MEDIA REVIEWS - July 1-7, 2017

The front column lineup was strong in this issue of Financial Planning magazine; Dave Grant talked directly to the insecurities of younger advisors, and Kelli Cruz makes a point that advisors are starting to hear more of today: treat staff as clients, and hire clones of the people you like working with the most.

Have a great holiday weekend.

Best,

Bob Veres
Inside Information
http://www.bobveres.com
Insider’s Forum conference - September 6-8, Nashville, TN
http://www.insidersforum.com

Articles that received a “high” relevance rating:

“Get a Confidence Boost”
by Dave Grant
Financial Planning, July 2017
https://www.financial-planning.com/opinion/how-to-develop-more-confidence-as-a-planner?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: high
It takes years to build the confidence in yourself required to change peoples’ life trajectories. You need to become secure in your philosophies, price structure and abilities, and that comes from working with clients face-to-face. It helps to have a supportive family that agrees with your career choice, and you can rely on the encouragement of friends. If you’ve mastered the material, and acquired a solid base of knowledge, that adds to your confidence. A study group will help. Grant also recommends that you operate out of an abundance mindset, so there is no need to close every prospect into a paying client. There’s no shortage of prospective clients to work with in your community. (p. 15)

“A Road Map for Hiring Top Talent”
by Kelli Cruz

Financial Planning, July 2017
https://www.financial-planning.com/opinion/a-roadmap-for-hiring-top-talent?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: high
If you want to hire great new staff members, start by assessing the traits that your best current staff members possess. Where did they come from? Where had they been working before? Were they experienced or college trained? Which websites and social media sites do they most frequently visit? What attracted them most to your company? What are their values? You want to identify the core competencies for each role in the firm, and then look for more people like the best people already on your staff. (p. 17)

"Deducting in Reverse"
by Michael Kitces
Financial Planning, July 2017
https://www.financial-planning.com/news/kitces-deducting-in-reverse?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: high
What are the tax implications of a reverse mortgage? The money is received tax-free as the client wants/needs it, because it's a loan against an existing asset. That means the receipt of the money doesn't impact the taxability of Social Security payments, or show up in the calculation of income-related premium surcharges for Medicare Parts B and D.

Are interest payments deductible on the client's taxes? Nor for most purposes. But Kitces refers to IRC Section 163(h)(3) that allows a deduction for payments of "qualified residence interest"—a mortgage debt incurred to acquire, build or substantially improve either a primary residence or a designated second home. If the clients are retrofitting their home, this qualifies; apparently not otherwise. Taxpayers can only deduct the first $100,000 of home equity indebtedness, and this amount is an AMT adjustment.

And, of course, mortgage interest is only deductible when it's actually paid, and most borrowers are not making interest or other payments on an ongoing basis. The cumulative loan interest is usually repaid when the borrower sells the home or dies. The lump sum repayment of reverse mortgage interest creates a deduction all at once. Will the heirs have enough income to be offset in that tax year? If not, some or all of the deduction could be lost entirely. Kitces recommends that clients consider who will inherit property subject to a reverse mortgage that might be repaid after death, ideally someone who will have sufficient income to offset or absorb the available deduction.

An interesting alternative: the borrower can voluntarily pay the interest annually, although payments will first be applied against accrued mortgage insurance premiums and servicing fees. In that case, those interest payments will only be deductible when the borrower itemizes deductions—which may not be the case for retirees.

Also: real estate taxes are deductible when paid. Regular payments for taxes through a mortgage servicer are deducible as paid each year. But in some cases, clients will be required to have a Life Expectancy Set Aside where amounts are drawn directly from the mortgage and held in escrow to pay property tax and homeowner insurance payments. There is no definitive tax guidance on whether those amounts are deductible. (p. 37)

"The Best Fit for a Trusteed IRA"
by Ed Slott
Financial Planning, July 2017
https://www.financial-planning.com/news/the-best-fit-for-a-trusteed-ira?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: high
Under the tax code, clients can establish an IRA either as a trust or a custodial account. The trusteed IRA can add trust terms and language to the plan, with the financial organization acting as the trustee. (The tax code does not permit an individual to be the trustee of an IRA.) This may be the best option for preserving the stretch for beneficiaries. Upon the owner's death, the financial organization would have to pay out the annual required minimum distributions to beneficiaries, ensuring the stretch IRA provisions, and the terms of the trust could allow distributions beyond RMDs for health, education and other support. If you establish sub-trusts for each beneficiary on the IRA beneficiary designation form, each trust beneficiary would use his/her own life expectancy on the stretching out of distributions.

Slott says that the trusteed IRA makes sense for clients without the assets to set up trusts for their other accounts. A trusteed IRA will cost less than hiring attorneys to draft a trust. If the owner becomes incapacitated, the trusteed IRA could have a provision that allows the trustee to take the RMD on his/her behalf; otherwise a power of attorney would be required. And the trusteed IRA provides a higher level of creditor protection than a custodial IRA, though not as much as name a trust as the IRA beneficiary with the proper trust provisions. (The downside is that RMD funds held in the trust will be taxed at trust tax rates.)

Slott warns that clients who plan to have the surviving spouse do a spousal rollover should not opt for a trusteed IRA, but instead name the spouse on the beneficiary designation form. (p. 44)

"A Teachable Moment for All"
by Scott Schutte
Financial Planning, July 2017
https://www.financial-planning.com/opinion/sad-reality-that-some-advisers-struggle-with-personal-budgets?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: high
The author says that many financial planners fail to "walk the talk" and live beyond their means. Many don't provide budgeting and cash flow advice. He, himself, has learned that you should focus on philosophy rather than line items. What's the point of the process? Don't get in the middle of a debate between husband and wife; instead, have rule of thumb conversations on how to make sure there's daylight between what they spend and what they earn. He also offers to educate clients' children. (p. 56)

Unrated:

"Life Insurance Industry Evolution"
by Bob Veres
Financial Planning, July 2017
https://www.financial-planning.com/opinion/increasing-transparency-for-the-life-insurance-industry?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: unrated
After years of following a sales model, the life insurance industry has fallen behind, with declining policy sales and declining assets under management—especially compared with the mutual fund industry, which long ago embraced transparency. But now there are tentative signs that the big life companies are contemplating a more fiduciary, consumer-friendly model. There are more no-load variable life contracts available today, and the article mentions a new app called Assurance that pulls policy illustration data on cash value life policies from the WinFlex database, and creates side-by-side comparisons in graphic form. At the very least, this allows fee-only advisors to illustrate the value of doing a 1035 exchange out of a heavily-loaded product into leaner or no-load policies. In the

future, it might help fee-only planners recommend contracts in the first place, and comparison shop as they do. (p. 13)

The rest of the articles:

“Serving Military Clients”
by Charles Paikert
Financial Planning, July 2017
https://www.financial-planning.com/news/why-military-members-can-be-great-clients?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: moderate
An advisor who works with former military clients says that they often move into high-paying civilian positions and have significant investment portfolios. They’re accustomed to a disciplined lifestyle and bring self-control to their savings. Upon retirement, they will be able to receive a lump sum portion of their pension’s future cash flow at a 7% discount rate, or receive payouts for life. The advisor recommends they not take the cash at today’s rates. (p. 19)

“Focus Beefs Up With $16.5B RIA”
by Tobias Salinger
Financial Planning, July 2017
https://www.financial-planning.com/news/focus-financial-inks-largest-partnership-in-history-with-scs-capital?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: low
The firm is about to acquire a majority stake in the revenues of Boston-based SCS Capital Management. This comes after Stone Point Capital and KKR, two venture firms, agreed to purchase a majority stake in Focus, with a total valuation of $2 billion.

The article tells us that SCS Capital has a minimum account size of $25 million, with most of the investment assets going into one of 14 pooled products which include offshore corporations, two in the Cayman Islands. (p. 20)

“The Beauty of Irrevocable Trusts”
by Martin Shenkman
Financial Planning, July 2017
https://www.financial-planning.com/news/the-beauty-of-trusts-for-real-estate-investing-clients?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: moderate

Irrevocable trusts are normally created for estate tax purposes, but that reason has been going away with higher tax thresholds and the Trump Administration wants to eliminate estate taxes altogether. But if you have appreciating real estate owned by flexible irrevocable trusts, you get asset protection. Pick a state that provides flexibility—so you can decant the existing trust into a new trust or change the irrevocable trust (permissible under the new laws in Delaware). (p. 21)

"Away From Home"
by Charles Paikert
Financial Planning, July 2017
https://www.financial-planning.com/news/how-to-talk-to-clients-about-investing-in-real-estate
Relevance: moderate
After some negative experiences investing in vacant lots in Florida, an advisor says that he tells clients that real estate investing is not for the faint of heart. Another emphasizes cash flow over total return. Pay careful attention to maintenance costs. Analyze tax obligations. You don't have to buy properties; REITs cover the asset class, but yields are at historic lows. (p. 26)

"A Profitable Sale Without Taxes"
by Miriam Rozen
Financial Planning, July 2017
https://www.financial-planning.com/news/1031-exchanges-increasingly-attractive-as-real-estate-prices-climb?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: moderate
This is about 1031 exchanges, which can be the basis of valuable advice for clients who own rental real estate. It allows (did you not know this already?) investors to defer recognition of capital gains on a property if it is exchanged for a comparable property. Or the client could sell the property, the proceeds go to a bank that is prepared to serve as a qualified intermediary, and the seller then has 45 days to identify a "like" property and 180 days to purchase it, using the proceeds that have been maintained at the qualified intermediary.

We are told that "like" property is a very flexible term; an apartment can be exchanged for a duplex or a strip mall. If the clients are tired of being landlords, they can exchange for shares in a limited partnership—though we are warned that general partnership fees can be high. A property can be exchanged to buy a home for a son or daughter, who then pays rent—skipping capital gains taxes into the foreseeable future. Others can exchange rental property for a summer home or future residence. (p. 33)

“A ‘Grave’ Threat for Advisories”
by Tobias Salinger
Financial Planning, July 2017
https://www.financial-planning.com/news/pershing-advisor-solutions-ceo-mark-tibergien-talks-diversity?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: moderate
In a speech at the annual NAPFA Spring conference in Seattle, Pershing Advisor Solutions CEO Mark Tibergien pointed out the lack of diversity in the profession. He said that the talent doesn’t reflect the face of the community. Only 8% of advisors at 18 large financial services firms are people of color, and about 16% of the overall advisory population are women. Tibergien said it should not be hard for such an intellectually stimulating, emotionally satisfying profession to reach out to people in all ethnic and gender sectors. (p. 35)

“Should I… Do a Client Survey?”
by Ingrid Case
Financial Planning, July 2017
https://www.financial-planning.com/news/should-i-do-a-client-survey?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: moderate
Advisors get feedback like they should listen more and talk less, that their initial client meeting seems to mechanical, and the documents they provide are confusing. Some clients want services you aren’t providing, like insurance reviews and college savings advice—or may not realize that you DO provide them. (p. 36)

“Vacation Property Angst”
by Don Korn
Financial Planning, July 2017
https://www.financial-planning.com/news/help-clients-avoid-taxes-and-conflict-when-bequeathing-a-vacation-property?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: moderate
Leaving a vacation home to multiple heirs can cause problems. Some may want to liquidate this valuable asset, while others may want to hold annual family reunions there. One heir may live too far away to visit frequently. There may not be available cash for the one to buy out the other. But… When you sell the property, the vacation home doesn’t qualify for the $250,000 capital gain exclusion ($500,000 for married couples filing jointly). The gain might be taxed at a 23.8% capital gains plus surtax rate. Leaving the house to the kids gets a step-up in basis.

Communication among family members is the key. In many cases, one child will buy the vacation property from the estate. (p. 41)

“Destructive Impact of Fund Fees”
by Craig Israelsen
Financial Planning, July 2017
https://www.financial-planning.com/news/the-stunning-impact-of-fund-fees-on-a-retirement-portfolio?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: moderate
The fun of reading Israelsen’s column is to see how cleverly he manages to slip his trademarked seven-equally-weighted-asset-class portfolio into his column. Here, he uses it as a baseline to compare its 50 basis point annual expense ratio (pretty high for passive funds, no?) with more expensive portfolios. Looking at 23 rolling 25-year periods, where people took withdrawals out of a $1 million portfolio, the average ending balance of Israelsen’s patented portfolio is $2.74 million, with total withdrawals over 25 years of $3.96 million. If the total expense ratio rises to 100 basis points, those figures are $2.43 million and $3.67 million. At 150 bps: $2.15 million and $3.41 million. Of course, these numbers will differ as portfolio returns are different, but the point is that fees and expenses matter. (p. 47)

“Smart Beta vs. Active Managers”
by Bryan Borzykowski
Financial Planning, July 2017
https://www.financial-planning.com/news/can-smart-beta-etfs-and-active-management-coexist?issue=0000015c-e9e2-d56a-affd-ede2ae580000
Relevance: moderate
This article says that between December 2013 and April 2017, 40% of smart beta ETFs outperformed their style benchmarks. I wonder if there’s some time period cherrypicking going on there. The concept, though, is that you pay index prices for value stock selection. (p. 50)