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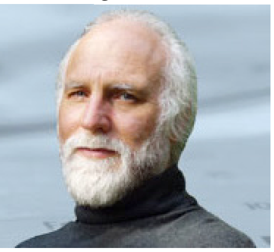

Special to this issue:

Peak 2 Advice and Service

Synopsis: ***The planning firm of the future will focus on specialized target client groups, raising the value of its advice. It will market itself beyond the local geography, and adopt a flexible array of revenue models.***

Takeaways: ***A chief experience officer will monitor and improve the client experience. On your website and social media pages, start including the personal interests of the staff and principals.***

In the May issue of Inside Information, I offered some insights that built on the recent white paper I co-authored with industry consultant Matthew Jackson of Dialektic (*https://www.dialektic.net/*). The white paper, entitled "New Frontiers in Wealth Management" (download here if you don't already have a copy: *https://www.dialektic.net/new-frontiers-in-wealth-management/*) proposed that the industry is evolving a new kind of advisory firm that will be hyper-efficient, hyper-competitive, and offer more value to its clients than many of the firms in today's marketplace. Think: *homo neanderthalensis* vs. *homo sapiens*.

The big idea here is that, every decade or two, a small number of firms migrate from an existing (and very comfortable, often profitable) paradigm to something new and better. This new firm eventually outcompetes the firms operating in the existing paradigm in basically every way, and gradually, then suddenly, the profession migrates to this new model. We call the

EARLY WARNING

The Insider's Forum conference, in-person October 6-8 in Nashville, TN (*https://www.insidersforum.com/attendee-registration*), will feature Joel Bruckenstein, Fran Skinner, Tom Giachetti and Dani Fava—plus a keynote presentation by CPA icons Lyle Benson, Scott Sprinkle, Ted Sarenski and Sue Stevens.

Bring your operations people to the Insider's Forum's exclusive operations educational track, where practice efficiency and best practices are presented and discussed. The track includes the annual HIFON Meeting & Workshop, on Wednesday, October 6. (How to Run a World Class Tech Program; Growing Your Organization & Operations Career; What Do You Need to Create Sustainable Growth?) (Conference registration cost is just $775 if you use the 2021INSIDER discount code; other staff members receive an automatic registration discount.)

Also on the near horizon, the always-excellent (and huge!) AICPA ENGAGE conference, July 26-29 in Las Vegas, featuring Sir Richard Branson, Caroline Kennedy, an amazing lineup of technical issues and planning sessions and Bob Veres moderating two practitioner panels. (*https://www.aicpaengage.com/*)

existing paradigm "Peak 1," an evolutionary peak that confers certain benefits, and the new paradigm is called "Peak 2"—a higher evolutionary state.

If you want an example of this peak-to-peak migration in the profession's history, consider the predominate brokerage model (an old Peak 1) that flourished at a time when some advisors were leaving their ranks and affiliating with independent BDs, offering financial planning services to their clients (the emergent Peak 2). A more recent example came when most advisors were selling limited partnerships and load mutual funds (a very profitable Peak 1 of the late 1980s and early 1990s), while a handful of advisors began giving up their sales licenses and managing assets for an AUM fee (a new Peak 2).

In each case, the pioneers enjoyed a huge first-mover advantage; they were more attractive to clients in the marketplace, before the rest of the profession finally followed along behind them. And in retrospect, we can see that the profession gave birth to each of these new paradigms at a time of rapid change and forced adaptation (the Mayday deregulation of commissions in 1975; the collapse of limited partnership investments in the late 1980s). Most advisors recognize that we are, today, in another hyper-rapid evolutionary period, making the emergence of yet another new paradigm not just likely but inevitable.

> ***Many advisors believe their technical advice is more valuable than their portfolio management services. But does their revenue model reflect that?***

Based on interviews with 16 industry consultants and thought leaders, the paper sought to describe this future Peak 2 advisory firm in four dimensions: how it is managed; the service and value that it brings to its clients; its enhanced marketing approach; and the technology that it will employ.

The article in *Inside Information*'s May issue offered supplemental insights regarding the Peak 2 practice management paradigm, including insights and quotes that weren't included in the white paper. This article offers a deeper look at the enhanced client service and advice model that we are likely to find with Peak 2 advisory firms.

Competition with everybody

The advice/service paradigm in today's financial services world was defined by and still reflects the model created by the early adopters of the AUM revenue model, which might be restated as: *the primary value that advisors add to clients' lives is through the management of a client portfolio*.

Many advisors have evolved to the point where they now believe that their technical advice is more important and valuable than their portfolio management services. But the predominate AUM revenue model doesn't reflect that value proposition. Nor do client meetings that are focused on client performance statements.

The Peak 2 firm's value proposition will have adapted to two huge, if not always recognized, evolutionary shifts that is well underway in today's marketplace. The first, more visible of the two, is that the asset management value proposition is rapidly being commoditized—not just by the robo firms, but also by the increasingly automated asset management software in an advisory firm's internal tech stack and the gravitation toward index funds and ETFs in the broader marketplace.

"Historically, a lot of the value that advisors said they were charging for was creating an asset allocation, monitoring it, making changes as appropriate, and doing tax-loss harvesting," says Joel Bruckenstein, of T3 Technology Hub (*https://t3technologyhub.com/*). "But guess what? A computer can do those things today better than 95% of advisory firms out there."

That's one tectonic shift. Here's another: driven by the pandemic, advisors and clients have transitioned from face-to-face interactions to Zoom meetings and online interaction.

"Everybody is comfortable now with Zoom," says Robert Sofia, founder of the Snappy Kraken marketing service (*https://*

snappykraken.com/). "Anybody with any assets has probably been on a lot of Zoom meetings, because if they have a job, they have been working at their company remotely. The whole market has been trained."

How is this impacting the advisor space? "If I were an advisor, I would immediately be thinking about prospecting nationwide," says Sofia. "It's all right at our fingertips. A firm that really wants to amplify their growth could take a niche that is too small to support locally, broadcast it nationwide, and it could be a massive business if you go national."

Nationwide prospecting—and being able to work with clients anywhere—represents a huge game-changer for the profession. It means that every advisory firm in the country will be able to compete with every other advisory firm. It means the end of prospecting for clients in a relatively contained geographic marketplace, and perhaps also the end of traditional marketing approaches based on a charismatic leader who has a high profile in the local community.

The Peak 2 firm will respond to these two challenges by dramatically increasing the value of its technical and personal advice, thereby making a better "offer" to the consuming public.

The shift from face-to-face to Zoom client meetings means that every advisory firm in the country will be able to compete directly with every other advisory firm.

Client specialization

In order to attract clients in a marketplace where every firm is competing directly with every other one, Peak 2 advisory firms will need to stand out in a sea of relative sameness. Recognizing that not every firm can offer the "best" advice to every client everywhere in the U.S. marketplace, Peak 2 firms will dramatically raise the value of their advice and expertise to their clients—the value of their "offer," so to speak—by adopting a degree of client specialization that the profession has not seen before.

Put simply, one transformation from Peak 1 advice to Peak 2 advice will be a shift from generalists to specialists, from generalized retirement and tax planning that applies to everybody, to firms applying deeper technical expertise to business or professional challenges experienced by a narrow group of clients, not just in a particular field or profession, but most probably in a subset of those "niches" that they understand better than anyone else. The general practitioner in the medical field can offer great advice on diet and weight loss. But if you need surgery, you want somebody with more specialized training.

Michael Kitces, of Nerd's Eye View (*https://www.kitces.com/*), offers a glimpse of how this evolution from Peak 1 generalist to Peak 2 specialist will lead to a powerful competitive advantage in the new universal scramble for clients everywhere.

Imagine, he says, an advisory firm that caters specifically to successful doctors in mid-career.

"They are going to go through the P&L of their clients' medical practices," he says, "and advise them on how to hire an office manager to run them. They know every possible tax planning strategy around medical practices," he adds. "They know how to facilitate mergers and acquisitions, how to maximize compensation for doctors, they know how to build and scale medical practices. As a result of

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their advice," Kitces continues, "their clients are going to make possibly millions more dollars over their careers, which gives the advisory firm enough room and opportunity to charge very substantial advice fees."

Consider the implications. A local advisory firm manages assets and 'works with all clients on a fiduciary basis.' A firm on the far other side of the Mississippi understands at a very deep level the very specific challenges that doctors face at a certain stage of their careers. Its website lists those challenges specifically, and tells the mid-career doctor that this is a firm whose advisors specialize in them.

Both turn up on a Google search for planning advice. Which firm do you think the mid-career doctor will be more attracted to?

"Now that people can use the web to find advisors all across the country," says Steve Wershing, of the Client-Driven Practice (*https://clientdrivenpractice.com/*), "they can search for advisors who speak to them, who understand their particular unique problems and have developed customized solutions for them, either through specialized knowledge or a specialized approach."

The depth and value of this highly-specialized advice will be far greater than any general practitioner is able to offer, because the Peak 2 advisory firm knows its specialized clientele's particular challenges at a level that the profession has seldom explored. As more Peak 2 firms offer specialized advice, the profession will turn a very important corner, where consumers begin to place a much higher value on the planning advice than the portfolio management services. The more specialized advice, the more valuable to the client, the more advice trumps the increasingly-commoditized AUM as the valued service model.

As more Peak 2 firms offer specialized advice, the profession will turn a very important corner, where consumers place a higher value on planning than on portfolio management services.

Beyond niches

How will these firms acquire this detailed expertise? Wershing expects that the pioneer Peak 2 specialist firms will start with clients they're already working with. He points to SignatureFP in Atlanta as an example of a firm that has created multiple specialities by turning clusters of general practitioner relationships into niches, and then evolving these niches into specialities. "They basically developed special interest groups within the firm," Wershing explains. "They've got Signature Executive for senior corporate executives at publicly-held firms, and they've got Signature Health, which is all doctors, and Signature Law, where the advisors specialize in partners of law firms."

The migration from niche to specialty came when SignatureFP began creating communities around their narrowly-focused target audiences. Each community meets at least once a year at a gathering organized by the planning firm, and clients in these specialities are encouraged to recommend speakers that their colleagues would want to interact with, and to invite their colleagues to hear them. The firm's advisors combine a networking opportunity with an intense opportunity to learn, more deeply, the specific challenges that this group faces in their business lives—and then brainstorms ways to better address those challenges.

As this specialization trend evolves, simply targeting doctors or attorneys will be regarded as too broad. Wershing has helped an advisor develop a specialized expertise in helping young high school baseball players get scholarships at Division I and II colleges, where they can have the athletic experience they want at the next level. The advisor will compile highlight videos of the players and send them to his network of college recruiters, and also (the revenue model) help the parents fill out the college aid forms. This, in turn, will often lead to a traditional planning advice.

Democratizing relationships

Peak 2 firms will raise the value of their advice in another dimension, by offering more personal advice tailored to the clients' individualized goals and challenges. "Behavioral psychology, financial therapy, coaching—all those things will be a key part of Peak 2," says Kate Holmes, a business coach and founder of Innovating Advice (*https://www.innovatingadvice.com/*).

Spenser Segal of ActiFi Consulting (*https://www.actifi.com/*), believes that this personalization of advice will give clients what they truly want in a professional relationship. "The things that humans value the most center around the more difficult emotional aspects of managing a financial life," he says. "Machines can calculate rebalancing transactions and tax-loss harvesting and things like that far, far better than humans; faster, more efficiently, more effectively," Segal adds. "What they can't do is understand what matters most to clients, or help them define what their core values are."

Peak 2 firms will finally bring "life planning" skills and techniques to the fore of the advice model—improving on the Peak 1 advice offer with breadth as well as the depth of specialization. "On Peak 2, service delivery is more collaborative," says Jennifer Goldman, of Jennifer Goldman Consulting (*https://www.jennifergoldmanconsulting.com/*). "The client is more engaged. They are doing the homework. And advisors can be strategists, which is what they're good at. They can ask the right questions and don't feel like they have to know the answer."

"The number one metric I look at as to whether a firm is doing a good job of financial planning is: the number of executed recommendations," Segal adds. "Increasingly, clients—especially the Gen X-ers and younger clients—value the advisor as a guide, as a catalyst, where you are really engaging the client, and it is the client's plan, not the advisor's plan."

Democratization? Collaboration? Clients of a Peak 2 firm will take the lead in determining not only what they want out of the relationship, but what their financial plan will look like. They'll take the mouse from the advisor's hands and make their own bargain with the future: when to retire, what to give up if the resources aren't there, what to save—and the advisor will become a thinking partner with the expertise to address questions and guide the process forward.

Wershing, who has conducted hundreds of focused discussions with advisory firm client advisory boards, says that clients are consistently asking for this more meaningful advice relationship.

"They say: *talk less about the portfolio and more about my needs*," he says. "They want to participate more in the process. One of the things that we hear about the review meeting is: *let's spend less time on the portfolio and let's talk more about what my issues are*."

Wershing adds that clients are now asking for permission to see their meeting agendas a few days in advance, and they would like input as to what will be on the agenda.

The fact that they have to make these requests at all shows that there is an alarmingly inappropriate imbalance of perceived power in Peak 1 advisor/client relationships.

On Peak 2, service delivery from advisors will become more collaborative, and clients will be more engaged. Advisors will be strategists and thinking partners.

Greater transparency

Marie Swift, CEO of Impact Communications (*https://www.impactcommunications.org/*), believes that the advisors who are most successful at establishing these more personal client connections will be those who are willing to be more transparent about their own personal lives, goals and priorities.

"I think that in the firm of the future, people will have to be more comfortable with being their authentic selves," she says. "It is not about that old, 'the brand called you.' It is getting comfortable with who you really are, and then being willing to show that in a kind, authentic way that gives others permission to do that and live their best life as well."

The profession is entering what Swift calls *The Age of the Fully-Transparent, Self-Expressed, Truly Alive, Three-Dimensional Professional*—and she expects that Peak 2 advisors will fully embrace the transparency that social media's evolution is making inevitable for all of us. The headshots in the staff bio section of the advisory firm's web page will show more candid pictures, and the bios will offer details about a principal or staff member's kids, pets hobbies, etc. Social media posts will be about personal interests rather than white paper reports.

Swift proclaims The Age of the Fully-Transparent, Self-Expressed, Truly Alive, Three-Dimensional Professional: a catchy acronym of TAOTFTSETATDP.

From a marketing perspective, these personal reveals will offer prospect visitors to the website more possible points of connection with the firm. In client meetings, this greater transparency will help clients open up to the deeper conversations that are demanded when an advisor shifts to a thinking partner role.

"We keep talking about how planning advice is a personal relationship," adds Wershing, "but now we need to act on that. We say that money is a really private affair, so why don't we make it easier for them to talk about it? Even when we talk about financial topics," he adds, "if we can tie it in to a personal experience, that helps people relate to it."

"When somebody becomes vulnerable with me," Swift adds, "then I feel like I can be vulnerable with them. With my particular wealth manager, when she talks about her family and traveling and concerns, it gives me permission to open up a bit more. Not that I go into a meeting thinking I'm going to bare my soul," says Swift, "but the relationship is like a dance. It is a great way to bring your clients into a conversation that is interactive, that is tangible, that is about more than just their money. It is about all the things that money touches."

Client advocates

Unfortunately, there is currently no cut-and-dried client service model to follow when delivering deeper, more specialized advice to specialized clients, or opening up to collaborative planning. Peak 1 firms on their Peak 2 journey will have to create their own. This pain point becomes more intense when you realize that the advice delivery model will be constantly evolving.

As the firm gets deeper into specialization, the service model will need to adapt with it.

The most interesting solution to this evolutionary dilemma was proposed several times to us during our interviews: to create an entirely new role in the advisory firm of the future. Business consultant Lisa Crafford, with BNY Mellon/Pershing, describes this role as a Chief Experience Officer. Megan Carpenter of FiComm Partners (*https://www.ficommpartners.com/*) calls this role a Chief Commercial Officer.

This would not necessarily be a new hire; it could be an additional role of the CEO or "implementer" in the firm. Or, as we'll see in next month's report, the Chief Experience/Commercial Officer could also take on the role of Chief Marketing Officer, helping each member of the firm reach out to the community and build their personal brand.

What would this hypothetical Peak 2 executive bring to the firm? "They could have oversight of sales and marketing, incorporating functions like research and development and innovation of customer service," explains Carpenter. "It's the person in the firm who is going to champion the clients' needs; who is that one person who is going to say, through the entire lifecycle of this client relationship, *I own that responsibility across channels and across disciplines*."

With a full-time staff role dedicated to it, the client experience will have the chance to evolve to something far more comprehensive and detailed than what we see on today's Peak I.

Julie Littlechild, founder and CEO of Absolute Engagement (*https://absoluteengagement.com/*), suggests that the Peak 2 advisory firm will customize its service model based on a detailed walking tour in the clients' shoes.

"At each stage, what questions do their clients have?" she says. "What are their concerns? What are they thinking, feeling and doing at every stage? When you've got that in your mind," she adds, "then you're also thinking about: *how do I tap into, understand and reduce the anxiety that might be experienced during the onboarding process?*"

Where the Peak 1 firm looks to improve workflows and efficiency, the Peak 2 firm—led by the Chief Experience/Commercial Officer—is trying to anticipate questions that clients may be wondering about, even if they don't think to ask them.

For example? Littlechild cites the example of an advisory firm that deliberately made its onboarding process less efficient, by taking the time to explain to new clients the roles of the lead and associate advisor, and periodically reaching out to the client to update them on the process of moving the assets. When the first client statement goes out, the firm's advisors reach out and offer to explain the statement in detail.

Another example might be holding Zoom meetings at the clients' request, rather than simply scheduling a quarterly or annual meeting—quick interactions, as Littlechild explains them, to answer questions as they arise.

Holmes proposes another tweak that reduces efficiency but might delight the customer. "If you have a prospect sign up for a meeting," she says, "how cool would it be to send a personal video that says, *'Hey, John; really looking forward to talking with you. If you haven't filled out the questionnaire, click below.'* Just those little things," she says, "make it so much more engaging than just: give us your statement, fill out this form, and give us your data."

Many of today's Peak 1 firms are adapting to non-AUM revenue models with some of their clients; Peak 2 will see that trend come to fruition.

Broadening the revenue models

The evolutionary transition from Peak 1 AUM/general practitioner advice to Peak 2 specialized and increasingly personal advice will require another adaptation. The reality is that no highly-specialized client community will be uniformly wealthy, which means many of the target clients will not have accumulated a portfolio that meets today's AUM minimums.

To accommodate the entirety of their specialized client base, Peak 2 firms will have to transition from an AUM revenue model to a spectrum of models—possibly including flat fee quarterly, retainer or hourly.

Many Peak 1 firms are already making this adaptation, and realizing surprising benefits. "The fastest-growing firms that we're seeing," says Angie Herbers, of Herbers & Company (*https://www.angieherbers.com/*), "are the ones who are willing to tear down all of what we would consider traditional business management advice for advisory firms, and focus solely on the service to clients. They're finding the resources they need to service every client, regardless of what that client has. The advisory firm of the future," she says, "will be serving clients regardless of assets—and doing it profitably."

Professional alliances

One of the most interesting insights to come out of our research is the possibility that the advisory firms of the future will create professional alliances—essentially a community which, in aggregate, will compete with Peak 1 firms and the brokerage competitors.

How would that work? Specialized Peak 2 advisory firms will be turning away clients who are not within their designated specialty. The more selective and focused the firm, the more clients will be deemed inappropriate.

Holmes believes that in the

future, whenever Peak 2 advisory firms encounter someone who does not fit their expertise, they will make a referral to a Peak 2 firm somewhere in the country that more closely suits the client's needs. "I've already seen something like that working really really well in Australia and the UK," she says. In the U.S. market, where consumers are rightly suspicious of people calling themselves financial advisors, the Peak 2 firms may create a mutually-supportive alliance of client-focused businesses that would counter that negative narrative within their community.

A growing community of Peak 2 firms will begin cross-referring prospects to their appropriate advisor, creating a very competitive fiduciary community.

The community of Peak 2 firms will be aware of each others's specialties and mutually-reinforce their businesses, offering, collectively, deeper and more personalized advice than the Peak 1 sea of sameness. Holmes thinks that eventually this growing cohort will form the nexus of true professionalism in the advisory/planning space.

"A profession is something that the public looks up to and respects," says Holmes, "and I don't think we have that right now." The next evolutionary state of planning firms could mutually redefine professionalism in the advisory space—true fiduciaries who look for the best possible fit for each client.

Managing the trip

The journey from Peak 1 to Peak 2 is not for the faint-hearted. As firms aspiring to Peak 2 roll out their specialized service offering, their existing clients may wonder if the firm is still interested in working with them—creating the alarming possibility of client attrition. Prior to the migration, the firm should sit down with these individuals and explain that, yes, it plans to migrate to a specialty. But it will explain to them that they've always been important customers, that the firm has enjoyed working with them, and that it wants them to consider the firm to be their permanent home for financial planning advice and service.

Sometime after these meetings, the web environment could be redesigned to reflect the new specialization, to foreground itself to a specialized group of prospects who are Web-searching for an advisory firm that specializes in their particular circumstances. The firm would set up an advisory board of existing clients who reflect this specialty, and ask them for advice on how to build language and content that would be of interest to their peers.

This advisory board would help the firm create webinars and virtual presentations with experts that members of the specialty cohort would want to hear from—eventually creating a community of prospects and clients.

The Peak 2 migration will require some experimentation with revenue models. This could start with an evaluation of the current client list. It is not uncommon that more than half of a firm's clients would be considered unprofitable if a spreadsheet were to calculate the amount of the lead and associate advisor's time is spent with them (billed internally at appropriate hourly rates), plus their allotted percentage of the firm's fixed overhead costs.

Asking these clients to switch from the unprofitable existing AUM arrangement to a flat quarterly fee which brings them at least to break-even or (better) profitability would accomplish two things; raise unprofitable clients to profitability, and give the firm experience in charging in a way that would allow it to work with specialty clients who have not yet accumulated a significant portfolio. And the risk (referring out some unprofitable clients who don't want to make the switch) is relatively low to the firm's bottom line.

The firm may also need to identify accounting or legal firms who have deep expertise in the specialized clientele it is working with, who might be located anywhere in the country. The next section of the report (next month) will address Peak 2 marketing, but it is certainly possible that alliances between professional firms that have deep expertise in the same client would create significant referral opportunities—and be easier to develop than with COIs who are merely local.

Peak 2 advisors will also, if they haven't already, seek training in life planning and coaching skills. As they acquire those skills, they will look for ways to democratize the client relationship, to take a step down from a professional advice model to become thinking partners with their clients. To facilitate this more personal advice relationship, and improve their marketing outreach, advisors will be increasingly open and sharing with the community about their personal interests.

In the advanced stage of the journey, the firm will look for a new type of staff person, variously called the Chief Commercial Officer or Chief Experience Officer, whose job will be to advocate for better service for clients within the firm.

This combination of changes will create a powerful "offer" to potential clients, and the depth of expertise, coupled with the application of life planning skills, will finally move the profession's most attractive value proposition definitively from asset management to professional advice.

As you read this, the marketplace is looking for the pioneers who are brave enough to venture from Peak 1 to Peak 2, enter the next evolutionary stage of the planning profession, and enjoy the next first mover advantage that will come with it. ■

Virtual NAPFA Spring

Synopsis: ***The first NAPFA meeting of the year offered a wealth of technical content—and on-demand opportunities to sample the rest of the presentations.***

Takeaways: ***Inherited IRAs don't have to make annual RMD distributions. Digital assets like online accounts and pictures on the phone have to be specifically planned for in estate documents. When cultivating COIs, look for people in your career stage.***

Ever since NAPFA cancelled its NAPFA University program, I've felt as if there was something missing at the NAPFA Spring and Fall conferences. The meetings have always offered unparalleled networking opportunities as attendees help their peers figure out solutions to their client and business challenges. You could always count on great panel discussions. But NAPFA University added a parallel track which focused on technical presentations in eight or ten different subject areas, and there were occasional gems like David Jacobs of Pathfinder Financial Services in Kailua, HI wickedly dissecting the sneaky features of income riders attached to various high-commission variable annuity products.

NAPFA Spring's virtual conference couldn't offer the usual networking opportunities, but it was filled with great content.

I bring this up because I just attended the virtual NAPFA Spring conference, and came away with a firehose dose of technical content from, respectively, Jeff Levine of Buckingham Strategic Wealth and Ed Slott of Ed Slott & Co.. Like the ethos of NAPFA University, the presentations offered information and ideas that you can immediately implement with your clients. Among the other notable sessions was a practice management masterclass by Mark Tibergien, formerly of Pershing, now a private consultant and board member for hire, and a "knowledge circle" discussion led by Tiffany Charles of Destiny Capital in Golden, CO.

I'm going to reserve the Tibergien content for a later time. Here, I'll dive into the other sessions and tell you what we learned.

Estate Planning Below the Exemption

Most of us know that the current federal estate tax exemption is $11.7 million per individual, $23.4 million per married couple—and any leftover amount is portable to the surviving spouse. That means that very few clients are asking you for tips and techniques that will reduce their federal estate tax liability.

But should they be? Levine noted that recent proposals in Congress would reduce the exemption, and if nothing is done, it is set to revert back to $5 million (indexed to inflation) in 2025. At the very least, Levine said, in situations where a client dies, the advisor should make sure that the surviving spouse files an estate tax Form 706, which would preserve the portability of the remaining (current) exemption. "Portability is expected to be retained under the Biden tax proposals," he told the audience, adding that the surviving spouse generally has nine months to file from the date of death. "If you're filing only for purposes of portability," he continued, "then it should be a fairly straightforward return, barring any sort of exotic assets that need special valuations."

The problem, of course, is that there is no requirement to file an estate tax return if no federal estate taxes are owed. "If you think we're going to end up with lower exemptions going forward," Levine told the audience, "I would have every single one of my married clients file an estate tax return upon death of a spouse." If they don't think it's necessary, he said, then have them acknowledge, in writing, that you talked with them about the benefits.

"Otherwise, at some point in the future," said Levine, "you're going to have situations where, when the surviving spouse dies, the kids will come back to you and say, *are you telling me that you didn't advise Mom and Dad to file a return that might have cost $500, that would have gotten us another $11 million in estate tax exemptions?*"

Levine says that at the very least, when one spouse dies, advisors should insist on filing estate tax Form 706 to preserve the exemption portability.

An audience member asked about filing the 706 estate tax form vs. creating a credit shelter trust. Levine noted that filing the 706 is much easier. The advantages of the credit shelter trust are creditor protection and removing the growth of those assets from the estate. If you believe that the exemption amount is due for a drastic reduction, then this could be a useful way to keep clients from suddenly discovering that they have an estate tax liability down the road.

Moving on, Levine offered the usual advice about making sure that the clients have their estate documents in place: the power of attorney, the will, the updated beneficiary designations on their IRAs. "When was the last time they were updated?" said Levine. "Do clients understand what their documents say? Are the fiduciaries still good choices? Their appropriateness, competency and health can change over time; what may have been good before may not be good now."

Maximizing the step-up

Then Levine addressed basis planning. A deceased client is entitled to receive any wages that have not been paid, retirement plan and IRA distributions that need to be taken, and installment sale gains—all of which create income with respect of the decedent, taxed at the decedent's tax rate, payable out of the estate.

Pretty much every other financial asset not held in an IRA, 401(k) or variable annuity will receive a step-up in basis—meaning, as everybody in the audience knew, that no matter how many unrealized capital gains are embedded in the assets, their new cost basis going forward, for the heirs, would be the fair market value at the time of death. At this point, Levine offered a number of general comments, noting first that it is possible for clients to "achieve" a step down in basis if the fair market value at the time of death is lower than what was paid for it. His advice: sell those assets before death to claim the losses on the clients' tax returns, or give away the assets to heirs before death, which would be beneficial even under the "double basis" rules. Gifting to a spouse might be the best option, but the point is to lock in the higher basis before death and avoid the step-down.

For clients who live in community property states, half of the assets will be ascribed to the dying spouse, meaning half will receive a step-up in basis. For clients living in separate property states, the step-up will depend on which spouse is titled as the owner of the asset—which, Levine said, creates some planning opportunities—namely, to shift ownership of property or assets with high embedded capital gains into the name of the spouse who is going to die first.

Of course, you probably don't have this first-death information readily at hand, unless one spouse is significantly older or in poor health. More likely, the order of dying becomes visible only when one or the other becomes ill, potentially terminally ill. Levine noted that these transfers of assets to the ill spouse will only qualify for the step-up in basis if the ill spouse receiving the transfer lives for at least a year after the transfer has happened. If the assets are left back to the surviving spouse and the transfer hasn't lasted a year, there is no step-up.

"That doesn't mean if someone came to you and said, *I have bad news; I've got three months to live*," said Levine, "that you shouldn't go ahead and try this. Because if it doesn't work out, there is no penalty. The downside is simply that you don't get the step-up, and we all know of times when people surprise us and live longer than the doctors say they will."

As a more interesting alternative, Levine suggested that the healthy spouse could transfer assets to the spouse who is in hospice, and the will would pass those assets to the children or grandchildren. "In that case, the assets are not going back to the individual who made the donation," Levine told the group." The client dies, and the non-spousal heirs would receive the full step-up.

Transferring assets to a sick or dying spouse, and receiving the assets back at death, only works if the recipient lives for a year after transfer. So why not leave the assets to the kids?

Somebody in the audience asked a question about clients moving from a community property state to a separate property state. "The rules work a bit differently from state to state," said Levine, "but the general rule is that property retains the structure of where it was earned."

In other words, if a couple used its earnings to purchase property in a community property state, and then moved to a separate property state, that property would still be considered community property for estate tax and other purposes. "Similarly," said Levine, "if they had separate property and moved from a separate property state to a community property state, the assets will still be considered separate property, to the extent that they were purchased prior to moving to the community property state." For basis planning purposes, Levine said that the couple could recharacterize community property to not be community property, through a separate property agreement.

Then Levine turned to capital loss carryforwards in estate planning. The bad news is that these die when the person who "earned" them dies. "That is missed a lot on tax returns," he told the group. "You have a married couple who filed a joint return, they don't file separate Schedule Ds because there is nothing on the tax return that says, *this was HIS loss prior to death, or HER loss prior to death*. If it is a joint account, the assumption is that half of the loss belongs to each of them—otherwise you have to do some due diligence to find out whose loss that is, and you cannot gift losses." If you're dealing with a widowed or single individual, the entire loss would be lost at death.

What to do? Levine said that the most straightforward solution is to sell other assets at a gain, to use up that loss carryforward. For single clients, this should be done before death. If you're working with a married couple, the surviving spouse can sell assets in that year of death, even after the spouse dies, to use up those losses.

Digital estate planning

The end of the presentation focused on digital estate planning—planning for the disposition of the client's passwords, email accounts, the pictures of the kids and family and trips on the phone or in the cloud. "Most clients think they've handled this by writing down their password on a piece of paper and giving it to someone they trust," said Levine. "But that isn't legal. Technically speaking, it is hacking."

In most states, these assets fall under the Revised Uniform Fiduciary Access to Digital Assets Act—which Levine seemed to delight in referring to, for the rest of the presentation, as RUFADAA ("rhu-fah-duh"). The omnibus state law sets up a three-tier system for determining who inherits the assets. Tier one, which controls above all else, is a contract executed on a social media platform. Facebook has a Legacy Contract, where the account holder specifies who will receive ownership of the account upon his or her death. Google has an Inactive Account Manager that people can log into and sign. These will supersede whatever happens to be written in the estate planning documents.

Those estate planning documents are the second tier; absent a contract with the social media or the phone company, they can specify who will receive ownership of the pictures on the phone or the Facebook account. Levine recommended that advisors help their clients set up a password manager like LastPass or DashLane, and put all their digital asset passwords in there—the email accounts, cloud storage of pictures, and access to the social media accounts. "Leaving specific instructions about this file is absolutely critical," Levine told the group.

Tier three is the terms of service that most of us click without reading when we want to set up an online account. In general, these specify that the account will be terminated upon the user's death, with nobody gaining access to it.

Despite the esoteric nature of the topic, clients are more interested in these digital issues than you may realize. Levine said that he recently hosted a digital estate planning event for his clients, walking everybody through the rules, showing them how to use a password manager app, and making sure they understood that digital assets are more than just about Bitcoin. "It was the best-received client appreciation event we ever had," he told the audience.

Clients cannot transfer their online and email accounts by giving the heirs their passwords. There is a 3-tier system for distributing those assets in an estate.

Inherited RMDs and conduit trusts

I actually attended two Ed Slott sessions: his formal presentation and then a followup Q&A. The most consequential thing he said was that, contrary to the breathless headlines you may have read recently, the recent IRS Publication 590 does not require inherited IRAs to pay out RMDs annually rather than only sometime within ten years.

"The IRS really made a mess of this," he said; "they put in there an example that is totally wrong. They said to go to the table, but then on the same page, on the other column, they said no table. That no-table part is the correct part." He predicted that the IRS will issue a correction before long.

The presentation was a grab-bag of tips and ideas. Slot noted that when the CARES Act last year waived the requirement to take RMDs, there were a number of instances where people had already taken them, and then took advantage of relief provisions that allowed them to put the money back in later in the year. "But the accountant doing the tax return doesn't see the money going back in," he told the audience. "The 1099R is going to show that the RMD money came out, but the accountant who is preparing the return has to be informed that the money came back in."

If you're looking over the accountant's shoulder, Slott said that the correct way to handle this on the tax return is to show the gross distribution as a rollover, just like any IRA-to-IRA rollover, so that the money is simply going back into the account, and the taxable amount comes out as zero.

Slott recommended that advisors review client beneficiary forms—noting that it is not unheard of for him to see dead people listed as beneficiaries of IRAs or qualified plans. Then he said that if the beneficiary is a conduit trust, you have some work to do. "After the SECURE ACT, conduit trusts no longer work," he said.

Why not? Conduit trusts were set up to pay heirs the annual stretched-out RMDs back when the long-term stretch was available to children and grandchildren. With the 10-year distribution rule for non-spouse beneficiaries, this language in a conduit trust would mandate one big RMD at the end of the 10th year after death—potentially pushing the kids and grandkids into a high tax bracket. "And meanwhile, you have the trust tax problem," said Slott. "Any funds that get paid into the trust and are retained in the trust are taxed at trust tax rates, the highest tax rates in the land. After $13,000, you're at the top 37% rate, the rate that normally wouldn't hit until you're over $500,000 of taxable income."

What do you recommend? Slott favors Roth conversions. "If they still want the trust, the Roth distributions can be paid into the trust," he said. "The money still has to come out by the end of the tenth year after death," he added. "But whatever comes out will be tax free."

Later, in a nod to the Biden tax plan, Slott said that tax rates are currently as low as they will be in the foreseeable future, which makes the Roth conversion option more attractive even for clients who don't have conduit trust issues. "Take advantage of these low rates," he recommended. "At least use up your clients' lower brackets. Remember, every time you do a Roth conversion you are lowering the future RMDs, which lowers not only future income taxes, but also the IRMAA surcharges on Medicare Parts B and D. Once the funds are in the Roth, you have no lifetime RMDs," he added. "Clients love that; they never have to touch the money and it accumulates tax-free for the rest of their lives. If tax rates increase, it has no effect on them."

Another possibility for solving the conduit trust problem is to buy life insurance. "Take down that IRA now at rock-bottom low rates, the rates we have now," Slott recommended. "Instead of converting, we use the after-tax money to buy a life insurance policy and leave THAT to the trust. That way, the trust can simulate a stretch IRA without the RMDs and all those complicated trust tax rules."

> ***Conduit trusts no longer work as the beneficiary of client IRAs, now that the long stretch opportunities have been eliminated.***

Fixing issues

Later in the presentation, Slott noted that, now that RMDs are required once again, some clients are forgetting to pay their estimated taxes. His creative solution: have the clients take 100% withholding on their distributions.

What? "Withholding tax is treated as being paid evenly throughout the year; you can't get a penalty," said Slott. "In many cases the clients weren't using the money anyway; they would take the RMD and put it into another account, and forget to pay the estimated taxes." The withholding will cover all the other taxes that the client might be incurring throughout the year, on interest, capital gains, dividends and Social Security. "It feels to the client like they aren't paying any taxes," Slott told the group. "And if they've overpaid, we credit it to the next year and adjust it then."

Slott is also a fan of qualified charitable deductions (QCDs) for clients who have been giving to charities anyway. They make a direct transfer from the traditional

IRA to the charity, satisfy the RMD requirements and get back the charitable deduction that they would otherwise have lost with the higher standard deduction. "You get the money out of the IRA at a zero percent tax rate," said Slott, "and the charity gets the contribution. This is a pretty good deal all around." (Limit: $100,000 a year per person.)

One qualification: Slott noted that sometimes accountants aren't aware that the client made a QCD because the direct transfer to charity is reported on Form 8606, which is not required in the documents that the tax preparer submits. "You have to make them aware of this," Slott told the audience. "Every year, as soon as the IRS releases its new 1099 and 5498, the first thing I look for is: did they put in a code for QCDs. So far, the answer is no."

In the Q&A, Slott talked about a situation he faced where an advisor's client had forgotten to take five years of RMDs. "They just didn't realize they had to," he said. "We told him to file the 5329, take the back distributions and ask for a waiver."

But probing deeper, Slott discovered that the client was charitably-inclined. "So we had him do all the back distributions as QCDs, and he didn't have to pay tax on one dollar of it," he told the group. "Remember, the QCD doesn't have to be that year's RMD; it can be any money coming out of the IRA after the client has reached age 70 1/2. It's a unique strategy I've never seen before." (And, yes, RMDs have been moved back to age 72, but for some reason clients can take QCDs starting at age 70 1/2.)

Accountants who are doing the client's tax returns might not know that the client made a QCD. It's up to you to make them aware of this.

Transfer tax 'loophole'

Slott shifted to some estate planning issues, and echoed Levine's concern that the current estate tax exemption amount might be reduced. He recommended that clients whose estates have the potential to grow over $5 million start gifting now; $15,000 a year out of the estate, which also removes the growth on those amounts from the estate. Slott recommends that his clients engage in "targeted gifting"—like helping their kids or grandkids buy a home or pay the taxes on a Roth conversion.

For clients who want to be more aggressive about moving assets out of their taxable estate, Slott offered what he called "the biggest loophole in the tax code:" the ability to make tax-free gifts in the form of direct payments for tuition and medical expenses. "These are unlimited in amounts to an unlimited number of people, and you don't have to report them anywhere," Slott told the group. "They're invisible on a tax return."

This strategy may be more flexible than most advisors realize. Slott said that clients can prepay tuition for a private elementary school for all of their grandchildren. They can pay college tuition—and these payments don't have to be for family members; they can be for anyone, so long as the money is paid directly to the school, doctor or hospital. For schools, Slott added, the payment will qualify if the school is a regular facility, has a curriculum, and has an enrolled body of students in attendance at the place where the education is carried out.

"Childrens' day care centers qualify if they have regular enrollment, regular faculty and a curriculum," Slott added. "Martial arts schools and yoga classes qualify. You can pay for wilderness camping programs, computer camp programs, so long as they have the three critical elements, and the school can be domestic or foreign."

The conversation in the Q&A turned to inherited IRAs which have not been converted to Roths. Slott said that clients who are worried about putting their heirs in high tax brackets can plan out a strategy, with their CPA, that would get the money out with minimal tax consequences. "Let's say a client has three kids, three beneficiaries," he proposed. "Instead of taking it all out at the end of the tenth year, they could each take out one-tenth a year for ten years. Now we're spreading the tax bill on the whole IRA over 30 different tax returns, which smooths out the tax bill." (Someone asked when the clock starts on the ten years; Slott answered that it starts the year after the death of the original owner.)

Another attendee asked about the aggregation rules; Slott said that clients can aggregate the assets of multiple IRAs for the purposes of calculating the RMD, and can then take the RMD amount out of any one or combination of IRAs. In other words, they don't have to take them proportionally from each IRA. The same with 403(b) plans, but clients cannot aggregate between the two different kinds of plans. And with 401(k) plans, there is no aggregation. "If you have a client with five different 401(k)s," said Slott, "they have to take it out from each one. Same thing with 457s."

Nerdy legislation

What about the new technical provisions tax bill that is coming out of committee in the U.S. House with a unanimous (!) vote? What's going on there?

Slott happened to have a copy of the bill on his desk, and noted that most of the provisions are (his term) 'nerdy.' One would eliminate the statute of limitations issue for filing Form 5329, filed when clients have made early withdrawals from an IRA, or made excess contributions, or missed RMDs. "That form is a separately filed tax form, with its own signature line," Slott told the group. "And if it is not filed, the statute of limitations never begins to run. With the new provisions, the filing of the 5329 would no longer be required in order to start the statute going."

Another nerdy provision: fixing the prohibited transactions rule. "If a client uses $10,000 of the assets in a $1 million IRA as a down payment to buy a house they live in, and they didn't know it was a prohibited transaction," Slott explained, "right now the entire $1 million IRA is disqualified—meaning it is treated as fully distributed as of January 1 of the year the prohibited transaction occurred." The new bill would say that instead of the whole account being disqualified, only the $10,000 would be. ("How would they even know about that?" Slott wondered in an aside. "This whole bill was written by tax geeks.")

Slott described the new technical provisions act that just came out of committee as 'nerdy.' Then he gave examples that proved his point.

The bill would index the individual $100,000 limit on QCDs to inflation, and would allow QCDs to be used for charitable remainder trusts or charitable gift annuity contributions—something that is currently not allowed. It would raise the age for RMDs to age 75 in stages over ten years—which Slott said would create a boatload of confusion among retirees. And for people over 50, it would index for inflation the $1,000 additional catchup contributions to IRAs and the $6,500 catchup contributions to qualified plans.

Step-up survival

At the end, Slott cast doubt that the Biden Administration tax bill would successfully eliminate the step-up in basis. "The step-up in basis is 100 years old this year," he told the audience. "It came into the tax code in 1921, and over all that time, through wars, financial tragedies, financial meltdowns or Congress needing the money, this argument has come up all the time. Each time," Slott added, "Congress came to their senses and realized that it would fall on all the wrong people: homeowners and small business owners. I wouldn't overreact."

Center-of-influence marketing

It's hard to know whether NAPFA's new "conversation circle' concept is an adaptation to the virtual conference format, or if it will survive in some form in the in-person events. The idea is interesting: you get a bunch of attendees in a virtual "room" and get them talking about a topic—group brainstorming, if you will. These tended to be hit or miss; the

18 participants were very shy about brainstorming in the Technology Stack conversation circle that I attended (miss) but the marketing-related knowledge circle facilitated by Tiffany Charles, of Destiny Capital in Golden, CO, provided a great overview of practical tips on center of influence (COI) marketing. (hit)

> ***A big red flag in your initial meeting with a COI is a lack of enthusiasm. "If the result isn't a 'hell yes,' then it's really a 'no'"***

Charles was up-front about the failures she encountered before she began to find success. "When I started out," she said, "I was trained to fill my calendar; I never ate lunch alone. I would talk to them for 55 minutes, and in the last five minutes *I would say, oh, we should totally do business together; it would be so great*. I was hoping that people would just really like me enough to send me business," she added, "rather than because they were compelled by the story and offering and the services that we did."

The result, she told the group, is that she made a lot of friends, but didn't get much referral business for her firm.

Attending networking events produced similarly dismal results. "I would be at the event, and say, *hey, how are you? I'm Tiffany, a financial advisor*," she said. "And they're, like, *yeah; there are 25 others of you in this room*. Over time, I had all these friends and no business."

Eventually, she learned to focus on the needs of the accountants and attorneys she was meeting. "A lot of them are really bad at business development," Charles explained to the audience. "So my differentiator is helping them learn how to do it." Her initial call would go something like this: *Hey, COI, my clients are consistently in need of tax advice. I want to stock my bench with one or two CPAs who are really good, so that we can deliver an unparalleled client experience to them. I would love to see if there isn't something here where we could really make this fit*.

In the meeting, Charles would ask questions, looking for areas where she can provide leads or contacts, while also probing for red flags. "Somebody recently told me that what was really important to them was helping build charter schools in Denver for science and technology," she said. "And I got them in front of one of the biggest donors associated with education, who was also passionate and had the funds to make a difference. I am now their top person, because I uncovered what was going to be extremely meaningful for them."

One big red flag is a lack of enthusiasm. "In marketing, if the result isn't a "hell yes," then it's really a no. Always," Charles said. "If I really like them and there is a real possibility of us working together, then I'll go on to the next meeting. But if one or the other isn't there, then you shouldn't just keep nurturing it. You can decide if you want to have a social relationship with them, but don't put them in your business development or revenue-producing activity bucket."

In the second meeting, she would probe for ways that her firm and the COI can create an exchange of value. The framing is always about bringing value to clients, but the subtext is important too. "It is not always client-for-client trading of relationships," she clarified. "But there must be reciprocity. Set it out there the same way you do a client contract," she added. "You don't have to get it written, but—*hey, here are the ways that I think we can add value. Let's put some time frames on this. Let's see what we can do in six months, and see if we can deliver that value*."

She said that she spells out what both are expecting out of the relationship. "People appreciate that," she said, "because they're also not coming to lunch just to make a friend. They're looking for their business to be uplifted as well."

Charles warned that if the COI is not delivering a reciprocal relationship, then you have to go back to the drawing board with them. "I will have a conversation that goes like: *Hey, it's been six months. We are seeing if we can deliver some sort of magical thing between us in this exchange* *of value, and we are really not delivering that. Is there any reason you see why we're stuck or we're not able to? No? Okay; me neither. We all only have the same amount of time to really grow and deliver business. I want to make sure you're spending time with people who will deliver value to you, so why don't we redefine this relationship?*"

Most advisors think of COIs as accountants and attorneys, but Charles has expanded her definition. "I have one source who runs a women's magazine," she said, "and she's in front of women leaders and entrepreneurs all day, every day. She's one of our top relationships." Charles also has relationships with investment bankers, where her firm will help small business owners dress up their firms for a liquidity event five or ten years before the anticipated sale.

Target market advisory board

Charles found that cultivating COIs became easier when her firm created a clear target client to talk about. "I am a big proponent of specialization and niching," she said. Her firm created a DBA called Entrepreneur Align that offers a service specially conformed to small business owners, and then created a client advisory board of these clients. This created its own referral network.

"You do a series of three meetings," she said, "and the first meeting is all about them, what their challenges are, their experiences with us. Next meeting is some of the things we're considering, a marketing campaign, client experience initiatives. How would you feel about a client appreciation event, or seminars on this or that topic?"

In the third meeting, Charles said, she's focusing on how to market better to people in the same general space in the local business ecosystem. "We talk about how we're looking to grow, and here are the ways we're doing it." she said. "Given the type of relationship that we have, and the decision you made to be with us, should we do it this way? Here are the types of clients we're looking for; what are the best ways to get their attention?

"You're literally teaching them, through asking questions and research, who you are, what you do and how you do it," Charles added, "and helping them understand where you're looking to grow and target business."

Why is this important? "When you ask people why they don't refer," said Charles, "the number one answer is: *I don't know who to refer.* Well, people like you. *I don't know who's just like me. Are you looking for me to understand their bank accounts?*"

An audience question came up: as a younger planner, should I focus on younger CPAs? Charles said that she struggled with this issue. "I was getting introduced to COIs who were partners at the firm, who had their established relationships that they already refer to," she said. "I was so unrelatable to them. They were on hole 16 and I was on hole 2. Now I look for somebody who has an established career, who is looking for business development and is growth oriented, possibly running their own business while sitting in the sales seat. I 'get' them, because I'm in that seat too. I look for people who are in a similar place."

The interesting thing about our new virtual conference world is that you can still see some of these sessions just like the live audience did; many of them were moved to an "on demand" format on NAPFA's website: *https://www.eventscribe.net/2021/NAPFASpringNational/agenda.asp?startdate=1/1/2021&enddate=1/1/2021&BCFO=&pfp=*. I may go back and see what Money Quotient's Amy Mullen had to say about financial life planning during the pandemic, and the session by Cozy Wittman of College Inside Track on FAFSA changes will provide additional education on college planning. I'm curious if there's anything more to say on helping clients plan their cash flow, so I may check out the session hosted by Steve Crawford, who bills himself as "Your Spending Coach."

NAPFA Spring would have been a better experience if we could have attended in person. But this was one of the best virtual meetings of the year, and I suspect that many of the attendees will keep getting value through the on-demand segment as well. The sessions I attended were a nice reminder of the NAPFA University days—and maybe a signal that there will be more and better technical content ahead.■

Held-Away Management

Synopsis: ***Is it really possible for advisors to manage clients' 401(k) and 403(b) assets without having custody?***

Takeaways: ***The FeeX service requires a clients' permission, holds client login credentials in an encrypted space, and lets advisors manage the assets and asset location issues directly.***

There are a lot of account aggregation tools in the advisor ecosystem, which all do a more or less decent job of allowing you to pull the client's 401(k)/403(b) holdings or other 'held-away' assets into your portfolio reporting software. But wouldn't it be better to have a tool that not only let you add held-away assets into your performance statements, but also made it possible for you to manage those assets? That way, you could make trades in the account so that the 401(k) assets were part of the asset location plan for the household, you could monitor the holdings and select the most cost-efficient funds, and rebalance inside the account just like you do with the taxable account and IRA holdings.

Oh, and one more thing: you wouldn't want your access to these accounts to count as having custody of those funds, because you would rather avoid the potential liability and the SEC's dreaded (and costly) surprise audits.

For the past two years, I've been keeping a secret from Inside Information readers: a tool to manage held-away assets actually exists, and it's pretty (technical term) neat. But I was repeatedly asked not to write about it while the firm consolidated its service to existing advisor customers. I would see the company principals at T3 conferences, and they would remind me of my promise—which is an interesting reversal, since I would spend the rest of the conference fending off other firms that were trying to talk me into profiling them.

FeeX has built-in guardrails that ensure that the advisor cannot see client credentials or request distributions.

The firm is called FeeX (*https://www.feex.com/*), which actually started life in 2012 as a consumer product, a way for qualified plan participants to gain more transparency over their holdings and options within the plan. "In 2018, we rolled out this service to allow advisors to trade and manage these held-away assets for their clients," explains David Goldman, FeeX's vice president of business development and one of the people who swore me to secrecy. "We realized that consumers really need management of these assets." He cites a study showing that the performance of individual 401(k) portfolios have been 3.3 percentage points higher, net of fees, when an advisor is managing the assets, vs. when the client is making the investment selections.

Goldman says that FeeX's original users were advisors who had been giving advice on their clients' held-away accounts for free. "They were going through a very cumbersome process," he says. "They wanted to have asset location across all the household accounts, and they wanted to help their clients make good investment decisions with these assets. So they would have the clients receive the statements, and send them to the advisor, and the advisor would come back with advice that the client would need to execute, and if the clients were confused at any part of that process," Goldman adds, "then the advisors would be liable for that recommendation and advice, even if they weren't charging for it."

Other advisors were simply getting the login credentials from their clients, enduring the surprise audits. "In those cases," says Goldman, "the advisor needs to be responsible for securing client credentials, which can be complicated. And they would have to manage those held-away accounts by logging into them one at a time to get the information they needed for the performance statements and to make any changes, one by one. It was very difficult to supervise or document this activity."

How is FeeX different?

With FeeX, the advisor would get permission from the client to go into the account, and FeeX would store the client's credentials in encrypted format, where the advisor couldn't see them. FeeX also has, built into the system, guardrails to ensure that the advisor cannot request distributions through the platform, cannot update beneficiaries or change clients' addresses. They cannot open new accounts. "We make sure the advisor has the ability to review the account and trade in it, but not take any steps that could be considered custody," says Goldman. It's as simple, he explains, as an intentionally-limited feature set.

Once the advisor has gotten permission, and FeeX has stored these credentials from the client, the advisor can go into the FeeX platform and see a list of the held-away accounts by client name or household. Clicking on any one of them shows the held-away portfolios in a consistent format, similar to what somebody would see in performance reporting software. What's different is that the advisor can also see all the different funds that are available in that particular 401(k) plan, and can execute trades. Click on any of the fund options, and the system shows the Yahoo! Finance profile of that fund, with the historical performance and expense ratio data.

"The main data that we focus on today are the current and available holdings, and the details of each one of those: the private funds, public funds, expense ratios, ticker symbols," Goldman explains. It is likely that this view is superior to what the client would see logging into the plan website directly.

Goldman says that FeeX hasn't announced some of its integrations with portfolio management software, but it did recently send out a press release describing its integration with Orion. The account data flows from FeeX to Orion, basically making it, as far as Orion is concerned, a fancy account aggregation integration.

How do advisors charge for managing these held-away accounts? Goldman says that this is up to the discretion of the advisor. But in most cases, he says, the advisory firm would simply add these assets to its AUM billing structure. And FeeX's fee is AUM-based as well—through a tiered structure that is not disclosed on the company's website, and appears to be negotiable. "Most advisors don't have a problem with paying us that way, since these are assets they wouldn't have been able to charge on before," says Goldman.

He adds that when advisors are billing on these held-away assets, it takes away the requirement to do the DOL fiduciary analysis (now watered-down) about whether it's better for the client to move the assets into an IRA managed by the advisor, or not. "They're charging either way," Goldman says. "So the decision really doesn't matter from a cost standpoint."

Marco Lima, of MRA Advisory Group in Parsippany, NJ and Tampa, FL, has created a wealth management firm that lives up to the name. The firm offers not just comprehensive planning, but in-house tax planning and preparation, real estate brokerage, in-house insurance services and estate planning through an arrangement with a local law firm. Once Lima learned about FeeX, the firm added a new service brand for retirement plan management, called Retirement Builder.

"FeeX not only integrates with the Orion platform," he says, "but it also creates comprehensive reports on those held-away accounts, including white labeled performance reporting that we can send to clients." MRA incorporates FeeX's automated rebalancing capabilities into the client service menu, and pays FeeX 25 basis points on the assets on the platform. "But that's 25 basis points on assets that I wouldn't have been able to charge on without them," says Lima.

The only complication, Lima says, is that charging on the held-away assets requires some adjustment. "The money obviously can't come out of the 401(k)," he says, because it would be a taxable distribution. So his team has to add the AUM fee on the held-away account to the fees debited from accounts that the firm is managing directly. For clients that only have plan assets with MRA, the firm charges quarterly fixed fees that cover planning and asset management.

My take on FeeX is that it's account aggregation on steroids; it solves the problem of comprehensive reporting on all of a client's assets and, on top of that, solves a whole bunch of other problems involved with asset location planning and helping clients make good decisions with their qualified accounts. If you're interested in adding these held-away accounts to your asset management services, right now it looks like FeeX is your only option—and it seems to be a good one. ■

Parting Thoughts

Cultural Fit?

I have to confess that I'm worried. I started worrying the minute I heard that the Schwab organization was acquiring TD Ameritrade, not on the consumer side (two entities that basically encourage people to trade themselves into bankruptcy, but not nearly as bad as newer entities like Robinhood). My worries are on the custody side, where thousands of advisors are being swept into a culture they probably know little about. I worry that Schwab's internal culture is not completely compatible with the idealistic mindset of the planning profession—which is why we have never invited Schwab Advisor Services to exhibit at our annual conference.

I was the first and I believe the only writer in this space to call out the Schwab retail operation for "accidentally" sending solicitation letters to the clients of advisors on the platform. I actually wrote several articles about it, naively believing that the company would stop once the practice was exposed, and then believing that after I wrote about other instances, there would be enough outrage in the community that the company would be forced to stop the practice.

Then there was the time I called into a Schwab retail office, asking for financial planning help. I wanted to see whether the company was, in fact, referring people to advisors if those financial consumers needed more than access to trading. The person on the other end (as I wrote) smoothly told me that the company's retail services could handle all my needs in-house. I asked about financial planning. I told this person that I wanted personal advice. I finally said flat out that I would like to work with a financial planner. I tried to be persuasive, but I was not persuasive enough to get a referral to an independent advisory firm on the company's referral program.

Not long after that, Schwab introduced some modifications to its referral program where the company cut itself in on a generous share of the AUM revenues from any referred client. This seemed to me to be a pretty big conflict of interest, and I thought the terms would make it hard for the referred client to be profitable to the advisory firm. The advisory firm does all the work of servicing the client and maintaining the relationship, and Schwab participates in the revenues.

This leaves aside the years of attending Schwab conferences, where company principals would address the persistent rumors that the company was going to shut down its custodial business for advisors and simply try to grab their clients. I know about those rumors (I never raised them myself) because the company would address them, directly, in the opening remarks. We would be told that the custodial business was profitable, that it accounted for a lot of the assets on the platform, and so it would be foolish for Schwab to abandon it. I later confronted Schwab executives, telling them that this "commitment" felt less-than-reassuring. Does that mean that if the custodial operations ever become unprofitable, your commitment to it goes away?

More recently, the introductory remarks and keynote sessions fete and feature the very largest firms with the biggest AUM assets, firms that are acquiring other firms at a rapid rate. I keep waiting for the opening keynote to feature small advisory firms in these lovefests from the podium, but I am not holding my breath.

And, of course, the company has created its own franchise operation for aspiring advisors, an in-house operation that competes in the most direct possible way with the advisors who custody at Schwab.

I sometimes raise these issues in after-hours conversations with advisors, and they offer some valid rebuttals. The first is: *if I can't compete with Schwab for clients, then I shouldn't be in the business in the first place*. The second is: *I understand that Schwab is a for-profit company, and they have the right to pursue their profitability the same as me*.

Granted. I don't argue those points. But I worry nonetheless, about something that I think is bigger than these issues. I worry that a lot of advisors that Schwab regards as "small" are being pulled into a culture that not only doesn't care about them, but which believes it might be able to get away with terminating them and then directly soliciting their clients. I believe that the decision to properly service these "small" advisors will come down to numbers on a spreadsheet, which will show that the giant consolidators are more profitable to serve at scale than the annoying "little" firms that are constantly

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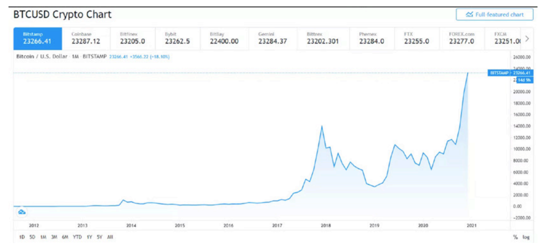

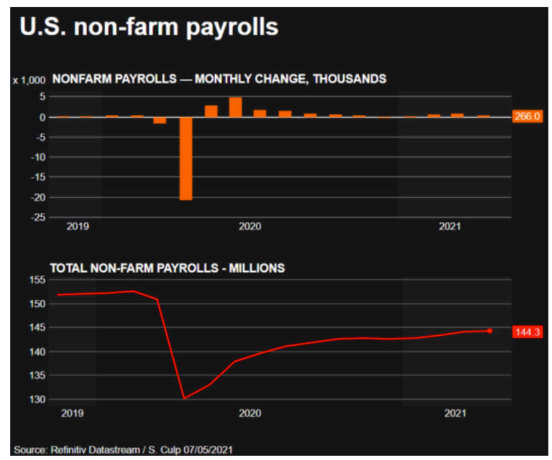

(*who do they think they are?*) asking for the same service levels as the big guys.

I worry that there will be such a disparity in service levels that the smaller firms will be disadvantaged in the eyes of consumers. The hours-long hold times that advisors have recently experienced when contacting their service teams can put a real dent in productivity. When paperwork is lost due to incompetence or inattention, clients are going to notice and believe that there are troubling issues with the small advisory firm that they're working with.

The Department of Justice allowed the acquisition to go through because it found that there is plenty of competition in the discount brokerage and custodial spaces. I happen to agree. I hope that advisors caught up in the acquisition will look around at these alternatives, and at the very least ask to see the custodial contracts that they ask affiliated firms to sign, and compare those with the contracts they will be asked to sign at Schwab.

I know that most of you believe that cultural fit matters; that's why you're careful about the kind of people you hire, and the tech firms you rely on. If you believe Schwab's corporate culture matches your fiduciary, client-first, service-oriented mindset, and if you're convinced that the company is committed to providing all advisors with great service and a good home regardless of scale, then by all means take the easy route of transitioning from TDAI to Schwab Advisor Services.

If you're the least bit uncertain about any of that, then I can assure you there are competing custodial options that will better fit your comfort level.

I don't want you to think I wish Schwab ill; instead, I'm writing this because if you run a small advisory shop under $500 million in assets and decide to move your client accounts to a more welcoming custodian, it's possible that you would be doing not only yourself, but also Schwab, a favor.■