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Small Providers Use Human Touch To Sell Advice

----*Eric Baum*

Some smaller retirement plan providers are looking to sell advice by providing more contact with live investment professionals, and those firms that don't could be missing out on substantial profits, they say.

Ron Peremel

Ron Peremel, president of **myfinancialadvice.com**, a Boulder, Colo, firm, says carefully packaged managed account services generate an average of 5% revenue sharing fees for participating 401(k) platforms. Participants are willing to pay for advice, but some Internet-based managed account services, such as automatic portfolio rebalancing programs, leave investors thirsting for more human interaction, he said. myfinancialadvice.com puts participants in direct contact with independent financial advisors who charge by the hour.

At **Matrix Settlement & Clearing Services**, **John Moody**, president, says the key to success is using multiple advice providers and allowing wholesalers to sell the service during enrollment or review meetings. Matrix launched its managed account service in August. "When there are people in the field who can explain the process at enrollment meetings they get great adoption rates," Moody said. Matrix charges 25 basis points for the basic advice service--not including the advisors' fees--and boasts an average 60% participation rate after sponsors sign on.

Some recordkeeping platforms owned by asset management firms have been slow to invest in participant advice schemes that might recommend third-party investments over proprietary funds, said **Fred Barstein**, president and ceo of **401kExchange**. "Is there an opportunity for platform providers to make money doing this? Absolutely. How much is it being used? Very little," he said. "If you're a recordkeeper that has proprietary funds, your interest is to have participants pick your funds. From the recordkeeper's point of view, they don't have any incentive to push this thing, and it hasn't taken off."

AIM Investments, **OppenheimerFunds** and other mutual fund providers that sell via commission-based financial advisors typically shun third-party investment advice services. But others, such as **Fidelity Investments** and **The Vanguard Group,** have already

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introduced managed account programs for individual 401(k) plan participants. At this point emerging evidence of low take-up rates--less than 10% of the plans Vanguard serves, according to spokesman **John Demming**--suggest some firms' basic service models need more customization and fine tuning, said **Larry Cohen**, v.p. at **SRI Consulting Business Intelligence**.

Cohen said advice models are proliferating slowly because retirement plan providers are not investing more in marketing to attract stickier assets. As an alternative, he suggests retirement plan providers go beyond co-branded Web sites and printed materials. "The shotgun approach doesn't work. The bait approach works," Cohen said. "Customers are tired of being targets. They need to feel like they have control and appreciate people coming to them and asking what they want." Cohen recommends vendors strive to duplicate the look and feel of a boutique firm in which advisors are on a first-name basis with human resources directors at local companies. In this model the regional firm gains the trust of participants who are wary of paying for yet another service being sold through their plan vendor.

Carol Waddell, director of product development and technology for retirement plan services at **T. Rowe Price**, says the current distribution agreements for **Financial Engines** and **Morningstar** advice only generate enough fees to cover administrative costs. T. Rowe's advice adoption rates among sponsors, 10-30%, are higher than other firms' but its individual employee participation levels are only slightly higher than average. Waddell says the firm has not yet considered other types of customized marketing approaches and low employee adoption levels are a sign that automatic investment provisions, such as lifestyle or target-date funds, are better suited for most people. "The automated decision-making appears to be the optimal solution for most employees but I firmly believe there is a place for advice," she said.

Some firms say they don't feel they are missing out. Vanguard, which introduced a 401(k) managed accounts package in conjunction with Financial Engines in 2004, produces co-branded marketing materials but believes its main selling points are price and comprehensive service, Demming said. "The wrapping on the package isn't what's important. It's what's inside that we use to deliver advice to the participants," he said. Vanguard has signed up just under 40 institutional clients since introducing the managed accounts plan.

Fidelity launched two advice programs in 2003 - an in-house financial advisor linkup dubbed Fidelity Retirement Plan Manager and a partnership with **Ibbotson Associates** known as Strategic Advisors - starting at 35 basis points to 45 bp, respectively, according to **John Brockelman**, spokesman. Fidelity provided advice through both models to plans totaling $575 million by December, more than doubling from $260 million a year earlier. But that still accounts for only a small percentage of the firm's $710 billion in DC assets.

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