

Meeting Plan Participants' Needs—Fiduciary Advisers to the Rescue

We are in the midst of a grand social experiment of putting individuals in control of their own retirement decisions. Unlike a generation ago when defined benefit plans provided retirement security to the retirees of that age group, the advent of defined contribution plans and participant self-direction has clearly placed the onus of retirement planning and decision-making squarely on the shoulders of the baby boomers.

Feeling the weight of the responsibility, consumers desire and increasingly expect help and support with retirement plan decisions. Traditionally, employers were sympathetic and attempted to provide support such as education materials, 800 numbers, and financial planning tools. Despite being well written (for the most part) and printed on four-color, high-quality glossy paper—participants did not read the educational materials. Despite having the ability to call an 800 number and speak to helpful client service representatives at anytime – participants did not call. And despite having access to magnificent websites, complete with financial planning tools, - very few participants logged in. Why? Because ultimately what most plan participants want is to speak to someone who is familiar with their plan, and who can help them make investment decisions. They want face-to-face, individual attention. They want, “someone who understands my plan and can tell me what I should do.”

For millions of Americans in charge of their own retirement investment decisions the stakes are high. Unlike the previous generation, this generation's retirement is at-risk if wrong decisions are made. It is critical plan participants receive the right type of help and support in making investment decisions. The alternative can potentially be catastrophic to a retiree's retirement nest egg.

The Scramble for the Client Relationship

A fierce struggle is underway in the financial services industry for the billions of dollars at play as baby boomers begin to retire. The ongoing client/advisor relationship is the key to gaining access to and retaining baby boomers' retirement dollars. Those retirement providers who look for new ways to meet consumers' needs by initiating open architecture, providing the best service, searching for innovative ways to meet the consumers' needs, and grabbing hold of new opportunities created by law changes will be successful. These providers encourage advisors to be unconflicted in their approach to their clients, because they are willing to work towards meeting consumers' needs, and are not preoccupied with their own agenda. These retirement services providers hear the consumers' cries and respond by doing an about face to meet their needs head on with a fresh approach. A fresh approach that is new to the retirement plan industry is the Fiduciary Adviser; this will be discussed later in this white paper.

On the other side are those retirement providers who are conflicted in their approach to consumers' needs. They are conflicted because the providers' needs supersede those of the consumer. These conflicted providers are resistant to any changes except those that are self-serving. They seek to minimize the advisor/client relationship by corralling the needs of the consumer, and driving them into a box defined by the provider – not the consumer. They seek to deprive consumers of the type of support they crave by discouraging advisors from taking up new approaches afforded by legislative innovations (e.g., Fiduciary Advisers). Such firms, like the Principal (who has gone so far as to publish a white paper opposing the Fiduciary Adviser role), want to insert themselves in the driver's seat of the consumer/advisor relationship. Buyers beware!

Fiduciary Adviser is Congress' Response

What is a real solution to the needs of baby-boomer consumers? How can the financial services industry address consumers' needs for support in the modern defined contribution environment?

Congress responded by creating the Fiduciary Adviser role in recent legislation known as the Pension Protection Act of 2006 (PPA-06). A Fiduciary Adviser is a named position in a qualified plan that is responsible for providing investment advice to plan participants. While the Fiduciary Adviser is a plan fiduciary, the statute is clear that, in this role, they are only liable for providing investment advice to participants (not other plan functions or activities such as plan documents and amendments, compliance testing, vendor selection, etc.) The statute also clearly defines how the Fiduciary Adviser's role is achievable with training, the right tools, and an ongoing support system.

In addition, a plan sponsor has a compelling reason to use a Fiduciary Adviser. A plan sponsor is not liable for the advice provided to participants if the advice is given by a Fiduciary Adviser. The Fiduciary Adviser role finally gives participants what they have been asking for, and minimizes the plan sponsor's liability. Everyone wins.

Fortunately, the Fiduciary Adviser role will be successful in meeting the needs of participants for two reasons. First, an advisor in a Fiduciary Adviser role actually reduces his or her overall liability. Second, and more important, the Fiduciary Adviser role provides individuals with what they desperately need, and have been asking for—professional help in making key retirement plan decisions from a person familiar with their plan.

In this modern 401(k)/self-directed environment, the need for an advisor is critical. Most baby boomers want to look across the table and get support from professionals they trust. This trust factor becomes even more important as the individual retires and makes life-long retirement income stream decisions. It can be met using the Fiduciary Adviser model.