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What you need to know to protect your retirement savings

401(k) ADVISER
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One of the most important workplace decisions you'll ever make is how to invest your retirement savings. But if you're like most, it's a decision you're not particularly comfortable making on your own. That's why a growing number of employers offer various forms of assistance with retirement plan investment decisions.

According to a recent Plan Sponsor Council of America survey, nearly 40 percent of employers now offer personalized investment advice, up from just over 30 percent 10 years ago.

"Companies that offer investment support can help participants make better decisions for their financial future," Hattie Greenan, director of research for the council, said in a news release announcing the results.

While workplace investment assistance is becoming more prevalent, it's important to understand the quality of the advice can vary significantly depending on several factors, most importantly, whether the adviser has conflicts.

After publishing a study that found retirement plan investors overpay for investment management services by an estimated $17 billion per year because of conflicted investment advice, the Department of Labor has attempted to mitigate these conflicts by passing new regulations. Unfortunately, they were struck down recently by a federal appellate court. This puts you right back into the buyer beware world in which you've always been.

As nice and well-informed as they might seem, conflicted investment advisers pose a risk to your retirement savings that you should understand before engaging with them. Until regulators force the financial services industry to do a better job disclosing conflicted investment advice, here's what you should know:

Record-keeper advisers

All companies in the financial services industry are driven by a strong profit motive. As margins for the primarily clerical work of 401(k) record-keepers decline, some of them have changed their business models to focus on "capturing" your retirement assets in various investment products and programs to enhance their margins.

If the adviser your employer makes available to you works for your plan's record-keeper, be aware of the profit motive that is likely behind any advice to invest in their proprietary investment products or managed account programs.

Because record-keeper advisers are most often not fiduciaries, they're free to make recommendations that increase the fees they earn. While their intentions are normally good, the fact that many of these advisers' annual bonus depends on how much additional revenue they generate for their own firm can influence their advice.

Independent advisers

Another common conflict occurs when you ask the following question: "I'm leaving the company. Should I roll over my balance into an IRA or leave it in the plan?" If the adviser's firm offers private wealth management services to individuals, he or she has a strong financial incentive to encourage those with larger account balances to roll their assets out of the plan and into the firm's products and programs, even if it's not in your best interest to do so.

If advisers are independent of your plan's record-keeper, and get paid for their advisory services based on a percentage of plan assets, they may have the opposite incentive, to keep your assets in the plan to inflate their advisory fee.

The question you should ask

If your employer makes advisory services available, the first question you should ask the representative is, "Are you an ERISA fiduciary?" If their answer is yes, they should be able to provide you something in writing that confirms they are an ERISA fiduciary. It is illegal for an ERISA fiduciary to make a recommendation that increases his or her own compensation or is not in the participant's best interest.

Be advised, if the adviser acknowledges his or her status as a simple fiduciary, this is a lower standard of care than an ERISA fiduciary. A simple fiduciary is legally allowed to give advice that would be illegal under ERISA, such as advice that increases the adviser's compensation. If the answer is no, the adviser still should be able to help with important questions like "How much do I need to be saving?" or "Should I save into a pre-tax or Roth account?"

Other professional investment help

If you decide you're uncomfortable with investment advice from a non-ERISA fiduciary, investigate your plan's professionally managed diversified investment products like target-date funds, model portfolios or balanced fund. They are often a low-cost way to obtain professional asset management services without exposing your retirement savings to the unnecessary additional 0.20 percent to 0.50 percent in annual management fees of the typical "managed account" product.

Most advisers are well-meaning people, but advisers with conflicts have powerful forces that can lead them to recommend things that help their employer, not because they're what's best for you. Understanding this reality, and asking the right questions, will help you make better financial decisions.

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