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RIAs, Consultants Square Off for 401(k) Assets: Study

By [Mariana Lemann](#) December 6, 2011

Registered investment advisors are becoming a bigger force in 401(k) distribution and are beginning to compete with plan consultants for defined contribution assets.

That's according to a new study out from **Cogent** that surveyed 523 DC plan producers with a minimum of 5% of total assets under management in 401(k) plans.

The 2011 Retirement Plan Advisor Trends report, which was released last week, found that the majority of financial advisors, or 52%, have at least one 401(k) plan in their practice. In 2010, 48% of financial advisors had 401(k) assets on their books, according to Cogent.

It is heavy plan producers, or those with at least \$25 million, that are leading the way and are competing with retirement plan consultants. Heavy producers happen to be concentrated in the RIA channel, where 39% of advisors who sell 401(k) plans reported holding \$25 million or more in plan assets.

“These heavy producers are among RIAs, and these are individuals who have made a conscious choice to focus on those plans and provide a higher level of service,” says John Meunier, principal at Cogent.

Heavy producers represent 7% of all surveyed advisors, according to Cogent, but they serve as many plans as all the other 401(k) producers combined. On average, they have 30 plans, compared to an average of 11 among moderate producers — or those with retirement plan assets between \$5 million and \$25 million — and an average of five among light producers, or those with less than \$5 million in retirement plan assets.

RIAs' focus on the retirement plan market has resulted in their holding an average of \$76 million in 401(k) assets, four times the average of \$19 million for all producers.

Heavy producers have not only grown with their clients, they have made inroads into the retirement plan consultant space, Meunier says.

“In the past, plan sponsors brought a retirement consultant to the table, but now the recordkeeper and plan providers have made it much easier and provide the support that advisor needs to manage those relationships directly,” he says.

Financial advisors have been penetrating into a new space, industry players say.

“Five or 10 years ago, it was unheard-of for a financial advisor to be working with a plan sponsor that had \$100 million plans, and today it is fairly common,” says Bruce Harrington, director of sales and investment strategy at **John Hancock Financial Network**. “The tools for financial advisors have gotten better and more sophisticated over the years.”

Changes in the regulatory space, in particular fee disclosure rules, are placing additional pressure on advisors and are demanding greater transparency in pricing models.

The Department of Labor’s Rule 408(b)(2) requires disclosure of service provider fees in 401(k) plans. The regulation, which becomes effective in April 2012 and applies to service providers that receive more than \$1,000 in compensation, requires that service providers, third-party administrators and advisors disclose fees and expenses, describe the services rendered and declare their fiduciary status.

The added regulations have allowed advisors to offer more specialized services, giving some advisors an opportunity to move up market, experts say.

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“With everything that is happening from the regulatory perspective, 408(b)(2) and 404(a)(5), I think this trend will continue,” Harrington says.

That’s true in the RIA channel, says Matt Mintzer, head of national accounts for the defined contribution investment solutions (DCIS) group and head of the DCIS advisor team at **J.P. Morgan Asset Management**.

“The DOL and their focus on fiduciary outcomes is making it apparent that the RIA pricing model is the most transparent,” he says. “You can foresee a day where you won’t be able to be in the qualified plan space unless you have RIA pricing capability and are attached to the fiduciary stream of risk/outcome. In the \$50 million and more [category] you have to offer RIA pricing to be successful.”

But the process may take some time.

Over the summer John Hancock launched a [program](#) that offers training, practice management consulting and a new support sales team for advisors in its network interested in becoming co-fiduciaries to plans.

“We have about 100 advisors that are in the heavy category and 10% act as fiduciaries today,” Harrington says.

Asset managers active in the defined contribution investment only (DCIO) space continue to adapt their strategies to serve more demanding retirement plan advisors.

The retirement plan market has become more sophisticated over time.

“People that grew up in the DC market bring a different set of skills to the table,” Mintzer says. “Their experience is about the plan outcome rather than the investment outcome....The way these advisors have grown up in the space, they understand the outcomes that plan sponsors want and participants need.”

In fact, these advisors have developed skills that make them competitive with retirement plan consultants in that they operate in what is the upper end of the financial advisor market.

“These folks are born salespeople in the best possible way; they are great relationship people,” Mintzer says. “They understand the whole sales dynamic of finding a problem and solving them.”

Meanwhile, consultants are seeking smaller clients.

“These advisors that are highly skilled can go toe-to-toe with some of the major consultants and try to win their plans,” says Frank Paone, director of retirement platform sales at **Lord Abbett & Co.** “You have a convergence of the consulting community moving down market and advisors focused on the business who are doing very well moving up market.”