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Companies now offering workers independent investment advice for DC plans

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Andrew Lehner believes that providing a 401(k) without help 'isn't going far enough to help employees.'

As employees nearing retirement grapple with how to make their 401(k) funds last, some companies are stepping up with a new way to help: providing access to independent financial advisers.

"It's important that employees have someone they can rely on to help them with retirement because just providing a 401(k) isn't going far enough to help employees retire," said Andrew Lehner, the Neenah, Wis.-based director of HR Services at Plexus Corp., a global electronic components manufacturer with more than 18,000 employees around the world.

The manufacturer tapped Francis Investment Counsel LLC, an independent investment adviser, to provide its U.S. employees with one-on-one counseling sessions. The services are available to all, for whatever they might need on retirement matters, ranging from how to make the most of their 401(k) investments to strategies for how to draw down their accounts.

In addition to providing on-site counseling at all U.S. Plexus facilities once a year, Francis Investment Counsel advisers are available throughout the year to advise employees via video or teleconference.

"We rarely have any extra open sessions for the face-to-face meetings," Mr. Lehner said. By his estimates, Francis advisers — almost all certified financial planners — held some 300 in-person or telephone one-on-one advisory sessions with Plexus employees in the past year.

The independence of the advisers was a key factor in the 2012 decision to hire the firm to help the nearly 4,400 participants in Plexus' $352 million 401(k) plan, Mr. Lehner said. It was important the advisers were free of incentives to sell or promote any one institution's products, he said.

"It's not independent if you have a provider and you're also in their funds. They have an interest in where people are investing, whereas a true independent adviser doesn't necessarily have an interest in any one investment. Their main goal is to get people invested in the correct investments at the lowest cost," Mr. Lehner said.

Concerns driving push

Concerns over potential conflicts of interest and fiduciary abuses, coupled with a desire to do well by their employees, are driving companies to consider hiring independent advisers. Many companies provide access to advisers that are part of the overall service provided by their 401(k) record keepers, but now a small but growing number of employers are looking for more independent advice for their employees.

“That's a phenomenon that is growing in momentum,” said Shane Bartling, a San Francisco-based senior director, retirement at Willis Towers Watson PLC. “We're seeing more employers interested in evaluating the independent adviser solution set.”

Mr. Bartling said companies are interested in unbiased advisers even though that often entails the sponsor paying a portion of – if not all of – their fees.

“The trend that we see much more pronounced is employers coming to us and asking for help in navigating the breadth of available advisers,” he said.

Research supports Mr. Bartling's observations. In 2017, almost three in 10 plan sponsors (28%) provided access to independent financial counselors with an additional 9% planning to offer access in 2018 or 2019, according to a Willis Towers survey of 349 large and midsize U.S. companies that sponsor a defined contribution retirement plan.

Mr. Bartling believes the interest in independent advisers is driven by employers' desire to deliver a highly valued benefit to employees that enhances the wellbeing and competitiveness of their workforce.

“This comes at a time when employees globally are seeking enhanced decision support on financial matters from their employers in the form of both spending-saving technology and human advisers,” he said.

Michael Francis, president of Francis Investment Counsel in Brookfield, Wis., also has seen interest in independent advisers grow. He attributes the interest to the Department of Labor's fiduciary rule, which he said helped raise awareness of conflicts of interest in the business of 401(k) retirement advice. The fiduciary rule, which ultimately was vacated by the U.S. 5th Circuit Court of Appeals in June, would have required advisers to disclose all fees and commissions for retirement plans and retirement planning advice, among other requirements.

“It caused plan sponsors to begin waking up to the consequences of letting salespeople posing as advisers be the ones helping employees make crucial investment decisions at retirement,” Mr. Francis said.

Especially problematic

For Mr. Francis, the inherent conflict in the rollover of 401(k) plans to individual retirement accounts held at financial institutions, which the fiduciary rule attempted to address, is especially problematic for employers. “The folks that the industry oftentimes has answering that question have a conflict because they or their company's compensation gets affected if a participant decides to roll money out of a plan and into an account that the adviser might be able to manage themselves,” Mr. Francis said.

Francis currently provides participant education and advisory services to about 45 organizations employing more than 60,000 employees, up from roughly 41 companies with approximately 45,000 employees in 2017, according to Mr. Francis. The growth of the firm's participant advisory services is more robust than that of the firm's other business of delivering investment consulting services to retirement plan committees, he said.

Plan sponsors pay for independent advisers in one of two ways, industry experts said. They can pay for the service out of company revenue or they can charge the cost to the plan. In the case of Plexus, the company chose to incorporate the cost of Francis' participant advisory services into overall plan expenses.

“In terms of the plan costs, it's immaterial for the participants,” Mr. Lehner said. He noted Plexus works with Francis on a fixed-fee basis for the year regardless of how many employees call advisers for help.

Some not seeing it

Not all consultants, however, reported seeing an increase in interest in independent advisers. Jana Steele, a Chicago-based senior consultant at Callan LLC, has seen it “a bit” among employers that have a limited employee population and are looking for opportunities to retain employees. High-tech companies and pharmaceutical businesses, for example, tend to look at this service as a way to distinguish themselves from competing employers, according to Ms. Steele.

“Financial counseling separate from the retirement plan is not as prevalent for us,” she said.

Still, others see opportunity, particularly when it comes to helping employees plan how they will drawn down their assets in retirement, an overwhelming task for many retirees.

“The demand for objective decumulation advice is clearly rising because the assets in these plans are rising, the age of the average participant is rising and concerns about conflicts are rising,” Mr. Francis said.

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