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Outside of the Box, Outside of the Plan: An Approach for Providing Participant Level Advice
By Amy L. Simonson, Verity Asset Management, and Kent Schutte, EFS Advisors

[This article discusses the important role of the Registered Investment Advisor in our marketplace and will be followed up with an article speaking to the role of the commission based financial advisor since both business models are generally needed for a successful 403(b) plan. Stay tuned!]

Phrases like “retirement readiness” and “participant outcomes” are receiving much warranted attention these days. In part, this is industry reaction to the proliferation of studies indicating that a majority of Americans don’t feel prepared for the economic reality of retirement, and don’t feel particularly well equipped to resolve the situation with confidence on their own.

So what should be done? At the heart of the issue, participants need to save more and invest wisely. Consultants, advisors, providers, legislators and governmental agencies are all focused on solutions. There are many innovative plan design responses helping to increase participation rates. Advances in technology and record keeping platforms are facilitating delivery of a wide range of model allocation and managed account solutions to help participants invest wisely.

Independent Advice Providers

A surprisingly simple solution is gaining traction within plan environments, allowing participants to pay directly for professional investment advice from a registered investment adviser (RIA) of their choosing. This is quite common for affluent investors and the simple step of permitting access to RIAs for all employees of a plan can now provide the same benefits to a broader group of participants. As an elective service, participants pay for advice services directly from their own account. A participant level adviser, exercising a fiduciary standard of care with respect to participant advice, is able to bring full context to bear on the retirement readiness equation. Specific, personalized investment management services can be delivered on a discretionary basis, helping employees prudently manage their investments within the menu of choices available to them, and within the context of current market conditions and individual risk tolerance considerations. Discussions between a participant and his or her advisor move beyond proper allocation of a plan balance to include broader household financial circumstances.

Access to investment advice for a fee is not new, but several industry trends are creating an environment well suited for integrating this service within qualified plan environments. Participant demand for investment advice is well documented. Plan providers are also recognizing the value of supporting participant level advisors able to deliver qualified counsel in an environment that emphasizes personalized service and expert advice. As more providers are looking to support integrated advisory services, plan sponsors are also embracing features that provide their employees with access to expert advice on managing their investment allocations in consultation with a personal fiduciary advisor.

Self-Directed Brokerage Accounts (SDBA)

Integrated investment advice is also available to participants in several brokerage window environments. Access to RIA services provides a way to deliver advice and active management to retirement plan participants seeking help.

Brokerage windows serve a purpose to support both the plan sponsor looking to expand options beyond a core investment menu, and the investment advisor looking to provide manager account services for their participant clients.

In a white paper commissioned by TD Ameritrade titled "Fiduciary Considerations in Offering a Brokerage Window," it was concluded if a participant selects the investment manager for his or her personal account, the plan fiduciary is not liable for the investment decisions made by the RIA.

Perspectives from an Investment Adviser

Participants clearly need and want help, with asset accumulation, asset retention and distribution phase strategies. The role of the participant level advisor seems readily apparent. Workplace retirement accounts must be placed within the broader context of household financial considerations, and as a result, retirement readiness assessments move beyond the scope of a single plan balance to also include retirement lifestyle considerations and distribution phase income planning.