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Making hay from the 401(k)

Company thrives with independent approach to financial consulting

By PAUL GORES
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Michael J. Francis was working as an investment broker in the 1980s when a request from a customer accidentally steered him onto a new path in the financial industry.

"A client who owned a company said, 'Mike, we heard about this new retirement benefit called the 401(k) plan, and I'd like to start one for my company. Can you put one together for me?' " Francis recalled.

He researched 401(k) rules, came up with a plan and soon found himself talking to 500 workers at the company in one week about how they could invest part of their pay tax-deferred for their retirement. Francis enjoyed the whole process, he said, but particularly educating people who hadn't done much investing before.

"It really struck me as something I could do for the rest of my career," he said.

He spent the next 16 years as a retirement planning specialist for the national brokerage firm Smith Barney. Along the way, he went to night school at Marquette University to earn a law degree and increase his expertise in the legal aspects of the business.

Then, last year, seeing an opportunity to run his own business and avoid concerns over possible conflicts of interest between brokerages and mutual funds used in retirement plans, Francis left to start Francis Investment Counsel in Hartland.

The firm already is advising clients on more than $2 billion in assets, including many customers who switched to his company when he went out on his own. And there is a lot of room for growth, he said.

Senior Vice President Kelli B. Send (from left) President Michael J. Francis, Vice President Stephanie J. Truog and Vice President Joseph J. Topp at Francis Investment Counsel offer educational services along with financial expertise to clients' employees.

According to the Chicago-based Profit Sharing/401(k) Council of America, there was about $2 trillion in assets in 401(k) plans in 2004.

Replacing traditional pensions

In 401(k) plans, employees typically can save for retirement by investing part of their salary, and often a contribution from the company, in a choice of mutual funds. They are growing in importance as traditional pensions run into funding problems or are phased out by companies.

The industry is not without controversy, however.

Retirement plan consultants are supposed to have the best interests of the company's plan at stake. But a survey two years ago by the Securities and Exchange Commission found that a majority of retirement plan consultants it questioned had relationships in which the consultant also could be compensated by the money managers and mutual funds it was overseeing for the client.

While the practice of a mutual fund sharing revenue with an advising brokerage isn't illegal, it raises the question of whose interests are being served most: the employees in the plan or the brokerage that serves as consultant.

Concerned about that issue, the SEC told retirement plan investment consultants in spring to be more forthcoming in disclosing any relationships with mutual funds.

Francis, who is paid a fee only by the company that hires him for consulting work on its retirement plan, said he saw the SEC's action as affirmation of his decision to branch off on his own.

"Our clients need to know that we are not receiving compensation from any of the organizations they ask us to evaluate," Francis said.

Francis said it was "a little intimidating" to start his own consultancy in spring of 2004, and he expected to be running it in the red for nine months. But many of his Smith Barney customers hired him, and the new firm's cash flow was at break-even after eight weeks, he said.

"That took a lot of worry out of the equation," Francis said. "Not that it wasn't nerve-racking, but it really went a lot better than we had hoped. And since that time, our business has grown another 30 percent."

Among clients who jumped to Francis' new venture was the Wausau health care firm Aspirus Inc., which has 3,300 employees.

"When Mike went out on his own, we decided to stay with him because of the relationship we had with him and not necessarily the company," said Kerry Brunner, manager of compensation and benefits.

Brunner said he also liked the educational service the firm provides to employees - many of whom aren't familiar with investing - to help them understand the plan and their investment choices. That service is provided by Kelli B. Send, who had worked with Francis at Smith Barney, and Stephanie J. Truog, a former Strong Funds employee.

"They are able to speak very confidently with anyone, from the food service worker to the CEO, and relate well across that spectrum," Brunner said.

Brady Corp., a Milwaukee maker of industrial signs, labels and printers, also opted to use Francis as its retirement plan consultant. That move saved Brady "hundreds of thousands" of dollars when a bidding process Francis recommended exposed hidden mutual fund fees, said Gary Vose, director of compensation and benefits.

Regular reviews needed

Francis said that as 401(k) plans grow, they need regular reviews. But that doesn't always happen.

He said when he is brought in to examine the investments available to employees in a company-sponsored retirement plan, it's not unusual for him to find the choices skewed toward big American firms.

"I like to call that living in the past," said Francis. "The '80s and '90s were great for U.S. large caps, and that's when a lot of these plans started. So a lot of participants got started, made their elections, and they haven't looked at it or touched it since then."

That lack of investment diversity isn't a wise way for workers - many of whom hope to live on money built up in their company's 401(k) plan - to prepare for retirement, he said.

Along with offerings from across the investment-risk spectrum, a well-rounded retirement plan today might include choices such as a fund focused on "emerging markets," such as China, Latin and South America, and Eastern Europe, Francis said. It also may have a "hard asset fund" - a fund whose return is tied to a mix of core energy, metal and agricultural commodities, he said.

No two retirement plans are alike because no two companies are identical, he said. Some want plans in which employees' investment options are limited to perhaps 10 across a diverse array of styles, while others like to give workers lots of choices for their investments.

"Everybody does it differently," Francis said.