com).

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