

## Reform Could Help 401k Plans Steer Clear of Trouble

*Federal legislation in works to permit role for retirement-plan advisers*

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After the worst stock market performance since the Great Depression, 401(k) plans have come under intense scrutiny from their sponsors, participants and Congress. The question is why weren't the losses avoided or minimized, especially for workers close to retirement, whose accounts won't have time to recover.



Shuford

That's an especially acute question for target-date lifestyle funds. These were created to be a single-choice, risk adverse investment for participants who wanted someone else to make their investment choices as well as decisions about

asset allocation. As the target date of retirement approaches, the funds' asset mix becomes increasingly conservative--the asset allocation favors bonds over stocks.

Unfortunately, participants in such plans didn't avoid the market's recent collapse--both the stock and bond markets were decimated at the same time, which is rare. The plans also tend to have little or no holdings of risk-free investments, so sharp losses were unavoidable.

As a result, Congress is clamoring for reform. One solution is an advised 401(k) plan that could avoid future catastrophes.

U.S. Rep. Rob Andrews (D-N.J.) is shepherding legislation that should make this type of retirement account popular. His bill centers on allowing plan sponsors to select an independent investment adviser instead of a fiduciary adviser (such as a mutual fund company) as required under the Pension Protection Act of 2006.

### Ending conflict of interest

This arrangement will eliminate conflicts of interest inherent in the current system, where the adviser offers the investment vehicles. The independent adviser might be a certified public accountant, and the adviser would accept fiduciary responsibility for the investment guidance. The adviser would guide employees through the allocation process among the investment options in their employer's plan. The adviser would not sell investments nor receive compensation other than an advisory fee.

The fee would cover an initial meeting with a participant. The adviser could charge for future meetings necessitated by the birth of a child, divorce and other significant life changes that would warrant revisions to the investment allocation in the 401(k) account.

This is not another product or a slick theory marketed by financial-service behemoths. The next-generation 401(k) plan has already begun. It's what major hospitals have been using through a 403b plan for years. Because they weren't subject to the same ERISA guidelines as 401(k) plans until this year, hospital retirement plans have used an adviser to guide participants' investment decisions. Some large hospitals have these advisers on staff.

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What can plan sponsors and participants expect from such a process? First, plan sponsors can expect an adviser who accepts the role as a fiduciary for guidance. The fees will be level and completely transparent, the advice will come without conflicts or products, and it will be followed by an independent audit.

Participants can expect a relationship with a credentialed professional. Through a one-on-one process, the adviser will determine the participant's goals and needs. How does the participant get from working to retirement with enough money to last until the end of life, taking into account all household assets.

Key considerations are the variables that affect every plan participant. These include; What is my desired retirement age? What is my desired retirement income? What is my desire lifestyle? Do I want to leave an inheritance? Do I want to take only interest or principal and interest as income from my investments?

### Benefits to workers, employers

There are other considerations. This is not a quick process, but an engaged relationship that's fulfilled through a disciplined approach that brings financial knowledge to the workplace. Matching the participants' expectations with the reality of their financial situation is a key part of the process.

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The days are over for holding a general educational meeting for a workforce and expecting it to be effective in helping participants make prudent choices. Gone, too, is the desirability of target-date lifestyle funds as a means to protect retirement income. An advised fund can shift assets out of stocks and bonds and into risk-free investments.

Participants for the first time will develop a sense of ownership in their future, knowing they are on the right path to accomplishing their goal of a secure requirement. For employers, this enhanced 401(k) could be an additional benefits to aid in the retirement and retention of the workforce.

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