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Anticipate and Prepare: 7 Trends Facing the Retirement Industry

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Advisors are facing a new set of challenges and opportunities this year in the retirement industry — from added pressure on margins due to fee sensitivity to increased employer demand to demonstrate value through measurable results.

Below are seven trends and issues advisors should prepare for in order to build their businesses and better serve employers.

More flexibility and customization from service providers

Advisors should seek two key qualities when partnering with a service provider: flexibility and customization. Together, flexibility and customization enable advisors to enhance their value propositions and deliver a more comprehensive solution to their clients.

For instance, if an advisor's value proposition is centered on his or her investment advisory services, and the advisor will act as an ERISA 3(21) and/or 3(38) fiduciary to support these services, the advisor may need to partner with a provider that can deliver a participant enrollment, communication and education program that meets the unique needs of the plan sponsor.

Conversely, advisors who choose not to provide fiduciary support services (or are precluded from providing them by their broker firm) may need to partner with a service provider that can complement their offering by providing fiduciary protection.

A continued shift toward fee-driven models

Fees are no surprise to the larger plan marketplace, which has been primarily fee-based for some time now. The smaller plan market is following closely behind and soon will move toward this model as a result of new fee disclosure regulations.

These new regulations could serve as a rude awakening for some plan sponsors and participants. The new fee disclosures will dispel the misconception that 401(k)s are free, particularly among the small- and mid-size plan markets. A 2011 AARP survey showed that 71% of plan participants thought they paid no 401(k) fees. The study also found that 61% were unaware of just how much they paid in fees for their plan, while only 32% felt knowledgeable about the impact fees play in overall plan performance.
The fees that were once opaque will soon become very transparent. Plan sponsors will be increasingly aware of the services advisors will be providing and the corresponding fees associated with those services. Advisors who typically receive paid commissions for investment options offered in a plan will become less common due to inherent conflicts of interest.

Pressure on margins as fee sensitivity increases

With such a heavy focus on fees by legislators, litigators and the court system, plan sponsors of all sizes will need to develop and stick to a stringent process for evaluating retirement plan fees. Fee benchmarking, as part of that process, will quickly become the norm, which could eventually create downward pressure on advisor compensation.
Some advisors may see this as an opportunity to offset this lower fee revenue by diversifying into other service areas, such as individual wealth management, rollover consultant or other alternative channels of potential revenue. At the same time, advisors will need to consider partnering with service providers to ensure service delivery model synergies and practice scalability.

Demand for answers around full fee disclosure

With all this talk about full fee disclosure and what it will mean for plan sponsors and participants, there will still be a lot of confusion to address. A June 2010 DALBAR report observes that a significant number of today's 72 million participants will have questions and concerns regarding fees and expenses once they learn what they are

Plan sponsors will rely heavily on advisors to help prepare them to answer questions, as well as to educate participants on what these fees pay for and how they work.
Advisors can consider a few tips to better prepare plan sponsors when the time comes to answer participant questions:

● *Help participants understand the fees they are paying*. Which fees pay for investment-related options? Are there administrative fees?

● *Identify ways to keep costs down*. What fees are being charged on the participants' accounts? Offer guidance (where and if appropriate) on how participants can avoid paying unnecessary fees on their plans.

● *Help participants determine which fees offer good value.* Once participants understand the fees they are paying for, help them decide whether additional or enhanced services (such as investment advice) represent good value.

Demonstrating value through measurable results

More advisors are tailoring their value propositions to goals that are measurable and quantifiable. The industry remains focused on getting individuals to "retirement readiness," and many of these goals will focus on whether participants are actually on a path to a financially-secure retirement.

Statistics showing average deferral rates will get less focus. And metrics illustrating whether participants are saving enough on an individual level will have more impact.

Advisors who can show measurable results will have an extra advantage. By catering plan objectives toward a plan sponsor's goals and showing measurable progress toward them, advisors will be able to better solidify their standing in the eyes of their clients.

Clear-cut acknowledgement of fiduciary status

The industry is still awaiting regulatory clarification on the definition of a fiduciary. Until that happens, the subject will continue to cause a lot of uncertainty and misunderstanding among employers and advisors directly affected by it.

Advisors will need to determine if they will act, or not act, as a plan fiduciary. Those who choose to do so will need to acknowledge it clearly and explicitly in their service agreements, along with the fee they will charge for performing the duties of a fiduciary. Advisors who choose not to act as a fiduciary (or are precluded from doing so by their broker/dealer) will potentially need to outsource this solution by or through a service provider that offers fiduciary relief.

Fiduciary responsibility had a slow evolution at first, but has sped up quickly in recent years. Taking on this responsibility or outsourcing it will take on a new urgency for advisors as demand continues to grow.

Similarities between 401(k) and 403(b) plans

The similarities between 401(k) and 403(b) plans will create significant growth opportunities in assets under management by focusing on tax-exempt or not-for-profit employer opportunities.

With the 403(b) marketplace becoming more like the 401(k) marketplace, advisors should find significant growth opportunities through not-for-profit/tax-exempt organizations. New regulations in the last couple of years require most 403(b) plan sponsors to be more engaged in the plan, increasing their awareness of fiduciary responsibilities along with plan compliance and oversight.

Most 403(b) plan sponsors now require many of the same plan services as 401(k) plan sponsors, including help with service provider selection due diligence, plan design, investment selection and monitoring, participant education and communication, retirement readiness tools and fiduciary support services.

In addition, there is an ancillary opportunity for advisors to diversify into rollover consulting and individual wealth management. Advisors may find less competition in this marketplace; and those with the right experience and expertise should find ample potential for significant growth.

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