

# GUIDING LIGHTS

## *Plan sponsors look to specialist advisors for retirement plan assistance*

The challenging world of retirement plans is characterized by constantly evolving regulations, investment changes and market swings, among many other influences. Retirement plan sponsors of all sizes frequently rely on others for assistance with the administration of their retirement plans. The delineation between a traditional investment consultant and a specialized retirement plan advisor is blurring, meaning there are a number of people and firms that can provide the professional guidance many plan sponsors may require. *PLANSPONSOR* recently spoke with Marc Brookman, managing director and head of Graystone Consulting, a business of Morgan Stanley Smith Barney that provides investment consulting services to institutional clients, and Ed O'Connor, managing director and head of Retirement Services at Morgan Stanley Smith Barney, to discuss what plan sponsors should look for when evaluating the services of a financial advisor, and what value a financial advisor can add.

**PS: Why should plan sponsors hire a financial advisor who is a defined contribution plan specialist?**

**O'Connor:** As we know, the defined contribution system is rapidly becoming the main vehicle that American workers depend on to help fund their future retirement security. That has led to a significant amount of changes in the industry, including many from a regulatory standpoint. As a result, I think it is more important than ever to have a financial advisor who is a specialist in this field to help guide employers and plan sponsors.

The financial advisor who is a specialist—for instance, a Corporate Retirement Director or a Graystone Consulting team member—has chosen this as his profession, and as a result, he needs (and wants) to be on top of the latest regulatory changes, the latest and best practices, and he can share that value with the plan sponsor.

**Brookman:** I think having a specialized financial advisor for your plan provides the plan sponsor with an experienced professional to consult about plan issues. That financial advisor is someone who can open doors, provide unbiased advice and can really show the plan sponsor all potential options for their plan.

**PS: When looking to hire a retirement plan specialist advisor, what questions should the plan sponsor ask that individual or firm?**

**O'Connor:** I think, upfront, you're going to reach out and try to assess two main things: the credentials of the financial advisor and the resources he brings to your plan. Clearly, in addition to formal designations such as a Chartered Retirement Plans Specialist<sup>SM</sup> (CRPS<sup>®</sup>) or Chartered Financial Analyst (CFA) designation, you want to ask what experience that prospective financial advisor has, and what his references are. I think that last part is very important. I would focus on the types of retirement plans he services, whether they are of similar size and perhaps similar industries that face similar challenges. Ask him to give real examples of how he helped other plan sponsors. So credentials and experience are number one.



The second question, I believe, is about the resources available: How often will he or she be focused on your plan, and how big is his or her team?

A team can come in several shapes and sizes. There's the very specific team: the financial advisor's local team. You should find out who is on that team, their credentials, what will they be doing and what the lead financial advisor will be doing.

But, a financial advisor's team also includes the expertise in the home office. What amount of resources and experience can the local team draw upon?

In the Retirement Services group at Morgan Stanley Smith Barney, we have 13 people dedicated to the defined contribution market. Their job is to make sure we stay very competitive in regard to what the firm offers plan sponsors. That manifests itself in products, tools and knowledge. But my team is just the beginning.

**Brookman:** I agree, you want to talk about resources, and it's not just Ed's team or my team at Morgan Stanley Smith Barney, for example—it's our legal teams who are focused on ERISA, it's our compliance teams, it's our risk teams. It's a highly regulated industry, but we have an extra layer of resources to help address that. Having this level of resources should help plan sponsors sleep at night and feel confident that we always have their best interests in mind. Resources really do matter. It's not just about any one component; rather, it's the ability to put all of these things together in a single relationship, which will allow the plan sponsor to feel very comfortable.

It is also important to ask what the financial advisor's retirement plan focus is. Asset sizes matter; certain types of companies matter. I think it's critical that it's not a new

experience for your defined contribution plan specialist. For example, you want to avoid a situation where it is the financial advisor's first time in a particular market, where he is "learning on the fly." The financial advisor should have the experience in place that can be readily applied to the specific opportunity with which he is presented.

**PS: Do financial advisors have different service models based on the size of the retirement plan?**

**O'Connor:** I think we all have a tendency to use the assets in a retirement plan to segment our services. That said, one of the key issues is actually the amount of resources that an employer or plan sponsor is going to bring to the table. How much will be insured, versus how much the employer wants to outsource?

A very large employer that has a human resources department, and perhaps even a department focused on employee benefits or retirement services, will choose certain things it prefers to do in-house rather than outsourcing to a service provider. At this level, the plan sponsor looks to the financial advisor to act as a consultant, and this may include advising on the appropriate level of insourcing/outourcing.

Obviously, smaller-sized employers may have fewer resources and, therefore, less flexibility, in that regard. In this case, they may seek a financial advisor to help them with all aspects of the plan, including selecting and managing the service providers and delivering participant education.

Certain financial advisors focus on different ends of this service spectrum. That is why during the hiring process it is important to ask for references and examples of how they may have helped other clients. From that, you will have a better idea if the fit is right for your plan.

# “Certain financial advisors focus on different ends of this service spectrum. That is why during the hiring process it is important to ask for references and examples of how they may have helped other clients.” —O’Connor

At Morgan Stanley Smith Barney, we have financial advisors that fit the bill across this entire spectrum.

**PS: One thing that continues to be of interest for plan sponsors looking for assistance is help with their fiduciary responsibilities. How has Morgan Stanley Smith Barney approached this?**

**Brookman:** At Morgan Stanley Smith Barney, we take our fiduciary responsibilities extremely seriously.

Things like “co-fiduciary” and “fiduciary responsibility”—they aren’t just words. They really mean something, and it’s in the tough times that they’re going to be more of a differentiator. So you can’t just jump into it, and I think that’s one of the things plan sponsors really need to ask themselves: Are all firms that offer fiduciary services equal? What does that really mean at the end of the day? The situation in which you most need a financial advisor and a firm with knowledge, experience and resources is the situation in which something didn’t go perfectly.

While we might not always be the first to market with things, we are very focused on doing the right thing for our clients, including plan sponsors, and making sure that we deliver what they want, because we do take it very seriously and it does mean a lot.

**O’Connor:** In this area, actually, many of our financial advisors were waiting for the home office to “catch up.” For example, the Graystone Consulting teams have, for years, been acting as fiduciaries for foundations, defined benefit plans and other institutional pools of money. Graystone Consulting saw defined contribution plan clients wanted the same type of service, they were clearly prepared to go there, and they helped us in the home office to elevate our game in this space. It was, in many ways, a collaborative experience.

For the reasons Marc outlined, it’s true we took our time getting there, but now we believe we have it right and it’s a great offering.

**PS: Let’s talk about investments, if we can. How can a financial advisor help plan sponsors navigate defined contribution plan investment selection and portfolio construction?**

**Brookman:** I think many plan sponsors just think, “I’m going to go pick the best performing funds, that’s going to

be part of my lineup.” However, there are three components that really make up your return: asset allocation, overall manager research and portfolio construction.

You’ve got to make sure that all three of those components are truly covered. I think, when you look at all of these components, not all firms are created equal. It’s very important for plan sponsors to look at the resources behind these three components. In our case, Morgan Stanley Smith Barney’s Global Investment Committee has 18 people that drive our asset allocation; our investment advisor research team has more than 20 manager research analysts, and both groups have numerous support personnel. We also have alternative strategies research, which is not a critical component of defined contribution plans today, but with the advent of a lot of these new exchange-traded fund (ETF) and mutual-fund alternative products, it is something that sponsors are evaluating.

Then the last issue is how these individual investment products fit together in the appropriate way to drive returns with a reduced level of risk. It’s a decision to be much more efficient and effective in your overall portfolio construction rather than just indiscriminately putting a bunch of investments together. When plan sponsors really start looking at those three return components, not all firms may have very robust capabilities compared to the offerings of a firm like Morgan Stanley Smith Barney.

**PS: What are retirement plan advisors doing to help participants shift their focus from an asset accumulation phase retirement income—in other words, a focus on turning their savings into a monthly income stream?**

**O’Connor:** As I mentioned in the very beginning, defined contribution plans are becoming the main vehicle for retirement security in the United States. This, along with an aging work force, makes delivering retirement income solutions within defined contribution plans of paramount importance.

Our firm has been helping individuals for decades transition to—and manage their income during—their retirement years. So we bring a lot of experience to this area. First, we can convey these concepts to individuals in a way they understand and which resonates with them. Second, we can reinforce for participants the importance of discipline—of staying focused and not overreacting

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to market events. And last, but not least, we have the resources to bring very competitive retirement income management solutions to the table.

On that last point, there are a couple of ways of addressing retirement income issues within a defined contribution plan. One example is to help a plan sponsor find appropriate income-guaranteed strategies to include in their investment selection. I do think that is going to be a growing share of defined contribution plan assets over time. So I would advise a plan sponsor to keep up-to-date on the latest innovations and the regulatory and legal landscape, in that regard. We definitely can help.

**Brookman:** At Graystone Consulting, all our financial advisors are on teams comprised of members that specialize in certain areas, and usually there is a member of each team that is more focused on the individual client side versus—for instance—the institutional client. This member has the ability to sit down with participants and, even apart from their individual defined contribution plan account, really help to construct investment portfolios for today and for retirement.

To Ed’s point, the beauty of a firm like ours is we’ve got resources and financial advisors all over the country. So, even if it’s a plan sponsor that has 25 locations throughout the United States, we, as an organization, have people all over the country who can help. We do a lot of split business, we partner together. So we always have local representation wherever we are so that we can sit down, either from the corporate side or from the individual-participant side, to help the clients figure out where they need to go.

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