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July–August 1998

PLANNER

Ideas from leading experts in financial planning

AICPA

American Institute of Certified Public Accountants

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William J. Goldberg, CPA/PFS, chair of the AICPA PFP Executive Committee and Southwest partner-in-charge, KPMG Peat Marwick, LLP, reports on the National Summit on Retirement Savings.

Counterpoint: Low-Load Life Insurance—The Rest of the Story

by Ralph D. Bultman, CPA/PFS, CLU, ChFC

Ralph D. Bultman, CPA/PFS, CLU, CHFC, president of Bultman & Associates, Inc., (Waukesha, WI) discusses some of the points raised in the article in the April/May 1998 Planner, "Life Insurance Goes Low-Load—What the CPA Planner Should Know."

The use of low-load life insurance will continue to grow just as the use of low-load mutual funds has during the past ten years. One reason for this is that the number of life insurance agents is shrinking, so insurance companies are looking for alternative distribution channels. In the future, the middle market will be served by insurance organizations that offer low-load or similar insurance through the Internet, by mail or through employers. The high-end market, however, needs sophisticated estate planning, so a professional insurance adviser should be involved in the process.

Currently, most of the top life insurance companies do not offer low-load life insurance in the retail market (purchasers of smaller policies that are sold face to face by full-time life insurance agents.) The top companies, however, are developing low-load products for the larger corporate market. Generally these products are designed for corporate-owned life insurance plans (COLI), bank-owned insurance plans (BOLI) and split dollar/deferred compensation plans through corporations. In some cases, the required minimum premium is $250,000 or more in first year premium. There is very little reason today for a large corporation buying life insurance on several executives to pay the retail price on a life-insurance contract. Planners should be aware that many options are available in the corporate market with the top insurance companies, as well as with the low-load companies.

Policy Reconstruction

In addition to offering new low-load products, the major life insurance companies have designed policies that allow the structuring of life insurance to hold down

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TRENDWATCH

Clients need to act quickly to benefit from Roth IRAs. Robert Keebler, CPA, (Schumaker Romanesko & Associates, Green Bay, WI) urges planners to help clients get their pre-conversion adjusted gross income (AGI) below $100,000 if they want to convert. To do so, clients can defer bonuses, contribute more to qualified retirement plans or take investment losses that allow them to write off up to $3,000 against income.

Few sizable conversions to Roth IRAs have been done, according to Greg Kolojeski, president of Brentmark Software. The reason: investors may be waiting to see if stock prices drop before year's end, which would reduce the taxes owed.

Other Roth IRA issues may go unresolved for a while. Kolojeski expects the IRS won't issue a Q&A to clarify some of these issues until October. One issue is whether a required minimum distribution (RMD) for a regular IRA counts as income in qualifying for a Roth IRA conversion. Marvin Rotenberg of BankBoston

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TRENDWATCH

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says most experts believe RMDs do count as income.

Rotenberg also points out some of the negatives of Roth conversions: the extra income from a Roth conversion may put joint filers past the $44,000 AGI threshold at which they must pay income tax on 85 percent of their Social Security benefits. Another negative: personal exemptions are phased out for joint filers whose AGI exceeds $110,000. In addition, some states may tax conversion income all at once, rather than over the four years allowed by federal rules.

"In the News: Conversion Kit," *Dow Jones Investment Advisor* (July 1998), page 20.

Someday, homeowners may be protected against a drop in the price of their homes. Robert Shiller, an economist at Yale, proposes that insurance companies act as retailers of short positions in real estate futures markets or of put options in real estate. Here's how it would work: "Insurance companies would sell to homeowners premium real estate futures contracts whose values reflect the commodity, financial or economic indices on which they are based. The companies would then take a short position in the futures market to hedge the underwriting risks.

"The homeowners would see their accounts debited or credited every day depending on the change in the real estate futures price on which their policy is based. Their earnings in the futures market would offset any price drops in the real estate market." One potential drawback is homeowners' resistance to paying insurance companies when the value of their homes increases.

But, it's only a matter of time before the market for such options develops, say Shiller and Eric van Wincoop, an economist at the New York Federal Reserve Bank, who also worked on developing the idea. Shiller sees a great opportunity to take advantage of the

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Counterpoint

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the commission and increase the cash accumulation. Almost any traditional whole life contract can be adjusted to blend features of whole life and term insurance. Any of the top tier life insurance companies will construct a policy that offers a substantially smaller commission than a traditional 100 percent whole life policy. This is done by blending low-commission term insurance with high-commission whole life.

One negative aspect of blending term insurance with whole life insurance is that term insurance usually includes fewer guarantees. This allows the insurance company to offer lower term rates.

The planner should be careful when comparing a 100-percent whole life policy with a blended policy because it is like comparing apples with oranges. The planner needs to know enough about this area to identify the different blends. Without sufficient information, the client may purchase life insurance based on the lowest annual premium. In the long-term, the policy may be the wrong policy.

Cash Accumulation Issues

By developing a relationship with a life insurance agent who is willing to do this type of reconstruction of policies, CPAs can help clients gain the benefit of greater cash accumulation. I agree with Barry Streit, the author of "Life Insurance Goes Low Load—What the CPA Planner Should Know," that the performance of a life insurance contract on a long-term basis is a function of the cash accumulation in the contract. For this reason, all policy illustrations should be run out to age 95 or 100. Many people who bought policies in the 1980s will outlive their current life insurance contract because the interest rates on their universal life and whole life policies are substantially lower than was illustrated when they bought the policies. In the next few years, many people will find this out. As planners, our job is to make people aware of this potential problem with older policies. This predicament has already led to many lawsuits.

Streit states that agent commissions are sometimes more than 100 percent of the first year premium. In the past eight years that I have been in the commission-based insurance business, I have never seen a commission from a top tier life insurance company greater than 55 percent of the first year premium. Other charges may be involved in implementing a life insurance contract, which cause the actual value to be low or nothing in the first few years. Some companies may offer commissions greater than 100 percent of the first year premium. The top quality companies, however, generally do not offer that kind of payout to the agent.

Streit cites universal life (UL) insurance, as "the easiest place to see the difference between low-load and full-commissioned policies," pointing out the additional cash value build-up in low-load policies because of a lack of a commission. Frankly, I seldom recommend a traditional UL policy to younger insureds because a variable universal life (VUL) policy provides all the advantages of a universal life policy with substantially more investment choices and investment control. A VUL policy is similar to a variable annuity in that it usually offers six or more investment accounts. The policy holder chooses the level of risk he or she is willing to take. In addition, a VUL policy has a separate account not subject to the creditors of the insurance company. Another reason I am reluctant to sell traditional UL is that such policies are very interest sensitive

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William Moran
Editor

Phyllis Bernstein, CPA
Director

Lessons Learned at the Investment Planning Conference

An outstanding program captured the attention of veteran as well as novice investment advisers at the 1998 AICPA Investment Planning Conference, June 11–12 in Washington, DC. The conference opened with Ronald J. Hill, CFA, Director of Research at Brown Brothers Harriman & Co. (New York) speaking about "Investing in the Late Stages of a Long Bull Market." Hill's view of the market's future is bullish, if more cautious than the view offered by Abby Joseph Cohen at last year's conference in New York City.

A second general session followed Hill's presentation: William Meck of the Securities and Exchange Commission advised participants on being prepared for "SEC Examinations in the New Environment." (For a more detailed description of Meck's presentation, see Murray Schwartzberg's article on page 5.)

Turnkey Programs

The subject of the third general session was of great interest to most participants: asset management turnkey programs. The morning program presented a panel of turnkey system providers. Later in concurrent sessions, participants heard users of these turnkey system providers describe their experiences and their views of the benefits and disadvantages of these systems. (See Susan Frohlich's article on page 7 for more detail about these sessions.)

Practice Management

After lunch, the conference broke out into concurrent sessions focusing on practice management and technical issues. Among the concurrent sessions was "Managing the Investment Advisory Practice" presented by Beth Gamel, CPA/PFS, co-founder of Pillar Financial Advisors (Lexington, MA) and Lyle K. Benson, CPA/PFS, CFP, president of L.K. Benson & Company (Baltimore). Gamel is partner with a tax attorney. They manage the assets of clients with between $5 million and $50 million in assets. They provide clients general services in conjunction with financial planning, along with asset allocation and analysis and implementation and performance monitoring. Gamel shared some of the tools of the trade with conference participants: contracts, software, questionnaires and performance reports. She cautioned practitioners to register as an investment adviser with the SEC or a state and to consult with an attorney experienced in investment advisory issues before writing engagement letters and contracts.

In discussing fees, Gamel broke down her firm's fee arrangements as a percent of 1997 revenues: Annual retainers accounted for 39 percent of revenues, and hourly engagements on a continuing basis accounted for 18 percent and on a one-time basis accounted for 13 percent. The fee arrangement that is growing for Gamel's practice is percent of assets under management, which accounted for 26 percent in 1997. Gamel said that the percentage in this arrangement is higher in the first year because of the intensity of work required. Finally, project-based fees accounted for 4 percent of revenues.

Among the many tips offered by Gamel was the recommendation of providing clients with performance reports. She thinks this practice will endear the practitioner to clients and provide an annuity to the business. In advising practitioners about deciding what services are right for the firm, Gamel recommended the following process:

- Evaluate your firm's strengths.
- Assess current and future staffing needs.
- Determine client wants.
- Confront marketing issues.
- Think seriously about niche marketing.
- Draft a realistic business plan.

Lyle Benson's practice focuses on high net worth clients including corporate executives and second and third generation inheritors of wealth. Benson described the issues that needed to be addressed in making the difficult transition from CPA firm to investment management services. The typical CPA firm, Benson believes, has a practice philosophy and mindset that may impede the practitioner who is striving to make the change. Among the issues that the practitioner must address is the willingness of partners to share their client relationships and existing referral relationships. Benson believes that investment management services cannot be provided part time. These services require dedicated attention and cannot take a back seat to tax season. Strong administrative support is needed along with investment professionals with the required expertise and training. The firm must also be committed to technology and education.

Benson and Eric A. Norberg, CPA/PFS, of Mason Associates, Inc. (Reston, VA) sat on an "Advanced Practice Management Panel" later in the conference.

Advising the Affluent

"All types of financial providers want to do business with you [investment advisors]." This was the message of Philip Nicolaou, vice president, Eastern Division Sales, Schwab International (Philadelphia) in his presentation, "State of the Fee-based Investment Advisory Industry." Nicolaou categorized investors into three groups: self-directed investors, validators and delegators. The self-directed want access to markets. The validators start out as self-directed, and, after accumulating wealth, seek feedback. The delegators, however, seek relationships, and this market offers the most opportunity to financial planners.

Nicolaou also described investors in terms of income: the mass market, the affluent and the super affluent. The affluent represent the "sweet spot" for planners. Nicolaou characterized this group as investors with household incomes averaging $1.8 million and with $3 million in investable assets. This segment, which included 11.8 million investors in 1997, is expected to grow to 18.1 million by 2006. The growth of this market is attributable to the transfer of wealth to the so-called baby boomers, the transfer of stock options and an increase in the number of initial public offerings.

Nicolaou also pointed out that 50 percent of the investable assets are owned by people under 55 years of age with between $250, 000 and $1 million.

Investors between 45 and 55 years of age will be the fastest growing segment of the market in the next ten years. Who has these clients? Full-commissioned brokers have 60 percent of the market. They've won this market, says Nicolaou, by providing two critical things: information and relationships. Investors are flocking to full-commissioned brokers for guidance, according to Nicolaou. The brokers are aware of this and are therefore repositioning themselves by moving away from commissions to fee-based advice.

Since information is becoming a commodity, Nicolaou recommends that investment advisers focus on relationships. In selecting investment advisers, the affluent consider trust, understanding of their needs and a compatible investment philosophy and approach to be the critical factors.

Portfolio Management and Analysis

Philip J. Orlando, CFA, summarized the "Major Style Attributes of Equity Portfolio Management and Analysis". Orlando is chief investment officer at Value Line Asset Management (New York City). Among the key elements of portfolio management and analysis that he covered were three portfolio management styles: Growth, value and GARP (growth and reasonable price).

Orlando used a case study to explain the three styles. Growth managers screen for high-growth stocks, defining high rates of internal growth as return on equity adjusted for earnings retention. This approach is insensitive to high relative valuation.

For example, with earnings for the S&P 500 expected to grow at a 7 percent rate for the next five years, a growth manager would select Stock A with an expected growth rate of 23 percent over Stock B with an expected growth rate of 10 percent. In doing so, however, the growth manager may fail to consider Stock A's relative valuation profile. The premium for superior growth may be too high, and the growth rate may have already been discounted in current share price. There may be no room for potential upside appreciation.

The value manager screens for cheap stocks, defining these as stocks with low price/earnings ratios, high dividend yields and low price/book ratios. This approach is insensitive to growth or valuation catalysts and could result in "dead dollars" or a loss.

For example, with the S&P 500 currently valued at 20 times estimated calendar 1997 earnings, the value manager would choose Stock B with 14 times earnings because it is cheaper than the broad market and Stock A at 28 times earnings. But the value manager doesn't know why Stock B is cheaper and whether it will experience any P/E multiple expansion. Stock B could get cheaper.

GARP, the hybrid approach, combines the best elements of the other two approaches. With this approach, the manager screens for above-average growth prospects and below-average valuation, using price-earnings/growth (PEG) ratios:

	P/E	Growth	PEG
S&P 500	20X	7%	2.68X
Stock A	28X	23%	1.22X
Stock B	14X	10%	1.40X

Analysis of the growth-adjusted prices suggests that both stocks A and B are more attractive than the broad market. Stock A, however, has more upside potential by virtue of its PEG ratio.

Concentrated Wealth

In his presentation "Investment Strategies for Concentrated Wealth," Thomas Murphy, vice president, Mellon Bank, NA (Pittsburgh), defined a client whose wealth is concentrated as one whose portfolio is tied up in one stock. As manager of the Concentrated Wealth Group for Mellon Private Asset Management, Murphy is responsible for developing investment strategies for clients with significant concentrations of wealth. According to Murphy, there has been an explosion in concentrated wealth, which he attributed to the current strong equity markets, acquisitions structured as tax-free exchanges and the retirement of senior executives in established companies.

The issues surrounding concentrated wealth include the capital gains tax burden (the stockholder may have no significant cost basis), lack of diversification and undue risk (the stock may have a history of volatility, for example). The diversification issue may be difficult to address because of the tax burden involved, the stockholder's emotional ties to the stock-issuing company or performance expectations.

The strategies for managing concentrated wealth include a process of developing a personal and financial profile of the client. This includes determining the client's investment goals and objectives (liquidity needs, time horizon and risk tolerance) and estate planning issues. The process also includes evaluating available tools, such as:

- The Tax Relief Act of 1997
- Outright sales (for example, block sales, structured products)
- Margin loans
- Hedging strategies (for example, protective puts/covered calls, collar transactions)
- Estate planning structures
- Exchange funds

In working with clients with concentrated wealth, the adviser needs to consider multiple strategies, their advantages and disadvantages, investment flexibility versus tax sensitivity and tax efficiency.

Ten Marketing Ideas

Asset management is a very good (read *profitable*) business model and therefore there is tremendous competition for clients. Competition is "hotter than ever and only going to increase," says Robert Clark, editor of *Dow Jones Investment Advisor* (*DJIA*). In this competitive market, the key to success, Clark says, is marketing. Clark offered proven marketing ideas in "Marketing Asset Management: Ten Strategies Leading Financial Advisors Use to Build Their Practices." Most of the ideas came from articles that appeared in Clark's magazine.

When possible, we've provided the original source of these ideas, so that you can get more detail than space allows us. Also, Clark wrote about these ideas in "The Next Step" in *DJIA* (July 1998). Here are the ten best ideas:

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The New Regulatory Environment

by Murray Schwartzberg

William R. Meck, CPA, Senior District Administrator (Regulation) of the Philadelphia District Office of the Securities and Exchange Commission (SEC), provided attendees of the AICPA's Investment Planning Conference with many key insights into the new shared federal/state regulatory scheme. In this new regulatory scheme, an investment adviser will register with either the SEC or one or more states. The result is most investment advisers will not be faced with multiple registrations and the possibility of multiple audits.

Most CPA investment advisers have to register only with the state in which their office is located unless they manage $25 million or more. Registration is required in another state only if there is a physical presence (office) in that state. Meck emphasized that even if a CPA has clients in a second (or more) states, registration in the states other than the state of the office is not required. Of course, investment advisers have to register with any state in which they have an office.

Multiple Offices

Investment advisers with multiple-state offices (in at least 30 states), however, can request SEC registration. If an SEC-registered adviser's number of offices drops to 24, the SEC registration is lost and state registration is required.

Because many investment advisers would prefer to be registered with the SEC rather than one or more states, the $25 million threshold becomes a critical issue. Meck laid out the decision tree to follow when determining whether the $25 million test is met. The first step is to look at each account. If there is continuous and regular investment management services, the planner moves to the second step. Most advisers providing "usual" financial planning services won't qualify under this test. But if they provide actual money management services, they must look at the portfolio: the type of assets it contains. Because the SEC is "into" securities, 50 percent or more of the account must be invested in securities, in which case, 100 percent of the account is included in reaching the $25 million threshold. Cash can count as securities if so desired.

The determination of continuous and regular management is a facts and circumstances test. The advisory contract with the client should set forth the services to be performed and will be evidentiary. Compensation, the nature of the services provided, discretionary authority over the account, all add up to the required involvement to meet the SEC threshold test. Meck warned the attendees against churning accounts to show the necessary "management" to meet the test. He indicated that this is something the SEC was aware of and did look for.

Meck indicated that the reason the SEC investigates its registrants carefully is that it is aware of the cachet of SEC registration. The perceived notion is that if you are an SEC registrant, you are a big player. This impression of being one of the big players is possibly something that state registration doesn't carry with it.

Audits

An investment adviser will be audited by the agency it registered with, according to Meck. Regardless of whether it is a state or SEC audit, the auditors like to arrive unannounced, but with some advanced—but not specific— warning. They rarely reschedule an audit, especially if the request for rescheduling is based on "inconvenience." The auditors look at all records, searching for fraud, conflicts of interest, and recordkeeping matters especially related to custody of funds and securities. Both the states and SEC ask the registrant to correct any problems before they take action. The desire is to make the audit a positive, not punitive, activity. And the states and the SEC do communicate with each other about their registrants.

Information Resources

One last thought Meck passed on to the attendees: He will respond to inquiries via email: address him at meckw@sec.gov. You can also seek information on the SEC's web site at www.sec.gov. ◆

Bulletproofing Your Investment Advisory Practice

By Phyllis Bernstein, CPA

In his presentation, "Bulletproofing Your Investment Advisory Practice," at the AICPA Investment Planning Conference, Dan Goldwasser, a partner in the law firm of Vedder, Price, Kaufman (New York), cautioned participants that investment advising is a potentially dangerous area for several reasons:

- The amounts at risk are large.
- Client suits have no privity defense.
- There is risk of fiduciary liability exposure.
- Potential conflicts of interest abound.
- Client's expectations are high.
- CPAs have dubious qualifications.
- Regulatory traps are numerous.

Goldwasser reminded the conference participants about the consequences of the promotion of tax shelters several years back: numerous suits and high potential liabilities associated with commissions and conflicts. The current broker-dealer experience also involves a large number of suits, forcing the industry to the arbitration mode, and many enforcement actions. The claims relate to suitability, churning, excessive commissions, and conflicts of interest, compelling the industry to self-regulation.

Insurers are wary of covering investment advisory practices. CPA regulations and standards, such as independence rules and prohibitions against commissions and contingency fees, pose additional problems. In addition, CPAs need to be aware of and comply with Federal and state regulation of investment advisers.

Avoiding Regulatory and Ethical Violations

State accountancy laws prohibit commissions, which are payments from third parties for the sale of goods or services provided by these third parties. These laws are vigorously enforced. According to Goldwasser, circumvention of contingency fees is frequent and is not prosecuted because regulations broadly define contingency fees. The question that is often asked is what is a contingency fee. Fee sharing is not found in all states. Confidentiality requirements are a universal provision that applies to promotional activities. The standard of independence applies to attest clients for whom the CPA performed management functions.

Loss Prevention Measures

Goldwasser discussed the form of operating entity for investment advisers in relation to risk exposure. He said that it is usually best to separate the investment advisor entity from the CPA firm to limit liability and minimize reporting requirements for securities regulators. He told participants to use the limited liability format; a separate entity must still comply with CPA regulations.

The firm should develop operating guidelines to establish a best protection against liability traps as well as a backbone to those who may be tempted to engage in activities that would expose the firm to risk. The topics to cover in the operating guidelines include the identities of those permitted to render advice, client acceptance procedures and recordkeeping requirements. Firms should retain information on clients' investments for six years. They should also retain investment recommendations, along with engagement letters and disclosure statements and documentation of compensation arrangements.

Goldwasser cautioned that engagement letters are mandatory and there should be no exception to that rule. Items to be covered in the engagement letter include:

- Identity of the client.
- Nature of the services to be provided (advice or discretionary power).
- Criteria for investment selections.
- Responsibilities for overseeing execution of trades and safekeeping of client securities.

Goldwasser covered the risks associated with many other areas related to investment advising. He talked about achieving full and fair disclosure of the names of the firm and advisors; licensing; methods of operations including retaining other investment advisers; investing in mutual funds; diversification techniques; brokers used and custodian of client's securities; bases of compensation; affiliation within the investment community (brokers whose services have or are being used by the firm); and sources of investment resources. In discussing reporting to clients, he addressed the issues related to confirmation of transactions, monthly reports of positions and trading activities, and analysis of portfolio performance. Goldwasser also discussed termination issues, particularly the client's right to terminate at will and the prorating of advisory fees. ◆

Wait 'Til Next Year

All participants we spoke with said that they benefited from attending the conference. Investment planning will surely be part of the program for next year's PFP Technical Conference scheduled for January 11–13, 1999 at Caesar's Palace, Las Vegas. Mark your calendars for those dates.

Turnkey Panels

by Susan Frohlich, CPA

Two panel discussions at the 1998 AICPA Investment Planning Conference helped provide some insight into the questions CPAs need to consider when looking for a company that will help them address their clients' needs for investment advice. One panel comprised representatives from four providers of assistance to CPAs in this area, and the other panel comprised CPA users of each of these four providers.

The four providers represented were Buckingham Asset Management USA, LLC, (St. Louis), 1st Global, Inc. (Dallas), Lockwood Financial Services, Inc. (Malvern, PA) and Callan Associates, Inc. (San Francisco). Conference attendees learned that there are many differences among companies, and that, when looking for assistance in this area, CPAs have to ask a lot of questions.

The discussion highlighted that providers differ in the way they are set up to work with CPAs. The following are a few of the questions that can help the CPA to understand the structural differences in turnkey-CPA relationships:

- Is the company providing research and support services to the CPA only in a consulting capacity, or is it also providing services to the client? Is the CPA's client also a client of the provider?"
- Do CPAs operate under their own Registered Investment Advisor (RIA) entities, or as representatives of the provider's RIA or broker-dealer entity?
- What are the responsibilities of each party under the various arrangements (including due diligence on the investments themselves, their suitability for the client and the appropriateness of the asset allocation for the client)?
- What is the fee structure and how do fee payments flow? Is it a commission or contingency fee to the CPA?
- What is the minimum account size?
- Does the company have proprietary products?

Support Services

Turnkey providers also differ in the extent to which they provide various support services, such as:

- *Education and Training,* including general investment education, education regarding different investment products, operational training, registration and compliance training, and research reports, newsletters and conferences to help CPAs stay current on investment theory, capital market assumptions, and changes in the investment industry and markets.
- *Practice Management Services*, including client profiling software or checklists, asset allocation /optimization software, investment policy statement templates, client control systems (for example, checklists, agreements and contracts), portfolio management and performance reporting systems, on-line client account information, client management systems, registration and compliance assistance and systems, and back office support, such as proper documentation of trades and settlements.
- *Investment Implementation Resources,* including research on capital markets, funds, separate account managers, and investments, and access to investments and investment managers, brokerage services and custodial services.
- *Marketing*, including marketing brochures and client presentation materials.

It takes a lot of work to sort through these differences, and conference attendees got a taste for the questions they should ask when working with companies that assist CPAs in the investment arena. Attendees also had an opportunity to ask these and other questions at the exhibitor booths during the conference breaks. The exhibitors included many companies that provide some assistance to CPAs who want to offer investment advice to their clients. ◆

Lessons Learned

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1. Close 90 percent of the prospective clients you talk to. This advice was offered by financial planner Lynn Hopewell in his presentation at the February 1998 ICFP conference and was described in some detail by Robert Veres in "Speechless" in the April 1998 issue of *DJIA.*

2. Give Quicken (or similar software) to your clients. This bit of advice comes from Robert Veres in his practice management newsletter *Inside Information.*

3. Get yourself on the Worth list of best advisers. This comes form Mary Rowland's book, *The Best Practices for Financial Advisors* (Bloomberg Press).

4. Get a color laser printer. This idea comes from Andrew Gluck's "Educated Palette" in the special technology issue of *DJIA* done in the fall of last year. In this age of information overload, how something looks is important.

5. Go on the radio. *DJIA* wrote about this in "Air Edelman" in the September 1997 issue. Competition for time on television is tight. Radio has a tremendous amount of time available, so it's easier to get a regular gig. This should prove to make you very competitive.

6. Join the Schwab AdvisorSource program. This is discussed in Andrew Gluck's "Clients for Sale" in *DJIA* (February 1998). Most who have joined are happy they did so. Consider the record: In 1997, 461 participating advisers got 10,000 referrals with more than $1 billion in assets.

7. Turn the tables on other professionals. Robert Veres wrote about this in *Inside Information.* Invite others to give you a presentation on why you should turn tricky problems over to them.

8. Specialize in specific kinds of clients. This advice is also from Mary Rowland's *Best Practices for Financial Advisors.* The tighter your focus, the better you will be. You may have three or four niches. Clients want to deal with a professional who understands them and their business.

9. Combine work with play. In "Gone Fishin'," Michael Pretzer wrote about a practitioner who marketed his services by exploiting the trend toward leisure (*DJIA,* June 1997). The practitioner puts on a weeklong fly fishing trip for clients and professionals.

10. Remember that the best asset management tool is financial planning. Steve Moeller wrote about this idea in "Focus, Focus, Focus" in the May 1998 *DJIA.* Just competing on performance won't give you a marketing advantage. The financial adviser is on the client's side of the table, so focus on the client's financial planning needs and goals to build trust with the client.

Many More Sessions

Many more concurrent sessions covered various technical and practice management areas. Daniel J. Fuss of Loomis Sayles (Boston) discussed "Opportunities in Bonds Today." Scott Lummer of 401k Forum (Naperville, IL) covered "Advanced Asset Allocation." Guidance on "Getting the Real Value Out of Your Real Estate Mutual Fund" was offered by C.T. Fitzpatrick of Longleaf Partners Fund (Memphis). Janice Johnson of D. S. Wolf Associates (New York) gave participants a "Federal Tax Update: Keeping on Top of Chaos," Lew Altfest of L. G. Altfest & Co. (New York) spoke on "How to Offer or Monitor Investment Services," and Dan L. Goldwasser of Vedder, Price, Kaufman Kammholz & Day (New York) tackled liability issues with "Bulletproofing Your Investment Advisory Service" (see Phyllis Bernstein's summary of Goldwasser's presentation on page 6).

Most of the speakers made their sessions as interactive as possible by allowing participants to ask questions and make comments during the course of their presentations. Opportunities for even more interactive sharing came in three optional roundtables during the breakfast period. The topics and discussion leaders were:

- "Wealthy Clients" by Robert Kuchner of Rosenberg, Newirth, & Kuchner, CPAs, PC (New York)
- "Doctors" by Karl Graf of Graf Financial Advisers (Wayne, NJ)
- "How to Profitably Add Financial Planning Services to Your Accounting Practice" by Marcus K. Heinrich, CFP, of The Terra Financial Companies, Ltd. (Oak Brook, IL). ◆

Counterpoint

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and are generally tied to short-term interest rates.

If a client is a very conservative investor with a VUL policy, the planner can recommend an asset allocation among different types of funds or a purchase of a pure bond fund to limit investment risks. VUL offers the greatest flexibility for changing the investment style later on. With UL, the insured gets the rate offered by the companies, which can change often. Planners should also remember that when insurance agents advise clients about VUL, they are limited to discussing those policies for which their broker/dealer has a selling agreement. For this reason, planners may want to ask insurance agents how many companies they represent. (For a comprehensive discussion of universal life, variable universal life and variable insurance see *Variable Contracts* (Chicago: Dearborn Financial Publishing, Inc., 1998).)

When reviewing the low-load life insurance companies, planners should run financial profiles of the companies. Each profile should include the financial strength rating from the four major rating services. This type of analysis is available through most insurance companies and will include the insurance companies worth comparing.

The best source of business for me has been referrals from attorneys and CPAs who understand that they do not have enough knowledge about life insurance to advise their clients properly. Many CPAs, attorneys and insurance professionals have found that the team

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Our Apologies

Among the "Worthwhile Websites" listed in the December/January issue of *Planner* was **Websitez,** which helps you locate a site when you can't remember the address. The correct address for the site is **http://www.websitez.com.** We're very sorry for the inconvenience that our error in the site address may have caused.

Report on the National Summit on Retirement Savings

by William J. Goldberg, CPA/PFS

Did you know that the national savings rate is at its lowest point in 30 years—less than 3.9 percent of disposable income—despite a booming economy and the aging of the baby boomers. To help reverse this trend Congress enacted the Retirement Savings Are Vital to Everyone Act of 1997. This act created a series of summit conferences co-sponsored by the executive and congressional branches to focus on the need for supporting employer sponsored and individual retirement savings programs.

The first of these conferences was held in Washington, DC on June 4 and 5, 1998 with 240 delegates attending. Through the able assistance of the Institute's Washington office and the key person network, I was appointed as a delegate by Majority Leader Trent Lott.

You won't be surprised to hear that throughout the Summit all participants identified financial planning and education as the keys to achieving financial security in retirement. This belief may be an article of faith at gatherings of financial planners, but it is also the belief of the other representatives to this meeting: consumers, members of the retirement services industry and of unions, and employers and government officials including the Secretaries of Labor and the Treasury, the House Speaker, the Senate Majority Leader, the Vice President and the President.

During the Summit, Social Security, employer-provided retirement plans and personal savings were repeatedly referred to as "the three-legged stool" of financial security. The statute enabling the summit conferences put discussions of Social Security changes off limits for the delegates. In the President's address to the Summit, however, he stated that the current success of the economy brought on a historic opportunity for Social Security reform through the first half of 1999. This will be a leading agenda item for the administration through that period.

The Summit focused attention on those particularly at risk to fail to achieve retirement security: women, minorities and employees of small businesses. In fact, only half of the U. S. workforce is covered by tax-qualified retirement plans. Those lacking coverage are predominantly employees of small businesses. Legislation will be proposed to provide a tax credit to small businesses to offset the costs of administering their retirement plans and to create a simplified defined benefit plan approach.

Delegates agreed that one of the critical ways to enhance individual savings would be through creating a dramatic change from the current consumer-driven behavior to a saver-driven culture. It is clear that to achieve this, savings education needs to be started in the schools, even as early as elementary school. The discussion also revealed the difference between financial education, which is general, and financial planning, which is specific to the individual. The record of the Summit reflects that the real motivator towards savings is financial planning since then the individual focuses on the dollars needed to be saved, the source of those funds and the specific avenues of investment.

There are barriers to financial planning that currently exist in the tax framework and therefore three proposals were put forth to specifically facilitate access to planning. The first is to give financial planning services the same status as legal services under IRC Sec. 125 flexible compensation programs so that participating employees can use pre-tax dollars to obtain planning services. Another proposal was to allow 401(k) plan withdrawals without penalty when the funds are to be used for financial planning. The third proposal called for repeal of the IRC Sec. 67 threshold on miscellaneous itemized deductions to make financial planning services deductible for those who are able to itemize deductions and the withdrawal of Revenue Ruling 73-13 so that employer provided financial planning services would not result in imputed income to the employee.

Of course, the Summit delegates had the luxury of submitting proposals without looking at the price tag attached. The extent of legislative change will have its cost, and a key question will be whether these issues are so important that the stance of revenue neutrality in the legislative process can be modified.

The Summit has focused unprecedented attention on what is most likely the key financial issue for all Americans, and a leading business driver for our industry. We can expect increased interest in our capability of assisting our clients to achieve their retirement goals. Each of us needs to be alert to the local responses that will be needed as a result of this new attention, and to take an active, vocal role in supporting true retirement savings reform measures. ◆

Counterpoint

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approach to estate planning with life insurance is the most beneficial to clients. In some cases, I have found CPAs and attorneys refer business to insurance agents who refer clients to them. One important factor is that life insurance is not an area that the planner wants to dabble in. There is tremendous risk of giving incorrect advice, especially as it relates to the proper ownership of life insurance to avoid estate tax inclusion. For the client with a substantial net worth, the appropriate ownership of the life insurance policy is probably the most critical decision after selecting a quality company.

Personal financial planners should check with the state insurance commission and the state securities commission about whether they need to be licensed for life insurance or securities or be registered as an investment adviser to give advice on variable life insurance. Planners who choose to get insurance licenses should also go through some advanced training to ensure that they understand the importance of proper planning with life insurance. Having completed the CLU/ChFC programs, I think that it is important for CPAs who want to be active in the life insurance business to take some of the life insurance courses offered through these programs. Planners do not need to complete all of the courses to gain substantial knowledge. ◆

TRENDWATCH

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burgeoning financial derivatives market. Thus far, the focus of new products has been to help businesses, rather than people to manage risk.

"Yale Professor Proposes Hedge for Homeowners," *Investment Dealers Digest* (June 8, 1998), page 8.

Some coins may be allowable as investments for IRAs. Senator John Breaux (D-La.) introduced a bill (S. 1980) that would allow certain U.S. legal tender coins to qualify as investments for IRAs. In 1981, Congress deemed collectibles, including antiques and legal tender coinage, inappropriate for contribution to IRAs. Breaux's bill would exclude from the definition of collectibles U.S. legal tender coins that are—

- Certified by a nationally recognized grading service.
- Traded on a nationally recognized network.
- Held by a qualified trustee as described under the Internal Revenue Code.

"Breaux Offers Bill to Allow Some Coins to Be Investments for IRAs," *Tax Update*, page 138.

The financial services industry will enter a period of unprecedented international growth. Driving this growth are several factors including government deregulation, straining pension systems and online investing. Japan's "Big Boom," a financial deregulation program launched April 1, will introduce reforms that are expected to transform Tokyo into a financial center rivaling New York and London. Conservative Japanese will move their savings ($9 trillion!) now in almost-risk-free accounts paying less than 1 percent annual interest into diversified securities with higher returns.

In addition, Russia has an estimated 500,000 investors even though it had no stock market four years ago. In India, an estimated 30 million investors own stock. The percentage of Europeans who hold stock varies considerably (for example, 25 percent of Britons, but 6 percent of Germans), but is climbing. Some 43 percent of Americans own stock either directly or through mutual funds.

"Investors Heed Global Call," *Trend Letter* (June 11, 1988), page 1.

Financial services will be tailored to meet individual needs. Virtually every investment firm will offer highly personalized online services by the year 2000. Prospective customers will receive customized pitches for specific loans and programs from mortgage lenders, insurance companies and other financial service providers. These pitches will include "risk-based" pricing different from what their friends and neighbors receive.

Currently, DLJdirect Inc. (www.dljdirect.com) is testing "intelligent client" software. The software collects from the Web the investment information specified by the user, updates it periodically and allows the user to access it from the hard drive even offline.

"Customization's Powerful Pull," *Trend Letter* (April 2, 1998), page 4. ◆

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