

The mixed riches of retirement plans

By Helen Kearney

NEW YORK | Wed Feb 2, 2011 10:57am EST

NEW YORK (Reuters) - Financial advisers have been flocking to the retirement plan market with visions of recurrent fees and a captive list of prospects, but new regulations and service-intensive demands are generating some second thoughts.

The upside for advisers is that retirement plan participation is on the rise and the business of advising companies and municipal bodies on their 401(k) and 403(b) plans is stable.

"During the downturn individuals stopped investing but retirement plan contributions kept going," said Fred Barstein, founder of a new certification program for "401(k) professionals" coordinated through the UCLA Anderson School of Management. "Advisers used it as a hedge for their business."

According to the Profit Sharing/401(k) Council of America, the number of U.S. employer-sponsored defined contribution plans expanded to 1.2 million in 2008 from 674,000 ten years before, aided by strong support from the government.

Advisers, whose fees are usually tied to the size of a plan's assets, are particularly drawn to the relative stability of the retirement sector. Plan investment choices that advisers pick are diversified, ensuring fairly predictable revenues, while plan sponsors are reluctant to go through the laborious process of changing advisers, said Jason Roberts, chief executive of the Pension Resource Institute in Manhattan Beach, Calif.

Perhaps even more attractive, he says, is the potential for converting company executives and plan participants into clients, particularly if they retire with substantial nest eggs.

FEES RANGE WIDELY

The downside of the business is that it's service-intensive, competitive and highly regulated. Small-company plans with up to \$5 million of assets generated an average of \$17,500 per adviser in 2009, according to Ann Schleck & Company, a Mendota Heights, Minnesota, consulting firm.

The average annual take for advising a plan with \$500 million in assets was \$134,250.

"There's not a huge amount of money every month," said Barstein, "but it accumulates."

Working with corporate plans, however, can impose heavy demands. During the 2008 market cataclysm, plan sponsors were deluged by cries, complaints and questions from employees about their faltering portfolios. That triggered calls to advisers who were not always ready with answers.

"The downturn really turned the tide," said Marcia Wagner, a Boston-based attorney who specializes in employee benefits. "Plan sponsors are waking up to the fact that not just anyone should be advising on their plans."

Even in strong markets, plan sponsors--who have a fiduciary duty to get the best deals for their participants--can demand a wide range of educational and other services from their advisers.

As a result, advisers -- whose primary role is choosing a menu of investment alternatives and monitoring their performance -- must either land some very large clients or service a wide range of small companies to achieve efficiencies of scale.

Most advisers, who often refer to plans in their marketing pitches as "institutional" clients, are centered at the low end. Some 75,000 service only about three plans while about 15,000 work with five to ten plans, according to Barstein. He categorizes only about 5,000 advisers as true retirement specialists, meaning they service at least 10 plans, oversee at least \$30 million in assets and have three years of experience

Over the next three to five years, Barstein expects the number of specialists -- whether they work for full-service brokerage firms or as independent registered investment advisers -- to double.

NEW REQUIREMENTS

Such growth will be taking place amid a radical tightening of Employee Retirement Income Security Act disclosure regulations from the Department of Labor.

As of July 16, 2011, advisers and plan administrators will have to itemize for clients a detailed list of their services and fees, a process that requires close coordination with mutual fund companies and other investment product providers.

Advisers will have to disclose 12b-1 commissions they receive when plan participants buy mutual fund shares and open the door more widely in general to the murky world of revenue sharing among mutual fund companies, product providers and plan servicers. Advisers are already required under ERISA rules to offset such reimbursements with fee reductions.

The Labor Department is also considering expanding the fiduciary standard of care beyond plan sponsors to advisers themselves. That would substantially increase potential legal liability.

"The call for a fiduciary duty is a call to make up your mind (about this business)," said Harris Nydick, a Totowa, New Jersey-based registered investment adviser who specializes in helping small plan sponsors revamp their offerings. "This is not something to dabble in."

(Reporting by Helen Kearney; Editing by Jed Horowitz)