



PROTECT WHAT
MATTERS MOST.
CARRY THE SHIELD.

State of Personal Finance: Financial Regulatory Changes to Watch in 2017

Professor Jamie Hopkins, JD, LLM, MBA, RICP®
Co-Director of The American College New York Life Center for Retirement Income

Keys to Retirement Income Planning

Overview

1. The American College of Financial Services
2. The RICP® Designation
3. State of the Union – Trump Administration
 1. Interest Rates
 2. Tax Reform
 3. Health Care Reform
 4. Future of DOL Rule
 5. Social Security
 6. Estate Planning
4. Concluding Thoughts





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Leadership



**Jamie Hopkins, Esq, LLM,
RICP[®]**
*Co-Director,
Professor of Taxation*



Dave Littell, JD, ChFC[®]
*Co-Director,
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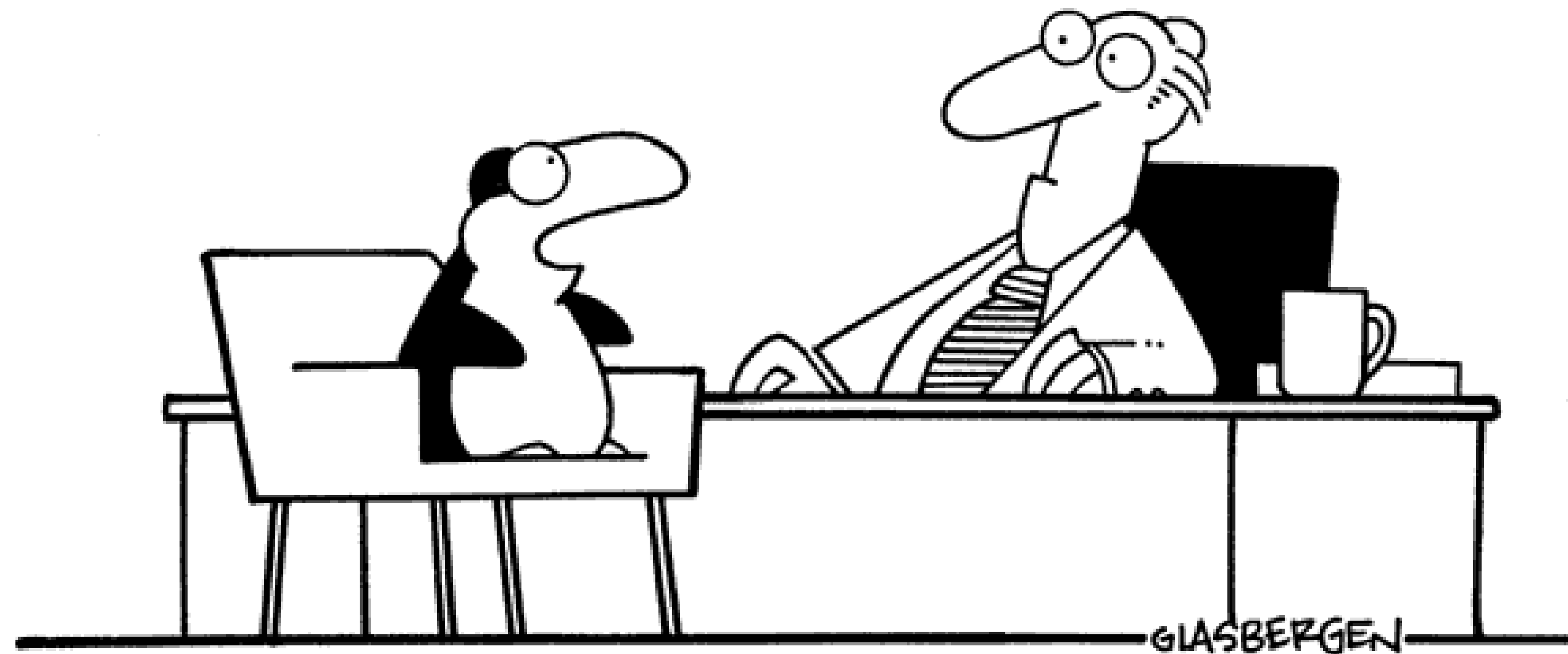
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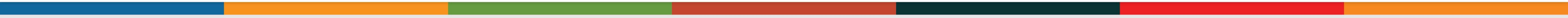
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Investments and Financial Services



“I have 30,000 fish saved for my retirement. I’d like to roll them over into something that doesn’t stink to high heaven!”



State of the Financial Services Union: Trump Administration



Trump Administration

New Administration = New Uncertainties



Interest Rates



"I'd like a no-interest loan, since I
have no interest in paying it back."

Interest Rates

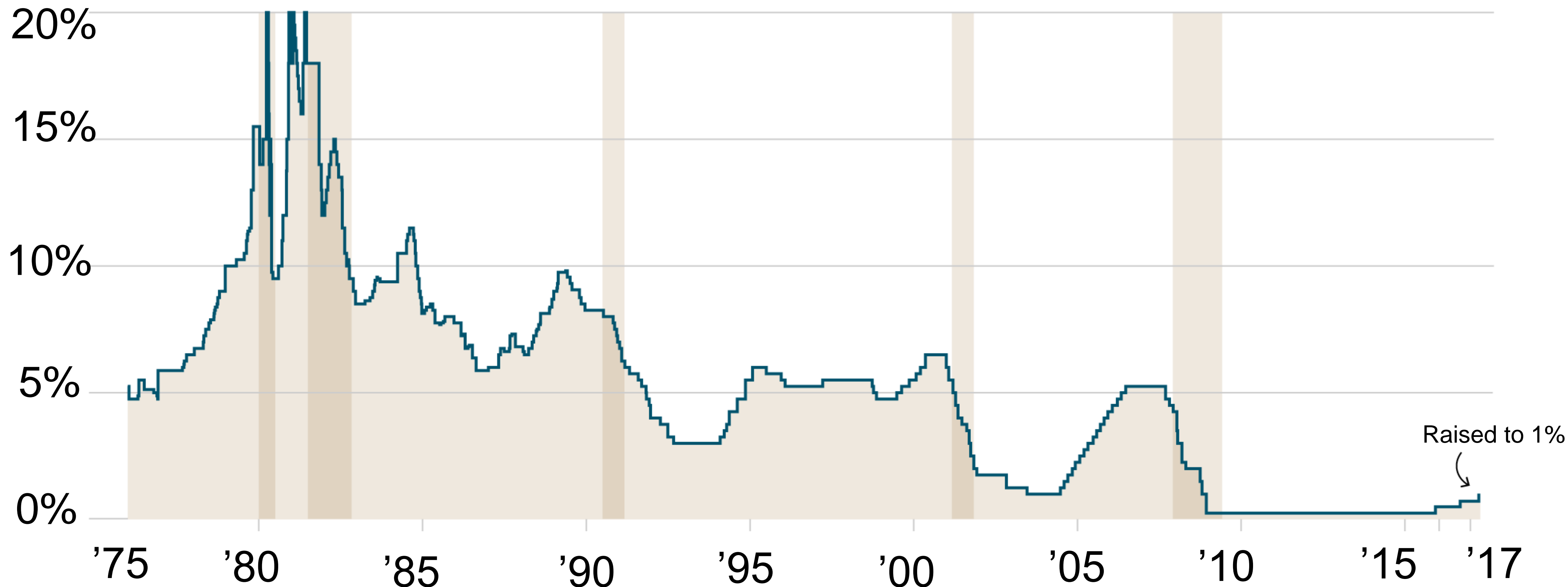
Current System

- Historically low interest rates for prolonged period of time
- Likely to see a small rate increase
- Janet Yellen at the Federal reserve – says no timetable for rate increase
- Low interest rates bad for safe investors
- Mortgage/Car loans are around 4%
- 10 year Treasury at 2.3%

Potential Change

- March – Raised rates to 1% from .75%
- Rate increase would also cause the U.S. debt to grow faster Higher interest rates usually mean higher inflation
- Higher rates bad for home buying, bad for car loans, bad for credit card debt
- Likely to see .5% increase
- Might take several years to get back to 5% from the 2.3% 10 YR Treasury today

Federal Funds Target Rate 1970-Present





Tax Reform



Tax Reform

Current System

- Some surveys show that 88% want tax reform
- Current system has been around for a long time – in need of an overhaul
- We have high corporate rates but we don't have high income from corporate taxes 35% is one of highest – but effective rate is lower than the average of the top 30 economic countries.

Potential Change

- Trump ran on simplifying tax code
- Tax reform will be challenging
- Individual Tax Reform 3 Rates 12, 25, 33
- Corporate 15-20% and less deductions
- Estate Tax – Coming Later in Presentation – but Gone?
- Trade – Tariff v. BAT (Boarder)
- Sacred Cows? Mortgage Interest and Charitable both on cuts for Trump plan
- Unintended consequences? Student loans, S.S., Medicare, Infrastructure?



Health Care Reform

Health Care Reform?

Current System

- Employer provided coverage
- Exchanges available for almost everyone
- Can be costly
- No cost protection measurements in the ACA
- Current insurance companies want stiffer penalties to drive more people into exchanges
- Costs vary on income levels

Potential Change

- Trump ran on a full repeal of Obamacare platform – maybe not anymore?
- Recently stated he would keep some features
- Wants to open up competition in market by allowing more cross state insurance sales
- Allow full deductions of insurance premiums from taxes
- Continue push into HSAs
- Removed some federal oversight over Medicaid

Long-term Care Planning Growth

- Traditional LTCi is struggling as Genworth left the business – was a huge player
- However, Hybrid Products are taking a strong footing- doubled the amount of traditional LTCi sales in 2016 – will likely grow the gap in 2017
- Interest around aging in place and LTC at home – PA is rolling out a Medicaid plan to stay in home more this year and last year
- How will reverse mortgages play a role?



DOL Fiduciary Rule

It turns out "fiduciary"
means you have to give it back.



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Fiduciary Rule

Current System

- DOL passed fiduciary rule
- Expanded definition of investment advice
- Revamped PTE 84-24 and created BICE
- Makes financial advisors fiduciaries, increases liabilities, designed to cut down conflicts of interest

Potential Change

- Rule could be defund (would not stop it though)
- Congress could end the rule
- Trump would have trouble stopping it without Congress as it became effective in June of 2016.
- Would need a new DOL rule, which could take years.

Timeline Moving Forward

Implement, train, educate and mold company practices to meet the new requirements:

Date 1 - April 10, 2017 Rule Compliance (end of grandfathering sales)

1. Must adhere to impartial conduct standards/act in best interest/reasonable compensation
2. Must provide notice about conflicts of interest and note fiduciary status
3. Must designate someone responsible to monitoring advisers actions and conflicts

Date 2 - Jan 1, 2018 All conditions must be met must be in full compliance with:

1. document, disclosures, contracts, policies and procedures

How are Things Progressing?

- New lawsuits
- Movement in Congress but nothing significant
- Companies moving forward with training and compliance
- New Flat Fee Indexed Annuities have been filed
- President Trump has jumped into the ring

Lawsuits

- Some of the lawsuits were consolidated
- Summary judgment hearings occurred in August
- Consolidated Texas suits – date set for Nov. 17th
- Stay - Could see a preliminary injunction to stay the rule from any of these hearings or we might not see one at all

President Trump Memo

- Feb. 3, 2017 – Trump signed a memo directing the Labor department “ to examine the [2016 rule] to determine whether it may adversely affect the ability of Americans to gain access to retirement information and financial advice.”
- The Memo calls for “an updated economic and legal analysis[.]”
- Memo also encourages the DOL to “publish for notice and comment a proposed rule rescinding or revising the Rule[.]”
- The memo misses a few important issues – the Best Interest Contract Exemption – also published on April 8, 2016 was a different rule -

DOL Initial Response To Memo

- Feb. 3, 2017 – DOL – Acting Secretary of Labor issued a public statement that : The Department of Labor will now consider its legal options to delay the applicability date as we comply with the President's memorandum.”

DOL Response

- On Thursday Feb 9, 2017, The DOL filed paperwork with the Office of Management and Budget (OMB)
 - One notice of proposed rulemaking the DOL seeks to delay rule's implementation by 180 days – with a 15 day comment period. (April 10th is approach quickly)
 - Second notice, agency seeks to start another round of public comment on the rule – unclear of timeline here
 - OMB usually takes 10-14 days to process
 - DOL will publish rule in federal register within a day of OMB
 - Expect to see something in week of Feb 20-24th, 2017

Elsewhere in the world (Texas Courts)

- District of Texas – Chief Judge Barbara M.G. Lynn
- Case: Chamber of Commerce v. Hugler
- Plaintiffs claiming DOL exceeded its authority making the rule
- Feb 8 – DOL asked court to postpone her ruling until March 10 –
- Court denied DOL and issued it's ruling later that day in an 81 page document.
- Court denied all challenges from the 9 plaintiffs

Judge Lynn's Opinion and Order

- None of DOL's actions abridged free speech
- DOL rulemaking was procedurally proper
- DOL did a reasonable cost-benefit analysis (interesting!)
- Rulemaking was reasonable exercise of the discretion Congress granted the DOL
- An exemption's condition that an agreement must not waive or limit an investor's right to bring or participate in a class action does not violate the Federal Arbitration Act's primary purpose, which is to "ensure that private arbitration agreements are enforced according to their terms."

What is next?

- Rule became effective on June 7, 2016 – so it is the law of the land – published in Federal Register
- DOL proposed delay, comment period ended on March 17, 2017
- Delay would push implementation date from April 10 to June 9
- Filed final rule with the OMB on March 28
- Someone who already get ready to comply could file suit against the next delay - could challenge that its arbitrary or contrary to public interest
- It seems unlikely a plaintiff would win – but its not impossible

DOL Response

- What happens after that? It really is unknown
 - April 17th is the end of a second proposed rule deadline – for comment letters on the areas outlined in Trump's memo – so have until June 9 to work on those
 - The rule could get scrapped completely
 - We could get a new definition of investment advice
 - We could get new exemptions
 - Or the enforcement mechanism could get removed – the best interest contract exemption (however, still not clear that the DOL has properly put in notice to change this piece) (Could create real confusion)
- Congress could ultimately step in and end the rule – there have been multiple proposals by the GOP but all have been stand alone bills that would be unlikely to make it through Senate.

Uncertainty Remains King

- All of this is important but – could a Judge just interpret investment advice to include distribution advice from a plan?
- They could – however, they would likely defer to the DOL – but without a clear rule in place we could get a confusing outcome

The death of commissions?

- The Rule has changed the world anyways – brought attention to Fiduciary standard – companies have changed business model –
- Merrill Lynch – left the commission world to fee planning
- Commonwealth Financial Network – dropped commissions in IRAs
- Will they keep the no commissions?



What is advice?

What is advice?

“recommendations with respect to rollovers, transfers, or distributions from a plan or IRA, including whether, in what amount, in what form, and to what destination such a rollover, transfer, or distribution should be made[.]”

Be careful with wording

You should do a rollover from your 401(k) into an IRA = investment advice

This would be the tax implications of doing a rollover from a 401(k) to an IRA = likely not investment advice

Distribution Advice

- Advice about RMDs will be problematic
- In-service Distributions
- Do you think if someone advises a client of how to spend required minimum distributions after the client has the money out of the IRA or 401(k) they are covered by the rule?
- What about in-service distributions?

Required Minimum Distributions

- Q4. An investment adviser who is also a licensed insurance agent approaches a client who will soon begin receiving minimum required distributions from the client's 401(k) plan accounts and IRAs. The adviser recommends that once the client receives these required minimum distributions they should be used to fund a permanent life insurance product. The investment adviser in his or her capacity as insurance agent will receive a commission on the sale of the permanent life insurance product. Is the recommendation of the permanent life insurance product investment advice covered by the Rule?
(<https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/faqs/coi-rules-and-exemptions-part-2.pdf>)

Required Minimum Distributions

- Yes. Because the minimum required distributions are compelled by the Code, the adviser has not recommended a distribution from a plan or IRA simply by explaining the tax requirements and telling the plan participant that the law requires those distributions. However, the adviser has made a recommendation as to how securities or other investment property of a plan or IRA should be invested after the funds are distributed from the plan or IRA within the meaning of paragraph (a)(1)(i) of the Rule.
- This creates a hard line to draw in the sand! When are assets still part of a covered plan?



Social Security

Social Security Funding

Current System

- Primary source of retirement income
- S.S. and Medicare are 42% of Federal Govt Expenditures
- Paid through by payroll
- On tract to run out in 2034
- Still growing “Fund” today
- 12.4% tax – 6.2 for employee
- Medicare is 2.9% or 1.45% per
- Additional .9% Medicare over \$200,000 or \$250,000 married

Potential Change

- Changes are needed at some point
- Trump
 - Reduce S.S. for wealthier
 - Support system for most Americans (said it’s a deal you have to honor)
 - Says he would fund shortfall by repositioning taxes going to foreign aid to S.S.
 - Increase of FRA?



Estate Planning

Jest is for All...



"With Thanksgiving around the corner, I thought this would be a good time to review my estate plan."

Federal Estate Tax

Current System

- Close to 40% tax on estates over \$5.45 million or \$10.9 million couple
- Lots of planning around for this group today
- Roughly 2/1,000 estates face estate tax today
- Taxable estates still pay less than 1/6th of estate in taxes (even with a 40% rate)
- Largest estates consist of capital gains rates never taxed

Potential Change

- Could we see it go away completely?
- This is where most people think Trump will fall
- Congressional reports often show that the estate tax could be a way to reduce national debt
- Currently though U.S. revenue from estate tax or inheritance tax is one of the lowest in world
- Money is currently used to fund healthcare and national defense a cut to program would mean other budget cuts



Concluding Thoughts

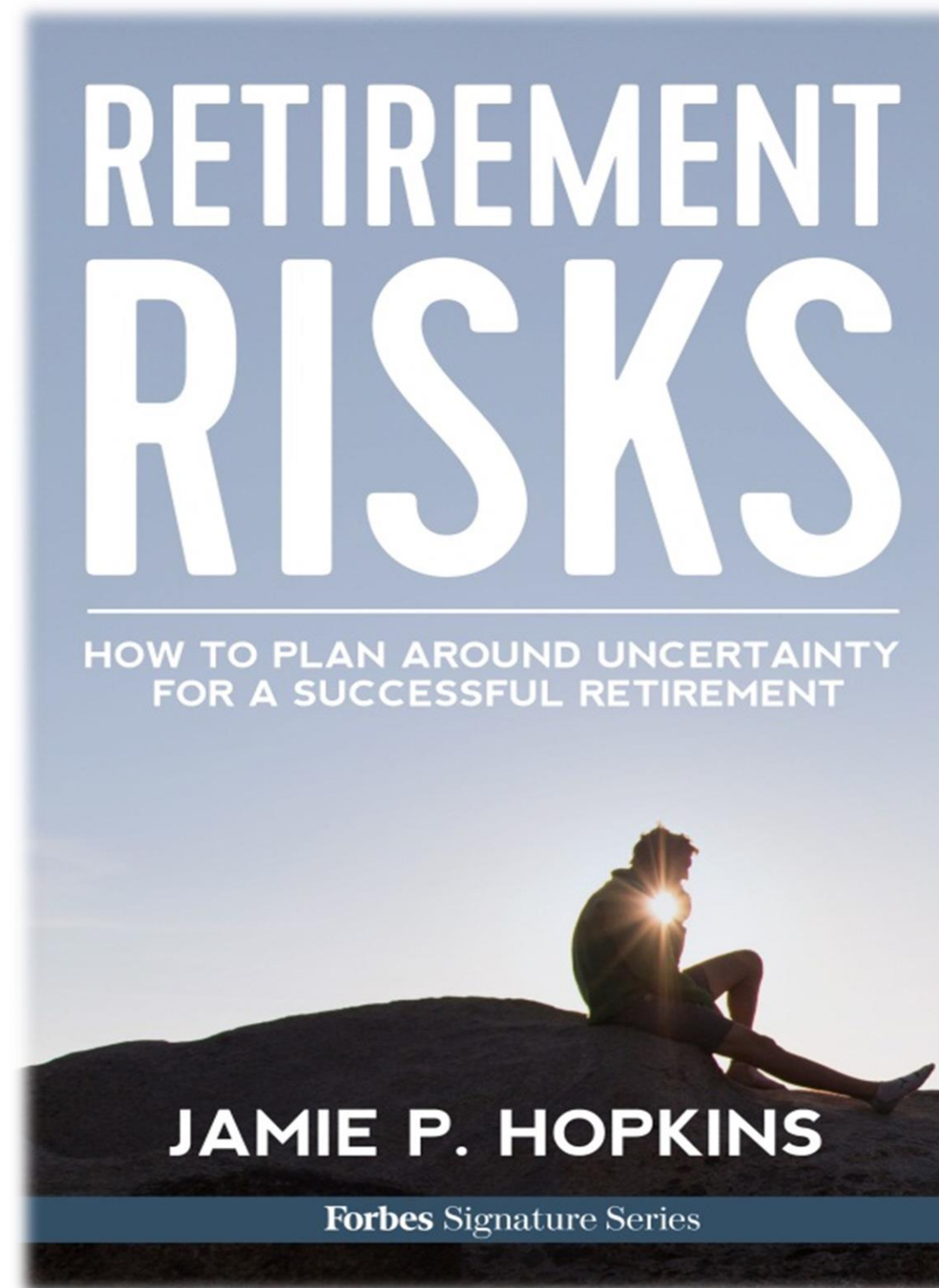
Concluding Thoughts

- Keep looking for financial service partnerships
- The industry is in flux right now – so be patient
- Interest rates will continue to rise so be prepared for additional challenges
- Health Care and Tax Reform could both have huge impacts on financial planning and retirement planning
- DOL Rule would be a boost for reverse mortgages but it might not happen anytime soon but the move away from commissions and to a best interest fiduciary model is the way of the future
- Keep up the good work – what Reverse Mortgage Specialists are doing is crucial to the retirement and financial security of Americans!

Additional Information

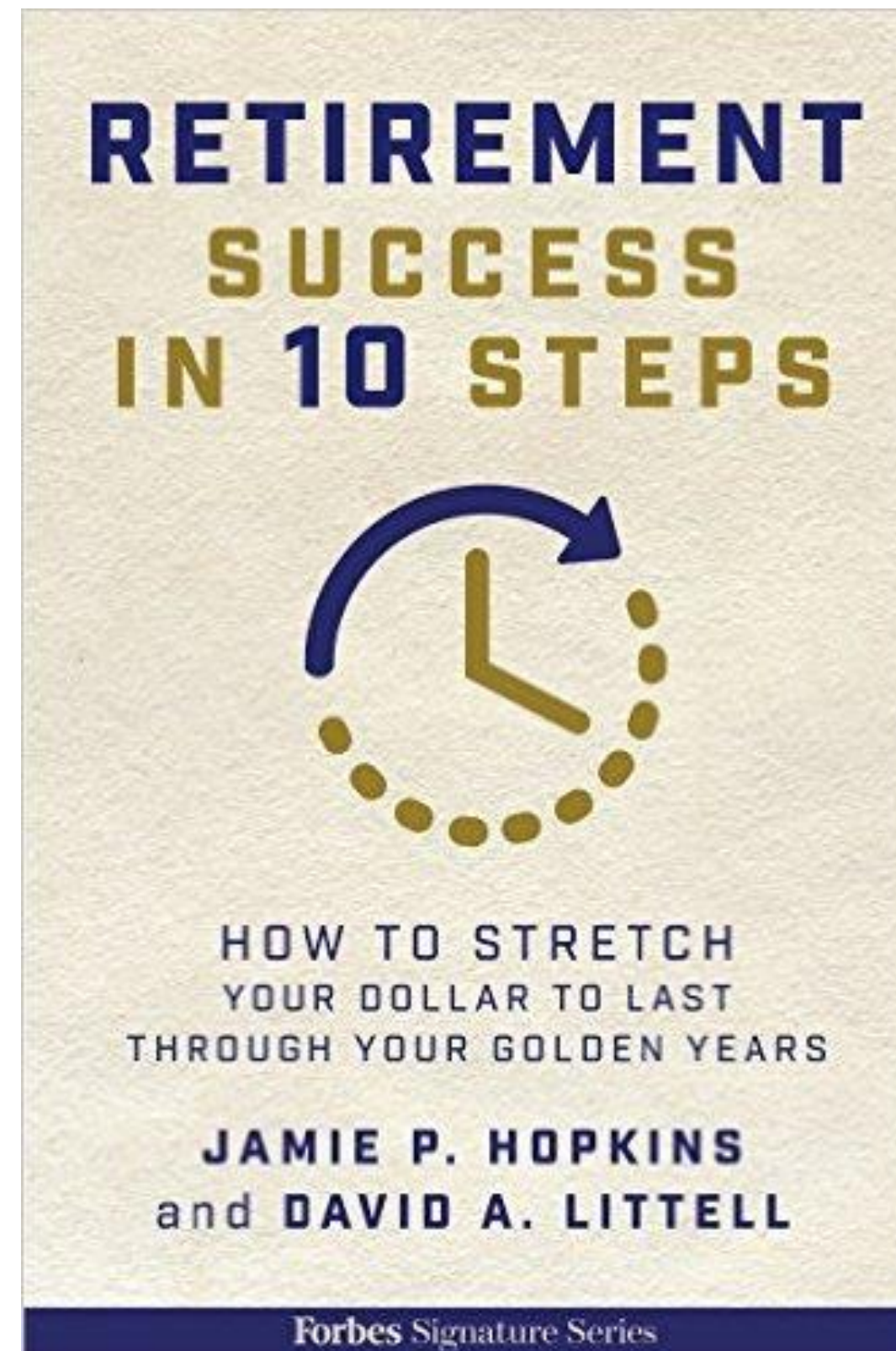
- Jamie Hopkins, Forbes contributor (Twitter – @RetirementRisks)
www.HopkinsRetirement.Com
- The American College New York Life Center for Retirement Income
 - <http://retirement.theamericancollege.edu>
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Retirement eBook



[Retirement Risks: How To Plan Around Uncertainty For A Successful Retirement](#)

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