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Search for a 401(k) adviser with ‘skin in the game’

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Choosing a 401(k) provider is really about choosing an insurance adviser or broker.

“An adviser helps with all the processes involved in setting up and managing a 401(k) plan,” said Christine Dolan, senior retirement consultant at EBS Capstone in Newton. “They help establish the investment policy statement, educate employees, monitor, research and manage funds, make recommendations for fund changes. If the direct provider makes fund recommendations, there could be a conflict of interest, a reason why they are suggesting a particular fund. It’s good to have an objective third party.”

There are many ways to find a good insurance broker. Some employers use an RFP process. More often, a broker may be chosen because of a prior relationship, referral, other lines of coverage the broker may provide the company.

Things to look for in a broker include education support. What kind of communication and educational support will the broker offer your group? If you have multiple locations, can they travel to all of them? Do they offer group presentations only? One-on-one meetings with employees?

“Every company is different,” Dolan said. “It’s important individuals are comfortable with the level of risk they are taking on. Sometimes it’s overlooked that people can lose money. It’s important they understand and are comfortable with the risks and long term benefits.”

Added Katie Farrow, manager of marketing and business development at Sapers & Wallack Inc. in Newton: “You want to make sure you are helping employees reach a successful retirement. It’s important to make sure the broker is doing what he or she said they would — engage employees in the benefits of the plan, teach them basic savings and investment. Education has to be all encompassing, giving employees the education to make informed decisions.”

What kind of online tools and support does the adviser provide? What kind of investment options does the broker provide?

Rob Swails, assistant vice president at William Gallagher Associates in Boston, said sponsors have a fiduciary responsibility to offer well diversified, multiple choices within the entire spectrum of funds.

“That means not just proprietary funds, but the full universe of fund families. Within that, you want to have multiple choices, large, mid, small cap, international,” he said. “You want to make sure you are offering a well-diversified array of investment options.”

Swails said 30 to 40 funds is a good number to offer.

“The service provider may have 250 funds to pick from 10,000 mutual funds. Working with a broker, you can narrow that down to 30 or 40 funds to offer your group,” he said.

Along this vein, how much fiduciary responsibility is the broker willing to take?

“Fiduciary responsibility means you have some skin in the game,” Swails said. “A good question for brokers is, ‘Are you a fiduciary on the investment side?’ Not all brokers are willing to take that responsibility.”

Ask about compliance issues, reporting requirements, rollover form, etc. Can they handle all that for you?

Ask about fees. Make sure you understand how everyone is getting paid.

“Ninety-nine percent of the time, fees are paid from the expense ratio,” Swails said. “Every fund has an expense ratio. The question for the broker is, ‘What is the average expense ratio for the funds being proposed?’ You want the average because the expense ratio may differ depending on the type of fund. The rule of thumb is you want to an average expense ratio of around 1 percent. The next question is, ‘What are you charging as broker?’ The next question is, ‘What is the service provider charging and how are they getting paid?’ ”

For more information on 401(k) Planning, contact Katie Farrow of Sapers & Wallack, Inc. at (617) 225-2500 or email her at kfarrow@sapers-wallack.com.