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The rise and fall of Freedom National Bank, an often-overlooked episode in the retired baseball legend's life, carries lessons for today.

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Retirement Advisor Confidence Index

Retirement confidence sinks again

After a brief uptick, the end of the year's sliding stocks and persistent inflation put retirement savers in an anxious mood.

By Nathan Place

After a brief holiday season boost, the mood of retirement investors in December was more "ho-hum" than "ho-ho-ho."

Retirement confidence sank as a hoped-for "Santa rally" failed to materialize, according to Arizent's Retirement Advisor Confidence Index. Stocks slid with investors' risk tolerance as they invested significantly less in equities.

"After almost 12 months of this downturn, even some of the buy-and-hold folks are getting nervous despite advice to the contrary," one advisor told RACI's survey.

From November to December, RACI's composite score — an aggregate of different confidence indicators — dropped from 50.9 to 48.7. A score below 50 means confidence is declining, while anything above 50 means it's increasing.

"General client outlook is grim," another advisor said. "Domestic and global economics are not positive."

The decline was partly driven by a drop in risk tolerance, which fell from 48.3 in November to 42.7 in December.

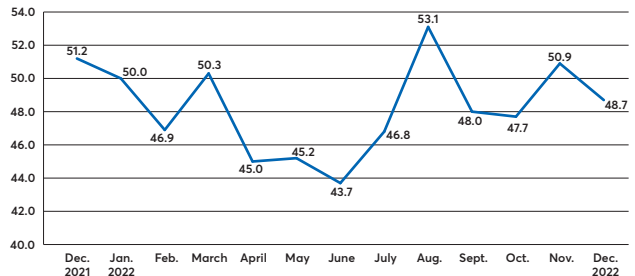
And as stocks wobbled downward — the S&P 500, for example, fell by 5.9% in December — investors showed little appetite for equities. From November to December, the score measuring client investment in equity-based securities plunged from 57.7 to 51.

Overall contributions to retirement plans were down as well, from 59.7 in November to 57.9 in December.

"I think that my clients are more hesitant to invest in the standard products that they had been," one advisor said. "The climate is very wait-and-see right now."

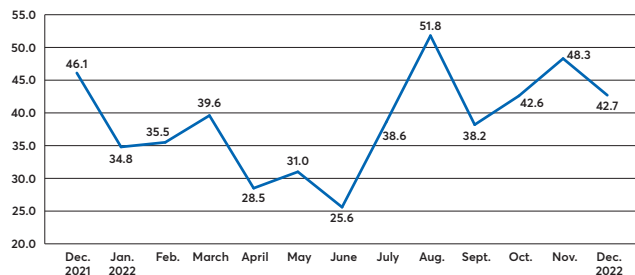
This anxiety was a change from the previous month, when investors were more optimistic. In November, the RACI composite score shot up by 3.2 points to 50.9, its third-highest peak in 2022. Meanwhile, risk tolerance jumped 5.7 points to 48.3, which means that it was still declining, but doing so

RETIREMENT ADVISOR CONFIDENCE INDEX



Source: Arizent Research

RISK TOLERANCE



Source: Arizent Research

less dramatically than almost any other time that year.

Advisors blamed the December downturn on a number of factors, especially stock market volatility.

The S&P 500, Dow Jones and NASDAQ all slipped downward in December. In fact, the end of the year marked each of those indexes' worst year since 2008, with the S&P down by nearly 20%.

"This market's volatility of consecutive months caused

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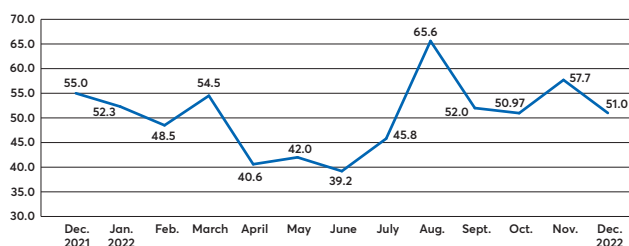
much uncertainty and changes to some of our portfolios,” one advisor said.

Meanwhile, though inflation has recently been slowing — the consumer price index rose by only 0.1% in November — advisors said it’s still a major concern for their clients. And the Fed’s medicine for that ailment, in the form of repeated interest rate hikes, isn’t popular either.

“I think people are starting to get uncomfortable with the length of this correction,” said another advisor.

A few advisors drew hope from the fact that the Fed’s year-end rate increase was smaller than usual. On Dec. 14, the central bank raised rates by half a percentage point — still significant, but less than the four consecutive 0.75-point hikes it had implemented since June. **FP**

AMOUNT OF CLIENT ASSETS USED TO PURCHASE EQUITY-BASED SECURITIES



Source: Arizent Research

DOLLAR AMOUNT OF ALL CONTRIBUTIONS RECEIVED FOR RETIREMENT PLANS



Source: Arizent Research

Nathan Place is a retirement reporter with *Financial Planning*.

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Christine Benz, Morningstar director of personal finance, said one thing to look for is how much of your clients' salaries are being saved or invested. For many, 15% is a good goal. She recommends online services such as T. Rowe Price's Retirement Income Calculator and Vanguard's Retirement Nest Egg Calculator to help gauge if your clients are on track to retire on time.

It's not necessarily a good idea for clients to be checking their investments every day.

The first months of the year are also a good time to see how closely clients are sticking to their investing plans and to recommend adjustments when needed. Following a year in which both stocks and bonds tanked, chances are slim that clients will need to rebalance a 60/40 portfolio — 60% in stocks and 40% in bonds. But if the bond market recovers this year, as some predict it will, then advisors might want to prepare their clients for the possibility that they will want to shift some of those gains into stocks.

AARP, an interest group that advocates for

5 planning topics to bring up with clients in 2023

Portfolio reviews and retirement contributions are at the top of to-do lists of Morningstar, AARP and industry groups.

By Dan Shaw

The first months of a new year are a time for investors to take stock of their financial health to gauge what's going well and what could stand improvement.

It's also a time when financial advisors can prove particularly useful to clients. If well-timed and presented in the right way, a small nudge from a trusted advisor now can make a big difference for a client's future.

Here, according to Morningstar, AARP and other groups, are five topics advisors should consider bringing up with investors who are

doing a bit of reflecting on their finances in the first quarter of 2023.

Portfolio review

It's not necessarily a good idea for clients to be checking their investments every day, especially following a year that was as brutal for stock and bond markets as 2022 was.

Still, according to Chicago-based financial services firm Morningstar, annual reviews can reveal portfolio deficiencies that advisors are specially positioned to remedy.

Americans 50 and older, also recommends looking into medium-term Treasury bonds and high-interest savings accounts.

Revisit retirement contributions

AARP also says 2023 will be a golden opportunity for savers to put money away for retirement.

Even before Congress's Dec. 23 adoption of the SECURE 2.0 changes to U.S. retirement laws, savers were set to enjoy favorable policies in 2023.

The maximum amount they can contribute to a 401(k) plan is scheduled to rise to \$22,500, up from \$20,500. Savers 50 or older can also put in an additional 7,500 in "catch-up" contributions.

The limits for individual retirement accounts are likewise going up, to \$6,500 for people under 50 and \$7,500 for those above. April 18 is the deadline for contributing to an IRA for 2022.

Rachel Elson, a certified financial planner in San Francisco, tells AARP that clients should make sure they have enough money to pay for present-day expenses before putting away so much for retirement, however.

The penalties for taking money out of a 401(k) before age 59 ½ are steep — usually 10% of the amount withdrawn.

SECURE 2.0 promises to make saving for people nearing retirement even easier.

For investors aged 60 to 63, the maximum catch-up contribution will be raised to \$10,000. But that won't happen until 2025. But for those who can afford to save now, says AARP, there's no reason to wait.

Setting goals

The first months of a new year are, of course, a common time to revisit old goals and set new ones.

Just as a person might resolve to eat

healthier and go to the gym, so might clients benefit from devoting themselves to spending less and investing and saving more. The investment-management company TrustPoint says a new year's resolution can include everything from short-term goals such as paying off credit card debt to long-term ones such as living by a budget or portfolio plan, or saving for a child's college education.

The nonprofit financial services group GreenPath notes that people with good credit can transfer debt from high-interest to low- or zero-interest cards for a fee.

TrustPoint says other goals could include refinancing a mortgage — although perhaps not at a time when interest rates remain high — or even paying it off.

Only about 23% of Americans have emergency savings, according to data from GreenPath.

Now's also a time to talk to clients about what they wanted to do in 2022 but perhaps couldn't because of constrained finances. Was there a vacation they had to skip last year? If so, what might they do to make sure it happens in 2023?

Emergency fund

Another priority to bring to clients' attention is emergency savings.

Morningstar recommends savers keep enough money on hand to cover anywhere from three to six months of expenses to protect against job losses, natural disasters or other unexpected events.

People who earn a lot, have unsecure sources of income or are the prime earners for their households should try to stash away even more.

Unfortunately, says GreenPath, only about 23% of Americans have emergency savings — meaning that ways for clients to set more money aside are needed.

One good method, according to AARP, is to review all outstanding subscriptions and memberships — streaming services, cable TV, gyms and publications, for example — and consider canceling any that aren't used. Similarly, the first quarter is also a good time to review how much clients are paying for fund management, trades and advice. The fewer surprises there are with these expenses, the better it usually is for all concerned.

Further, AARP encourages looking out for instances of what it deems "lifestyle creep." This is a tendency to let good money-saving habits — such as buying store brands instead of name brands and using coupons — go by the wayside over time.

Taxes, taxes, taxes

With the April 18 IRS deadline just ahead, this is also a good time to help clients get their tax houses in order.

Strictly speaking, financial advisors are not tax experts, and investors may well want to consult a certified tax preparer for specific advice. Still, advisors can help clients know what to look for when they are considering different tax strategies.

For instance, planners should remind clients that gains from stocks are often taxed at capital gains rates, whereas money from bonds is taxed as regular income. That can have all sorts of implications for the mixture of assets clients should be holding in tax-deferred funds such as 401(k)s.

Morningstar, meanwhile, notes the standard deduction has risen. It will be \$12,950 for individuals for the 2022 tax year and \$25,900 for married couples,

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Spouses Anh Tran of SageMint Wealth and John Wong and Modern Wealth Law share office space.

Working with your spouse

Five couples from wealth management and personal finance share their best tips for thriving personally and professionally.

By Tobias Salinger

Because they've worked together for a dozen years, people often ask Rosa and Alex Chalekian whether they should go into business with their partner as well.

Rosa Chalekian always tells them it's a bad idea. While there is "a lot of advantage" to it, the couple strives to separate their work and home life and set boundaries for the other employees at their firm, she said.

"You need to be careful not to bring your relationship into the office and have arguments," she said. "They'll take sides."

The Chalekians and four other pairs of spouses who are navigating the tricky terrain of working together in wealth management

or personal finance shared their best tips with Financial Planning about how to get along in a manner that's most beneficial to their relationships and their businesses.

By taking steps such as assigning specific duties to each partner or figuring out the best office setup for healthy personal space, the couples say they manage to avoid butting heads too much and can tap into the positive aspects of collaborating professionally.

"Make sure that you have very clear and distinct responsibilities and roles set up, because that's going to be a problem," Alex Chalekian said. "Work is work. Home is

home. Try not to let that bleed into too much."

The couples have found best practices for them that may work for others. For example, financial planner Akeiva Ellis and her husband Meshack Ellis suggest that working in different rooms can help provide some distance.

"Some couples, they can just work on top of each other all day long," Akeiva said. "We learned quickly that wasn't something we needed to do."

Not every relationship can handle the stress of running a small business, the couples said.

Financial advisor Michelle Cortes-Harkins recommends establishing "very strong boundaries around work and personal life."

"It's not easy," she said. "I don't think it's for everyone. You have to get along very well."

When successful, partners complement each other. Cortes-Harkins said her husband Rick Harkins excels at "marketing and meeting people and talking to people," while he praises her listening skills.

"I tend to talk a little more than I probably should," Harkins said. "Her ability to listen and really understand clients and get on the same page with them comes much more naturally."

Couples should think

carefully before going into business together, though, said David Auten-Schneider. He added that they might first check their ability to handle a task such as yard work or another home improvement project.

"If this is something that you are considering doing, look at how you work together on other projects that are not related to work," he said. "Do something together before you jump in."

Those spouses might think twice after a frustrating bout of gardening.

"Some couples would kill each other," David Auten-Schneider's husband, John Auten-Schneider, said. But "if you're the right couple, it can really be a joy to work with your partner."

Here is a look at five personal stories from spouses who work together in wealth management or personal finance.

Anh Tran and John Wong of Sage-Mint Wealth and Modern Wealth Law

Tran, an advisor, and Wong, an estate attorney, recently moved SageMint Wealth and Modern Wealth Law into the same Irvine, California-based office.

The spouses of nine years "started working together much closer once we got married, and that has now blossomed" with the new combined facility for their businesses, Wong said in an interview. Tran and Wong had been planning to share the same office for about a decade, though.

"We've always thought that we would come together at some point under one roof," he said. "Sometimes Anh's at her office and she's in a client meeting and she'll call me. Now, rather than having to call me on the phone, she can just open the conference room door and yell at me."

Running two small businesses comes with challenges and flexibility, as Wong notes the pair "try to divide and conquer" with the tasks of parenting their 4- and 6-year-old sons.

He often watches the boys in the afternoon, and Tran takes over in the early evening. Their time in the office "ebbs and flows in the needs of our practices," Tran said.

"The world of entrepreneurship is a very difficult one, and unless you're in it, you don't really understand what the other person is going through," she said. "It's really been a great support for each of us to know that we have each other."

Rosa and Alex Chalekian of Lake Avenue Financial and Futurvest

The Chalekians have been working together at Pasadena, California-based Lake Avenue Financial, where Alex is the CEO and lead advisor and Rosa is the chief compliance officer, for a dozen years. The couple and their sons Ara, Julian and Jeremiah also launched an online financial education service called Futurvest last year.

Without going into details, Rosa and Alex said they have sometimes had disagreements over administrative tasks that led her to leave the firm temporarily a few times over the years. The pair often struggles to find the time to talk during the workday, but they don't like to talk about the office at home, either, Rosa said.

"The rules are always broken," she said. "It's difficult, honestly. I find it challenging. We do make an effort not to bring work home, but it's almost inevitable. ... We don't get a lot of time together, so it's hard not to discuss work when I get into bed."

Regardless, the married couple of 10 years have come to learn "how rewarding it is to create and grow a business with your loved one," Alex

said.

They met because Alex's planning practice was located in an office building where Rosa was managing the executive suite. He hired her to an open role at his firm before they started dating. The Chalekians divide the duties in the office, where Rosa oversees compliance and operations and Alex manages the clients and the business.

"There's no one else you would trust more than your spouse being able to help you out with this," he said. "Both of you have a vested interest in this business, and you know that they're going to take care of it."

Akeiva and Meshack Ellis of The Bemused

The financial coaching website and accompanying YouTube series "The Bemused" launched in 2018 when planner Akeiva Ellis and Meshack Ellis, a human resources professional, were in a long-distance relationship. She was in Boston and he was in Maryland.

Meshack credits Akeiva with the idea of getting out of their comfort zone by discussing their personal finances in videos that would be relevant to other young people. The couple got married in October 2020, and they're now seeking to expand their business to college campuses and employers.

"The relationship has really evolved with the business," Akeiva said. "It's been a really fun ride to build a business with your life partner. It's a really interesting experience."

Besides having separate offices in their home, the couple seeks to stay focused on their specific roles in the business as well, Meshack said. She takes a lead on planning topics and the financial aspects of the business as CEO, while he acts as the chief operations officer. In addition, they try

Practice Management

to stick to a schedule.

"We are working full-time jobs, part-time jobs and also managing the business," Meshack said. "It's trying to not to have everything just swirl up together. This is us time. This is business time."

David and John Auten-Schneider of Debt Free Guys blog and Queer Money podcast

About a decade ago, the Auten-Schneiders began writing their book, "4: The Principles of a Debt-Free Life," to tell the story of how they paid down a combined \$51,000 in credit card debt in less than three years.

A year after the 2014 release of the book, they began a blog called the Debt Free Guys and eventually started the "Queer Money Podcast." David handles the writing, videos, editing and technology, while John works to identify partnerships, speaking opportunities and sponsorships.

"You split your responsibilities," David said. "You have to figure out who is good at what and let that person excel at what they're good at."

"We've been able to, fortunately, find what we're good at," John said. "We both have our strengths and weaknesses, and where we overlap is when we're both being the face of the brand."

The Auten-Schneiders each have financial backgrounds, with tenures at firms including Charles Schwab, Envestnet and Cetera Financial Group. Neither has had any so-called day job for roughly the past four years.

They were married in 2017 after 13 years together. The couple had their "two most heated arguments" about politics and business and they navigated severe challenges to their company during the pandemic, David noted. Yet they have never regretted launching the business and running it out of their current home in Toledo, Ohio.

"We have a very strong relationship where we deeply love each other, and we were not spending any time together, except for on the weekends," David said. "We didn't want to wait until we were 65 or 70 years old to spend every day together."

"It still surprises me today that we still have a business that lets us live and work from anywhere in the world doing what we want," John said. "I don't know the last time I wore slacks."

Michelle Cortes-Harkins and Rick Harkins of Harkins Wealth Management

Planners Michelle Cortes-Harkins and her husband Rick Harkins — alongside

their son Chancellor, an advisor, and his fiancée Lisa Dinh, the director of client experience — have made Harkins Wealth Management into a real family business.

The practice, based in Providence, Rhode Island, has gone through several evolutions in recent years.

After moving to Commonwealth Financial Network in 2019, Harkins Wealth became a fee-only firm and converted all of its clients' portfolios to socially responsible investments.

Rick recruited his wife, whom he has now been married to for 33 years, to join the practice about 18 years ago. She previously had a career in social work.

After joining the firm, she eventually became a full-fledged planner. "I was like, 'Oh, this is actually a lot like social work,'" Michelle said. "Just being able to listen and ask a lot of questions really drew me to the profession."

The couple says the way they work together plays a key role in helping to attract their client base, with the help of creative and fun events such as ones titled "Craft Beer, Crafting your Budget" and "Wine, Money and You."

"I think clients love the fact that they have both a male and female voice," Rick said. "We've gotten a lot of clients because of that." **FP**

Tobias Salinger is the chief correspondent of *Financial Planning*. Follow him on Twitter at @TobySalFP.

Continued from page 7

up from \$12,550 and \$25,100, respectively. Those numbers will play a big role in helping clients decide if they will want to itemize their deductions. For those clients who do plan to itemize, now is also a good time to review their charitable contributions.

Mitchell Kraus, a certified financial

planner from Santa Monica, California, told AARP that he recently discovered that most of his clients weren't getting the full tax benefit of their charitable giving.

Rather, many were taking the standard deduction when they shouldn't have been. Others were failing to take advantage of a rule that allows

people who are 70 ½ or older donate as much as \$100,000 from an IRA.

Morningstar says the 1099s and W2s that come in the mail around tax time also provide a good snapshot of a client's current financial state.

If the numbers have increased from one year to the next, how much of that additional money can be invested? **FP**

Dan Shaw is a reporter with *Financial Planning*.

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Industry News



'Everything is on the table' in CFP standards review, says new chair

A panel for reviewing financial planners' professional standards could be in place by mid-2023 but that its work could take years to complete, according to Dan Moisand.

By Dan Shaw

The new head of the Certified Financial Planners Board of Standards says there's no specific shortcoming that's prompting the organization, which oversees the most widely used financial planning credential, to take a fresh look at its competency benchmarks for some 95,000 advisors.

Rather, it's the simple fact that the standards for professional planners haven't undergone a comprehensive review since being adopted nearly 20 years ago.

One of the priorities of Dan Moisand, who took over as board chair on Jan. 1, is to oversee a take-the-pulse audit that the

nonprofit standard-setting organization announced late last year.

Moisand said it's hard to know what might change, if anything, as a result of this review but he did comment that the appraisal will cast a very wide net.

"Our competency standards have changed over time," Moisand said. "Twenty years ago, you didn't need a bachelor's degree. We've also added our apprenticeship programs.

"But we've never had a comprehensive review of the whole package and competency standards. So it's past time for

that."

The CFP's mission is to make its certification for advisors the gold standard of the industry and to establish and enforce a set of standards that make financial planning a profession akin to law or medicine.

The organization allows advisors to hold themselves out to the public as certified financial planners only after they've met a series of requirements.

"Increasing the number and diversity of CFP professionals is one of our five strategic priorities."

For instance, they must have 6,000 hours of professional experience or 4,000 hours of apprenticeship experience. They must pass an exam. And they must stay atop the industry's latest developments by acquiring continuing education credits.

Moisand won't be conducting the reviews himself. That task will instead fall to a panel that will be appointed later this year.

From 1999 to 2001, Moisand served on the organization's board of practice standards, helping to set competency and

education requirements for planners. He has also worked closely with related organizations such as the Financial Planning Association, where he served as president in 2006, and the Foundation for Financial Planning, where he was a trustee from 2014 to 2019.

Moisand recently sat down with Financial Planning to talk about his hopes and goals for the CFP's coming review. (This interview has been edited for clarity and brevity.)

Financial Planning: When do you think the members of the Competency Standards Commission will be named, and who's likely to end up serving on it?

Moisand: I would anticipate in the first of the year, as certain as I can be with stuff like that. It's going to be a wide variety of folks. It's going to be people with a high level of expertise in certification, academics, practitioners, etc. A very broad group.

Financial Planning: How long do you think they'll take to do their work?

Moisand: Part of me wants them to work fast, and part of me wants them not to. So it will take as long as it needs to for them to do it well.

But I certainly wouldn't anticipate that they'd be done in '23. 2024 might even be a stretch. It's a colossal project.

Financial Planning: What are you specifically looking at?

Moisand: It's the education, exam and experience criteria. The exam is probably the least concerning, because there has always been an ongoing process of reassessing what needs to be on the exam. And there's a science to creating certification exams.

The other two are where there is more mystery. With the education requirement, there's the education that's required to sit for the exam and the education that's required after you've been certified to maintain your certification. And then there is

experience required.

Literally everything is on the table. When you talk about continuing education requirements, is the number of hours that are required good? Are we doing all we can to make sure the quality of hours is good? What can we do to improve that? On different subjects — how about retesting? Should we be doing that? If so, when? What does that look like? I don't know if we're going to go there or not. But that's why we formed a commission to ask these questions and burrow deep.

"You can pick up any kind of industry publication and regularly see articles about talent shortages."

Financial Planning: What will this review mean for the industry's efforts to become more diverse?

Moisand: Well, increasing the number and diversity of CFP professionals is one of our five strategic priorities.

No. 1 is our standards-setting and certification process. That's the core of what we do. But increasing the number of CFP professionals and their diversity has long been and continues to be a very high priority.

And the competency commission's work can impact that. If you raise the bar, it makes it more difficult for people to acquire the right to use those CFP marks.

But if that's what needs to happen for the public, if that's the appropriate level to set the standard, that's how it's got to be. And we're going to amp up efforts to increase diversity in other ways.

Financial Planning: How can you do that?

Moisand: Well, we're already doing it.

We started doing it back in 2015-ish with the creation of the Center for Financial Planning, which has a few elements to it. One of them is to increase the diversity of the CFP professional community.



Dan Moisand, the new head of the Certified Financial Planners Board of Standards.

One of them is to create a knowledge base. We need more Ph.D.s because you can't have more students in financial planning programs without having more Ph.D.s to teach in universities.

And Ph.D.s need to publish, they need to seek tenure. So we have an academic journal for that. The center is also the primary place where we encourage pro bono work.

And we initially started with an effort to increase the number of women in financial planning. But that work is ongoing, and it's a long play.

You can't just snap your fingers and increase the number of CFP holders or the diversity of CFP holders.

Financial Planning: What other priorities have you got for this year?

Moisand: A big one is we want to develop a sustainable financial planner

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Why Merrill, bucking trend, won't offer independent model for advisors

In a conversation with industry recruiter Mindy Diamond, the president of Bank of America's legacy wealth management firm shared his thoughts on advisor strategy and said he wants advisors to more fully integrate with the bank.

By Victoria Zhuang

Merrill Lynch will not offer a way for financial advisors to independently affiliate with the Wall Street giant, even as industry competitors open up that burgeoning business model, Merrill's wealth management head said in January.

Andy Sieg, the president of Merrill Lynch Wealth Management and a member of parent Bank of America's executive management team, spoke about his plans for the next 10 years and the unit's talent and technology agenda in a wide-ranging podcast with Diamond Consultants, a

wealth management recruiting firm.

Mindy Diamond, Diamond Consultants' CEO and founder, hosted the exchange on a podcast that explores how financial advisors are moving into different ways of doing business.

"Independence" refers to advisors who are contractors and own their own books of client business, as opposed to following the conventional model of W-2 employees at a brokerage firm.

Merrill competitor Wells Fargo is one example of a wirehouse that has entered the

affiliate space, through its FiNet channel for advisors who want an option beyond working in a firm's traditional formal employee channel.

Like other independent outlets at brokerages Raymond James and Ameriprise, FiNet has recruited advisors from employee firms such as Merrill.

Speaking about Merrill's goals, Sieg said that "my primary focus has been trying to get this business back onto a growth footing over the last six or seven years."

"My primary focus has been trying to get this business back onto a growth footing." — Andy Sieg

He added that strong investment in tech capabilities for advisors, along with talent development programs and compensation grids that emphasize growth, had paid off. In the fourth quarter of 2022, Merrill advisors hauled in new clients whose average wealth, \$1.7 million, was more than double that of a decade ago, Sieg said.

Looking ahead, he said he was focused on delivering competitive support platforms for advisors and building collaborative relationships among them.

"If I think about the most

profound changes in the business over the last 30 years, the shift in this business from being a business of individual contributors to a business built around teams may stand out as the most visible monumental change," he said.

An increasing number of advisors want something different from what Merrill and other wirehouses offer, but "the Merrill model is good enough for the vast majority of advisors," Diamond said, speaking with Financial Planning afterward.

Still, she acknowledged that wirehouses have to face losing top advisors to competitors with different models.

With Merrill's 15,000 advisors, "it's impossible to be all things to all people. ... That's why there have been a lot of top advisors that voted with their feet" by going to competitors "and many that will continue to," Diamond said.

Still, it's neither the pay nor the tech capacities that advisors cite as their top reason for jumping ship.

"The most important factor is the ability to serve clients with more freedom and control," Diamond said.

An independent channel could have been one such way to address that — but Merrill is choosing a different strategy.

Sieg said he thought that Merrill was obliged under regulatory requirements to supervise brokers in ways that rankled some advisors. "

An advisor may leave based on, hey, they're willing to take some of the risk to their own license and their own practice," he said.

Still, he added, the benefits of institutional resources and networking with Merrill's famous "thundering herd" outweighed those issues for most advisors.

Following are more of FP's takeaways from the conversation.

Merrill is emphasizing recruiting experienced big players as well as hiring promising young newcomers. "We do feel like now we're in position to respond in many cases to some of the incoming inquiries that we've had about whether we would offer some experienced advisor recruiting deals. We have an offer that I think is consistent with the market," Sieg said on the podcast.

He also repeated comments he made on the company's earnings call and in other public appearances that he was focused on building out pipelines for training newcomers, apprenticing new brokers to teams and hiring early-career advisors to build up business with wealthier clients.

"We see around us some deals that take place in the market which defy any rational economic analysis in terms of them being accretive to the acquiring firm." — Andy Sieg

Sieg said that while peers were investing heavily in recruiting top advisors, including some from his firm, their upfront costs — in one case, what he said was over 400% of trailing 12-month revenue for a team that he recently lost in the Northeast — were irresponsibly high in the context of a company's balance sheet.

"We see around us some deals that take place in the market which defy any rational economic analysis in terms of them being accretive to the acquiring firm," he said.

Regarding the team in question, "we've seen what the transition experience has been for their clients. And six months in, less than 50% of the

clients have moved."

Bulls moving to herds

Asked if Merrill had plans to add independent channels, given that rivals such as Wells Fargo had done so in recent years, Sieg gave a hard no.

"It's something that we've looked at every couple years for 30 years. It has never made sense for us," Sieg said. "That's not only a topic that revolves around products and services and platforms and comp, it revolves around culture, the idea of one unified Merrill Lynch organization out in the world."

Rather, he was more interested in helping the advisor force at Merrill go more in what he called the natural direction of the industry — teams. Currently, 80% of his financial advisors work in teams.

"When you look at people earlier in their career, those numbers are even higher," Sieg said.

Although some advisors prefer to remain independent, the sense of community from working with teams at Merrill and networking with 800 to 1,000 peers and mentors in the firm's Advisor Growth Network provide unique advantages to going it alone, Sieg said.

In addition, having a team makes succession easier and retention of client assets, especially in the case of wealthy multigenerational families, a smoother process.

"Clients are becoming more and more outspoken as individual contributor advisors [are] getting to later stages of their careers," Sieg said. "They hear from clients directly, 'Hey, what's going to happen on the day you retire, Mr. or Miss Advisor, who's going to be there for my kids and for my grandkids?'"

By having a younger advisor on a team, senior members can reassure matriarchs or patriarchs that they have

Industry News

what it takes to sustainably manage their wealth.

Sieg said he doesn't see the wealth unit's integration with parent Bank of America as a problem, as some do. Instead, he finds it a source of pride and competitive advantage.

Growing closer to Mother BofA

"Almost all advisors are involved in one form or another in a referral relationship with the broader Bank of America," Sieg said.

He added that he intended for Merrill advisors to work "closer and closer" with the rest of the company over time.

Rather than seeing client referrals from the bank to wealth advisors as referrals, Sieg called that process "coordinated client coverage — not

something that the word 'referral' kind of conjures up, which on a bad day can feel like tossing an opportunity over the fence to another side of the company."

He pointed out that prior to being acquired by BofA in 2009, there were four or five advisors at Merrill who had north of \$5 million of production credits.

Now, that's upward of around \$250 million.

Sieg said that while some advisors have complained they feel pressure to cross-sell banking products to clients, demand for these one-stop banking services was often coming from clients themselves.

White glove service for clients

"Most clients, one of the things they

are frustrated by in the world of consumer banking is, they aren't receiving the kind of white glove service that you get from your wealth management organization," Sieg said, adding that Merrill clients opened 150,000 to 200,000 new checking accounts in a year.

Accessible and easy

"We're trying to make sure that this set of capabilities inside Merrill and the broader Bank of America, which is unmatched in our industry, is as accessible and as easy to put to work on behalf of clients as possible," he said.

"Because for our advisors, that's among the key differentiators for us as an organization, the ability to do just so much for clients." **FP**

Victoria Zhuang is the wirehouse reporter at *Financial Planning*. Follow her on Twitter at @vazhuang.

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workforce. You can pick up any kind of industry publication and regularly see articles about talent shortages.

This is another long play, because you've got to get the attention of career changers and young people.

Financial Planning: How do you do that?

Moisand: It's partly building awareness of what the profession actually entails.

So we did some focus groups in 2022 that were composed of high school-age kids and their moms. And we asked what they thought of the possibility of working in financial planning.

A lot of them had misconceptions about what financial planning entails. They thought it was sales oriented.

But when we asked them to describe the qualities of an attractive career,

they started describing the elements that go into a financial planning career.

You get to help people. You have flexible hours. You can make a good living. You can be intellectually challenged.

So we still have some barriers to overcome.

Financial Planning: What do you think of the Financial Planning Association's plan to seek some sort of federally legislated title protection for financial planners — a designation that will distinguish them legally from other financial professionals?

Moisand: It's not that I or the board are per se against it. But this has been looked at a lot over the years. And we have some concerns because we don't want to do anything to devalue the CFP marks or the control of that process.

And part of it is the legislative

process. Having a good rule is not necessarily the problem. Getting it in untouched (by a legislature) is the problem.

And getting it to stay untouched is challenging — which is one reason that, before I was on the CFP board, several years ago they came out saying the board was wholeheartedly against a state-by-state approach to this.

Because once you get something like this through a state legislature, you've got to defend it at the state level. And then it's a morass.

In the meantime, we are going to stick to our knitting.

We are continuing to do all that we can to make the CFP marks valuable so that when people are out there seeking financial planning services, they are going to seek out a CFP professional first and foremost. **FP**

Dan Shaw Reporter, *Financial Planning*

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How advisors are creating an unfair AI advantage

FP Alpha CEO Andrew Altfest and T3 Founder Joel Bruckenstein explain how AI is being leveraged and where it may go next.

By Justin L. Mack

For some advisors, the promise of AI's ability to reshape wealth management is an abstract idea not yet fully realized.

But for others, that promise is already being put into practice. And it's a powerful ally for top performers who want to continue pulling away from the pack.

"It's everywhere in what we are using all day long. You don't have to think much further than how Uber drivers are deciding where to go to anticipate demand from people who are using the ride-hailing app. Or spam filters

... deciding what is spam and what to not send into your inbox," said Andrew Altfest, president of New York-based RIA Altfest Personal Wealth Management and CEO of FP Alpha. "It's already here today. And really, we're at the tip of the iceberg when it comes to AI and how it's going to impact all of us in the wealth management industry. And that's why I think it's the most exciting time to be an advisor.

"If you know the use cases for AI ... they're tremendous. And I think it gets to where the

opportunities are today for all of us to be doing (more) and helping clients more than we are without spending a lot more time."

In January, Altfest and Technology Tools for Today (T3) Conference Producer Joel Bruckenstein provided practice management tips to wealth managers eager to make the most out of their artificial intelligence investments.

In a conversation led by financial services industry consultant Suzanne Siracuse, the duo of fintech insiders discussed the impact AI can have on a firm's profitability, planning processes and efficiency.

Altfest and Bruckenstein said modern clients have a demand for advanced planning, but the ability to provide these services at scale is growing more difficult as demand and client expectation rise.

Doing it right takes time, knowledge and resources. But AI-supported tools have the power to eliminate manual processes and give advisors time back so they can spend it actually administering advice on matters like estate planning, retirement planning and investment management.

"I've been saying for years that investment management is table stakes, and it's a commodity, and we got a lot of pushback from the

industry. But I think you're really starting to see that the market appreciates that and understands that," said Bruckenstein. "If you're just doing retirement planning and investment planning, you're competing ... against basically everybody in the industry. But if you're doing these value-added services and you can do them at scale, right now there's very few firms in the industry that are really doing that. So I do think it's a tremendous, tremendous advantage."

Naturally, no AI conversation can be had in 2023 without a discussion about ChatGPT, the AI-driven text generator that has gone viral and sparked debates on social media about how it may impact the role of advisors and other financial services pros.

Siracuse noted the mindshare the innovation is gaining among those inside and outside of the industry, and wondered how it may shake things up.

For Bruckenstein, it's all about understanding what the tool and others like are, and aren't, good for.

"It's really demonstrating to a lot of people who didn't get it what some of the true potential of AI is," he said, noting that business-focused AI has been around in some shape or form for years, but has had a bigger presence in the call center space as opposed to the financial advisor space.

Bruckenstein said early adopters of AI were trying to substitute computer learning for some of the people at call centers to route calls more effectively. Over time, the tech was leveraged to support and improve the familiar customer service numbers that push you to an AI-powered "operator" that does its best to replicate a real person.

"I think there's a lot further in our industry for that to go. I think a lot of what I would call routine questions that advisors answer today can be answered

either with a phone call or through a chatbot, and I think every advisor a few years from now will have that capability built into their website," Bruckenstein said. "So if a client calls up and says 'I'm getting ready to make,' for example, 'my IRA contribution. Should I put it in a Roth or a traditional IRA,' it'll actually know enough about the client to be able to tell them without having to actually engage with an advisor."

Siracuse then shifted the conversation to personalization, saying it is a top-of-mind topic for firms focused on growth in 2023. Altfest said the world advisors operate in today is one of mass customization, and advisors need to help everyone from the retiree who has an estate planning concern to the early-career professional who is putting together their first financial plan.

"The way to actually provide these services is by using technology to actually scale. And to just give you a recent example of what's on our mind, SECURE Act 2.0 has passed. I think a lot of us are communicating with clients about this, and what's really been emphasized and really become even more important through SECURE 2.0 is Roth," Altfest said. "And what we're using is the Roth simulator that we built through FP Alpha that really allows you to figure out what the ideal conversion scenario is just by uploading a tax return. (The simulator) will tell you, should you convert today? In one year? Should you convert over multiple years? And how much should you convert?"

From there, the advisor can customize further by using the tool to peek into the potential future of that client and run a number of scenarios to determine the best plan of action, Altfest said.

A change in tax bracket. A move to a new state. A divorce. AI can help advisors navigate such shifts in a client's

life well before they even becomes a possibility "IRL."

Bruckenstein added that the next iterations of AI-backed solutions will analyze the impact of something like SECURE 2.0, identify the clients advisors should be talking to first and provide support on how to engage them.

"I think that's only a few years away. And that's really exciting as well, because again, it'll allow them to personalize the service," Bruckenstein said. "But do it at scale (and) not have to go through their client base and say, OK, who do we need to talk to here? It'll already be right in front of them."

Artificial intelligence has regularly topped the list when advisors weigh in on the kind of technologies they believe will have a major positive impact on the way they do business.

"The Future of the Data-Driven Workplace," a research report from Financial Planning's parent company Arizent, found that wealth managers embrace AI and machine learning at a much higher rate than other financial services industries. A poll of 500 financial advisors in the United States and Canada conducted earlier last year by consulting firm Accenture revealed that about 83% of advisors believe AI will have a direct, measurable and consistent impact on the client-advisor relationship within the next 18 months.

That same percentage of advisors also said they believe that AI can achieve a level of sophisticated advice and planning that will ultimately leave them competing with an algorithm for clients within the next 18 months.

And Broadridge's 2023 Digital Transformation and Next-Gen Tech study found that 71% of C-suite executives and their direct reports across financial services say AI has significantly changed how they work. **FP**

Justin L. Mack is the *wealthtech* reporter at *Financial Planning*.

Regulation and Compliance



Don't expect much from ban on non-competes

The FTC's proposal would not extend to non-solicitation clauses, which are far more common among brokers and advisors.

By Dan Shaw

Non-compete clauses are a bane for many workers, limiting their choices should they decide to leave a current employer. Financial planners and brokers are no different.

Now a proposal from the Federal Trade Commission, the federal consumer watchdog, could eliminate these legal barriers preventing an estimated 30 million workers in industries ranging from sandwich-making to medicine to software engineering from seeking employment at rival companies.

But advisors and brokers hoping for relief

may be in for a disappointment since the proposal wouldn't extend to non-solicitation clauses, which bar brokers and advisors from reaching out to former clients after leaving a firm. These are far more common in the planning industry than non-competes.

Dennis Concilla, a securities lawyer at Columbus, Ohio-based Carlile Patchen & Murphy, said it's probably been 30 to 40 years since he has seen a true non-compete clause in an advisor's contract. Firms, by contrast, regularly pursue former employees for alleged

violations of the clauses.

Concilla helps to oversee the "Broker Protocol," a legally binding pact among advisors and brokers that sets rules of the road to prevent lawsuits over alleged non-solicitation violations. The more than 1,800 firms that have joined the protocol have agreed that it's acceptable for departing advisors to take with them client names, addresses, phone numbers, email addresses and account titles. All other documents must stay with the original firm.

Concilla said the protocol has proved very effective at stemming litigation.

"After some very unsuccessful litigation by people who tried to back out of it, it really became almost virtually impossible to breach," he said.

Brian Hamburger, chief counsel at the New York-based Hamburger Law Firm — which represents wealth management companies — said there is at least one instance when the FTC's proposed rule could make a difference for brokerages and advisors. When one firm buys another, the employees of the purchased firm will often be subject to clauses meant to keep them from leaving to set up a rival business. The FTC's ban would extend to clauses used for that purpose, Hamburger said, with one notable exception: The proposal would still allow non-compete clauses for

people who own 25% or more of a business.

The deets on non-competes

Roughly half of all states already restrict non-compete clauses; California comes closest to an outright ban.

The FTC's proposal would forbid non-compete clauses in new contracts and unravel existing non-compete agreements. It's largely meant to empower workers by eliminating obstacles to better employment.

The clauses, which usually bar working for nearby rival firms for a set number of years, were initially found mostly in the contracts of managers. Now, though, they are frequently used to prevent lower-wage employees from moving on. The FTC estimates 1 out of 5 Americans are subject to the clauses and banning them would raise employee earnings by \$296 billion a year.

In a 2019 report to the FTC, three academics noted that non-compete and non-solicitation clauses are often used in other industries to prevent intellectual property from going out the door when employees leave.

"In contrast, the financial advisory industry is one where the primary goal of (the clauses) is to prevent the loss of clients," the study's authors wrote.

And strict non-compete clauses are not unheard of in the financial industry. A recent case involving one made it all the way to a federal appellate court.

In 2016, financial advisor Cara Miller sued her former employer, Honkamp Krueger Financial Services, over concerns that a non-compete clause would prevent her from taking a new job. Honkamp Krueger responded by requesting an injunction to bar her from working at Mariner Wealth Advisors, where she is now a senior wealth advisor in the firm's Rapid City, South Dakota

office. Honkamp Krueger's request was initially granted in federal court but then overturned on Aug. 24, 2021, by the 8th Circuit Court of Appeals.

Miller's victory was largely due to a technicality. Shortly after quitting Honkamp Krueger, she sent a letter to the company saying she was also terminating the employment agreement she had signed containing the non-compete clause. The 8th District court ruled her termination letter meant the clause was no longer enforceable. Miller declined to comment for this article.

Non-solicit and fiduciary duty

For many in the industry, non-solicit clauses are a far greater cause of concern. Financial planner Amir Noor said he was astonished to learn when he changed his job a few years ago that a non-solicit clause would bar him from bringing his clients with him.

Amir said he didn't even change employers. In mid-2020 he merely moved from one branch maintained by Park Avenue Securities to another. Because the managers of each office would get a cut of the client fees Noor helped bring in, he was prevented from trying to bring that business with him for territorial reasons.

Noor said he saw little point in trying to fight a clause in a contract he had willingly signed.

"But it put a bad taste in my mouth," he said.

Park Avenue Securities didn't respond to a request for comment.

Noor, now at United Financial Planning Group, said he wonders how non-solicitation and non-compete clauses can be justified in light of advisors' fiduciary responsibilities.

Those responsibilities — advisors' obligation to always put clients' interests first — usually require advisors to become intimately familiar with clients' finances.

Often, Noor said, he'll end up knowing even more of the financial details of the people who consult him than they know themselves. How then, he asked, could it be in a client's interest if their account had to be handed over to a complete stranger should Noor decide to leave?

"I understand the firm wants to protect their investment," Noor said. "But ultimately, if you are a fiduciary firm, it is not in the client's best interest to have a non-solicit. It's in the best interest of the firm."

Yet, despite such complaints, non-solicitation clauses are firmly entrenched in the industry. Max Schatzow, a founder and partner at New York-based RIA Lawyers, said he knows of no significant court challenges to the legal underpinnings of these contract provisions.

When the clauses are invoked, Schatzow said, the first step a former employer will usually take is to seek a restraining order to prevent a recently departed employee from communicating with former clients. Next, he said, comes an initial hearing.

"And whoever wins that will have a lot of power," Schatzow said.

He said non-solicit clauses come in many different forms, often varying in how long they prohibit advisors from getting in touch with clients. Sometimes they'll have carve-outs that will let advisors keep clients they had before joining a particular firm and only ban contact with newly acquired clients.

Regardless of whether the FTC's proposed ban on non-compete clauses would make a big difference for advisors, it still has a long way to go before becoming law. The FTC is giving the public time to comment on the plan before it would take effect. But lawsuits from business advocates such as the U.S. Chamber of Commerce will most likely drag the process out even longer. **FP**



No more Reg BI 'training wheels' for brokers

FINRA warned brokers about not being fully up to speed with the client-care rule in its latest annual report.

By Dan Shaw

Securities brokers are on official notice from their Wall Street watchdog: Understand the nuances of every investment you recommend and follow Reg BI, or face penalties.

FINRA issued that warning about the client-care standard in its annual report on its regulatory and examination priorities.

Promulgated by the SEC, Regulation Best Interest took effect in June 2020 and requires brokers to put their clients' interests first. Unlike the fiduciary standard — a higher standard of client care that applies to

independent financial advisors — Reg BI only requires brokers to disclose conflicts of interest, not eliminate them altogether. Conflicts of interest often arise for brokers because they earn commissions on the products they sell. By contrast, independent advisors have no financial incentive to trade in individual funds and securities.

Carlo di Florio, the global advisory leader at ACA Group, which advises financial services companies on regulatory compliance, said that regulators often give firms a grace

period to make "good faith" efforts to abide by new rules. If FINRA's report on its Examination and Risk Monitoring Program is any indication, that period has come to an end.

"The training wheels are off now," di Florio said. "This rule has been out there, and you've had lots of opportunities for guidance and to build your programs. So now we are going to do deeper exams to see how well you are complying with the critical elements of the rule."

Enforcement of Reg BI so far has been rare. Last October, FINRA brought its first case over breaches of the regulation against a broker who agreed to settle charges of excessive trading for \$5,000. A few months earlier, the SEC had brought a case against Western International Securities, a dually registered brokerage and investment advisor, and five of its brokers. The SEC case is pending in a federal court in California.

Bill St. Louis, the vice president of FINRA's National Cause and Financial Crimes Detection Program, said in a podcast on FINRA's report that "We continue to see instances where brokers are recommending products they don't understand ... If you don't understand the core components of the product, that's going to be a Reg BI problem."

St. Louis said the first question FINRA officials ask when testing to see if brokers understand a particular investment they've recommended is: "How does this product work?"

The report calls attention to several new areas that FINRA wants brokers to keep in mind when trying to stay on the right side of Reg BI. For example, if a broker recommends rolling over a 401(k) plan into an individual retirement account, it's no longer acceptable to assume that just any IRA will do. Brokers now must take into account factors like the costs of the transfer, the number of investment options the new account will provide and the client's ability to make penalty-free withdrawals. The same criteria apply to almost any type of investment, including variable annuities and private funds. Before recommending those products, says FINRA, brokers must consider cheaper and safer alternatives.

"We'll look more into complex products and the intersection of Reg BI with complex products, which has been a perennial issue of focus for FINRA," said Michael Solomon, FINRA's senior vice president of exams, said on the podcast.

Brokers will also have to monitor their communications about cryptocurrencies to make sure they are distinguishing between regulated and unregulated digital assets.

Just as brokers are required to have a thorough understanding of any investment opportunities they recommend, so are they expected to know their clients as investors. FINRA requires that brokers maintain customer profiles listing such details as their likely retirement age, assets on hand and tolerance for risk.

Solomon said on the podcast that FINRA officials have "seen some simply wrong interpretations on what is a

recommendation.

"And so that's an area that we're going to try to bore into a little bit in terms of how firms decide on what is a recommendation, whether they're accurately doing that," he added.

FINRA scrutinizes the more than 3,000 brokerage firms under its jurisdiction at least once every four years. Firms that are deemed riskier are subject to more frequent examinations. FINRA also conducts investigations following customer complaints or similar reports.

FINRA officials will also want to see that brokers have properly reported conflicts using Form CRS, di Florio said. Although Reg BI does not prohibit conflicts of interest, it does require brokers to minimize or avoid them when possible. When brokers do have a conflict in recommending a certain investment — they make a commission from a stock sale, for instance — they are required to report it on Form CRS. These forms must be posted to the firm's website and revised regularly to disclose recent conflicts.

di Florio also said it wasn't uncommon in the days before Reg BI for FINRA and the SEC to bring cases alleging violations of the previous standard of conduct for broker-dealers. That so-called suitability standard, considered weaker than Reg BI, called on brokers to make sure that they believed their recommendations would be appropriate for clients.

"I think what we're going to see now is a steady flow of Reg BI cases just like we used to have with the old suitability cases," di Florio said. "But these will be brought to bear with a higher standard."

Among the report's other highlights are reminders that:

Brokers are responsible for being on the lookout for manipulative trading

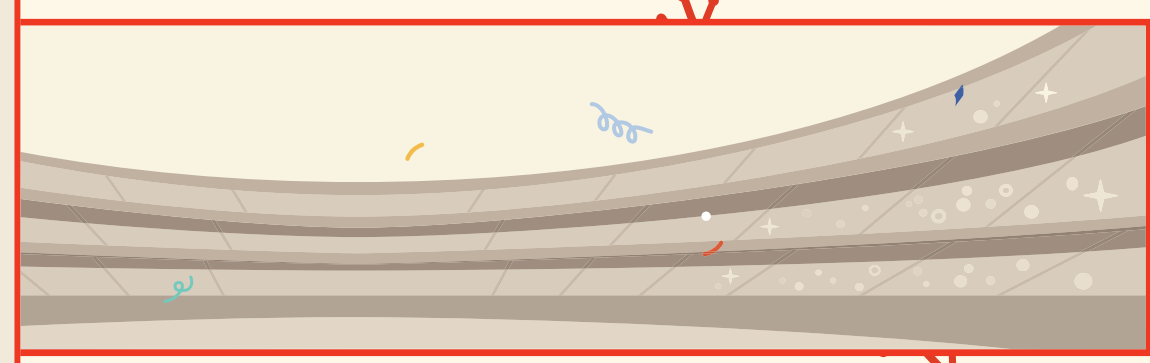
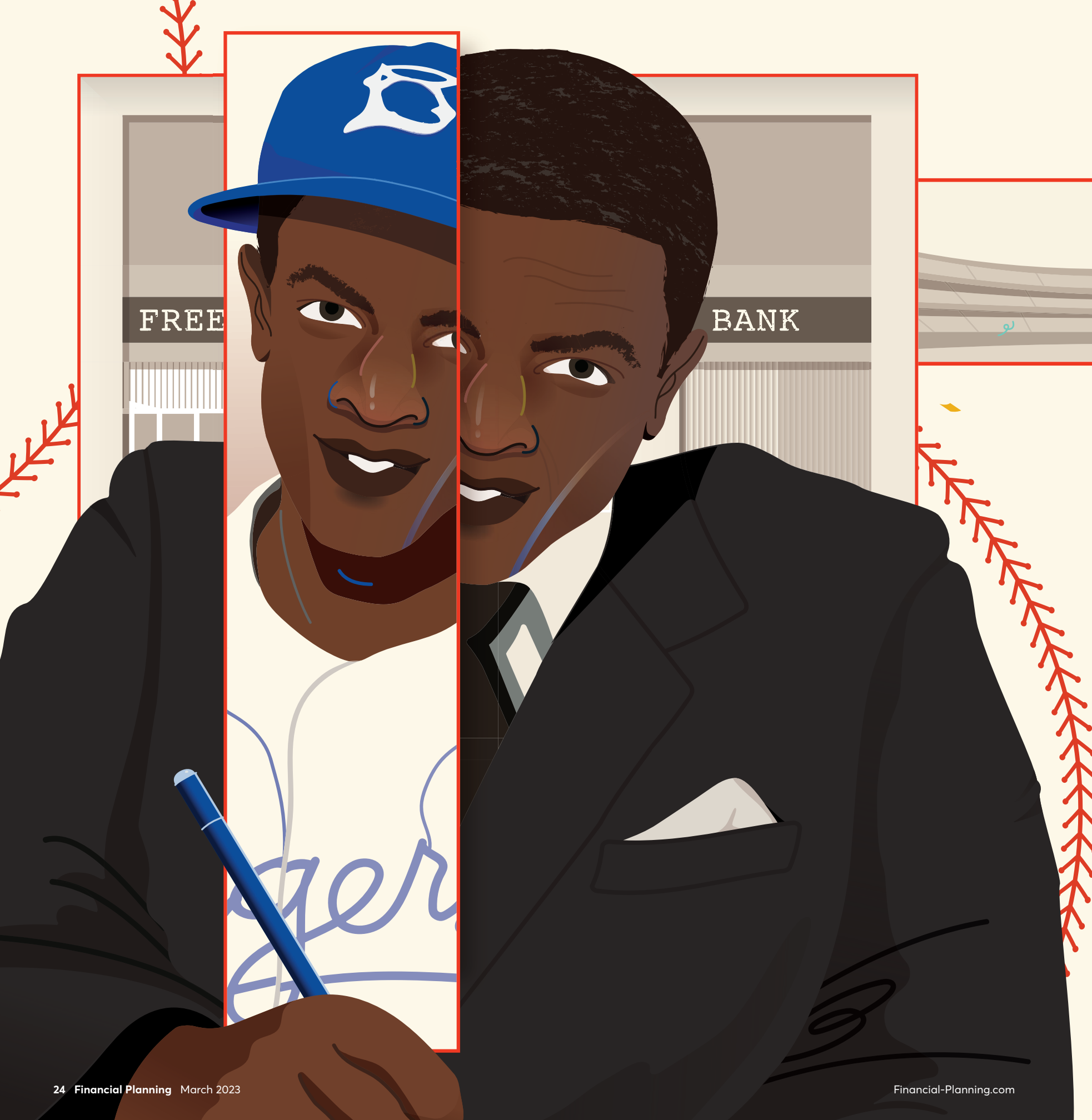
schemes. A particular type of scam that has come into regulators' sights in recent years involves so-called meme stocks. These are stocks that can be easily bought in large numbers because they are cheap. Fraudsters use social media to misleadingly promote them as long-term investments, all the while planning to dump them once their price hits a certain point. FINRA's report warns that cheap initial public offerings — sales of shares in a company for the first time — are now being used for similar purposes.

di Florio said brokers might be approached by clients who have been convinced by social media that they should put their money into something sketchy. In such cases, it's a broker's responsibility to warn clients of all the risks and to do their best to persuade them to consider alternative investments.

Brokers are responsible for abiding by anti-money laundering laws and sanctions against foreign countries. With the U.S. having placed restrictions on Russian transactions in response to Moscow's invasion of Ukraine, brokers need to be doubly sure of the origin of any money they're asked to handle.

Brokers need to make sure that they're not only recommending the best possible investments to clients but are executing those investments in the best possible way. FINRA's Regulation Best Execution rule is generally meant to ensure that brokers are looking at more than one place where, say, a given stock might be sold and choosing the platform that offers the lowest price. The SEC has proposed its own Regulation Best Execution as part of a plan to overhaul U.S. securities markets.

And, brokers need to have strong cybersecurity systems and procedures to protect client and business information. **FP**



When Jackie Robinson was a banker

The rise and fall of Freedom National Bank, an often-overlooked episode in the baseball legend's life, carries lessons for today.

By Tobias Salinger

Toward the end of his life, Jackie Robinson faced a decision about whether to share "the behind-the-scenes story" of Freedom National Bank in his autobiography, he wrote.

In the book published the year of Robinson's untimely death in 1972 from a heart attack at 53 years old and

written with his frequent collaborator, Martin Luther King Jr. speechwriter Alfred Duckett, the retired baseball legend said that there were "two schools of thought" among his family, friends and business associates on divulging how the pioneering bank "narrowly averted a major crisis." Robinson

When Jackie Robinson was a banker

ultimately decided that a frank recounting of Freedom Bank's challenges, alongside its triumphs, was too important to be left out of the chronicle of his life.

"As it is probably quite obvious, the telling of this episode in my personal and business life is painful to relate," he said. "I suppose I take the chance of being misunderstood for telling it. I have told it because I feel there are lessons to be learned from it by many people — black and white."



NATHAN PLACE

Michael Pugh is the CEO of Carver Federal Savings Bank, a New York-based institution that has its headquarters on East 125th Street and Park Avenue in Harlem.

Freedom National Bank closed 33 years ago on the famed "Main Street" of New York's Harlem neighborhood, 125th Street, where the institution once chaired by Robinson sat a couple of doors from the Apollo Theater and provided the beloved venue with the loan for a

refurbishing. The bank — and with it Robinson's dedication to building Black generational wealth — is an often overlooked period of Robinson's life, in light of his historic athletic accomplishments.

But the legacy of Robinson and other Black entrepreneurs who have fought against America's persistent racial wealth disparities and economic discrimination lives on today with financial advisors who are launching their own mission-driven ventures and community banks, increasing access to capital under burgeoning collaborations with large financial institutions. The nascent but growing efforts hold the key to reducing the wealth gap, according to experts, who nonetheless point out that questions remain over how to do that most effectively.

Robinson's goals for the Freedom Bank inspire many current financial professionals launching their own firms and removing barriers to wealth and rewarding careers in the industry.

"He's a testament to the multifaceted life that many of us can live," said Andre Jean-Pierre of Aces Advisors. "We don't have to limit ourselves. Sometimes when you're super-talented at one thing, people tend to look at you as a monolith."

"It makes me so proud," said Anna N'Jie-Konte of Dare to Dream Financial Planning. "We have all these icons, in particular, Black icons. We look at them very one-dimensionally. I have a soft spot in my heart for people who lift as they climb, and I think that's just a really great example of that."

The number of Black-owned banks in America shrunk by more than 50% in the past two decades, even as Native American, Hispanic and Asian American minority depository institutions have added to their ranks over that span, according to a 2020 Urban Institute report.

The latest figures from the Federal Deposit Insurance Corporation listed only 20 Black-owned minority depository institutions nationwide at the end of the third quarter of

When Jackie Robinson was a banker

2022. The Great Recession took a disproportionate toll on Black-owned banks, along with competition from mainstream institutions required to serve low-income and minority customers by the Community Reinvestment Act, industry consolidation and residential moves by middle-class households.

Harlem-based Carver Federal Savings Bank, which has its headquarters on 125th and Park Avenue, reinvests 80 cents of every deposited dollar in the community and other parts of the city served by its seven branches, 110 employees and \$755 million in assets. The savings and loan association launched in 1948 "as an African- and Caribbean-American operated institution to provide residents of underserved communities the ability to invest their savings and obtain credit," according to Carver's last annual report. The institution converted to a bank in 1986.

"We are approaching our 75th anniversary, which is very exciting for us," CEO Michael Pugh said in an interview. "As a minority depository institution, being around for 75 years and especially a Black-owned, Black-managed financial institution, we've seen over the years a precipitous decline in those institutions primarily because of lack of capital. Customers that have historically supported the financial institutions were largely attracted to the much larger financial institutions because of their technology, access in terms of number of locations, et cetera."

Jackie the businessman

Freedom Bank opened at 275 W. 125th St. in 1964, the same year that President Lyndon Johnson signed the Civil Rights Act into law. Robinson had campaigned for the Democrat's re-election after New York Gov. Nelson Rockefeller, who Robinson advised for years, lost to Sen. Barry Goldwater of Arizona in the Republican primaries.

Robinson's autobiography "I Never Had it Made," reveals the complicated history of his political efforts and relationships with icons such as King, Malcolm X and Paul Robeson. It



NATIONAL BASEBALL HALL OF FAME PHOTO ARCHIVES

Jackie Robinson was the first Black officer-level executive at a major American corporation as the vice president of personnel with Chock Full o'Nuts.

also shows how his experience in baseball informed his knowledge of the power of money.

"Money is America's God, and business people can dig black power if it coincides with green power," Robinson wrote in the preface. He recalled the influx of fans and ticket sales at Ebbets Field and around Major League Baseball after he debuted with the Brooklyn Dodgers in 1947.

The title of Robinson's autobiography reflected "the one irrefutable fact of my life" as "a black man in a white world," he said at the end. He wrote that he had become "bitterly disillusioned" with America amid the Vietnam

When Jackie Robinson was a banker



The Jackie Robinson Museum opened in New York last year with a section devoted to Freedom National Bank and Robinson's other business ventures.

War, rising drug addiction that had touched his family personally and a rapid "return to business as usual" after King's assassination that left him wondering if the country would ever be "true to those lofty aims we say were our reason for coming into being."

Despite that skepticism and many health problems near the end of his life, Robinson spent much of his final decade at the bank between writing syndicated columns, advising Rockefeller and appearances such as his last major speech calling for baseball to hire Black managers.

Robinson wrote that a "most impressive" quote by Malcolm X summed up why he wanted his own business enterprises.

"Referring to some college students who

were fighting to be served in Jim Crow restaurants, Malcolm said he wanted not only the cup of coffee but also the cup and saucer, the counter, the store and the land on which the restaurant stood," he said. "I believed Blacks ought to become producers, manufacturers, developers and creators of businesses, providers of jobs."

New York's Jackie Robinson Museum opened last year after a ribbon-cutting by 100-year-old Rachel Robinson, and the museum pays tribute to Freedom Bank and Robinson's other companies with exhibits like "Jackie the Businessman."

Freedom Bank "provided financing and other support for African Americans who are discriminated against by mainstream banks," according to a timeline of Robinson's life. However, some critics in the civil rights movement "raised concerns about whether white stakeholders would have outside control over the institution, even threatening to boycott."

The bank was "probably one of his major post-baseball achievements," Rachel Robinson said in an interview video that runs in the business section of the museum.

"It meant a lot to Jack to be able to bring that kind of economic development tool into Harlem, because people could get mortgages, small businesses could begin to get loans," she said. "And there were just so many ramifications of that, that he agonized over that bank. Oh, did he agonize over it. Anything that he thought was going wrong worried him because it was important for them to succeed in that."

Robinson and other members of the organizing committee appointed Carver Chairman William R. Hudgins to be the first president of Freedom Bank. Roughly a year after its founding with a capitalization of \$1.5 million, Freedom Bank reached a valuation of \$9 million and had issued \$300,000 in loans to small businesses, according to Robinson's autobiography. In 1966, Freedom National opened a second branch in Brooklyn's Bedford-Stuyvesant neighborhood.

TOBIAS SALINGER

When Jackie Robinson was a banker



LIBRARY OF CONGRESS

Jackie Robinson spoke to reporters in Birmingham, Alabama, three days after the May 1963 bombings targeting civil rights leaders leading a campaign against segregation.

At the time of its closing in 1990, the bank represented the fourth-largest Black-owned bank in the country with \$101.9 million in assets, the Knight-Ridder News Service reported.

"Since its founding in 1964, Freedom has served as the financial backbone of the Harlem community at a time when few other institutions showed much interest in doing business there," longtime Harlem resident and then-Mayor David Dinkins told the outlet.

Investing in the area today

The financial landscape of Harlem looks much different these days, with the Magic Johnson Theater sitting close to the former site of Freedom Bank and giants like JPMorgan Chase and Northwestern Mutual opening as many branches as in other affluent parts of the city.

On the national level, protests after the murder of George Floyd in 2020 prompted influxes of donations and investments by financial giants pledging to act on racial equity and alter hiring practices.

JPMorgan has announced plans to hire 300

Black or Hispanic financial advisors by 2025, and the company held its first summit for Black advisors last year, Barry Simmons, the eastern divisional director of JPMorgan Wealth Management, noted in an interview. In 2019, Chase had opened the first of 14 "community branches" across the country on 125th Street at Malcolm X Boulevard, with \$27 million in donations toward financial literacy and local nonprofits.

"Access to capital and access to resources is extremely critical to the work that we do from a wealth management perspective," Simmons said. "If you think about the wealth management business, many people are not aware of their opportunity to actually start investing."

Jean-Pierre, a financial advisor who's a former college football star, lives in Harlem near 125th Street.

Besides running his own registered investment advisory firm, Jean-Pierre vowed publicly in July 2021 in front of his thousands of Twitter followers to start a bank within the next 10 years. He's hired a junior planner for the

office with the goal of assisting the staff member in becoming a certified financial planner. In the long term, Jean-Pierre plans to add more recruits and move into private wealth management and a business bank for Black and minority entrepreneurs.

"My vision for the future is to bring on minority advisors who are kind of thrown by the wayside by the traditional wirehouses," said Jean-Pierre, who is Haitian American. "All of my staff will be CFPs in the future because I remember when I wanted someone to invest in me and no one would. I'm going to invest in them and feed that fire, so that they can become the best that they can be."



Harlem's Freedom National Bank opened at 275 W. 125th St. in 1964. At the time of its closing in 1990, it was the fourth-largest Black-owned bank in the country.

Like Jean-Pierre, N'Jie-Konte started her career with a large firm before launching her own RIA. She has a couple of current clients who live in Harlem after living in the area herself by 135th Street, another one of the neighborhood's historic thoroughfares, for two years.

Unlike some large wealth management firms, N'Jie-Konte has no minimum client account size because she "felt really called to serve a different demographic" than the high net worth customers earlier in her career. N'Jie-Konte, who is Puerto Rican and Gambian American, said that half of her clients are single

women and the other half are either same-sex couples or husbands and wives in which the "men are nonexistent or in the background."

She expressed admiration for advisors who utilize technology, group coaching, podcasts or other methods of boosting financial education beyond their client bases.

"They're looking at different business models, and they're figuring out a way to help people in different avenues and meet people where they are," N'Jie-Konte said.

In an interview in the bank's headquarters above the hubbub of the Metro-North Railroad and 125th Street, Pugh spoke reverently about the legacies of Carver legends like Hudgins and co-founder Joseph Davis. After starting with as little as \$250,000, Carver had issued about \$30 million in mortgages to 3,000 households by 1962, according to Pugh.

"What they tried to accomplish — in fact did accomplish — was something that was groundbreaking," he said. "They understood the important part of what we're talking about, which is equity and wealth generation really starts through ownership in something that appreciates. And when we think historically about how that has happened within our nation, we know it's through homeownership and small businesses."

Freedom Bank's fate

With those goals on the mind of Robinson and the other Freedom Bank's other founders, the bank had opened its doors after a "long and sometimes stormy period of organization," according to an article from December 1964 in *The New York Times*. Robinson and other members of "the biracial organizing group" had parted ways with the Harlem entrepreneur who had the idea for the bank, Dunbar McLaurin, and the bank beat back "an unsuccessful 11th-hour attempt" by McLaurin to block the launch through litigation.

Freedom Bank also faced some distrust in Harlem, after the example of a foray by John D. Rockefeller Jr. into the area in the late 1920s with the Dunbar National Bank, according to law professor Mehrsa Baradaran's book, *The Color of Money: Black Banks and the Racial*

Wealth Gap." The bank hired Black employees, but Rockefeller retained full ownership and control.

Robinson and Hudgins took charge of Freedom Bank, where the president and the board would eventually fall out of favor. Meanwhile, Robinson found himself stuck between the paternalism of the white banking community and the pressure to come to the aid of long-ignored customers.

He had "served in a segregated military, single-handedly integrated Major League Baseball, and was a civil rights activist within the GOP, and he believed his most challenging struggle was running a Black bank," Baradaran wrote. "Because Harlem saw Freedom as 'our bank,' Harlem did not treat it like any other business. This conflict was as old as Black banking, but Robinson was very troubled by his position."

Problems with the bank's loans plagued it most of all. A few years after the launch of Freedom Bank, Robinson wrote that he "began to get worried about the large amounts of money we were writing off in bad loans" and grew concerned that the bank had shown a "tendency to favor friends on the basis that one can trust one's friends in business — an utterly risky philosophy."

Freedom Bank was turning "a small profit" by the early 1980s after receiving a backstop in the form of an investment of \$3.7 million from a group of "major banks," the Times reported years later. Its story about the closing was headlined "Failed Dreams — The Collapse of a Harlem Bank; Freedom Bank's Demise: A Trail Of Risky Loans and Fast Growth." Profits vanished into insolvency due to what federal regulators described as "bad loans" and "mismanagement."

Over 11% of loans were either in default or far behind in payment at a time of national recession when parts of the city had yet to climb fully out of a long economic slump. Sharnia "Tab" Buford, the bank's president from 1979 to 1987, explained the difficulties.

"I tried to balance loans with the community — often time-consuming loans that weren't really that profitable — with loans to major

corporations," he told the Times. "In the minority community, most often we didn't have certified financial statements and other means of checking creditworthiness, so we did a great deal of lending with our hearts, which is risky."

The bank sustained losses of \$4.7 million in the prior two years, on its way to another expected \$2 million in 1990, according to Knight-Ridder's account. The FDIC agreed to pay depositors 50 cents on every uninsured dollar above \$100,000 in their accounts, leading to the unfortunate sight in November 1990 of nearly a thousand Freedom Bank customers lining up on 125th Street for payment.

"My concern isn't about my money," a New York Telephone employee named Lisa Johnson, who was in line, told Knight-Ridder. "It's about my community. You close down this bank, you're taking out the only bank that keeps its money in the community."

An effort the following year to revive Freedom Bank led by a former chairman and a onetime chief of staff to King, a Harlem pastor named Wyatt Tee Walker, didn't come to fruition. Today, the address of Freedom Bank contains vacant storefronts without any apparent memorials to the institution that had been there for 26 years. For those familiar with Robinson's life beyond baseball and driven to expand access to wealth, though, the bank's legacy lives on.

In his autobiography, Robinson wrote that some of his closest family, friends and business associates had warned him against sharing the full inside story of his time with the bank.

"Today, since we have successfully weathered the storm, some people think that it will do damage to public confidence in us to talk about the danger we confronted and overcame," he wrote. "I have given a great deal of thought to that point of view because I love the bank and what it has achieved and would not want to hurt it. But I think there are vital lessons to be learned by telling frankly what happened to us and why. I think that my own ego or that of any other individual is not as important as the need for maturity and stability in Black business." **FP**

TOP 40 UNDER 40



Attracting and keeping the top young talent

Four of the top brokers in our 40 under 40 lists discuss how big brokerages can hold onto advisors in a red-hot labor market.

By Victoria Zhuang

Strategies to keep star young wealth managers from bolting to competitors should be at the top of every firm's priority list. Losing just one means forgoing decades of potential revenue from clients.

But in a fiercely competitive labor market, crafting a blueprint for retaining key planners is a challenge.

Even as some financial giants announce layoffs amid the steep market downturn, wealth management remains a highly lucrative business. With advisors in high demand, industry recruiters expect 2023 to be tougher still for firms seeking to woo seasoned talent.

"If you're an experienced, productive advisor, there have never been so many choices in terms of firms or business models," said Mark Elzweig, an industry recruiting consultant. "Every year, there seem to be new players coming into the marketplace. So the opportunity

set for advisors, in terms of which firms they can affiliate with, keeps expanding."

This year's Top 40 Brokers Under 40 lists, which rank the most productive advisors under age 40 by individual annual revenue, signal how high-performing younger advisors are taking advantage of their choices.

Both the No. 1 overall broker, Jenny Tsai, and the No. 1 regional broker, Andrew Feichter — who are each at the top of their respective lists for the second year in a row — moved from a wirehouse to a competitor earlier in their career. Tsai was poached by another wirehouse, and Feichter left for a smaller shop. Both said they were primarily drawn to a place that offered better support for serving their client niche.

Fully one-quarter of our top 40 overall brokers this year, or 10 out of 40, moved to their current employer

from either a wirehouse or from a large bank, such as J.P. Morgan and Credit Suisse. Among the top regional brokers, 14 of the 40, or fully one-third, had worked at and left a wirehouse firm earlier in their careers.

Although this group may not be representative of all younger advisors, the numbers here fit into an ongoing trend of the biggest firms losing many productive advisors to smaller competitors in recent years.

Prevention is the best medicine

Wirehouse compensation grids for 2023, issued late last year with almost no changes from the prior year, reflect wirehouses' desire to avoid alienating advisors with tweaks that could drive talent away. In the past, the "Big Four" wirehouses — Bank of America's Merrill Wealth Management, Morgan Stanley, UBS and Wells Fargo — have made changes that upset some advisors.

"The payout announcements of this year just underscore the fact that it's a very competitive marketplace," Elzweig said. With firms reluctant to tamper with their grids and reduce advisor payouts, he added, "the only real changes are around the margins, meaning incentivizing advisors for growing their businesses."

Some advisors think their employer already takes too big a share of their revenue. "The reality is, firms like wirehouses are keeping more than 50% of the revenue that advisors generate," said Jason Diamond, a vice president and senior recruiter at Diamond Consultants.

But while firms continue to be willing to pay top dollar to recruit advisors externally, they sometimes pay short shrift to keeping those advisors on board, Diamond said.

"The retention piece seems like it sometimes gets overlooked — which is a little bit ironic because you'd think it's cheaper to retain an advisor than it is to recruit a new one."

The risks of attrition are particularly acute for wirehouses. In its annual survey last year of financial advisor satisfaction, industry research firm J.D. Power found that advisors working in the employee channel at wirehouses, and not

as independent contractors, were more than twice as likely to be "at risk" of leaving their employer in the near future compared to the rate of advisors at independent firms.

"A combination of technological- and pandemic-driven disruption has exacerbated [attrition], with 15% of advisors at wirehouse firms and 7% of independent advisors now categorized as 'at risk' of leaving their firms in the next two years," J.D. Power said.

When young advisors leave

Older advisors can be enticed into staying put via contracts that offer to let them sell their business back to the firm upon retirement. But the same trick doesn't work for younger peers.

"An advisor who has five years left of their career and plans on retiring in five years is more likely to say, 'Is it perfect? No, but I'll suck it up because I only have five years left,'" Diamond said.

By contrast, a younger advisor is less likely to wait it out and more likely to jump ship to a competitor, simply because they have a longer career runway.

In some cases, firms treat this as a foregone conclusion, Diamond said, and don't invest as much in their preventive game. "There's a bit of this prevailing feeling that advisors who are going to leave are going to do so anyway. So we need to recruit to replenish the ranks."

But that mindset can become a self-fulfilling prophecy. And it can eat a hole in the balance sheet of a firm that preemptively treats such advisors as flight risks while avoiding the work of investing in their longevity at the firm.

Tsai, who began her career at Merrill Lynch in 2008 and moved to Morgan Stanley in 2015, is a good example. She cited better support for conducting international business with clients as the main driver of her decision to leave. Tsai, who was born in Taiwan and came to the United States at age 15, specializes in serving ultrahigh net worth clients in Asia.

"I never regret joining Morgan Stanley," she said in an interview. "I saw a lot of improvement and support from Morgan Stanley [since joining], especially on international business."

FEATURED STORY

Top 40 Brokers Under 40 in 2023

This story was abbreviated for space. To read the full story, scan the following QR code.



Top 40 Under 40

Rank	Name	Age	Firm	Annual production	Personal AUM
1	Jenny Tsai	39	Morgan Stanley Private Wealth Management, Pasadena, CA	\$9,664,307.04	\$899,355,983.55
2	Dominic Casanueva	38	Merrill Lynch Wealth Management, Lakewood Ranch, FL	\$8,473,991.59	\$2,010,626,579.50
3	Michael Shalhoup	38	Merrill Lynch Wealth Management, New York, NY	\$8,342,422.21	\$826,215,472.05
4	Krystal Julius	36	Merrill Lynch Wealth Management, Wayzata, MN	\$8,256,874.73	\$1,426,467,331.97
5	Xi Qiao	38	UBS Wealth Management, San Francisco, CA	\$8,047,972.00	\$1,731,071,967.00
6	David Katz	39	Merrill Lynch Wealth Management, New York, NY	\$8,031,883.88	\$1,758,259,274.04
7	Matthew Van Beek	37	Merrill Lynch Wealth Management, Seattle, WA	\$6,855,984.59	\$2,156,362,299.90
8	Matthew Gallo	31	Merrill Lynch Wealth Management, Walnut Creek, CA	\$6,639,305.12	\$962,109,321.61
9	Christopher Dillon	31	UBS Private Wealth Management, Boston, MA	\$6,440,245.10	\$1,984,325,034.54
10	Tony Zhang	37	Morgan Stanley Private Wealth Management, Pasadena, CA	\$5,753,162.50	\$593,256,966.63
11	Evan Troop	36	J.P. Morgan Wealth Management, Dallas, TX	\$5,656,664.00	\$2,949,644,951.00
12	Arturo Karakowsky	39	Morgan Stanley Wealth Management, Houston, TX	\$5,310,654.83	\$687,763,001.56
13	Andrew Feichter	37	William Blair, Chicago, IL	\$5,244,420.00	\$424,186,617.00
14	Jeffrey Browne	34	Merrill Lynch Wealth Management, Mount Laurel, NJ	\$5,164,014.02	\$614,517,703.67
15	Derek Jancisin	34	Merrill Private Wealth Management, Pittsburgh, PA	\$5,159,072.24	\$878,814,554.38
16	David Li	39	J.P. Morgan Wealth Management, Boston, MA	\$5,153,638.00	\$679,464,049.00
17	J.R. Randall	39	Morgan Stanley Wealth Management, Cincinnati, OH	\$5,068,150.73	\$627,276,030.92
18	Mark Alber	39	Morgan Stanley Wealth Management, Melville, NY	\$4,870,351.49	\$384,719,836.11
19	Chuck Korasick	39	UBS Private Wealth Management, Beverly Hills, CA	\$4,848,266.65	\$502,358,455.16
20	Henry Villeda	38	Merrill Lynch Wealth Management, Phoenix, AZ	\$4,607,708.44	\$4,779,356,087.43
21	John Hudspeth	36	Merrill Lynch Wealth Management, Naples, FL	\$4,576,914.60	\$656,280,501.51

Top 40 Under 40

Rank	Name	Age	Firm	Annual production	Personal AUM
22	Jens Pascucci	35	Merrill Lynch Wealth Management, Seattle, WA	\$4,555,629.44	\$2,334,568,611.88
23	Christopher Battaglia	31	Merrill Lynch Wealth Management, New York, NY	\$4,282,088.58	\$366,537,134.80
24	Michael Briese	38	J.P. Morgan Wealth Management, New York, NY	\$4,241,392.00	\$600,873,000.00
25	Garrett Burke	35	Merrill Lynch Wealth Management, Heathrow, FL	\$4,238,653.11	\$891,574,335.00
26	Nick Sadowsky	38	UBS Private Wealth Management, Aventura, FL	\$4,180,487.00	\$1,399,993,764.00
27	Harris Ringelheim	37	UBS Wealth Management, Garden City, NY	\$4,157,902.00	\$511,600,477.00
28	Anthony Carpentieri	38	Merrill Private Wealth Management, Greenwich, CT	\$4,036,941.69	\$937,841,138.85
29	Jeremy Keller	37	UBS Wealth Management, Las Vegas, NV	\$4,006,462.40	\$553,309,980.23
30	Travis Frayard	34	UBS Private Wealth Management, Lafayette, LA	\$3,828,163.00	\$835,684,035.00
31	Kurt Jones	38	Merrill Lynch Wealth Management, Atlanta, GA	\$3,824,955.71	\$456,969,226.62
32	Thomas Holder	34	Merrill Lynch Wealth Management, Stuart, FL	\$3,622,740.12	\$488,548,810.41
33	Oliver Crandall	38	RBC Wealth Management, Washington, DC	\$3,567,183.00	\$384,112,587.00
34	Nayan Ranchhod	38	Ameriprise Financial, Scottsdale, AZ	\$3,537,989.00	\$325,024,689.00
35	Frederick Haas	32	Merrill Lynch Wealth Management, Greensburg, PA	\$3,450,274.95	\$431,463,398.10
36	Jeremy Lambert	38	Janney Montgomery Scott, Greenville, DE	\$3,394,850.00	\$398,305,453.00
37	Sara Wohl	37	Merrill Lynch Wealth Management, Ann Arbor, MI	\$3,371,090.22	\$469,417,708.33
38	Christopher McCormick	38	UBS Private Wealth Management, Chicago, IL	\$3,371,087.42	\$413,334,766.03
39	Justin Gelbman	39	Oppenheimer & Co, Princeton, NJ	\$3,353,544.00	\$344,093,454.53
40	Matthew Clark	37	William Blair, Baltimore, MD	\$3,339,786.00	\$746,967,281.00

Nominees for the rankings were 39 or younger as of Dec. 31, 2022, and were registered with a wealth management firm in the employee channel. FP uses production totals that are verified by each broker's employer to determine the rankings. Trailing 12-month production and AUM are as of Sept. 31, 2022.

Investment Strategy



Advisors finding good bets for HNW clients in alts

Research firm Cerulli reports that investing in private equity, real estate and other alternatives was up 23% in 2022.

By Dan Shaw

With the beating stock and bond markets took last year, Patrick Dougherty isn't surprised that many of his high net worth clients are looking for alternative ways to juice their returns.

Dougherty, principal at the Dallas-based registered investment advisory Dougherty Wealth Management, said he usually directs clients who are looking beyond standard stocks and bonds to private real estate partnerships. He said he's seen these partnerships — which allow investors to buy

stakes in apartment buildings and other properties — produce returns of 17% to 19%.

The trade-off, Dougherty said, is that investors have to accept they won't be able to access their money for some time. Private real estate partnerships often cash out only when property holdings are sold. Investors usually have to wait years — sometimes as many as 10 — for returns. That's why, he said, they need a lot of money to start with.

"It's only the high net worth individuals, people with \$3 million or \$4 million, who can

put \$100,000 into one of these," Dougherty said.

Dougherty's sense that wealthy clients want to boost their returns by looking beyond stocks and bonds is not just anecdotal. A recent report by the research firm Cerulli Associates found that investors with a net worth of \$5 million or more now have 9.1% of their assets in alternatives to stocks and bonds. That's up from 7.7% in 2021 and is expected to climb to 9.6% next year.

Robert A. Stanger & Co. — a Shrewsbury, New Jersey-based investment banking firm that tracks alternative investments — reported that \$104 billion was raised for alternatives in 2022. That's a 23% increase from 2021.

Cerulli's survey found private real estate investments are popular among advisors working with wealthy clients. Of the respondents, 45% said they plan to direct more money into private real estate in the next two years. The Stanger report found that \$33 million was raised last year for private real estate investment trusts — another way investors can put money into apartments, office buildings and types of properties that generate income.

Even more appealing than real estate, according to Cerulli, was private equity funds, which allow investors

to buy stakes in companies that are not traded on public markets. Cerulli found that 45% of respondents would be directing more money to private equity in the next two years.

Also popular is private credit, which allows investors to pool their money into loans to private companies. The Chicago-based advisory firm Cresset Partners recently started a private credit fund to invest in loans to small, non-public companies backed by private equity firms. Like most such opportunities meant for high net worth investors, the \$500 million fund is designed to produce returns superior to those from more traditional markets.

In the Cerulli study, roughly half of the respondents said they favor alternatives because they're looking to diversify their portfolios. Another 50% said they're seeking growth opportunities.

Those opportunities have been hard to come by lately. The S&P U.S. Treasury Bond Index finished 2022 down by 10.7% and the S&P 500 Stock Index was down nearly 20%.

Even in normal times, there's great appeal to the prospect of getting greater returns while protecting investments against losses in certain asset classes. Following a year when stock and bond markets were pummeled, such a combination looks doubly good.

Rob Young, senior investment analyst at Southfield, Michigan-based Telemus Capital, said he and his fellow advisors diversify their clients' portfolios using a two-layer system.

The first layer includes a broad swath of private equity, real estate and credit funds that investors can pull their money out of at set times of the year. The second consists of specially selected funds that Young and his colleagues have taken a great deal of time to research. These are usually long-term

investments — usually requiring money to be set aside for years — that hold the promise of substantial returns. Young said Telemus tries to select between four and six of these funds annually.

Young, whose firm works primarily with high net worth clients, said it's not safe to assume that a long-term private fund is a good fit for anyone with a lot of wealth. Even for people with money to spare, there's always the question of how much of it they'll need on hand for present-day expenses.

"It really gets down to your relationship with the individual client and knowing what that client's needs are," Young said.

Dougherty said he has tried to distinguish his RIA in part by seeking out wealthy clients — most of the people he works with have a net worth of around \$2 million — and then finding ways for them to invest beyond stocks and bonds. His knowledge of alternatives has come from enrolling in courses and spending a good deal of time talking to officials at real estate partnerships and other investment prospects.

"I get to know them so well they probably get tired of me," Dougherty said. "But I go to meet the president. I meet the people who pick properties. I get to know these people on an individual basis. And once I see I have a company that's really good, I put my clients' money into it."

Along with real estate partnerships, Dougherty likes private equity. He said he has turned to it, for instance, to put clients' money into the Nothing Bundt Cake bakery shop chain.

Beyond their limits on money withdrawals, Dougherty said, the biggest drawback to private investments is that they are opaque. Since private equity firms and real estate partnerships are not under the reporting requirements federal

regulators place on public companies, they tend to furnish very little in the way of performance data to investors.

Dougherty concedes that means clients who want their advisors to recommend alternatives have to take the resulting advice on faith. Dougherty has been building up relationships with some of his clients for more than 20 years. His strong desire to make sure he doesn't betray their trust is one reason he puts so much time into researching possible investments.

"Most of them will say, 'What are we going into?'" Dougherty said. "And then I explain it to them and they say, 'Well, if you think it's good, we'll do it.'"

Tax complications are another drawback. Rob Cordasco, founder of the Savannah, Georgia-based accounting firm Cordasco & Co., said many private equity firms are organized as partnerships, meaning they don't pay taxes on corporate earnings. Their earnings are instead distributed to investors who are taxed on their income.

Cordasco said it's not uncommon for private equity firms to own companies that are operating in 20 to 30 different states. If that's the case, investors will find themselves having to fill out tax forms for each individual state.

"If they're in 20 different states, none of them are going to be ready to file by April 15," Cordasco said. "They'll instead be filing for extensions in 20 states."

Dougherty said despite his openness toward alternatives, there are some investments he steers clear of. He's not a fan of commodities like gold and silver. They're too volatile. And something like cryptocurrency is too untested, he believes. So far, Dougherty said, the strategy has worked.

"People come to me because they want something special," Dougherty said. "They want the cherry on top." **FP**

Tax and Retirement



Turning unused college savings into tax-free Roths

SECURE 2.0 fueled an expansion of the Cadillac of nest eggs. Here's what you need to know.

By Lynnley Browning

America's most attractive retirement plan just became more accessible.

A new law now lets owners of 529 college savings plans redirect unused dollars to a tax-free Roth account, making the latter, the Cadillac of retirement strategies, more available to a new generation of savers.

Under legislation signed into law last December, investors can roll up to \$35,000 from a 529 into a Roth individual retirement account starting in 2024. The move morphs

leftover money originally intended for a child's college (or kindergarten through 12th grade) costs into retirement dollars, all without socking the saver, or the beneficiary, with a tax bill.

With tax-free growth and withdrawals, Roths are an engine of outsize savings and a favorite of wealth advisors, especially those to the affluent.

"Having the option to roll the funds into a Roth IRA will be a significant benefit that can also give a leg up to the beneficiaries

in saving for retirement," said Kristen Carlisle, the general manager of Betterment at Work, part of robo-advisor Betterment.

The option is part of a \$1.7 trillion federal spending bill that contains a welter of provisions aimed at improving Americans' retirement readiness, including that of higher earners. Among the package's changes:

- The age to start taking required minimum distributions from traditional individual retirement plans and 401(k)s rises to 73 this year and to 75 a decade later, giving accounts more time to grow in value

- Penalties for not taking RMDs are cut in half

- Companies can make matching contributions to employer-sponsored Roth accounts.

The current \$1,000 catch-up contribution to traditional IRAs will be indexed for inflation for those aged 50 and older come 2024.

Assuming a conservative long-term return of 6%, \$35,000 in a Roth would grow to more than \$150,000 after 25 years, and to over \$268,000 after 35 years.

The rollover provision is "a great way of tax-effectively passing wealth to the next generation," said Zachary Morris, the co-

founder and managing partner of Paces Ferry Wealth Advisors, a fee-only firm in Atlanta.

The 411 on 529s

A parent or grandparent typically sets up a 529 for a younger family member. Owners can also set one up for themselves or change a beneficiary to, say, a younger child if the older one doesn't go to college or gets a scholarship and doesn't need all of the money.

If a beneficiary gets a full scholarship to college, the penalty for withdrawing the cash is waived, according to Schwab. Up to \$10,000 of 529 funds can be used to pay off existing student loans.

On dollars put into 529s, which are named for a section of the tax code and are run by states, taxes have already been paid. The contributions are invested in mutual funds or exchange-traded funds — often target-date funds — that are available on a plan's menu of options.

When pulled out to pay for qualified expenses such as tuition, fees, room and board, and books, there's no tax bill.

But if the dollars are used for non-educational expenses, the saver owes federal and state tax at ordinary rates, now topping 37%, on the growth, as well as a 10% penalty.

Previously, if a saver was stuck with money in a 529 because their child didn't go to college — maybe they're an athlete or a performer or opted for another nontraditional path — the only way to get the funds out was to suck up the tax bill. Now \$35,000 can walk seamlessly into a Roth IRA, tax-free.

But not immediately. The new law says that a 529 account has to be in

existence for at least 15 years before being rolled into a Roth IRA. And contributions and growth from the past five years can't be shifted over.

There are 15.8 million 529 accounts with nearly \$458 billion, each with an average \$29,000, according to educationdata.org. It's estimated that around 10% of families with 529s end up with unused money.

Here a Roth, there a Roth

Roth IRAs are funded with dollars on which taxes have already been paid. Withdrawals are tax-free once the owner reaches age 59½ and has had the plan for at least five years. Intended as a vehicle for middle-class savings, the accounts have income and contribution caps intended to prevent the ultra-wealthy from utilizing them.

This year, the total that a person can contribute to all traditional IRAs and Roths combined is \$6,500 (plus an \$1,000 if aged 50 or older.) Single earners who make under \$138,000 and married couples earning under \$218,000 can contribute the full amount.

Those making slightly above those income thresholds can contribute a reduced amount — zero dollars once they hit \$158,000 and \$228,000, respectively.

The new law lets savers sidestep those income and contributions limits, but only for the rolled-over amount. When it comes to putting future money into a 529-turned-Roth, savers are still subject to the income and contribution limits.

Limits, schlimits

A major way to bypass the income limits comes thanks to a tax code provision that allows investors to put

extra money into their 401(k)s, then convert those accounts to Roths. This year, savers can contribute an extra \$22,500 to an employer-sponsored retirement plan — \$30,000 if aged 50 or older. Total contributions, including employee matches, can reach \$66,000 — more than 10 times the amount that can go into a regular Roth.

By maxing out 401(k) contributions, then converting that plan to a Roth, a saver can shift the money to a tax-free account. While ordinary taxes are owned on the amount converted, the gains grow free of tax.

There's another way to tax-free land that's known as a backdoor Roth conversion.

The strategy involves converting a traditional IRA into its Roth cousin. If the original plan is seeded with low-value interests in private companies that later explode in value, as PayPal co-founder Peter Thiel had, the result can balloon to \$5 billion tax-free wealth, as a ProPublica investigation detailed last year.

'Like a backdoor Roth'

Converting \$35,000 of unused 529 dollars to a Roth isn't likely to get you to seven figures. Still, financial advisors view the ability to roll over the dollars as valuable.

"It's like a backdoor Roth IRA," said Chris Reddick, a fee-only financial planner based in San Antonio, Texas.

Matthew Masterson, the chief planning officer of CI Regent Atlantic Private Wealth, an advisory firm in Morristown, New Jersey, called the new provision "a unique opportunity for investors who normally would not be allowed to make Roth contributions. It's very similar to the backdoor Roth IRA contribution available to some investors today." **FP**

Lynnley Browning is managing editor at Financial Planning. Follow her on Twitter at @BrowningLynnley.



Tax season 2023: Smaller refunds, ugly capital gains

With pandemic credits over and investment losses everywhere, filing a federal return this year surfaces unpleasantness.

By Lynnley Browning

The annual rite of filing a federal tax return is kicking into full swing, and this time millions of Americans will need to adjust their expectations.

Stimulus checks are no more. Generous credits for children and for childcare and dependent expenses, mostly daycare, have shrunk to pre-pandemic levels. Steep losses from the stock market, which fell nearly 20% last year, have handed some mutual fund investors surprise distributions with a capital-gains tax bill, even as the funds lost

money.

Throw in spiking audit rates for higher earners, and the financial jolts of the 2023 filing season — which covers income, losses, credits and deductions for 2022 — will hand many filers slimmed-down refunds, or none. Some taxpayers “will likely receive a significantly smaller refund compared with the previous tax year,” the nation’s tax agency warned before the December holidays.

Federal returns are due April 18, a

Tuesday, due to a District of Columbia holiday the day before. California storm victims have until May 15. The earliest a taxpayer can file was Jan. 23. You can kick the can down the road and opt by April 18 (inclusive of that day) for an extension to file by Oct. 16. Either way, it all leaves just under 14 weeks for most taxpayers, their financial advisors and their accountants to wrangle the paperwork and make tax-smart decisions.

Complicating matters, some filers didn’t get a tax form for payments from third-party vendors until the end of January, leaving less time to pull it all together. As usual, partnerships don’t have to send investors statements of income and losses until March 15, which makes filing for an extension the way to go for affluent taxpayers.

Here’s your field guide to the 2023 filing season.

Expect less

The federal government flooded American households with cash and credits during the pandemic, an effort to keep people’s financial heads above water as businesses shuttered and the economy stumbled.

Those \$1,400-per-person stimulus checks in 2021 are now a distant memory. So a family with three children who received \$7,000, either

as a paper check or credit on its 2021 return, won't have that boost this year.

There's additional new pain: Families who in 2021 received \$3,600 per dependent under the age of 6 get only \$2,000, the pre-pandemic amount, for 2022. Those with dependents older than 6 but under age 18 got \$3,000 per child in 2021; for the 2022 tax filing season, it's now a lower \$2,000 and stops if a child turned 17 last year.

Likewise, the child and dependent care credit for 2022 dropped to a maximum of \$2,100, from \$8,000 in 2021.

The average refund last year for more than 164 million individual taxpayers was \$3,176, nearly 14% higher than 2020's \$2,791, according to the IRS. But the six in 10 taxpayers who opted to have their refunds directly deposited into their bank accounts saw slightly more money (\$3,253 last year vs. \$2,863 in 2021).

The gloss in a loss

All those losses in the market have a potential upside. Investors can sell poorly performing stocks and funds and use the losses to offset the profits made from selling winning assets. The technique, known as tax-loss harvesting, works when selling real estate and businesses, too. Losses can offset, or reduce, the capital gains due on profitable sales.

No investment profits to offset? You can use up to \$3,000 to offset your total taxable income, which includes salaries and wages. Any losses left over can be carried forward indefinitely to future years.

"Instead of a 10-year cycle of massive gains, it's now about business losses, capital losses," said Ryan Losi, the executive vice president of accounting firm PIASCIK. "Taxpayers will be asking, 'How can I use these losses?'"

Many mutual funds started 2022 flush with appreciated assets from the longest bull market in history (since 2009). As markets tumbled last year, many fund managers sold winning holdings in a fund to meet redemptions from nervous investors who wanted their money back.

The sales produced a capital gains tax bill that was then parceled out to existing fundholders. The ugly upshot is that an investor with a losing mutual fund could still face a tax bill on that same fund.

For example, Fidelity's \$91 billion Contrafund lost more than 28% last year. But it also sent each fundholder a share of a collective dividend totaling 8.48% of the fund's assets. So this filing season, each fundholder owes capital gains tax, now a top 23.8%, including the 3.8% Affordable Care Act levy, on that distribution. The tax bill hits only those with mutual funds in a taxable brokerage account; those with the funds in their 401(k)s or individual retirement accounts aren't affected.

Mutual fund distributions set a record last year, with 789 funds sending investors distributions in excess of 10% of a fund's net asset value, according to CapGainsValet. This tax year should be normal, with website founder Mark Wilson, the president and founder of MILE Wealth Management in Irvine, California, estimating that 296 funds will make such distributions for 2022.

Scott Bishop, the executive director of wealth solutions at Avidian Wealth Solutions in Houston, said that for last year's filing season, many investors had large capital gains due to the booming stock market. But this year, he said, "they will most likely see much less," especially if they "aggressively" sold losing stocks to offset winners.

Reap what you sowed

Unlike mutual funds, which are bought

through fund companies, exchange-traded funds trade on exchanges just like stocks. And unlike mutual funds, ETFs tend not to throw off capital gains distributions, making them more tax-efficient.

But blindly harvesting losses can be counterproductive in the long term. That's because when a repurchased stock or a replacement investment later appreciates and is sold, it faces capital gains tax that can outstrip the strategy's initial savings.

ETFs, just like mutual funds and stocks, are subject to the wash-sale rule, which is designed to prevent investors from claiming a loss for tax purposes while not actually losing money. The rule says an investor has to wait 30 days before or after selling a security at a loss before repurchasing the same security or buying a "substantially identical" one.

The wash-sale rule doesn't apply to cryptocurrencies.

"If you have 2022 crypto gains, consider harvesting any losses in your portfolio before the end of the year to offset those gains," said Bishop. "You can then immediately rebuy the positions while still tax-loss harvesting ... at least for 2022," as "there still has been no legislation making crypto transactions subject to the security wash sale rules."

Hello?

Following the chaos and taxpayer misery of the past two filings seasons, when millions of returns lay unprocessed in a mammoth backlog worsened as IRS employees retired or stayed home during the pandemic, this year may be smoother.

The National Taxpayer Advocate, the IRS's official watchdog, wrote in its annual report to Congress on Jan. 11 that the agency "has made

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A deadly question: Talking to clients about longevity

Even broaching the subject of death improves a client's ability to plan for the risk of living many years, research shows.

By Nathan Place

How long do you expect to live? It's a touchy question, but research shows asking it can help investors prepare for retirement.

Death is rarely a pleasant topic of conversation, but it's a key factor in retirement planning since the longer you live, the more savings you'll need to finance your life. But because it's uncomfortable, many savers avoid realistically estimating their own lifespans — which can lead to poor planning.

"People tend to underestimate how long they will live in retirement, which means they

tend to save too little, spend too much and run out of money in later life," said Olivia Mitchell, executive director of the Pension Research Council at the University of Pennsylvania.

The good news is that, according to new research, even the most cursory conversation on the subject can make a big difference. Mitchell recently co-authored a study by the Leibniz Institute for Financial Research at Goethe University Frankfurt, which surveyed people's estimates of their own life expectancies. In some cases, the test subjects

also read a paragraph about a hypothetical retirement saver ("Mr. Smith") and answered a multiple-choice question about what he should do.

But the study wasn't interested in how well the respondents guided Mr. Smith. Instead, it focused on how accurately they estimated their own life expectancies after answering the questions. The researchers measured the gap between people's subjective and actual life expectancies — in other words, how long they thought they would live versus how long they would probably live in reality, based on their gender, age and other demographics. In general, the average gap was 17.1%. But after reading the Mr. Smith paragraph, that gap shrank by 5.2 percentage points.

"In other words, simply prompting people to think about a financial decision related to longevity risk affected peoples' estimates of their own anticipated lifespans," the study said.

For financial advisors, what this means is that even just broaching the subject of a client's lifespan can substantially help them think more clearly about the future. In some cases, that can mean better preparing for longevity risk — the danger that a person will outlive their retirement savings.

"When financial advisors

are doing their jobs well, they will help people understand not only the too-simple concept of life expectancy, but also the notion that half the people live longer than this mean," Mitchell said. "Therefore, plans are needed to cover the eventuality of living to 100 or beyond, which is what longevity risk refers to."

Of course, this is easier said than done. How does one remind a client of their own mortality and then have a calm, unemotional conversation about finances? Advisors have a wide range of methods. When possible, some said, it helps to make it funny.

"I find it's best to be compassionate, direct, and (for the right clients) inject a little humor," said Louis Leyes, a financial planner and partner at Stages Planning Group in Pennsylvania. For some, he asks: "So, when would you like to take your leave of this mortal coil?"

Lora Hoff, a CFP at IPI Wealth Management in Illinois, likes to "keep it light."

"I say something like, 'My plan will need to include some assumptions about how long you will live,'" Hoff said. "I can use the actuarial default, or I typically use age 100, unless you have some specific preference of what you want to see — I don't like to kill anybody off in my planning! Then I just laugh about it."

Others use technology, including software like eMoney, to estimate lifespan. That way the question stays mathematical instead of emotional.

"We use MoneyGuidePro's questions about whether they smoke, how healthy they are and the longevity in their family and let the program decide on their lifespan," said Lisa Kirchenbauer, a CFP and founder of Omega Wealth Management in Virginia. "Then we

discuss and change it to fit what the client is comfortable with, explaining the pros and cons of the choice."

Some say by treating death as a practical matter, the conversation keeps from getting uncomfortable.

"I actually don't find it difficult to talk to clients about mortality," said Anna Sergunina, a CFP and president of Main Street Financial Planning in California. "I explain to them that we need to have an ending point to their financial plan, to make sure we've estimated properly how long their money will last."

Leibel Sternbach, a financial advisor and the chief technology officer of Fusion Capital Management in Texas, said most clients aren't shocked by the death discussion.

"Our job is to ask the hard questions," he said. "They know and expect it of us." **FP**

Nathan Place is the retirement reporter at *Financial Planning*.

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considerable progress in reducing the volume of unprocessed returns and correspondence." The IRS has hired an additional 4,000 people to help with the phones during this tax season and aims to 1,000 more by year's end.

"The IRS anticipates phones will be answered at a much higher level during the 2023 filing season," the agency said last October.

For affluent clients who send their tax preparer to the lines, that's welcome news. In 2021, as COVID-19 unfolded, the agency had one staffer to answer every 16,000 calls.

Now and later

Filing earlier is usually seen as better, as getting a return in before millions enter the processing hopper would seem to

get one through the hoops more quickly

But just because you can file your 1040 on Jan. 23 doesn't mean you should.

While the IRS urged people last November to "get ready now to file your 2022 federal income tax return," it also pointed out that certain "key documents" needed to do so won't arrive until the end of January or as late as mid-March. On Feb. 3, the agency confused taxpayers in states including California when it told them to wait to file a federal return until it decides whether state rebates last year are taxable income for federal purposes.

A form known as Form 1099-K goes to taxpayers who sold goods or services through a digital platform such as Venmo or PayPal. Investors will receive the form if they made more than 200

transactions totaling more than \$20,000 last year.

The thresholds were due to drop to \$600 and a single transaction for 2022, but in December, the IRS pushed back the requirement by a year. A copy of the form goes to the IRS, which warned that people with untaxed income on a 1099 "that isn't reflected on the tax return they initially file" may owe taxes and need to file an amended return.

Affluent investors in partnerships should expect to receive their K-1 forms reporting income and losses later rather than sooner, said Tom Wheelwright, the CEO of WealthAbility in Tempe, Arizona, citing a shortage of accountants. And with overall staffing shortfalls at the IRS, he added, "high net worth individuals can expect things to take a little longer this tax season." **FP**

Lynnley Browning is managing editor at *Financial Planning*. Follow her on Twitter at @BrowningLynnley.



Why TIPS are making an inflation-fueled comeback

Treasury Inflation-Protected Securities were dismissed by many investors last year because they had a negative real yield. That's no longer the case.

By **Matthew Schaller**

With inflation remaining stubbornly high, investors are looking at Treasury Inflation-Protected Securities, or TIPS, once again. Does buying TIPS make sense for your client's portfolio? The answer will depend on the investor's views on inflation, risk tolerance, time horizon and current bond allocation, among other variables.

When you purchase TIPS, you are making a bet or hedging against unexpected inflation because bond TIPS and regular bonds are priced with current inflation expectations baked in. When an investor buys TIPS, the par value will price daily based on the current inflation rate. TIPS are priced based on current inflation expectations, which is why they are lower yielding than Treasuries (more on that later).

Last year, even as inflation was present, TIPS were dismissed by many investors because they had a negative real yield — for instance, purchasing a \$1,000 bond with the expectation of getting \$975 back. As interest rates on bonds have risen, the same has occurred in the TIPS space. Currently, you can lock in a positive yield, making the TIPS market attractive investors once again.

TIPS as inflation forecaster

TIPS often make the most sense to investors that have a view (or fear) that inflation will remain stubbornly high over the next (however many) years — or to those whose crystal ball is telling them that their view on inflation is more accurate than that of the bond market.

Recent data from the U.S. Treasury Department can help explain what TIPS and the market are currently forecasting. On Oct. 17, a 2-year TIPS was yielding around 1.92%. For a 5-year TIPS, an investor could lock in a 1.72% rate. At 10 years, the rate was 1.51%. Compare these rates to a Treasury with the same maturity. In October, a 2-year Treasury was yielding 4.42%. By comparing the TIPS rate to the Treasury rate of equal maturity, investors are able to calculate the breakeven inflation rate.

Or, put another way, since there are thousands of traders all buying and selling based on their own forecasts, the breakeven rate can really be looked at as the current inflation forecast for that time period.

For instance, if an investor buys a 5-year TIPS at the Oct. 17 rate and inflation averages 2% over the full five years, the TIPS return would be 3.72% (1.72% at purchase + 2% inflation adjustments). In this scenario, the investor would have been better off purchasing a Treasury bond at 4.18%. If, however, inflation averages 3% over the next five years, then the investor's return would be 4.72%, which is greater than the 4.18% Treasury.

TIPS as hedge

TIPS could also make sense for an investor who wants to take a little lower potential

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How securities-based loans help ties with clients

The hands-on role that planners play when arranging securities-based loans demonstrates advisor value in a number of ways.

By **Eden Lopez, Matthew Franks**

When clients think about taking out a loan, they likely picture borrowing money from a traditional bank or credit union. Such loans have their place, but lesser-known securities-based loans that are collateralized by a client's investment portfolio can be a flexible and cost-effective way to access liquidity strategically.

There's a misconception that these lines of credit are only used to purchase extravagant items like vacation homes and sports cars. While securities-based loans, or SBLs, are certainly more common among high net worth investors, they can also be used to address a broad spectrum of financing needs, from short-term emergency cash flow to financing a business or a college education.

Strategic borrowing can both add value to a client's life and enable advisors to build

deeper relationships with their clients. While there will always be a need for traditional bank loans secured by one's residence or business assets, here are five factors to consider when speaking with clients about SBLs and the value they can offer as part of a broader wealth planning strategy.

Relationship focus

Borrowing with the assistance of a financial advisor allows for more personalization than the largely transactional process typically experienced when seeking a loan from a bank. As an advisor, and very possibly a fiduciary, to your clients, you understand their full financial picture and can advocate for them to obtain a loan backed by their investment holdings. You have a seat at the table throughout the process, helping to

ensure your client's best interests are always top of mind. Your clients will appreciate your partnership and involvement, which further deepens their trust and your relationship. Knowing an advisor is there to guide them through the process fosters a more positive experience compared to a traditional lender, where the borrowing experience can often be impersonal and overly focused on FICO scores and cash flow analysis.

Cost structure

Even in an inflationary environment, an SBL will usually offer a lower interest rate than a traditional business loan or mortgage. The relatively lower rate is the result of lower risk to the lender because the securities can be easily liquidated, if necessary. Other factors, such as the loan size and the size of the client's asset holdings, can also impact the interest rate. Advisors can further demonstrate their value to clients by helping them leverage their advisory relationship to obtain the lowest-possible rate on a loan.

Depending on where the accounts are held, there may be no fees involved in setting up, maintaining or canceling an SBL, and typically there are no penalties if the client never uses the credit line. This is not the case for some home or business loans, which may require appraisals

Column

or other upfront costs, or even annual fees. Lastly, leveraging a client's investment portfolio to secure financing may also avoid potential tax liabilities and transaction costs that can accompany selling portfolio assets.

Flexibility and speed

Because there is no formal underwriting with SBLs, clients are typically able to access funds faster than with traditional loans — often within a few days. Payment terms are flexible and offer both variable and fixed rate options, and often interest-only payment structures as well. Advisors can play a vital role in helping clients determine the best payment option for their financial goals, and advise on how to use the loan to increase their overall financial flexibility. An advisor could, for example, help a client use their SBL as a bridge to pay their child's upcoming college tuition, rather than selling their 529 portfolio and losing its value.

Peace of mind

With the loans, clients have access to a

line of credit that only incurs interest if it is used. An SBL can help provide clients with peace of mind, knowing that if ever they need access to cash in an emergency, the line of credit has been proactively set up by their advisor to use when the unexpected strikes. Consider the risk a client could face if their home was destroyed by a natural disaster. An SBL could provide much-needed emergency financing for living expenses while the client rebuilds, and the credit line can be paid off once they receive their insurance check.

Risks

While SBLs offer many advantages relative to bank lending, this type of loan may not be suitable for all clients — and it is important to clearly communicate the potential risks involved. Because of the volatility of investment assets, there is risk of forced liquidation if the market falls. While all clients have different tolerances for risk, they must understand that an SBL in their portfolio is subject to margin calls and can be sold

without notice if it is pledged as collateral (although lenders typically give notice as a matter of practice). In most cases, an SBL works best when used for short periods of time in situations that demand a significant amount of cash quickly, such as a bridge loan.

A securities-based line of credit can be a practical and integral part of a client's wealth plan that allows them to focus on their goals while feeling confident and prepared for unexpected scenarios.

However, when it comes to guiding your clients, it's important to remember that each client has unique needs and preferences when it comes to borrowing. Many may be unfamiliar with the role that financial advisors can play in helping them navigate the lending environment and finding a solution that works best as part of their overall wealth planning strategy. If your clients aren't already familiar with non-traditional approaches to lending, it might be time to discuss their borrowing options. **FP**

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return now in order to hedge against that inflation being much higher than anticipated. Many investors tend to view TIPS as a great hedge for the longer term. The thinking goes that if you are truly worried about inflation, a 2-year TIPS isn't going to really provide much protection given its short time horizon. A 10-year TIPS would make more sense to address such worries, and an argument could also be made for a 5-year TIPS as well. Adding an inflation hedge component could be a great complement to

an already well-established bond ladder, especially now for those worried about inflation.

TIPS risks

TIPS are not magic and they come with risks, most notably interest rate risk. As with bonds, if someone purchases a TIPS and then interest rates rise, the TIPS will lose value. A TIPS purchased last year would be down just like other bonds, but because we are in a historically higher inflation environment, it would be down less than most other

bonds due to the inflation adjustments or repricing.

Another consideration is that because of this repricing there can be taxes triggered each year, even if the investor doesn't sell any of the holding. The IRS considers an increase in the value of the TIPS to be income. This is known as "phantom income" and can impact an investor's taxes. All else equal, TIPS are better placed in a qualified account vs. a taxable account, but tax impact should not be the sole decision-driver here. **FP**

Matthew Schaller *Wealth Advisor, Compardo, Wienstroer, Conrad & Janes Of Moneta*



Do deathbed gifts mean lower taxes for heirs?

The bequests can actually result in bigger tax burdens.

By Jamie Hargrove

Clients who wish to minimize the tax burden on their estates and heirs may have heard that deathbed transfers — gifts of money or property bequeathed before death that reduce the size of the total estate — are effective ways to save heirs money.

But while a smaller estate should, in theory, mean fewer taxes, in practice it's not so cut and dried. To convolute matters further, deathbed gifts can result in a bigger tax burden for heirs in some cases, which is why deathbed estate transfers may not be the best way to protect wealth.

Deathbed gifts are a complex and nuanced topic and the reality is that a one-size-fits-all protocol for handling these situations doesn't exist. What is best for your client and their heirs will depend on a variety of factors that go well beyond the simple value of assets.

The taxman cometh?

The first variable to consider is the size of the client's estate. That's because the federal estate tax applies only to estates worth a minimum of \$12.06 million, or \$24.12 million in the case of married couples, with a slight bump in those figures coming in 2023. The vast majority of estates won't meet this threshold, thus paying federal estate tax is largely not a concern.

State tax rules, however, are much more complicated. Currently, 12 states and the District of Columbia impose estate taxes and six states impose inheritance tax (Maryland imposes both). The rules around estate taxes vary widely from state to state, with variations in tax rates and exemption limits. In some cases, rates are even dictated based on the heir's relationship with the deceased.

For clients living in one of these states, deathbed gifts might lessen the tax burden on heirs, though it is imperative to consult a lawyer who specializes in estate law before taking action. That said, the majority of states have neither estate or inheritance tax. That means for clients living in those states whose estates don't meet the federal minimum threshold, deathbed gifts may actually result in more taxes, not less, for heirs.

Not why, but when

The next factor in the equation is timing. When heirs inherit assets, the IRS uses the fair market value of the asset at the time of the decedent's death as the cost basis for taxes when and if they sell them. This is known as a step-up in basis because the cost basis is "stepped up" to the current fair market value. However, if assets are gifted to heirs before death, the IRS will use the original purchase price as the cost basis for taxes. This is known as the carry-over basis.

As an example, let's say your client purchased a home in 1968 for \$30,000 and it is now worth \$500,000. If the client leaves the property to her son when she dies and he sells it for \$500,000, he will have zero taxable gain on the sale because it is subject to the step-up in basis; the cost basis is determined by

the valuation at the time of the mother's death.

However, if she gifts the property to her son shortly before she dies, he takes a carry-over basis and is subject to the same taxable gain that the decedent would have had — in this case, a taxable gain of \$470,000, based on decades of appreciation.

In the majority of cases, it makes better financial sense to let property remain in the estate, rather than transferring it.

The step-up in basis rules do not apply to all assets.

Importantly, one thing to remember is that the step-up in basis rules do not apply to all assets. Assets that step up include real estate, individual securities, mutual funds and ETFs, businesses, art, furnishings, and collectibles. Notably, they do not include individual retirement accounts, such as IRAs and Roth IRAs, employer-sponsored retirement plans such as 401(k)s or 403(b)s, and tax-deferred annuities.

But wait, there's more: In community

property states, assets held by a married couple in a revocable living trust may be subject to a "double step-up basis." In this case, when one spouse dies and the other inherits the property, the step-up basis is based on the value of those assets at the time of the first spouse's death, potentially mitigating a large capital gain if the second spouse chooses to sell it. If the second spouse chooses to bequeath those assets to their heirs, the step-up basis will be based on the fair market value at the time of the second spouse's death.

Not too little, not too late

In most cases, it's probably wiser to keep assets in the estate. But if the client has already transferred assets, is it too late to do anything about it?

Maybe not.

If the client is still living, there may be ways to avoid a large tax gain when and if the assets are sold. For instance, if a client has gifted his home to his children but continues to live there without paying rent, his heirs could argue that this should be considered a "retained interest" by the IRS, which would pull the home back

into the estate.

Businesses and farms may also offer the possibility of retained interest. If a business has been transferred to children but the original owner continues to receive income from it, it can be argued that the business should be included in the estate.

Even when heirs are planning to keep a business or farm in the family, they can still benefit from step-up in basis rules. Depreciable farm and business assets are also subject to the step-up in basis rules, giving them a new income tax basis and effectively restarting their depreciation.

Give the gift of tax exclusion

In instances where reducing the size of the client's estate makes sense, the annual gift tax exclusion provides a workaround of sorts. Beginning in 2023, individuals may annually give up to \$17,000 tax free to as many individuals as he or she wishes, which represents a slight increase from 2022. Meanwhile, married couples may give up to \$34,000 per recipient. This removes the money from the estate without incurring taxes for the recipients.

Estates can be tricky business, especially for clients who live in one of the 18 states with inheritance or estate taxes, which is why I always recommend advisors seek the advice of a qualified estate attorney.

While the majority of estates won't benefit from deathbed giving, there are circumstances in which they may help the client achieve the goal of saving their heirs as much money as possible. Understanding the pros and cons of deathbed transfers and consulting a qualified estate attorney is critical to ensuring the client's wishes are ultimately realized. **FP**



JANUARY 2023

CE Quiz

VISIT FINPLANCEQUIZ.COM TO TAKE FINANCIAL PLANNING'S CE QUIZ.

1. Per the \$1.7 trillion spending bill signed into law in December 2022, investors can roll up to how much from a 529 into a Roth IRA beginning in 2024?

- \$15,000
- \$25,000
- \$35,000
- \$50,000

2. Beginning in 2023, what will be the age at which traditional IRA investors will be required to take required minimum distributions?

- 73
- 75
- 77
- None of the above

3. Up to what amount of 529 funds can be used to pay off existing student loans?

- \$5,000
- \$10,000
- \$15,000
- \$20,000

4. In 2023, single earners who make under this amount can contribute the full amount to a Roth IRA.

- \$188,000
- \$168,000
- \$158,000
- \$138,000

5. Per the SECURE 2.0 legislation, companies will be able to add an emergency savings account structured as a tax-free Roth for lower-wage employees. Contributions are capped at what amount per year?

- \$2,500
- \$3,500
- \$5,500
- \$6,500

6. Starting in 2023, people who are 70 ½ or older can make a one-time gift of up to this amount from a taxable IRA to a charitable remainder unitrust, a charitable remainder annuity trust or a charitable gift annuity.

- \$25,000
- \$30,000
- \$50,000
- \$55,000

7. Which of these stocks has had the worst three-year return as of January 2023?

- Roku (ROKU)
- Wayfair (W)
- The RealReal (REAL)
- Beyond Meat (BYND)

8. Which of these stocks had the best three-year return as of January 2023?

- Hess (HES)
- Occidental Petroleum (OXY)
- TAL Education Group (TAL)
- Exxon Mobil (XOM)

9. Per the IRS, if IRA beneficiaries fail to take required annual withdrawals, the amounts not withdrawn will be subject to a tax of this percentage rate, down from the previous rate, beginning in 2023.

- 50%
- 30%
- 25%
- 15%

10. Per the SEC's marketing rule that took effect in November 2022, which of these would NOT be considered an advertisement?

- An advisor sends a communication to two or more current clients about new advisory services
- An advisor sends a communication to two or more potential clients about new advisory services
- An advisor sends a communication to one potential client about new advisory services
- None of the above

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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, 2024.

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