Models of Financial Advice for Retirement Plans: Considerations for Plan Sponsors

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Abstract

This report is prepared to provide a comprehensive overview of the professional financial advice industry including the strengths and weaknesses of currently available approaches to providing (and receiving) financial advice, particularly as part of an employer-sponsored employee benefit. Financial advice is broadly defined to include traditional methods as well as alternative methods to providing personalized guidance. This report is also designed to provide guidance for retirement plan sponsors in making decisions regarding the role, scope, and delivery models of financial advice to plan participants. As appropriate, the report differentiates between investment advice, which includes investment management and asset accumulation decisions, and retirement advice, which includes retirement preparation, security, and planning decisions, and is built upon a thorough understanding of an individual's personal values and goals. Rather than provide an actionable list for plan sponsors to implement, this report is designed to raise awareness of the issues that are worth considering.

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1 Introduction

Individuals bear greater responsibility than they have in the past for funding retirement through their own savings and investment choices. Rapid advances in product innovation and complexity have also led to predictable consumer financial mistakes in the market for mortgages, annuities, mutual funds, and insurance (Campbell, 2006). Without universal high quality financial education, many consumers must make these complex financial decisions without the knowledge needed to select products that are consistent with their preferences.

Financial experts have called for greater access to professional financial advice to improve decision making quality (Shiller, 2009). An expert can provide expertise to help households understand tradeoffs and select financial products that are best suited to their needs. In a self-directed retirement account, an advisor can identify the most efficient investments and estimate optimal retirement savings. Estimates of welfare loss from insufficient savings and poor investment selection suggest that a greater use of financial advisors among retirement plan participants can provide significant social benefit. Although difficult to quantify, plan sponsors are in a unique position to provide significant value to plan participants that can greatly impact many qualitative factors of a participant's life.[1]

Financial advice as an occupation has evolved imperfectly over the last century. A legacy of investment product sales incentives and culture continues to create agency costs for investors. Agency costs occur when a principal (in the case of financial advice, a client is the principal) hires an expert agent (in this case, hiring a financial advisor to make financial recommendations). Agency costs are incurred when the agent (financial advisor) has incentives that encourage recommendations that may not be in the best interest of the principal (client). This problem is particularly acute for average investors who may have difficulty locating a knowledgeable advisor who acts as a fiduciary outside of their retirement plan. This report reviews the history of the advising profession, provides an overview of emerging advice services within employer retirement plans, and provides empirical evidence of the effectiveness of low-cost retirement planning services as an efficient source of financial advice.

[1] Many of the considerations in this report also apply to the financial advice available to plan sponsors and the administrative decisions they make as fiduciaries of the plan. Although some sections of this report focus more on this level of advice (that of advising plan sponsors), the primary focus of this report is that of providing personalized financial advice to plan participants.

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Since current legislation and regulation provide limited guidance about providing financial advice to employees, plan sponsors presently have considerable latitude in the services they decide to offer. This report includes a number of items plan sponsors ought to consider as they evaluate the efficacy of their current approach and how access to financial advice may improve the retirement outcomes of plan participants. This report also provides guidance for plan sponsors when evaluating plan providers or other alternatives as potential sources for financial advice.

In order to understand the market for financial advice, an overview of the history and regulation of those who hold themselves out as financial advisors is important. Advisor regulation and incentives are among many factors that drive the products that exist in both the retail and retirement marketplace, the recommendations made by advisors, and even the quality of advice.

2 Overview of the financial advice industry

The profession of financial advice is unique because advisors do not adhere to a single professional certification, body of knowledge, or regulatory structure. This variation in advisor incentives and qualifications results in a marketplace for financial advice that is less efficient (in terms of quality of advice available for the price paid) than the marketplace for legal, medical or even actuarial services. Many consumers are unaware of these differences or of the range of services that advisors might provide.

A well-trained financial advisor has an in-depth understanding of financial topic areas including investment theory, risk management, taxes, financial products, estate and retirement planning. Individuals hire financial advisors if they believe they will be better off with advice than doing it themselves. Given low levels of financial literacy in America, the consequences of such low literacy and the difficulty of improving the situation, many households could benefit from hiring the services of a well-trained financial advisor.

The processes and strategies used by advisors to provide financial advice can also vary, which can lead to different recommendations and outcomes (Hogan and Miller, 2013). Advisors who are agents of a financial services or insurance firm may be well trained in the relative merits of specific financial products they are paid to sell to customers. There may be little incentive to

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acquire knowledge or provide advice outside the scope of these products, or to recommend strategies that involve the use of products not offered by their employers. Professional advisors may provide more comprehensive financial advice that requires a broader knowledge of products and household finance theory, while other advisors focus on providing financial counseling and behavior modification in order to help families meet long-term goals. Advsiors may also vary in their knowledge, understanding, and application of a variety of academic theories, including modern portfolio theory, life cycle theory, and prospect theory (Hogan and Miller, 2013). The application of these theories is also impacted when advisors actively reflect on their experiences using these theories in the financial lives of their clients. Although compensation and regulation affect incentives related to the products or course of action recommended by an advisor, knowledgeable comprehensive financial advisors exist within the insurance, brokerage and investment advising industry.

This section provides a broad overview of the financial advice industry. We focus on presenting objective information and evidence of advice quality that is based on current empirical research and theory. We discuss the tradeoffs involved when selecting each type of advisor to help provide some clarity in what is often a murky marketplace where distinctions among advisors are difficult to gauge from appearances and job titles.

We begin with a background of the financial advising industry. We explain how advisors function within two distinct regulatory environments. These differences can impact the types of products offered as well as the breadth and quality of advice. A better understanding of the advising industry can help employees and plan sponsors anticipate differences in advisor services that can help them make decisions that are in their best interest.

2.1 Background of professional financial advice regulation

Two distinct regulatory regimes of individual financial advice exist within the financial services industry: registered representatives of broker-dealers and investment advisor representatives. Registered representatives are also known simply as registered reps, and they are sometimes described as brokers or stock brokers. Investment advisor representatives are often referred to as investment advisers, and they are affiliated with a registered investment adviser (RIA). Some insurance agents also recommend investment products and may be regulated as either registered representative or investment advisors. The differences between

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these regimes can be explained by the historical role each has served to consumers. The differences in these roles are established by the institutions that regulate each industry and legal precedent.

Differences in these groups have been defined through regulation that arose during the Great Depression era. The Securities Exchange Act of 1934 (also known as the 1934 Act) and the Investment Advisers Act of 1940 (1940 Act) were passed to provide greater oversight of the financial services industry. An easy way to differentiate the intent of the two Acts is that the first governs the exchange of securities, or buying and selling financial instruments. The second governs the behavior of investment advisers, whose primary purpose is to provide investment advice.

2.2 Brokers

Professionals governed under the 1934 Act are primarily engaged in the business of selling financial securities. Financial advisors (note that the 1940 Act uses the different spelling "advisers") who operate within this regulatory structure are registered representatives of a broker-dealer. Their primary objective is to sell securities to investors, and they owe a duty of loyalty to the broker-dealer that they represent.

The 1938 Maloney Act authorized a self-regulatory organization (SRO) to provide oversight of broker-dealers. The National Association of Securities Dealers (NASD) served as the SRO until 2007, when it became part of the Financial Industry Regulatory Authority (FINRA) (SEC, 2007a). The SRO sets standards of conduct within the industry. Theoretically, an SRO that is closely aligned with the industry will set standards of conduct that are loose enough to maximize net industry revenue while being restrictive enough to punish egregious behavior that might harm the reputation of the industry and reduce consumer demand.

FINRA regulates the conduct of registered representatives through rule-based standards of conduct. Advisors are expected to act within the boundaries of these rules or risk fines from enforcement actions, including potential arbitration losses from cases brought by unhappy clients. Registered representatives advising consumers are required to sell products that are suitable for their clients. This standard of suitability provides some latitude to recommend financial products that maximize the revenue of their employer (and themselves through incentive-based compensation) that fall within the boundaries of suitability.

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Table 1 provides an example of compensation received by a registered representative from the sale of mutual funds. Mutual funds that charge commissions, or loads, currently make up about 35% of the retail mutual fund market (ICI, 2014). Mutual funds that pay commissions tend to have higher management expenses in addition to sales costs, and these higher expenses cause broker channel mutual funds to underperform other mutual funds (Del Guercio and Reuter, 2014). Broker channel mutual funds are often described as being sold to consumers while direct channel mutual funds are bought by consumers. The distinction is whether consumers are actively pursuing the purchase, or whether an advisor is actively promoting the sale.

Load mutual funds can be placed into three categories differentiated by sales expense structure. Table 1 illustrates the expenses paid by a hypothetical consumer who invests $100,000 in a mutual fund[2] for the commonly sold front-end load class A shares (i.e., commissions are paid upon purchasing the mutual fund), so-called back-end load class B shares (i.e., commissions are paid upon selling the mutual fund within a specified period of time), and class C shares which provide an indefinite 1.0% 12b-1 fee (i.e., annual distribution fee that largely serves as an ongoing, trailing commission). We assume that class B shares revert to a 0.25% 12b-1 fee after 6 years.

Table 1. Expenses paid by a hypothetical consumer who invests $100,000 in a mutual fund.

	Commission	*12b-1 fee*	*Value after 5 years**	*Value after 10 years**
Class A	$3,750	0.25%	$127,292	$168,347
Class B		1.0%	$127,628	$167,592
Class C		1.0%	$127,628	$162,889
No load			$133,823	$179,085

*From the author's own calculations. Assumes a 6% nominal rate of return on the fund.

[2] Class A share commission and fee information for specific mutual funds can be accessed through http://apps.finra.org/fundanalyzer/1/fa.aspx. This example assumes a slightly lower front end load because the investment includes a breakpoint discount that will not be available for smaller investments (or will be greater for larger investments). Class B share 12b-1 fees are reduced to 0.25% after 6 years, but class C shares are not reduced with longer holding periods.

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As seen in the chart, class A, B and C shares result in a lower value than no load shares over 10 years. When saving for retirement over an even longer time horizon, this difference is amplified. Investors who are sold a class B share for a period shorter than six years in this example would also be assessed a contingent deferred sales charge that would further reduce the account value. Class C shares are least attractive for long-term investors. FINRA recognizes the concern over the inappropriate use of class B shares, and they issued an investor alert to inform the public about their concern (FINRA, 2008). There are also opportunities for brokers to recommend the share class they believe will provide the highest commission. In particular, the immediate decrease in mutual fund balance created through the sale of a class A share may be more salient to an investor, so a broker may prefer selling a class B share in which the commission is levied either over time or upon the sale of the mutual fund. Anagol and Kim (2012) find that investors are far more attracted to funds with less salient deferred loads even if the net actual commission is higher.

Critics of SRO regulation contend that enforcement is not strict enough to create a strong disincentive to recommend unsuitable products. Disputes arising from investor complaints about such unsuitable products often result in arbitration since many times firms require investors to agree to mandatory arbitration clauses. A significant problem with arbitration is the lack of jurisprudence, since the results of cases are not made public, and consumer and advisors are not able to easily determine the boundaries of suitable recommendations (Laby, 2010a).

A criticism of a suitability standard is that it gives advisors latitude to make recommendations that are not in the best interest of the consumer. Mullainathan, Noth and Schoar (2012) illustrate the costs of a suitability standard by visiting financial advisors in the Boston area in order to get mutual fund recommendations for their portfolio. Mock clients are given a hypothetical initial portfolio and then ask advisors to evaluate their investments and provide recommendations. The authors test whether advisors will make recommendations that are in the client's best interest if these recommendations are not aligned with the advisor's compensation incentives. For example, some clients ask for advice about highly efficient mutual funds that are not likely to provide compensation for the advisor. Predictably, they are advised to move from these more efficient funds into less efficient funds that provide greater compensation.

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Another compensation-related problem is a failure to de-bias clients who are tempted to invest in mutual funds that have had relatively high recent performance. This so-called dumb money effect leads to significant underperformance among investors (Frazzini and Lamont, 2008). This underperformance is greater within broker-channel funds (Friesen and Sapp, 2007), which is likely due to an advisor's lack of incentive to de-bias the client and suggest a more passive buy-and-hold investment strategy. As can be seen from the example above, an advisor would receive greater revenue if investors buy class A shares more frequently because they pay a high front-end commission. Blanchett, Finke, and Guillemette (2014) find evidence that broker-sold shares see greater inflows during periods of high market sentiment, and greater outflows when investors have more negative attitudes toward the market, and class A shares are more sensitive than shares that have a lower (or no) front-end commission.

To illustrate why this failure to de-bias clients happens, imagine that an investor goes to a broker and wants to invest in stock mutual funds because the market has done well recently. The broker will select a stock mutual fund that provides a commission. Two years later, the investor becomes spooked by a bear market and wants to prevent further losses by selling their stock mutual fund in order to buy a bond mutual fund. One of the most important services a financial advisor can provide is to help a client in their emotional battle with themselves by encouraging them to maintain a long-run perspective that matches their investment horizon. As such, a quality advisor would encourage their clients to maintain a constant allocation to stocks and to continue holding their stock mutual fund. However, a front-end commission advisor is more likely to concede to the investor's biases and sell the stock mutual fund in order to generate additional commissions by purchasing another mutual fund. This incentive to encourage an emotionally motivated trade if it benefits the advisor is a cost of commission compensation that is often overlooked. This failure to de-bias has also been identified in other consumer financial markets such as insurance (Anagol, Cole, and Sarkar, 2013).

Losses from the combination of a misalignment of incentives from fund commission compensation, and the regulatory latitude to make recommendations that are not in the best interest of consumers, are a significant cost to selecting an advisor who represents a broker-dealer. Christoffersen, Evans and Musto (2013) find that mutual funds that pay higher commissions are more likely to be recommended by advisors. These higher-load, broker channel funds are also more expensive and tend to underperform. One of the reasons for this

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underperformance is that fund families that sell through brokers are more motivated to focus on sales promotion than on investment performance (Del Guercio and Reuter, 2014). Bergstresser, Chalmers and Tufano (2009) find that investors pay $15 billion in distribution channel fees, including $3.6 billion in front-end loads and $2.8 billion in back-end loads, as well as $8.8 billion in 12b-1 fees. On top of these costs, lower investment performance in broker channel funds cost investors $4.6 billion in 2004 compared to higher investor performance in non-broker sold funds.

Bergstresser et al. (2009) also note that broker channel investors tend to be less educated, less wealthy, and more risk averse than direct channel investors. Dean and Finke (2012) find that investment advisers who are also brokers tend to cater to clients with lower account sizes. A number of reasons help explain why less sophisticated investors may be more likely to work with an advisor who is a broker. First, investors may not be fully aware of how much they are paying for advice. Commission compensation is sometimes obscured (or hidden) so that many who use a broker have no idea how much they are actually paying for advice. Chen and Finke (2014) find that clients of commission-compensated advisors are more than twice as likely to underestimate the amount of money they are paying for financial advice. More sophisticated consumers may better understand the costs of using an advisor who is a broker. Almost half of investors, however, believe that their financial representative must make recommendations that are in the client's best interest, even when their advisor is not required to do so (Hung et al., 2008).

The Dodd-Frank Act of 2010 calls for the review of current regulation of broker-dealers who provide financial advice to remove the difference in standards of care between brokers and registered investment advisers. While brokers operate within a suitability standard and are free to recommend underperforming funds that provide higher compensation, registered investment advisers are held to a fiduciary standard of care according to the Investment Advisers Act of 1940.

To complicate matters, many registered representatives of a broker-dealer are also representatives of an insurance company (often called insurance agents), and the sale of traditional insurance products is regulated by state insurance departments (GAO, 2011). As such, registered representatives who are also insurance agents are regulated by FINRA as well as

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by state insurance departments. Many of these insurance agents sell variable life insurance or variable annuity products. These variable products are considered securities and are often marketed as retirement savings instruments because of their growth potential, tax treatment, and income provision. Variable annuities are also the subject of a disproportionate share of consumer complaints by FINRA and have a reputation for opaque pricing, high fees, and expensive surrender charges that create significant potential agency costs for consumers seeking financial advice from an agent (Waddell, 2014). Because of the concern about the sale of variable annuities and the complexities inherent in the products, the SEC has produced material to educate investors who are considering the purchase of a variable annuity (SEC, 2007b).

The standards of care regarding insurance differ depending on the state and the product. For example, registered representatives who sell variable annuities are held to a suitability standard of care, since variable annuities are considered securities and are overseen by FINRA. However, only 32 states require an insurance agent selling non-variable annuities to be held to a suitability standard of care (GAO, 2011). The Government Accountability Office (2011) notes that this disparate system of regulation may be hampered by differences in standards imposed by the various regulatory agencies.

A number of insurance agents who are also registered representatives provide fee-based financial planning services and sell a range of financial products with various forms of compensation. These agents also have the advantage to access a range of insurance and investment products that can be incorporated into a financial plan. Incentives within the insurance industry are generally comparable to incentives within the broker-dealer industry to the extent that they focus on the sale of financial products that provide transaction-based compensation.

2.3 Registered investment advisers

The 1940 Act defines an adviser as

> *"any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities."*

The purpose of the 1940 Act is to provide oversight of professionals whose primary purpose is to provide ongoing financial advice to individual investors. Registered investment

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advisers are regulated by the Securities and Exchange Commission (SEC) as fiduciaries, and must provide recommendations that are in the best interest of their clients and provide a "duty of undivided loyalty and utmost good faith" (SEC, 2010).

A fiduciary standard of care exists in advice professions because of an imbalance of knowledge between the buyer and seller, which is necessary for an advice market to exist. Most markets operate under, "Caveat emptor," meaning, "Let the buyer beware." A buyer beware environment exists to give buyers an incentive to investigate the quality of a good before purchase. In the market for expert advice, a buyer does not have the knowledge to be able to accurately evaluate the quality of the recommendations provided by the advisor. If the buyer did have the ability to judge advice quality, they would have no need for an advisor in the first place.

The SEC regulates registered investment advisers (RIAs). The SEC is arguably more independent than FINRA, a self-regulatory organization, and is better able to regulate in a manner that maximizes investor welfare. Unlike FINRA, the SEC is also politically accountable to Congress and is subject to open government laws, such as the Freedom of Information Act (FOIA) and the Government in the Sunshine Act (Financial Planning Coalition, 2012). Critics of RIA regulation point to the low rates of inspections of RIA firms, which may create opportunities for advisers to take advantage of investors. Even if oversight were weak compared to FINRA registered representatives, RIAs are still legally required to provide investment recommendations that are in the best interest of the client and can be subject to litigation risk for recommending products that are self-serving.

The previous definition of investment adviser from the 1940 Act may surprise some who see their broker as a financial advisor. In fact, the industry has done little to dissuade consumers from the notion that they provide advising services (Laby, 2010b). According to an industry study conducted by the Rand Corporation (Hung et al., 2008), the most frequently used title among registered representatives was financial advisor (note the spelling with an "or" rather than an "er"), followed by financial consultant. In reality, many representatives actually believe that they are providing valuable advising services to clients. Legally, however, this advice must be incidental to the sale of securities by the broker.

In many ways, compensation serves as the dividing line between brokers and advisers. Investment advisers generally charge clients a percentage of assets under management, although

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some offer flat or hourly fees for advising services. Asset fees tend to provide an incentive to de-bias behavioral investors, to recommend mutual funds that provide the highest risk-adjusted return, and to maintain a long-run relationship with a client (since compensation is not front-loaded). Asset fees also provide a disincentive to recommend strategies that reduce investible assets such as the use of annuities or paying off a mortgage.

The SEC recognized the attractiveness of fee compensation as a way of aligning the interest of clients and their advisor in the 1990s. This led to a rulemaking change that would allow "certain broker dealers" to adopt an asset fee compensation method on brokerage accounts in order to give clients of registered representative access to advising services without the conflicts created by commission compensation. This rule became known as the Merrill Rule, which allowed brokers to charge asset-based fees while being still regulated under a suitability standard. In 2007, the Financial Planning Association (FPA) sued the SEC, arguing that this form of compensation implied ongoing financial advice that was not incidental to the sale of a financial product. If the representative was providing ongoing advice, this advice would subject the representative to a fiduciary standard of care under the Investment Advisers Act, since they would be, for all intents and purposes, an investment adviser. FPA won the lawsuit, striking down the so-called Merrill Rule, which ultimately left compensation as an important difference between investment advisers and registered representatives.

Table 2 provides a summary comparison of some of the main differences between registered representatives of a broker-dealer and investment adviser representatives. As noted in the table, financial advisors are often both registered representatives of a broker-dealer as well as investment adviser representatives. These advisors are often identified as "dually registered advisors," since they are registered with both FINRA and the SEC. Interestingly, Dean and Finke (2012) find that dually registered advisors who sell both commission products and provide investment advising services (the common term is, "wearing two hats") are more likely to provide financial planning services. Dually registered advisors are also more likely to cater to clients with moderate wealth (for example, under $1 million in investible assets). These clients are often younger, less sophisticated, and value basic financial planning services. These advisors often use planning services to attract these lower net worth clients and make enough from commissions from any transactions in order to justify the cost (i.e., time) of working with them.

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Investment advisers often have high minimum investible asset requirements (for example, $500,000 or $1 million) to ensure that each client account provides sufficient income to justify the time spent providing advising services. While some RIAs do provide advising services at an hourly rate for average clients, these advisers are often difficult to locate, and the compensation model may not provide enough revenue to compete with more profitable commission-compensated advisors.

Registered investment advisers are fiduciaries whose compensation model more closely aligns the adviser's interests with those of the clients. However, few investment advisers provide advising services to Americans who are least equipped to manage their own complex financial decisions, although some RIAs are beginning to cater to this market. For these less wealthy households, the primary source of financial advice may be their workplace retirement plan provider. Providers have the resources to create systems to efficiently deliver information to plan participants, and have a financial incentive to encourage participants to improve their own retirement security.

Table 2. Comparison of registered representatives of a broker-dealer and investment adviser representatives.

Title	*Common Nick Names*	*Type of Affiliated Firms*	*Typical Standard of Care*	*Typical Compensation*
Registered representatives of a broker-dealer	Registered reps, RRs, brokers	Broker-dealers (BDs)	Suitability: products must be suitable for investors	Commissions
Investment adviser representatives	Investment advisers, IAs	Registered investment advisers (RIAs)	Fiduciary: Advice must be in the best interest of the client	Fees on assets under management (AUM), retainer, or hourly
Professionals with affiliations with both a BD and an RIA	Dually registered advisors	Both BD and RIA	Suitability or fiduciary, depending on the situation	Often a combination of commissions and fees

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3 Retirement planning advice and education

Many individuals, including employees, have a limited understanding of investment options, sheltered retirement savings vehicles, how to construct and manage a retirement portfolio, or even how much to save in order to reach retirement goals. One option is to provide financial education in order to give all employees the tools they need to make more effective retirement decisions. In a 2013 LIMRA survey, nearly half of employees said that they would like their employer to provide “more comprehensive information and advice on retirement planning” (Stanley, 2013). Unfortunately, the Employee Benefit Research Institute (EBRI) (2014) reports that only 19% of employees and 25% of retirees have received professional investment advice. Further, only a quarter of workers (and 38% of retirees) fully implemented the advice (EBRI, 2014). The primary reason given by workers for not following advice was a lack of trust in the advisor.

As plan sponsors consider various plan providers, a major item to consider is the extent to which they want to provide personalized advice, compared to providing access to investment and retirement education. Plan participants often have similar financial situations, and areas of financial similarity can be addressed through educational efforts. However, differences among employees, such as their life cycle stage and their level of financial resources, can also be significant. Because of these differences, some employees may benefit from basic financial education while others may benefit from more sophisticated comprehensive advice. In addition to the complexity of providing education that is relevant to all employees, significant evidence suggests that financial education efforts often fail to improve financial outcomes (Willis, 2008).

Another option is to create a more paternalistic retirement system that either defaults employees into saving for retirement (soft paternalism) or requires them to save a percentage of their earned income (hard paternalism). For example, the Social Security system is an example of hard paternalism, which requires employees and employers to contribute to the Social Security trust fund. Although their Social Security system differs from the U.S., Australia follows a hard paternalism strategy of requiring workers to save roughly 10% of their income (Muir, 2009). The Pension Protection Act of 2006 allows employers to use a soft paternalism strategy of auto-enrollment, where employees are permitted to opt-out of participation but strongly encouraged to participate. Auto-enrollment leads to an increase in the number of participants but not in the

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average amount saved. Without a government mandate which requires that employers establish defined contribution plans, or an increase in the adequate default savings rate (currently 3%), American workers will continue to need financial education or advice to motivate retirement savings. Although hard paternalistic policies will likely lead to a higher percentage of employees who are actively saving for retirement, doing so is at the expense of individual choice. The use of defaults or mandates, however, may also be viewed as an endorsement by the government or employer for the default investment or savings rate (Benartzi, 2001), even when these defaults may not be optimal for a household, given its particular characteristics. Regardless of the paternalistic approach, employees may still need financial education or advice because of their unique situations, especially at key decision points, such as starting a new job, receiving a large increase in income, and preparing to retire. Changes in the structure of the employer's organization, such as merging with or being acquired by another firm, may also create a specific need for timely financial advice that is unique to the situation.

A financial advisor can provide recommendations to help employees meet their retirement goals by suggesting appropriate investments and estimating retirement savings needs. Relying on the advice of a professional may be more efficient than financial education because only the advisor invests the time and effort to develop the specialized knowledge of financial planning rather than requiring every individual employee to develop the same specialized knowledge, some of whom may not be capable of comprehending complex financial topics. This arrangement, however, assumes that the financial advisor possesses advanced knowledge and makes recommendations that are truly in the employee's best interest.

Because conflicts of interest exist that entice advisors to recommend investments that provide greater income to the advisor, and because financial education requirements to enter the profession are limited, the advice model may not be able to achieve this objective without regulation or the careful oversight of a well-informed retirement plan sponsor. Other methods of advice delivery, such as computer-aided retirement advice, can provide objectivity and accuracy; however, these methods lack the personal touch that may be needed to motivate workers to change their retirement savings and investment behavior and may be limited in their ability to capture the complex circumstances of individual households. Some large organizations may also have personnel in the human resources department who can provide information, assistance and

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guidance, but such assistance may be limited in scope or influenced by how the individual providing assistance is compensated or trained.

3.1 Investment and retirement advice

In this discussion of providing advice and guidance to retirement plan participants, an important distinction ought to be made between *investment advice* and *retirement advice*. *Investment advice* tends to focus specifically on the investments within a retirement plan and investment-related concepts, such as investment risk and return, risk tolerance, asset allocation, and portfolio optimization. In addition, investment advice involves decisions regarding which asset classes to include in a portfolio as well as discussions about particular investment options, including stocks, bonds, mutual funds, and exchange-traded funds (ETFs).

Retirement advice, however, focuses on issues related to preparing for a secure retirement, specifically issues outside those defined as investment advice. Retirement advice includes retirement income needs and cash flow planning, optimal accumulation strategies, mortality risks, withdrawal rates, and tax-efficient wealth distribution strategies. It also includes incorporating personal goals into retirement decisions, such as when to retire, what retirement will look like, and where to retire. Retirement advice also includes factors that take place during the accumulation phase that will impact retirement preparation, such as savings rates, asset allocation, rebalancing and whether pre-tax or after-tax accounts (or both) ought to be used. Retirement advice includes not only the concept of risk tolerance, common in investment advice, but also includes risk capacity, or the ability (and not just the willingness) to assume financial risks. It also includes many decisions made at or near retirement, including when and how to begin collecting Social Security benefits. Retirement advice is best when considerations involve the entire household rather than just the employee. Paramount to the discussion of retirement advice is that it rests on a thorough understanding of the individual's personal values and goals. As can be seen, employees often need advice beyond conventional investment portfolio strategies. And for many employees who have not accumulated many investible assets, retirement advice is much more beneficial than investment advice.

Although both investment decisions and retirement decisions will impact life-long financial outcomes, legislative and regulatory actions have focused primarily on investment advice. For example, Section 913 of Title IX of the Dodd-Frank Wall Street Reform and

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Consumer Protection Act of 2010 (commonly called, the Dodd-Frank Act) focuses specifically on "personalized investment advice," a phrase that is found throughout Section 913 (Dodd-Frank Act, 2010) and the subsequent study by the SEC that Section 913 required (SEC, 2011). In 2011, the Department of Labor also issued a rule designed "to increase workers' access to high quality investment advice," (DOL, 2011) but nothing in the ruling addressed access to retirement advice.

The lack of discussion regarding retirement advice may be due to the perceived difference in liability resulting from investment advice as compared to the existing liability placed on plan sponsors related to retirement advice. Conversely, some employers are concerned about the potential outcomes arising from the decisions employees fail to make. Although the long-run financial repercussions of bad advice in either domain can be devastating, investment advice is arguably more likely to be easier to identify in the short-run. Conversely, retirement advice is more likely to focus on saving rates and retirement preparation, where the potential negative outcomes appear less severe or may not appear for many years.

This report addresses access to both investment advice and retirement advice. Often, the approaches to providing both types of advice are similar, but they can also be quite different. When evaluating how to provide employees with access to advice, plan sponsors ought to consider how to provide investment advice separately from how to provide retirement advice, even though the same conclusion may be reached for both types of advice.

3.2 Continuum of education, guidance, and advice

Although definitions for education, guidance, and advice may differ, some general themes tend to exist regarding their usage in relation to financial decisions. Education tends to focus on general knowledge or information about investing and retirement, whereas advice tends to be more personalized to the individual situation of a particular plan participant. Guidance tends to be more of an umbrella term that encompasses much of the middle ground between education and advice.[3] Guidance regarding financial decisions may include general, broad financial education, and it may also include very personalized financial advice. Others may describe guidance as including everything short of personalized advice, a boundary which would

[3] See Hueler and Rappaport (2013) for further examples of how guidance can be used to aid plan participants in making financial decisions.

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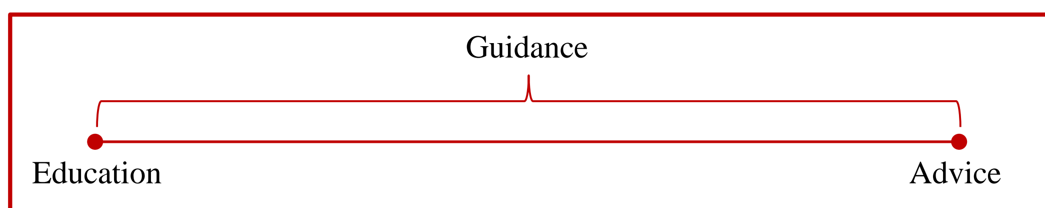
be difficult to define. More broadly, the differentiation between education, guidance, and advice can also be difficult to determine. Figure 1 provides a simple example of how this differentiation might be viewed as a continuum. The scope of education and advice provided by an employer can also vary greatly. Plan sponsors may want to provide access to advice on a broad spectrum of financial decisions, or they may want to narrowly provide guidance on retirement accumulation decisions. The scope can also vary according to when the education or advice is provided. For example, newer employees may need more information about enrolling in the plan, and education can be an effective means of distributing this information. Younger employees are likely to benefit from encouragement to participate and guidance on how much to save, whereas older employees may need more personalized advice to help them know if they are on track to retire at a particular age.

Figure 1. Continuum of education, guidance, and advice.



Plans can vary greatly regarding the level and type of advice and education that they provide for plan participants. For example, plan sponsors may wish to provide education and/or advice about Social Security. The scope of this information may include general education about Social Security benefits and claiming options, or it may be very specific advice about when a particular participant ought to begin collecting Social Security benefits, based on his or her unique earnings history, marital status (and his or her spouse's situation, if applicable), and other potential sources of retirement income.

Depending on the plan provider and/or advisor, the scope of education and advice on a variety of topics, including Social Security, can vary greatly. Regarding taxes, for example, a plan sponsor may wish to provide general information about the tax consequences of contributing to and withdrawing from a retirement plan. Alternatively, plan sponsors may wish to provide access to considerably more personalized tax planning strategies and may even wish to provide guidance on completing tax returns.

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Across a variety of financial domains, plan sponsors ought to consider the extent to which they want to provide general education about investment and retirement information, and to what extent they want to provide access to personalized investment and retirement advice, given the unique situation of a plan participant. Employers may also consider providing information that targets workers who appear to need it the most (for example by identifying employees who are not taking advantage of an employer match or saving at a low rate). Although this report focuses primarily on the realm of financial advice, education is also important and can be a means of providing a valuable service to plan participants. For example, plan sponsors may provide educational opportunities based on particular life events or for employees in a similar phase of the life cycle.

3.3 Defined contribution plans and financial advice

Defined contribution plans provide a government subsidy through tax-deferral in order to achieve higher rates of retirement saving among individuals. Since the purpose of this policy is to increase saving, it may be useful to view the relationship as a partnership between government and the individual worker with the primary objective of increasing the adequacy of retirement saving. In other words, the government wants workers to save more for retirement.

The Employee Retirement Income Security Act of 1974, commonly known as ERISA, makes it clear that the primary responsibility of the plan fiduciary is to act in the best interest of plan participants (Muir and Stein, 2014). When ERISA was first passed, defined contribution plans were not used very often. Employer-provided retirement benefits were typically in the form of defined benefit plans. Because employees often lack the sophistication to provide sufficient oversight of plan administrators, plan sponsors are required to assume a fiduciary standard of care in order to reduce opportunistic behavior by employers that is not in line with the interests of plan participants. Employers continued to serve as plan sponsor fiduciaries as defined benefit plans transitioned into the defined contribution era.

The objective of regulation through the Department of Labor (DOL) may best be seen through this lens. Although an employer may view the regulation of plan sponsors and plan providers as intrusive or even counterproductive, rulemaking by the DOL has generally encouraged policies that result in greater and more efficient retirement saving by employees. Oversight by the DOL has also mitigated and policed potential abuses.

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The DOL is also concerned about the general lack of financial knowledge of plan participants, which is partially what motivated Interpretive Bulletin 96-1 (DOL, 1996; Sullivan, 1996). Because of concern that providing education would create a fiduciary responsibility, Interpretive Bulletin 96-1 provides guidance that information about the plan and general financial topics were considered education and did not constitute investment advice (Sullivan, 1996). Because improved access to education was not enough, the Pension Protection Act of 2006 (PPA) amended ERISA in order "to expand the availability of fiduciary investment advice" (DOL, 2011). In describing the final investment advice regulation, DOL (2011) states:

> *The statutory exemption allows fiduciary investment advisers to receive compensation from investment vehicles they recommend if either (1) the investment advice they provide is based on a computer model certified as unbiased and as applying generally accepted investment theories, or (2) the adviser is compensated on a "level-fee" basis (i.e., fees do not vary based on investments selected by the participant). The final regulation provides detailed guidance to advisers on compliance with these conditions.*

With this perspective, plan sponsors have some responsibility to ensure that the retirement plan design gives employees the best chance of meeting their retirement goals. This responsibility can be difficult to achieve, since the realization of retirement goals largely occurs after the working relationship between an employee and his or her employer ends. Thus, a major responsibility of a plan sponsor of a defined contribution plan is to thoughtfully and carefully design a plan that is most likely to help its participants save adequately, invest appropriately, and successfully transition those investments into a lifetime income stream in retirement. This objective is often best accomplished by providing access to financial advice, and many employers are moving in that direction. A recent survey by Aon Hewitt (2013) found 75% of employers offer some sort of guidance, counseling, or managed account to help participants with their investments.

When designing a plan, plan sponsors can – yet should not – create a plan in a way that creates a conflict of interest and gives employers, or plan providers, an opportunity to extract excessive revenue from employees. After all, the federal government is willing to delay tax revenue in order to incentivize workers to increase retirement savings and improve their retirement preparation. This willingness to support retirement preparation ought not to be used

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in a way that merely subsidizes employers or the financial services industry through defined contribution plans.

Advisors can play an important role in helping employees manage assets and determine the appropriate and tax efficient spending from retirement accounts. There may also be conflicts of interest between advisors and employees after retirement if the advisor has an incentive to shift assets from an employer-sponsored defined contribution account into an IRA after the employee retires. While consolidating retirement savings into an IRA can provide convenience and greater investment choice, the employee loses the benefits of investing within an employer-sponsored retirement account. These may include the selection of investments by a fiduciary and the possibility of access to lower-cost institutional mutual funds. For example, Pension Policy Director John Turner recently phoned a number of investment companies to receive advice on whether to roll over investments from the low-cost Federal Thrift Savings Plan (Hechinger, 2014). Nearly all recommended that he roll the money over into investments with fees that were 20-30 times more expensive, and many of these recommendations were made by brokers who are legally discouraged from providing ongoing advice to retirees lest they be considered a fiduciary and regulated as a registered investment adviser.

Many economists favor partial annuitization of defined contribution savings as the optimal decumulation strategy (Mitchell, Poterba, Warshawsky and Brown, 1999). Plan providers may not provide annuity options within a retirement plan, and plan sponsors may either be unaware of the benefits of annuities or fearful that their inclusion may increase liability risk as a fiduciary. In addition, plan providers who do not offer annuities or who prefer ongoing income from managed assets will not have an incentive to recommend annuities to retirees. This reliance on decumulation from investment assets rather than on annuitization represents a significant social loss for retirees with limited financial literacy who must bear the risk of outliving assets while contining to manage retirement assets into old age. Hueler, Hogan and Rappaport (2013) argue for greater retiree access to competitively priced annuitization options in employer sponsored plans. This could be achieved by providing safe harbor to plan sponsors who include a means for retirees to select competitively priced annuity products from providers, for example through a market-based delivery platform in which employees could easily compare annuitization quotes from insurance companies. In 2014, the Treasury Department issued

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guidance to plan sponsors that encourages the use of annuities within target date funds as a default or an alternative to fixed income investments (Department of the Treasury, 2014).

One of the unintended consequences of the extensive reliance on defined contribution plans is that employers have less involvement with employees at and throughout retirement than they do under a defined benefit plan. However, individuals often need unique financial advice when they separate from their employers as well as throughout their retirement. This need for advice is even greater today than it was historically since, among other differences, individuals tend to live longer now and are less likely to receive retirement health care benefits from employers (Fronstin and Adams, 2012).

3.4 Consumers of financial advice

Finke, Huston, and Winchester (2011) define investors as self-directed, advice-supported, and comprehensively-managed. These three investing personalities can be used to describe the potential approaches that employees take regarding the management of their retirement assets and retirement planning. For example, some plan participants might like to manage their own investment decisions and make adjustments to their retirement plan assets accordingly. As such, self-directed participants may prefer using interactive software (often provided through a website) as a way to receive personalized investment advice. Conversely, some participants may prefer to be comprehensively managed and rely on the decisions and adjustments of an investment professional. Such individuals may prefer to meet one-on-one with a professional financial advisor in order to discuss their retirement plan assets.

3.5 Need for financial advice

Many employees lack basic financial knowledge (FINRA, 2014). Employees are often unable to estimate how much they need to save for retirement and how to invest once they begin saving. To be fair, estimating an appropriate amount to save can be complex and involves intertemporal decisions reaching across decades. Skinner (2007) suggests that workers in their 20s and 30s are unable to calculate how much they need to save. For older workers, the calculation still has considerable amounts of uncertainty, including the important and unknown cost of future health care, especially at advanced ages, to say nothing of the uncertainty of life expectancy. In addition, the uncertainty of future tax rates, marital status, asset returns, and Social Security and Medicare programs, all impact how much wealth is needed to adequately

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fund retirement, to say nothing of asset returns, job outlook, and potential income shocks before retirement. Workers nearing retirement must also decide how to turn a lump sum of assets, accumulated in qualified retirement accounts, into income during retirement. The precise timing of retirement and implementing the life and financial shift into retirement can also be complex. Navigating Social Security claiming strategies alone can be daunting. Needless to say, financial advice can influence a worker's confidence and ability to make effective retirement decisions at any stage of the life cycle. Establishing a relationship with a quality financial advisor (or financial planning firm) during one's working years and potentially continuing that relationship into retirement can help an individual achieve a successful launch into retirement. Because financial advisors face similar life cycle phases, many financial advisors and financial planning firms implement succession and transition strategies so that clients can seamlessly receive advice even if the original advisor is retired or no longer able to provide advice.

Regarding investment choices, plan participants tend to use a variety of investment methods during the asset accumulation phase that may not lead to the best results. For example, many individuals invest heavily in their employer's stock (Benartzi, 2001). In some instances, three-fourths of employee contributions were used to purchase company stock (Benartzi, 2001), which aligns participant portfolio returns and income in a risky way (i.e., when a company goes bankrupt, both the income and stock investments are lost). Many participants also engage in naïve diversification, where they allocate 1/n of their contributions and/or portfolio balanced in each fund within the plan (where n represents the number of funds in the plan) (Benartzi and Thaler, 2001). Although the availability of employer stock within 401(k) plans has fallen sharply since the Enron scandal of 2001 (Blanchett, 2013), such an approach to asset allocation when retirement is the primary savings goal suggests a lack of understanding of basic investing principles. It also suggests the effectiveness of a combination of regulation, plan design choices and increased employee education, which has reduced employee ownership of employer stock in 401(k) plans from 17% in 1999 to 10% in 2011 (Blanchett, 2013).

Participants can also be overwhelmed by the number of investment options in a plan and have a difficult time making decisions (Iyengar, Jiang, and Huberman, 2003). Although the introduction of target-date funds may have mitigated these concerns, only four out of ten plan participants choose to invest in target-date funds when they are available in their employer's plan (Agnew, Szykman, Utkus, and Young, 2011). Participants who invest in target-date funds also

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often invest in other assets, which may defeat the intent of using the simplicity available in target-date funds (Mitchell, Mottola, Utkus, and Yamaguchi, 2009; Agnew et al., 2011) and may suggest that participants continue to lack an understanding of basic investing principles.

Investors also tend to be loss averse, which means that they are more sensitive to losses than to gains (Kahneman and Tversky, 1984). Loss-averse investors tend to leave funds after they experience a loss, foregoing any subsequent positive returns. As a result, individuals tend to underperform the mutual funds they hold (Friesen and Sapp, 2007). Even long-term investors tend to evaluate their portfolios over shorter time periods, which effectively decreases their long-run performance (Benartzi and Thaler, 1995).

In addition, the complexity of financial markets, tax regimes, and retirement planning can be overwhelming for plan participants. As a result, individuals may improve their financial situation by using a financial advisor. Winchester, Huston, and Finke (2011) find that investors are more likely to maintain a long-term perspective during a recession if they use a financial advisor. Portfolios tend to be more diversified and include more asset classes when investors use financial advisors (Bluethgen, Gintschel, Hackethal, and Mueller, 2008; Kramer, 2012). Most importantly, financial advisors may provide additional benefits to their clients that are difficult to quantify such as peace of mind and maintaining focus on long-term goals (Hanna and Lindamood, 2010).

Given low employee financial literacy and the complexity of calculating retirement savings adequacy, significant potential exists for objective, accurate retirement advice tailored for less sophisticated users with the intent to help employees make better decisions. Examples of simplified online retirement planning tools developed by retirement account providers are the CoRI retirement income planning tool developed by the financial services firm BlackRock or the retirement income calculator provided by Vanguard.[4] These interactive tools use technology to present information in a format that is easily understood by employees. Rather than relying on a recommendation by a financial advisor, an employee is able to quickly select various alternative savings strategies, retirement ages, and investment portfolios. Research shows that these types of calculations that involve comparing dollar amounts over time are particularly difficult for

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[4] http://www.blackrock.com/cori-retirement-income-planning;
https://retirementplans.vanguard.com/VGApp/pe/pubeducation/calculators/RetirementIncomeCalc.jsf

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most average employees (Stango and Zinman, 2009). The CoRI tool is unusual in that it allows an employee to estimate the cost of generating a dollar of inflation-adjusted retirement income at retirement, and it provides a more realistic illustration of the tradeoffs of taking greater investment risk. In the future, retirement plan providers will likely provide more ways for employees to improve their retirement decision making quality through technology.

A sole reliance on technology as a provider of financial guidance is also problematic. Turner and Witte (2009) find significant problems in the use of retirement planning software. For example, Turner and Witte (2009) find that similar information can result in a variety of outcomes, depending on the program. Some programs rely on unsophisticated users to enter assumptions needed for planning, even though these users may grossly overestimate rates of return or underestimate life expectancy. These programs also rely on the accurate entry of information, and many users may not be able to adequately check for entry errors.

The DOL has proposed rulemaking focused on providing lifetime income projections for plan participants (DOL, 2013). Even now, many plans are providing lifetime income illustrations to participants. As these illustrations become more prevalent, more participants are likely to realize the inadequacy of their current retirement preparation, which will likely increase the demand for advice that will help them better prepare for retirement.

3.6 Use of financial advice

As related to retirement plans, the use of financial advice occurs at the plan participant level and the plan sponsor level. Just as many plan participants would benefit from personalized financial advice, the needs of each plan are also unique and require personalized financial advice. As with plan participants, plan sponsors may benefit from using professional financial advice to help them with the complex details of retirement plan administration, plan design, and investment selection and management. Although this section focuses on the use of financial advice at the plan participant level, a brief discussion of the use of financial advice in making plan design decisions is also discussed.

Although individuals may benefit from using a financial advisor, not many people employ a professional to provide financial assistance. In the U.S., only about 25% of households use a financial advisor (Hanna, 2011). And those who use a financial advisor tend to have higher income (Joo and Grable, 2001; Hanna, 2011) and higher wealth (Chang, 2005; Bluethgen,

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Gintschel, Hackethal, and Mueller, 2008). Granted, financial advisors often target households with higher net worth and income, and those with more wealth are more likely to benefit from their services. However, providing access to an advisor may not be enough to entice many individuals to use their services. In a German study, customers of a bank were offered free financial advising services (Hackethal and Inderst, 2013) from a professional, non-conflicted advisor. Only about 5% of customers met with the advisor, and those who did make an appointment had higher incomes and greater education. Those who need advice the most may be least likely to use it, even if it is subsidized by an employer.

Relatively little is known about what leads individuals to seek financial advice. An average age at which financial advice seeking begins has not been identified; however, use of a financial advisor increases with age (Bluethgen et al., 2008), and Hanna (2011) estimates that use of a financial planner peaks around age 42, most likely in anticipation of retirement. Experiencing major life events (e.g., change in marital status, birth of a child, death of a spouse) and substantial changes in one's financial situation (e.g., significant changes in net worth and income) are common reasons to seek financial advice (Leonard-Chambers and Bogdan, 2007; Cummings and James, 2014). Cummings and James (2014) also suggest that changes in one's willingness to receive help from family members or mental health professionals also increase the likelihood of seeking financial advice.

The value of professional financial advice can be difficult to quantify since financial advisors often provide non-pecuniary services, such as helping a client articulate and define goals and an investment policy. Perhaps the greatest value that a retirement plan advisor can provide a plan sponsor and its participants is to improve plan design through the selection of mutual funds with low expense ratios that provide a diversified mix of assets and to implement a strategy for increasing enrollment and contribution rates. For example, Choi, Laibson and Madrian (2010) find that S&P 500 index mutual funds range widely in cost for what is essentially a commodity with very similar quality regardless of the provider. Like a gallon of milk, prices for mutual funds should be similar among retailers. However, because mutual funds are often not selected based on price, far more price variation exists than might be expected in an efficient market. Following the same milk analogy, a gallon of milk that may cost $4 from one mutual fund family may cost $100 from another fund family. Although advisors to larger plans can build their own options for the plan sponsor and may be able to negotiate lower expenses for

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their plan, mutual funds with low expense ratios (e.g., < 25 basis points) are available for nearly any plan.

Of the mutual funds included in a plan, perhaps the single most important investment selection is of the default fund, often a target-date fund. As the default, this fund becomes the fund into which most new employees invest and in which they often continue to invest over time. The selection of a target-date fund with an annual expense ratio that is just 1% (i.e., 100 basis points, or bps) lower than another can result in employee retirement savings that is as much as 20% higher over 30 years (see Figure 3 on p.38). In other words, a single recommendation to lower expenses can improve the retirement adequacy of long-term employees by 20%.

Blanchett and Kaplan (2013) identify planning services that provide quantifiable value and estimate the contribution these services make to improving overall household welfare. For example, pre-retirement investment advising services tailored to a specific employee can provide an estimated 0.45% excess return impact each year. Tax-efficient investment advice that strategically considers assets held in taxable accounts and qualified plans can provide an additional 0.23% excess return impact each year. Post-retirement advice can provide some of the most significant value, particularly in strategically structuring retirement savings withdrawals, which can provide an estimated 0.70% excess return impact. These benefits do not include the significant value provided by basic financial counseling including debt reduction, estimating retirement savings needs, and planning for family spending needs.

4 Models of financial advice and selection considerations

Financial advice can be provided in a variety of ways. On one end of the spectrum, individuals may work one-on-one with an independent financial advisor. On the other end of the spectrum, individuals may work through a systematic process designed to provide advice, while considering a number of unique variables, often through an automated software program. In between the extremes of this spectrum are a variety of models, combining elements of both an advisor and a systematic process (often in the form of software). The benefit of a systematic process is that it can be more efficient to replicate for each employee, although the time cost for each case on the part of the advisor and/or the employee can still be quite significant. Figure 2 provides a simple example of how this advice spectrum might look. These models can involve

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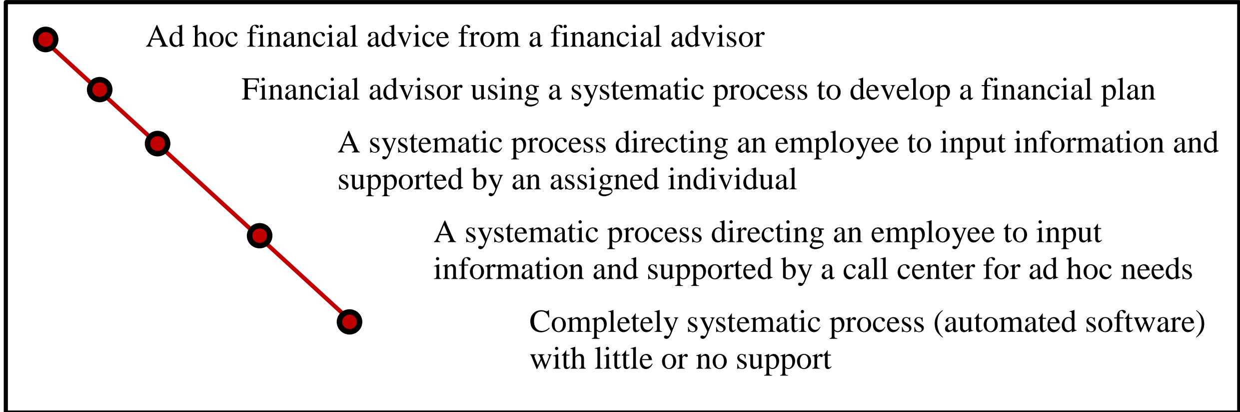
investment advice, retirement advice, or both types of advice, depending on the provider. They may also include other financial advice that falls outside what might be termed investment or retirement advice. This spectrum could also apply more generally to ad hoc advice designed to provide guidance at key points in the employee's work history or life cycle, such as upon being hired, preparing for retirement, or when offered a lump sum payout.

When considering the breadth of the advice, advice may be limited to the defined contribution plan itself, or may extend to financial decisions outside the retirement plan. For example, some advising services emphasize an optimal allocation of investments from among the available options within a retirement plan. This type of portfolio optimization advice may be of limited value due to the increasing proportion of employees who simply invest in a single default target-date fund in which portfolio allocation is automatic and presumably efficient for most workers. Others may model retirement adequacy by estimating the growth of assets invested within a single defined contribution plan, but this ignores assets held outside the retirement plan and a range of other characteristics that may affect adequacy.

Figure 2. Spectrum of financial advice models to provide personalized advice.



More comprehensive advice will incorporate a greater range of financial circumstances outside the employer retirement plan, and may include ongoing advising services after a plan is initially created. These services may include advice on investments in other accounts including emergency savings, taxable investments, IRAs and other defined contribution accounts from previous employers. Advice may also include guidance on important household financial decisions such as insurance, mortgage choice, budgeting, educational savings, and estate planning. While some advising services provide an initial plan, others may provide ongoing

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advice and reassessment to ensure that employees are moving toward financial goals. A few plans today also provide a means for participants to roll over to non-plan advice service once employment terminates (e.g., HelloWallet, LearnVest).

Plan sponsors may decide to design a structured program of access to advice, where all participants have access to a basic level of advice, with the possibility of providing additional advice at the expense of either the plan or the participant. Add-on services can be made available to employees at key points, or for key and highly compensated employees who tend to have more complex compensation packages, since such benefits often require more complex planning and advising.

4.1 Fiduciaries and advice

A fiduciary is generally someone who is deemed to be in a position of trust and in whom another party relies. This other party acts in good faith that the fiduciary is acting competently and in his or her best interest. The concept of fiduciary can be complicated when considering financial advice because it can be used in multiple ways. For example, plan sponsors are a fiduciary because they are in a position of trust regarding their plan participants. A financial advisor may also be a fiduciary when they provide personalized financial advice to an individual because of the level of trust. To further complicate the issue, a financial advisor may be providing advice to a plan sponsor, regarding plan design decisions in the sponsor's role as a fiduciary, and the advisor may or may not be a fiduciary. This same advisor might also provide advice directly to plan participants, and similarly may or may not be held to a fiduciary standard. In addition, different definitions of fiduciary standard can apply in different situations. These complex and often overlapping issues regarding fiduciaries and financial advice are discussed in this section.

The DOL defines the responsibilities of an ERISA fiduciary as acting in the sole interest of plan participants, prudently carrying out duties, providing diversified plan investment options, following plan documents, and managing plan-related expenses. Fiduciary responsibilities are not removed or reduced simply because a plan sponsor does not have the expertise to act competently. Reish and Ashton (2011) state, "Under ERISA, the fiduciary is held to the so-called prudent expert rule even if he lacks the capabilities required to carry out his fiduciary responsibilities." (p. 11). Of particular note is that a prudent expert is assumed to possess greater

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knowledge and expertise than a prudent man or woman. As such, they further suggest that "failure to be aware of one's duties can constitute fiduciary breach under ERISA." (Reish and Ashton, 2011, p. 11). The actions of a fiduciary must be prudent, and prudent investment selection and plan administration may require the assistance of a financial expert. Documenting the process taken when creating and administering the plan can provide evidence that a fiduciary fulfilled his or her duty of prudent care.

Plan sponsors are held to a fiduciary standard of care because participants place significant trust in plan sponsors to act in their best interest.[5] Other individuals involved with the plan may also be fiduciaries who must act in the best interest of plan participants. Fiduciaries under the Employee Retirement Income Security Act of 1974 (ERISA) can include both investment stewards and investment advisors. Investment stewards describe those who are responsible for oversight and management decisions, including plan sponsors. Investment advisors may provide advice and other services to the investment stewards.

Plan providers, on the other hand, are not necessarily fiduciaries. However, selecting and hiring a plan provider is a fiduciary action that requires the due care and prudence of a plan sponsor. Although plan providers are not necessarily fiduciaries, some service providers will serve as fiduciaries in order to reduce the potential liability placed on plan sponsors. Sponsors can also hire investment advisors to provide financial advice and education to employees, but these advisors may not bear a fiduciary responsibility. For example, providing general financial education does not assume fiduciary responsibility. Registered representatives who provide services as fiduciaries are held to a higher standard of care than the suitability standard applied by FINRA. Most importantly, they are prohibited from self-dealing by recommending products that give them higher compensation, and disclosure of these conflicts is not sufficient to meet a fiduciary duty of loyalty. Registered representatives who receive product-based compensation from plan providers may violate ERISA fiduciary standards if they assume a fiduciary role within a plan.

Since such fiduciary responsibility is placed on plan sponsors, they may rightfully decide to rely on the services of an investment professional, especially since plan sponsors are often not

[5] To help plan sponsors fulfill their fiduciary responsibilities, the DOL has created a useful guide, "Meeting Your Fiduciary Responsibilities," available at http://www.dol.gov/ebsa/pdf/meetingyourfiduciaryresponsibilities.pdf.

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investment experts. Plan sponsors typically consider hiring an investment advisor who may or may not assume fiduciary responsibility for the plan. Some investment advisors may assume partial or limited fiduciary responsibility, and these advisors are often referred to as co-fiduciaries (Prudent Investor Advisors (2014b). Co-fiduciaries may assume shared fiduciary responsibility with plan sponsors, but plan sponsors still fill the role of fiduciary. Sometimes these advisors with limited fiduciary responsibility are referred to as Section 3(21) advisors, referring to the corresponding section of ERISA. Investment advisors who assume considerable fiduciary responsibility and liability are called Investment Managers, as described in Section 3(38) of ERISA. Plan sponsors are able to transfer, rather than share, considerable fiduciary responsibility to investment managers. Plan sponsors can only transfer fiduciary responsibility to advisors who specifically identify themselves as investment managers, under Section 3(38) of ERISA.

Prudent Investor Advisors (2014a) provides a helpful chart outlining questions that ought to be asked of an investment advisor in order to identify the extent to which the investment advisor assumes fiduciary duty and the associated risks and responsibilities. (Table 3 is adapted from their chart.) For example, plan sponsors ought to ask advisors if they are willing to accept liability for selecting, monitoring, and replacing plan investment options and if they are willing to be accountable for the advice they provide (Prudent Investor Advisors, 2014a). Plan sponsors, especially sponsors who are not investment experts, ought to carefully consider the extent to which they would like the investment advisor to assume a fiduciary role in relation to the plan. Most importantly, plan sponsors ought to consider the extent to which they would like to "transfer significant fiduciary responsibilities and liabilities," (Prudent Investor Advisors, 2014b), which is available only by retaining an advisor who accepts the role of an investment manager under ERISA Section 3(38).

The extent to which an investment advisor assumes either shared or transferred fiduciary responsibility can influence a plan sponsor's decision regarding access to personalized investment and retirement advice. Because plan sponsors can only transfer fiduciary responsibility to an investment manager (and to no other type of investment advisor), plan sponsors ought to consider whether personalized advice for participants ought to be provided by anyone other than an investment manager.

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Table 3. Risks and responsibilities that plan sponsors can transfer to an ERISA 3(38) investment manager.

Question	*Non-Fiduciary*	*Co-Fiduciary (ERISA 3(21))*	*Investment Manager (ERISA 3(38))*	*Benefits to Plan Sponsor*
	Type of Advisor to the Plan			
Will the advisor accept liability for:				
Selecting plan investment options?	NO	NO	YES	Rids liability for selecting investment options
Monitoring plan investment options?	NO	NO	YES	Rids liability for monitoring investment options
Replacing plan investment options?	NO	NO	YES	Rids liability for replacing investment options
Is the advisor interested in:				
Reducing plan investment risk?	NO	Maybe/ Depends	YES	Can reduce plan investment risk
Reducing plan investment costs?	NO	Maybe/ Depends	YES	Can reduce plan investment costs
Does the advisor:				
Provide advice with accountability?	NO	Maybe/ Depends	YES	Receives advice with accountability
Have fiduciary discretion?	NO	NO	YES	Discretion determines responsibility and liability
Can a plan sponsor transfer significant risk to the advisor?	NO	NO	YES	Rids of significant risk

*Adapted from a similar table by Prudent Investor Advisors, LLC. Used with permission.

4.2 Compensation and incentives

Direct compensation for advisor services can range in terms of payment methods and total expense to employers and employees. Representatives who provide employee education may be paid through the sale of retirement products they recommend and may not have any separate charges. Investment advisors who provide fiduciary advice to the plan sponsor and participants may be paid a percentage of assets under management. Investment consultants who

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provide recommendations on investment options within a plan often charge a flat fee. Fee-only financial advisors typically provide advice to individuals for an hourly fee, asset fee or monthly or annual retainer.[6] Some providers, including those who focus more on financial education, also have a range of pricing models. For example, they may charge hourly for a particular class, or they may charge for their online services based on the size of the company or the number of plan participants. Advising services to retirement plans commonly include recommendations of investment options to the plan sponsor, but additional services can be provided by an employer as a benefit to participants.

A number of plan providers offer retirement-related advice to employees. These providers often collect employee information such as income, age and risk tolerance, and provide investment portfolio recommendations, estimate retirement savings needs, and can recommend an amount to save in order to meet retirement goals. These services often charge asset fees (for example 0.15% to 0.5% of assets held in retirement accounts annually), and these fees may be lower for employers who choose to provide advising services to all employees.[7] These managed account providers generally focus on retirement income and investment-related advice and may assume fiduciary responsibility for plan recommendations.

Outside of retirement accounts, individuals can choose to hire a financial advisor on their own to provide a comprehensive financial plan that will include recommendations on areas outside of retirement planning (for example insurance, estate planning, taxable investments, or saving for education). As mentioned previously, compensation for advising services is most often a percentage of assets or an hourly fee for registered investment advisors, and product commissions for registered representatives or insurance agents. Fee-based financial advisors may be compensated through asset fees and product commissions, while fee-only advisors do not receive commission compensation. The breadth and quality of advice vary based on advisor and, as mentioned, can be difficult for a consumer to assess prior to purchase.

Different compensation models present different incentives to an advisor, and they also ought to be considered. As mentioned previously, registered representatives of a broker-dealer are typically compensated by commissions, and as such, registered representatives may have an

[6] A list of local fee-only advisors can be found at http://findanadvisor.napfa.org/Home.aspx.
[7] Turner and Muir (2013) provide examples of how some specific firms structure their fees.

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incentive to encourage more trades. Conversely, investment adviser representatives are typically compensated by a fee, often based on assets under management, although some advisors charge a flat fee or an hourly fee. These advisers have an incentive to accumulate assets, and may be inclined to give advice biased towards accumulating managed assets, rather than paying down debt. Advisers compensated on an hourly fee may be incentivized to work very tediously, whereas advisers who are paid a flat retainer may be incentivized to work as quickly as possible so as to allow time for more clients. Regardless of the compensation model, conflicts will exist. Also, fees and most commissions paid to an advisor are in addition to any management expenses incurred within a mutual fund.

The compensation options within a plan can be even more varied because a plan sponsor has an option regarding who will pay for the advisor. For example, some plan sponsors may want to structure an arrangement with an advisor similar to an Employee Assistance Program (EAP). Some plan sponsors may merely want to provide access to personalized advice at a reduced cost than would be available to retail clients. The advisor in this situation benefits from having a larger potential client base and may be willing to offer his or her services at a reduced rate and/or for a flat fee, which can be paid by either the plan or the participant. Alternatively, plan sponsors may decide to retain an advisor who will be available for set hours each day or week, where employees can schedule a time to visit. For larger employers, they may decide to retain a full-time advisor, allowing access to the advisor throughout the business day. Plan sponsors must also decide whether or not the time spent meeting with an advisor is allowed on company time or if a participant needs to meet on personal time.

Many registered representatives who help employees set up retirement plans are compensated indirectly by the plan provider. The advisor will often recommend a platform that includes investment options that provide a financial incentive to the broker that provides compensation for the time spent marketing and setting up the plan. The funds will often have higher expense ratios than the most efficient comparable funds. These advisors are often not ERISA fiduciaries, so the plan sponsor bears the fiduciary responsibility to participants who pay these higher investment fees. For this reason, it is important to consider the higher investment expenses against the costs of employing a fiduciary to create a plan and bear responsibility for investment selection.

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It should be noted that non-fiduciary investment advisors represent a legal gray area within the retirement industry. The U.S. Department of Labor announced in October 2010 a proposed rulemaking change (and currently not yet implemented) which would make any person providing investment advice to a plan a fiduciary. Fiduciaries are prohibited from self-dealing (Laby, 2010a), which will likely impact their ability to recommend investments that may provide higher compensation to the advisor. This may result in more advisors being paid directly by the plan provider.

Costs may not be transparent and can be difficult to determine, especially when costs are assessed at different levels. For example, participants often pay fees for the management of the investments they own with the plan, fees for the management of the plan, and if they receive financial advice, there may be a separate fee for the advisor. The combined fee that participants pay can be significant, and often even advisors underestimate how much their clients pay (Skinner, 2014). Plan sponsors ought to be diligent about knowing the costs of administering the plan, the investments within the plan, and the cost of financial advice.

To better understand the costs to plan participants from selecting investments that have higher expense ratios, it may be helpful to illustrate the impact higher expense ratios have on employee retirement savings over time. Figure 3 illustrates the percentage loss over 30 years from investments that have annual expense ratios ranging from 0.5% (50 basis points, or bps) to 2.5% (or 250 bps). Although it may appear trivial, investments that have average expense ratios of 1.5% will result in 28.7% lower total retirement savings than a portfolio with zero expense ratios. Although all funds have an expense ratio, some institutional-class index mutual funds have expense ratios as low as 4 basis points (0.04%).

The costs of hiring an advisor compensated by the plan provider to help establish a retirement plan are generally back-loaded in the sense that the advisor is generally compensated from recurring fees paid for by plan participants. Alternatives include managed account providers, which charge participants a fee of around 0.50% to select funds and provide a range of advising services to plan sponsors and employees. A plan sponsor can compare provider services and costs in order to select an account provider. The managed account provider generally also bears the fiduciary burden of selecting investments for the account.

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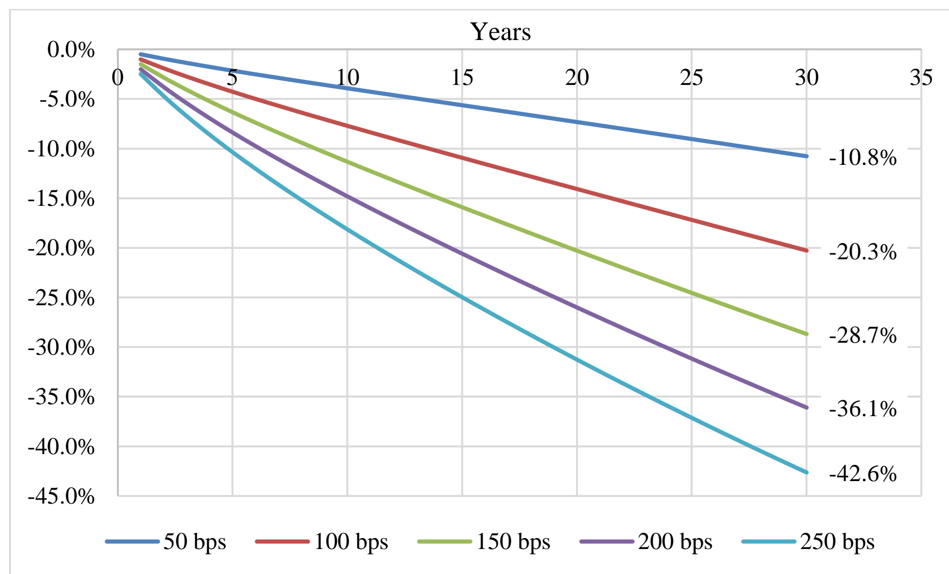
Figure 3. Percent of portfolio value lost due to expenses.



Author's own calculations. Assumes $50,000 initial balance, monthly contributions of $500, and 5% annual returns.

A plan sponsor can also select a fiduciary advisor who can recommend investment choices and help the sponsor set up the fund. Many larger employers are moving toward a disaggregation of retirement plan services including investment advising, and may pay the advisor as either a percentage of managed assets or through a flat fee. A small employer needs to weigh the costs of direct payment for advice and the indirect costs of having the plan set up by a non-fiduciary advisor against the total cost of investments to plan participants as well as the economic benefit of transferring fiduciary responsibility.

Recently, a number of financial services firms have begun offering low cost fee-only financial advice to individuals through an online platform that can reduce the cost of providing individual advice (e.g., Wealthfront, Betterment, LearnVest, Vanguard). As a particular example, Vanguard Personal Advisor Services collects investor information and provides access to a human advisor for general financial recommendations at a cost of only 0.3% of assets managed. Other services charge slightly lower fees but typically limit the scope of advice to investment management. Other online services, like Financial Engines, design their offerings to be flexible to meet the personalities of the employees, whether they want comprehensive advice or simply occasional guidance. Some online financial advising services focus on providing

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counseling to individuals to help them manage debt and meet financial goals over time. In general, the cost of online financial advising platforms is lower than the cost of in-person financial advice, and may prove to be of higher quality due to the objectivity and sophistication of computer-generation recommendations – particularly for less wealthy individuals who may not have access to a well trained professional advisor.

Historically, expenses associated with plan administration were often opaque and difficult to locate. Recent regulations, and proposed regulations, from the DOL are moving to improve the access to such cost information. As the costs of plan administration become more apparent and easier to identify, plan sponsors ought to use this information as an opportunity to review their current plan, its costs, and the services they and their participants receive for those costs.

4.3 Technology and online financial advice

Technology allows employers and plan providers to provide advice to employees at a low cost. For example, participants can interact with a well-designed computer program through a secure Internet portal, and this program can provide personalized advice to the participant through the same portal. Some platforms allow plans to provide data directly to the provider while other platforms request participants to link the platform to another financial services provider. Automating data integration can reduce time costs and input error, which is a benefit of online services. However, some information needs to be entered manually (e.g., household information, personalized goals). Online services can also reduce costs by allowing participants to enter this information directly, which can also allow for more beneficial and personalized financial advice.

Other providers may instead use online technology as part of a systematic process to providing advice, often using it as a means to connect participants with actual financial advisors who can provide personalized advice. Other models exist combining elements of these examples. Employees can also individually purchase financial software or online subscriptions, which can be available at a low cost in the retail market or perhaps from the firm that serves as plan advisor.

Although DOL (2011) describes the use of unbiased computer models in providing investment advice, many plan providers have developed ways to utilize technology as a means to

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provide customized advice beyond investment advice. Financial outcomes, and particularly retirement outcomes, can be improved through the use of technology, as demonstrated in the following analysis (Bi, Huston, and Finke, 2014). The National Longitudinal Survey of Youth (NLSY) is a nationally representative survey of individuals born between 1958 and 1965, which can be used to represent today's workforce. In 2008, when respondents were between 43 and 50 years old, the NLSY asked about retirement saving and advice, including their use of software. Respondents indicated whether they had estimated how much they need to save for retirement, and whether they had used a financial advisor, a computer-aided retirement software program, or any combination of advising and software planning services.

In order to better understand the characteristics of employees who may use a computer aided financial planning tool, a multivariate regression model is estimated to calculate the likelihood of using a computer-aided software program to estimate retirement savings needs. The logistic regression estimates the independent impact of various household characteristics on the likelihood of using financial software to plan for retirement. In general, higher socioeconomic status employees are most likely to use a planning tool that simplifies the retirement planning process. This result is broadly consistent with Hackethal and Inderst (2013).

Households which have greater endowed and attained human capital (which reduces the time and psychic costs of learning a computer program) are more likely to use financial software to calculate retirement needs. The main results are reported in Figure 4. The variable with the strongest independent effect (while controlling for income and education, among other variables) is high cognitive ability (measured through an IQ-like test conducted in the early 1980s more than 20 years prior to the 2008 survey). Those who had a graduate degree were 100% more likely to use financial software than those with only a high school diploma. Those with a college education were 70% more likely than those with only a high school diploma. Men were more likely than women to use software, and, all else being equal, black respondents were 65% more likely than white respondents to use financial software.

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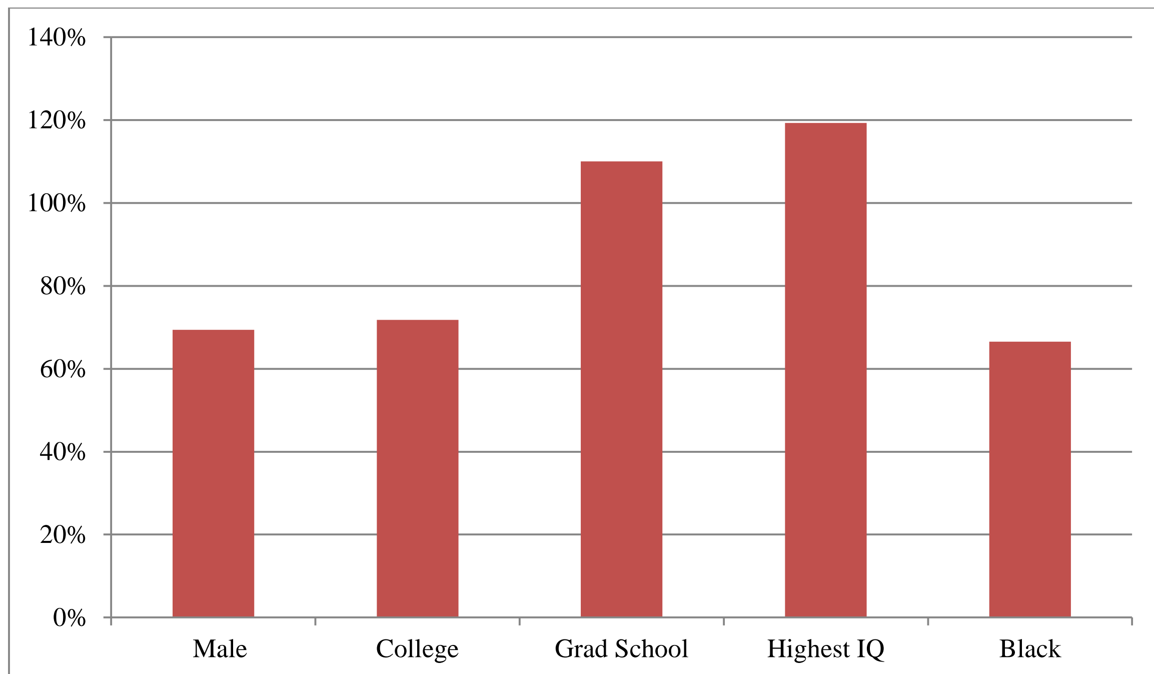
Figure 4. Results of an analysis of factors that increase the likelihood of using financial software.



Source: National Longitudinal Survey of Youth, 2012

Not surprisingly, income is also strongly related to the use of financial software. The results are displayed in Figure 5. Relative to the lowest income respondents, increases in income also increases the likelihood of using financial software.

While the use of computer-aided retirement software increases generally with income, it does not rise monotonically. Middle income households are slightly more likely to use financial software than upper-middle income respondents. Highest income respondents are most likely to use retirement planning software. The reference group is the lowest income quintile. Results suggest that while higher socioeconomic status workers will be more likely to use financial software, there is evidence that the use among middle income households will be similar to higher income households. This makes sense if these households perceive a need for advice but are not served by traditional advising channels.

Total savings in retirement accounts is also modeled. The main results are reported in Figure 6. Variables are included to represent income, net worth (outside of retirement accounts), education, cognitive ability, other demographic characteristics, and method of retirement

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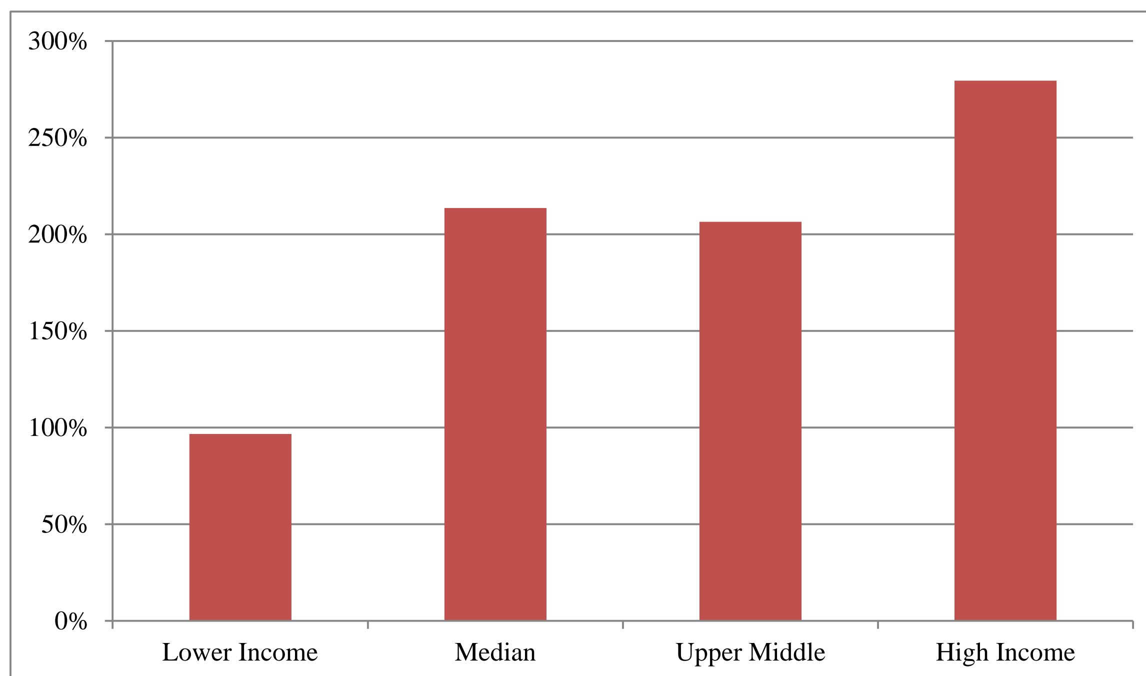
planning (e.g., advisor, software, advisor and software). Despite controlling for other factors, retirement planning tools have a significant independent impact on total retirement savings.

Figure 5. Results of an analysis of how income increases the likelihood of using financial software, relative to the lowest income respondents.



Source: National Longitudinal Survey of Youth, 2012

All else being equal, those who used retirement software saved nearly $50,000 more than other respondents. The use of a financial advisor alone had a modest impact on retirement savings; however, the greatest impact on retirement savings occurs when a financial advisor is used in conjunction with retirement software. Respondents who use both an advisor and software saved $75,000 more than other respondents. Plan sponsors ought to consider whether they would like to provide access to both software and a financial advisor in order to help workers estimate retirement needs and more adequately save and prepare for retirement.

Plan providers can be a potential source for advice and software solutions. A number of plan providers offer computer-aided retirement planning software. Based on the top retirement plan providers' reports (DATABOOK, 2005; The Cerulli Edge, 2013), five commonly used retirement planning tools offered to individuals are evaluated (Bi, Huston, and Finke, 2014). These tools are described in Table 4, including Financial Engines, GuidedChoice QuickAdvice,

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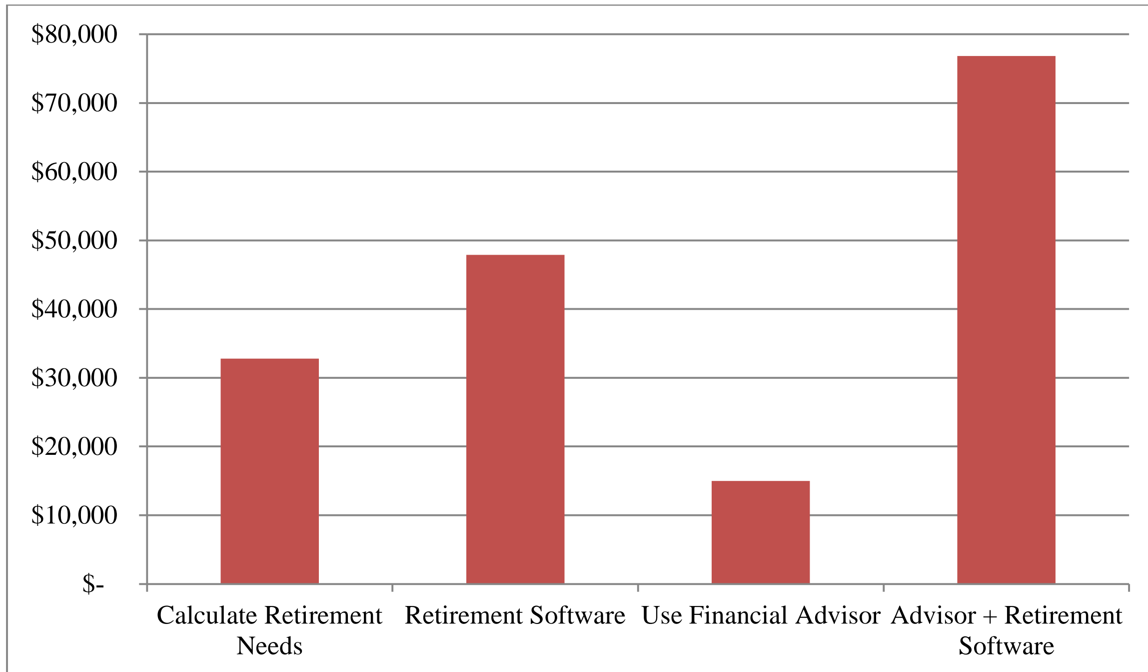
Fidelity Retirement Quick Check, Vangard Retirement Income Calculator, and T. Rowe Price Retirement Income Calculator.

Figure 6. Factors that impact the level of additional retirement savings.



Source: National Longitudinal Survey of Youth, 2012

Table 4. Selected retirement planning tools.

Provider	*Software Name*
Financial Engines	Financial Engines
GuidedChoice	QuickAdvice
Fidelity	Retirement Quick Check
Vanguard	Retirement Income Calculator
T. Rowe Price	Retirement Income Calculator

Table 5 outlines the inputs included in each of the retirement planning tools. A financial planning software program is only as good as the information input into the system (the old "Garbage in, garbage out" adage). However, too many inputs can complicate the process and prevent the usability of the software, thereby preventing its adoption among participants. As can be seen, these tools have considerable variation regarding their inputs. Not surprisingly, these

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differences in control lead to different projected outcomes. None of the tools included other important input options, including personal health (or an indication of being a smoker), mortgage, expected stock and bond returns, expected inflation, anticipated pre-retirement withdrawals, and arguably most important, risk tolerance.

Table 5. Comparison of inputs in retirement planning tools.

Inputs Asked/Tools	*Financial Engines*	*Guided Choice*	*Fidelity*	*Vanguard*	*T. Rowe Price*
Age	✔	✔	✔	✔	✔
Gender	✔	✔	✔		
Spouse/Partner	✔	✔	✔		✔
Retirement Age	✔	✔	✔	✔	✔
Annual Salary	✔	✔	✔	✔	✔
Annual Other Income		✔			
Salary Increase %	✔				
Annual Retirement Plan Contribution		✔			✔
Other Taxable Retirement Saving		✔			
Retirement Income Goal	✔				
Pensions		✔		✔	✔
Other Retirement Income	✔	✔	✔		✔
Social Security Begin Age	✔		✔	✔	
Social Security Amount	✔		✔	✔	✔
Tax Filing Status	✔		✔		
State of Residency	✔				
Effective Tax Rate	✔				
Current Retirement Saving Balance	✔	✔	✔	✔	✔
Retirement Plan Allocation	✔	✔	✔		✔
Other Retirement Savings		✔			
Life Expectancy			✔		
Estimated Retirement Expenses			✔	✔	
Financial Events			✔		
Expected Annual Rate of Return				✔	

A number of registered investment advisers have developed business models designed to provide online low-cost investment management and advice directly to individuals. Lieber (2014) provides a comparison of some of these options, including Betterment, Wealthfront, and LearnVest. Most of these companies, however, focus on investments outside of an employer-

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sponsored retirement plan and related advice (rather than retirement advice). Only a few of these options appear to cater to employers who sponsor retirement plans (e.g., LearnVest currently has an option to partner with employers), although other firms are likely to follow suit as demand for such services increases. Plan sponsors ought to consider the extent to which their desires for personalized guidance can be fulfilled through online, automated services. As with other advice offerings, plan sponsors can develop a list of potential online options that participants can use as a source for investment and/or retirement advice. The online providers can be compensated directly by the plan sponsor, or they can ask participants to submit for reimbursement, subject to guidelines established by the plan sponsor. These online services can also be supplemented with access to customer service offerings that can provide personalized investment and/or retirement advice.

Although using technology for financial services tends to be associated with younger individuals, older individuals also use online services. In a survey administered by the Federal Reserve Board, Gross, Hogarth, and Schmeiser (2012) find that 20% of respondents who use online banking are 60 years old or older, and 30% of respondents who use online banking are between 30 and 44 years old. For this reason, plan sponsors may benefit from considering how their participants of various ages will respond to services provided online.

As plan sponsors evaluate technology and online financial advice offerings, they ought to consider the extent to which they want to rely on these online resources as a source for guidance for their participants. Some of these technology firms are designed to provide extensive online guidance for participants with little interaction with an actual advisor, whereas other firms use technology as a tool to complement the personalize advice of an actual advisor. Also, some of the technology firms market themselves primarily to individuals (e.g., LearnVest, Betterment, Wealthfront), although they may also provide ways to partner directly with employers. Other firms market themselves primarily to employers (e.g., HelloWallet, Financial Finesse, Financial Engines, GuidedChoice), although they may have offerings that individuals can purchase directly. Another consideration for plan sponsors is how the structure of the technology firm will fit within their culture and their overall approach to providing access to financial advice.

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4.4 Professional certifications and licensing requirements

Professional certifications can provide plan sponsors with a signal about the quality of the advisor. Often the goal of a certification is to assess that a candidate has a minimum level of competency in order to be considered a qualified professional. As such, certifications can serve as a minimum expectation level when assessing professionals. The significance of certifications and licensing requirements depends on the role that professionals have when they interact with plan participants. Additionally, some certifications offer more value for plan sponsors regarding plan administration and design decisions, and some certifications focus more specifically on advice relevant to the financial decisions of plan participants.

Because so many financial certifications exist, it can be difficult to determine which certifications actually provide a signal of quality. For this reason, sometimes it may be required to ask questions in order to assess the quality of the certification. This section provides some guidance on how to assess some of the key elements of a certification.

Education: Quality certifications require some level of education. Be aware of what education is required. Typically, quality certifications will require some level of general education (e.g., bachelor's degree) as well as some level of education specific to the topic of the certification.

Continuing Education: Quality certifications often require continuing education. The intent behind continuing education is to ensure that the professional is engaged in learning beyond the initial certification. Typically, between 15-40 hours of continuing education are required each year.

Exam: Quality certifications require demonstration of a base level of competency on one or more exams. Exams can vary greatly in difficulty, and it can difficult to assess the quality of the exam in assessing the competency of a candidate. An exam ought to be of significant length in order to gather a significant amount of data about the candidate. But longer exams do not necessarily mean they are better exams. Pass rates indicate the percentage of exam-takers who successfully passed the exam, and they can be another signal of quality. A higher pass rate can indicate a lower quality exam; however, it can also indicate that primarily well-prepared individuals take the exam.

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Work/Applied Experience: Quality certifications typically require some amount of experience where the candidate has to apply the knowledge that they would have gained from the education requirement. Work experience typically ranges from one to four years.

Ethics and their Enforcement: Quality certifications require certified professionals to abide by a professional code of ethics, code of conduct, and/or professional standards. Equally important is that the credentialing organization enforces the ethics that are required. Enforcement of the ethical requirements means that the credentialing organization has a defined process to review and investigate potential ethical violations and to publicly discipline individuals who violate the code of ethics. Public discipline may involve a public letter admonishing the individual for poor ethical conduct, suspending the right to use the certification for a period of time, and/or permanently revoking the right to use the certification. Evidence of these enforcement efforts ought to be readily available. In addition, quality certifications ought to have a mechanism whereby consumers can verify that a particular individual is in good standing with the certifying organization.

Accreditation: Often, qualify certifications are accredited by an independent body, such as the National Commission for Certifying Agencies (NCCA). These independent organizations have established criteria that must be met in order for a certification to be accredited. As such, having an accreditation can be an indicator that the certification meets those requirements.

Some of the most commonly known quality certifications in financial services include the CERTIFIED FINANCIAL PLANNER™ (CFP®), the Certified Public Accountant (CPA), and the Chartered Financial Analyst (CFA) certifications. Lesser known is the Personal Financial Specialist (CPA/PFS) credential that is available only to professionals who have obtained a CPA license. Of these certifications, however, only the CFP and PFS certifications focus primarily on personal financial planning.[8] As such, these designations can signal that a financial advisor has met a minimum competency requirement and can be used as part of the criteria in screening potential advisors who will be providing advice to plan participants.

[8] The CPA includes a focus on taxation, and the CFA focuses on investments and portfolio management, all of which are concepts relevant to personal financial decisions. However, of the certifications discussed, only the CFP and PFS certifications have a broad base that covers multiple topics relevant to personal financial planning.

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As mentioned previously, many certifications exist in financial services, some of which focus specifically on issues related to retirement planning. For example, Pfau (2013) discusses three certifications that have educational requirements focused on retirement income strategies:

- Certified Retirement Counselor® (CRC®)
- Retirement Income Certified Professional® (RICP®)
- Retirement Management Analyst℠ (RMA℠)

These certifications have different approaches and emphases as related to retirement asset accumulation and distribution strategies. Pfau (2013) has a helpful chart and additional information about each of these three retirement income certifications. Additional information is also available about any of the previously discussed certifications, as well as many other certifications, on the FINRA website[9] or at Designation Check,[10] a service provided by the American College.

Additionally, investment advisors and registered representatives are registered with the SEC and FINRA, respectively. Individuals can view information about registered individuals – and registered firms – in BrokerCheck.[11] Most notably, BrokerCheck allows the public to view any disciplinary actions against a financial advisor.

One approach to providing access to personalized financial advice is to promote the use of a financial advisor outside of a plan who has a certification approved by the plan sponsor. For example, a plan sponsor may decide to reimburse employees up to a certain amount for fees paid to meet with a CERTIFIED FINANCIAL PLANNER™ professional (CFP®). As a result, the advice is provided outside the plan and up to the independent decision of the plan participants who choose to engage the services of a CFP® professional. This approach may reduce potential liability concerns resulting from the provided advice, especially if the plan sponsor documents the process of determining the credentials that would be used to determine eligibility for reimbursement. This approach to providing access to advice also has the benefit of helping plan participants establish a working relationship with a financial advisor who can potentially help them transition into retirement, even after terminating employment.

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[9] http://www.finra.org/Investors/ToolsCalculators/ProfessionalDesignations/AccreditedDesignations/
[10] www.designationcheck.com
[11] brokercheck.finra.org

4.5 Organized systems and systematic processes

As plan sponsors consider when and how guidance and advice is provided to their participants, they will likely find it beneficial to consider how the system of providing guidance and advice will be organized. For example, when enrolling in a plan, many participants would like guidance at that point in time, and plan sponsors may want to consider ways to provide advice at that key decision point. Lacking other guidance, default options often serve as structural guidance and are often viewed as endorsements by the plan sponsor. Hueler and Rappaport (2013) discuss the role of structural guidance as it relates to transitioning accumulated assets to a source of lifetime income. In another sense, benefit statements can include structured guidance (if it has more than just an account balance), and plan sponsors can consider the types of guidance that can be provided on these statements. Projections of future retirement income that can be bought with existing savings and estimates of how changes in contribution rates will impact future retirement income level appear to increase savings rates among employees who may otherwise have difficulty projecting the relationship between short-run savings and future income (Goda, 2014). Default investments and savings rates also serve as a type of guidance and should be carefully selected to provide the highest expected welfare for the average participant. In other words, organizing how and when information and education is provided is important, and it can be more impactful when the information is supported with personalized financial advice.

4.6 Quality control

The financial planning industry, as a profession is relative young. Many mark the beginning of the profession to a pivotal meeting that took place in Chicago in 1969 (McBride, 2005). As a new profession, industry-wide standards are not very common, which can be problematic because results can differ greatly. For example, Pfau (2014) identifies 34 different retirement income strategies, each of which will produce different outcomes. In a previous report sponsored by the Society of Actuaries, Turner and Witte (2009) find considerable variation in the approaches and outcomes in financial planning software used by consumers and advisors. Many of these differences are due to the lack of uniformity about assumptions. For example, some advisors use historical returns to build projections while others consider the impact of current interest rates and other factors that might provide guidance about what future returns might be.

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For financial advisors, no standardized education or certification is required, so the quality of an advisor can also vary greatly. The approaches used by financial advisors can also vary. For example, the efficacy of common risk tolerance assessment tools is often debated and questioned. In general, although multiple approaches to preparing for retirement are arguably acceptable, some approaches are better than others, and some advisors are better equipped than others. As a result, plan sponsors ought to be concerned about the quality of the advice that is provided.

In order to ensure quality advice for plan participants, plan sponsors may benefit from discussing and developing a process for vetting the financial advice for participants. This is to help ensure that the quality of the process by which advice is generated gets as much attention as is devoted to assessing the quality of the provider of the advice. Some of this vetting responsibility can be outsourced to a plan provider that uses a well-established and defined systematic process to providing advice. For example, at a minimum, plan sponsors ought to establish minimal criteria that advisors will be required to meet, such as holding a certain certification, as discussed previously. Alternatively, plan sponsors may wish to require that a plan provider outlines specifically how the advice is developed (e.g., what software is used and that the same software is used for all participants). For example, they may want to know how assumptions are determined and which assumptions ought to be the same for all participants and which assumptions are allowed to vary participant by participant. Plan sponsors may also want to require that all financial plans include a written component and that the written plan is reviewed by another qualified advisor before the plan is presented to a participant. To further ensure quality, plan sponsors may be interested in having access to recorded calls between participants and advisors. Plan sponsors might also want to establish a system to audit the services that are provided.

Many advisors already have processes in place to meet most, if not all, of these requirements. Plan sponsors will likely want to review the process that potential advisors use. The quality of the advice available to plan participants begins with choosing a quality advisor. After selecting a quality advisor, the quality of the advice depends largely on the quality of the process that is followed to produce the advice. This vetting process may seem extensive, but as previously noted plan sponsors can provide tremendous value in providing participants access to quality advice.

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Consider the following example of what this process might look like. Eleanor, a plan participant, submits a request through a company website to meet with a financial advisor. On the same website, Eleanor then enters her personal and financial information, such as date of birth, marital status, retirement account balance, other retirement assets, etc. Abigail, a CFP® professional, who is a salaried employee of the plan provider, receives the request and associated information. Abigail sets up a telephone appointment with Eleanor in order to review and confirm the information and to learn more about Eleanor, her family, and her personal values and goals. Depending on the needs and complexity, Eleanor and Abigail will most likely meet two or three times, and each appointment will last for about an hour. Although most of these meetings take place via web conference, Abigail's firm has offices in several locations, if Eleanor prefers to meet in person.

Prior to these meetings, Abigail's firm has had internal discussions to establish a set of recommendations that are appropriate to a typical client similar to Eleanor. Abigail can use this basic set of recommendations as a starting point for building a personalized plan for Eleanor. (Whether clients are just beginning their career or late in retirement, Abigail's firm will have a number of sets of recommendations for the so-called typical clients.) Abigail then uses a standardized approach to develop a personalized plan for Eleanor. This includes Monte Carlo simulations, which involves running a series of scenarios to assess the likelihood that the plan will sustain Eleanor throughout her life. Once she feels comfortable with the plan, Abigail asks another advisor in the firm to review the plan for her before she delivers the plan to Eleanor. Abigail then meets with Eleanor to deliver and explain the plan and to discuss what actions Eleanor ought to consider taking. Notice that Abigail continues to work with Eleanor from the beginning to the end of the plan. After delivering the plan, Eleanor will continue to have annual phone calls with Abigail (or another advisor) to ensure that she is still on track to meet her goals and to see if any major changes have occurred that could potentially alter the plan. If substantial changes are needed, Eleanor can go through the process again. Throughout the entire process, Eleanor can call Abigail's firm if she has any questions. Although she might not always reach Abigail, other advisors are also available who can visit with Eleanor to address the questions or pass them along to Abigail.

The preceding scenario provides an example of a well-organized process that helps ensure quality advice and that can be replicated for many participants. This scenario is just one

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example of what this arrangement might look like. For an actual example, Sit (2014) describes the process he experienced as Vanguard prepared a one-time financial plan for him.[12] Although firm may vary in their approach, they may produce quality results using different processes.

4.7 Scope of advice services

The scope of services available to participants can vary greatly. The scope of services is also dependent on the arrangement between the plan and the advisor. Plan providers and advisors will also vary in the types of options that they provide. For example, an advisor would not be able to analyze an extensive plan to prepare for retirement if the advisor is only available for drop-in hours a few days per week. Extensive retirement planning likely requires a longer term engagement between a participant and an advisor, which will require an arrangement that allows for such engagement.

Many financial advisors provide what they term, *comprehensive financial planning*. The intent of comprehensive financial planning is to include all (or nearly all) aspects of a client's financial picture when making recommendations. As such, plan sponsors may wish to consider the extent to which they want to provide access to comprehensive financial planning, or if they want the advice to be more limited to a particular aspect of financial planning. For example, some companies' Employee Assistance Programs (EAPs) will provide assistance when employees experience financial concerns or distress. However, the financial advice available through EAPs is often limited to focus primarily on debt and cash flow management.[13] Little attention is typically given to investment and retirement decisions.

Plan sponsors ought to consider the extent to which they want advice to consider financial assets held outside of employer-sponsored retirement plans. Advice focused solely on an employee's retirement plan is often incomplete, especially if the employee is married or has significant assets outside retirement plans. Plan sponsors also ought to be aware of the extent to which other employee benefits, beyond retirement plants, are included in the analysis of a plan participant's financial situation. For example, advisors may or may not review disability insurance benefits in addition to retirement preparation adequacy.

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[12] A summary of his experience is available at Kitces (2014).

[13] A more thorough analysis of advice offerings focusing on these financial decisions is beyond the scope of this paper.

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Advice arrangements may also be limited to certain financial topics. For example, an advisor or an online tool might provide guidance regarding retirement preparation, but omit guidance about income tax planning or life insurance adequacy. As another example, complex estate tax planning often requires the drafting of legal documents by a qualified legal professional. The Certified Financial Planner Board of Standards, Inc. (CFP Board), publishes a Principal Topics List, which provides an extensive list of the topics that might be included in the services of an advice provider (CFP Board, 2012). Since advice models are not standardized, the scope of such topics can vary greatly depending on the provider.

The scope of advice services also involves when in a participant's life cycle the advice is available. Of particular concern are post-retirement decisions that may fall outside the scope of an advice arrangement. Although financial advice is beneficial to participants during the pre-retirement phase, financial advice can be especially helpful as participants transition to retirement and begin to rely on the income of their accumulated assets. Post-retirement planning and decisions are the primary reason for offering retirement plans in the first place. However, plans often do not provide access to financial guidance once a participant has retired. Plan sponsors also may not realize the implied advice or endorsements in the form of payout default options at retirement. (For example, some plans may provide only lump sum distributions from retirement plans, while other plans may have one or a limited number of lifetime income options.) Even after employment is terminated, plan sponsors may want to consider arrangements that would support former employees during retirement. At a minimum, plan sponsors ought to be mindful of how participants will receive guidance during retirement, even if such guidance is not provided through the employer's plan.

Lastly, the scope of advice services also involves the employees who will have access to the advice. For example, some employers may provide more extensive and comprehensive financial advice offerings to corporate executives while rank-and-file plan participants are more likely to receive financial education. This tiered approach to offerings is especially common in buyout situations, where advisors are made available to address the unique situations of corporate executives while average participants are provided general information about the buyout options.

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Overall, plan sponsors ought to be conscientious about the scope of the advice services that they offer, and they may want to provide guidance to participants and advisors about how participants can address questions that fall outside the scope of the engagement.

4.8 On-going vs. ad hoc advice for special circumstances

Plan sponsors ought to consider how they want to structure the extent of the advice relationship. For example, some plan sponsors may be interested in providing episodic advice or ad hoc advice for special circumstances. These circumstances might include being newly hired, preparing for retirement, or in preparation for a major change in the organizational structure of the employer, like a merger or acquisition. Alternatively, plan sponsors may want to foster the creation of a long-term relationship between participants and the advisor.

In either case, providing access to advice during key decision points is especially beneficial for plan participants. Examples include when plan participants are approaching retirement or when they are presented with an early retirement opportunity or buyout. Providing access to advice during significant events in a participant's life, such as losing a spouse, can also be very beneficial, especially since these are often times when people are likely to seek financial advice (Cummings and James, 2014).

4.9 Common models

A summary of three common models of providing access to financial advice are provided here.

Professional financial advisor: Financial advice can be provided by an actual financial advisor. An advisor might meet with a plan participant one-on-one, either in person or from a distance (e.g., call center, video conference). The relationship with the client can also be episodic, where the participant pursues advice on a particular issue he or she is facing, or it might be an on-going relationship, where the participants work with an advisor over a period of time, with the advisor providing updates and adjustments as needed. As already indicated, this advisor can be compensated by the plan sponsor (on an hourly basis, retainer, or as a percentage of assets under management), by the participant, or by the participant who is reimbursed by the plan sponsor. The advisor can be selected by the plan sponsor or by the participant. In some cases, the advisor may be affiliated with the plan provider, or they may have a partnership agreement.

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The advisor may be an investment manager (i.e., Section 3(38) fiduciary), a co-fiduciary (i.e., Section 3(21) advisor), or not a fiduciary at all. The advisor may also have any number of certifications.

Automated software program or website: Financial advice can be provided through an automated software program or website specifically designed to provide retirement and/or investment advice. This automated software can be provided by a plan sponsor, plan provider, or another party. This software can be designed to automatically integrate a participant's information, or it can be entered manually by the participant. The software may access plan sponsor data directly, and it may allow participants to include external assets and information. Automated software can also vary greatly in terms of participant control, assumptions, and input options.

Combination of professional financial advisor and automated software program: Arguably the best approach is to provide access to both a financial advisor and automated software. This arrangement can be made in a variety of ways, combining any number of features described previously. For example, a plan sponsor may want to provide access to automated software but also allow participants access to an advisor, if additional questions arise. Alternatively, a plan sponsor may wish to provide access to a financial advisor who supplements his or her recommendations with financial software.

5 Considerations

5.1 Items for plan sponsors to consider regarding financial advice

Plan sponsors will want to spend time considering the potential role they would like financial advice to play in their employee benefit package. A number of considerations can best be represented by a series of continuums. Actual services often include a blend of the extremes outlined below.

General financial education ....vs.................Personalized financial advice
Investment-focused ....vs...............................Retirement-focused
On-going ....vs............................ Ad hoc (event-based)
Individually developed..........................vs................... Technologically developed
Personal delivery..................................vs.....................................Online delivery

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Individual advisor	vs	Firm structure (multiple advisors)
Employer’s choice of advisor	vs	Employee’s choice (limited)
Employer pays advisor directly	vs	Employee pays (reimbursed)
Executives-only benefit	vs	Available to all participants
Specific age/service requirements	vs	Open access to employees
Focus on company benefits	vs	Consider outside assets/information
Focus solely on employee	vs	Focus on employee’s household
Suitability standard	vs	Fiduciary standard

Following are some questions for plan sponsors to consider and discuss as they evaluate what approach is best for their plan and participants:

Regarding your employees/plan participants:

- Are employees saving enough for their retirement?
- Do employees have adequate information to make appropriate financial decisions?
- In what stages of the life cycle are your employees?
  - With what type of retirement decisions do they need additional education or advice?
  - In what ways can you provide that guidance?
- How do your employees approach investment and retirement decisions?
  - Are they more likely to take a self-directed approach, advice-supported, or comprehensively-managed approach to investment decisions?
  - What about their approach to retirement decisions?

Regarding what the employer/plan sponsor wants to offer:

- To what extent do you want to provide general education about retirement topics, and to what extent do you want to provide access to personalized retirement advice?
- What is the scope of the advice that you want to offer?
  - What financial topics do you want participants to be able to address?
  - What are the limits, if any, on the types of questions or topics that plan participants can ask?

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- What is the scope of the advice you want to offer through an online software program?
    - What about the scope of advice through an actual financial advisor?
    - Do you want to impose limits on what types of questions participants can ask?
- Do you want each plan participant to have their risk tolerance assessed, or are you comfortable with an age-based approach to risk assessment?
- Do you want to provide episodic advice at key decision points (like, upon being hired, approaching retirement/separation, etc.)?
    - Do you want to provide on-going financial advice?
    - Do you want to provide access to both episodic and/or on-going advice?
- To what extent do you want to provide guidance about Social Security benefits?
    - Would this guidance be general information, personalized analysis and advice, or some of both?
- To what extent should the guidance consider employee benefits other than the retirement plan (like disability insurance)?
- To what extent should the guidance consider assets and factors outside of an employer and his or her sponsored benefit plan?
    - Should advice consider outside investment accounts and retirement assets from previous employers?
    - Should advice consider spouses and other household characteristics?
- To what extent do you want to provide guidance about post-retirement decisions?
    - To what extent do you want to provide guidance after participants retire?
    - To what extent do you want to provide guidance as participants approach retirement and transition into retirement?
- To what extent do you want to provide guidance to terminated employees?
- Do you want to design different levels of advice?
    - What should the scope of the advice be for each level?
    - Who is responsible for paying for additional levels of service?
- Do you want advice that is linked to investments or separate from the investment offerings?

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- To what extent can the guidance you want to provide be accomplished through education or automated means?
    - How will you provide support for participants relying on education and/or automated services?
    - Will employees be able to ask factual questions and get personalized answers?
    - Will there be a person, either in person or on the phone, with whom employees can review information?
    - For automated services, what assumptions will participants be allowed to control? Who will be responsible for selecting the default and/or additional assumptions?
    - Will there be additional opportunities for advice, either in person or through a call center or online chat?

Regarding the arrangement with the financial advisor/advice provider:

- Do you want to provide a list of possible providers to participants?
    - What is the process for selecting preferred providers?
- To what extent do you want to share or transfer fiduciary responsibility for investment management?
- To what extent do you want providers of advice to assume a fiduciary role?
- What risks are assumed separately by the provider, the plan sponsor, and plan participants?
- Do you want the same firm to provide advice and to manage the assets, or can they be separate firms?
    - For participants who want managed accounts, can the advisor also manage the assets?
- Who will pay for the advice?
    - How much are you willing to pay for the advice?
    - To what extent do you want participants to cover costs?
    - Will you provide a stipend for participants to seek outside advice?
- How would you like advisors to ensure privacy of participant data?
- What quality controls measures are important to you?

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    - Are there specific certifications or other criteria you would like advisors to have or meet (e.g., CFP® professional, CPA, CFA charterholder)?
    - How much individual discretion would you like advisors to have?

5.2 Questions to ask potential retirement plan providers and advisors

In addition to screening for the outcomes of the discussion arising from the previous section, here are some questions for plan sponsors to consider asking potential retirement plan providers and advisors:[14]

- Plan participants have different personalities and preferences that describe how they would like to receive and use investment and retirement advice that range from being self-directed to being comprehensively managed.
    - How do your services provide support for participants who want a lot of professional financial advice?
    - What about for participants who largely want to manage their own decisions?
- What is the scope of your services?
    - Do you provide advice on assets and other factors outside the plan?
    - Do you focus only on the employee, or do you consider the employee's household situation?
    - About what financial topics do you provide advice?
    - Does advice extend beyond retirement-related questions?
    - Is there a limit to the types of questions participants can ask?
    - How do you offer support for participants after they retire?
- Do you assess the risk tolerance of each plan participant, or do you base risk tolerance on age?
- What is your process when meeting with clients?
    - How do you help clients prepare for retirement and a lifetime stream of income?
    - What is your approach when working with clients close to retirement?
    - What is your approach to retirement income planning?

[14] Additionally, Rhoades (2014) provides a list of questions to consider asking a potential financial advisor.

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- What retirement income options do you have?
- What software or technology offerings does your firm have?
- What is the cost of the advice?
    - Is there a flat fee per employee, an asset-based fee, and/or a service-based fee?
    - How are the expenses paid (for example, from the plan's assets or billed separately)?
    - How is the financial advisor compensated? How is the firm providing advice compensated?
    - What conflicts of interest might arise based on the compensation model?
    - Are any fees (e.g., mutual fund commissions or expenses) used to pay for advice?
- What types of investments does your firm use?
    - Do you allow participants to have a brokerage account where they can have their own investments?
    - What, if any, relationships does your firm have with the investment managers?
    - Are there any potential conflicts of interest?
- What is done to ensure the privacy of personal data?
- What methods are used to ensure that quality advice is provided?
    - Are advisors required to meet specific education and/or certification guidelines?
    - What peer-review processes are used, if any?
    - Are there any established auditing procedures, and if so, what are they?
    - Are calls with participants recorded?
    - How much discretion do individual advisors have with regard to investment choice, retirement calculations, and other aspects of advice?

6 Conclusion

Employers have a large responsibility as plan sponsors. The intent of this report has been to provide guidance to retirement plan sponsors in making decisions regarding the role, scope,

and delivery models of financial advice to plan participants. The preceding questions are designed to summarize the main items that ought to be considered when deciding how to structure and evaluate the advice offerings available to plan participants. As demonstrated by the extensive set of questions in the previous section, the decisions set before plan sponsors can be daunting. Because of their fiduciary responsibility and the complexity of issues facing employees, plan sponsors ought to be very careful when deciding how to structure the guidance and advice they offer to employees and when selecting the services they will provide. Employers are often experts in other fields and may not be equipped to make such difficult and important decisions about the retirement preparation of their employees. Because employers may not be the best decision makers regarding retirement preparation and advice, such an approach to providing and accessing financial advice may not be optimal. Many employers may lack a genuine interest in or concern about optimal retirement planning advice, and many employers who are concerned about the retirement preparation of their participants may be unsure how to proceed. Providers who are equipped to simplify these decisions without weakening the quality or adequacy of the outcomes are most likely to succeed. Consultants can also provide value to employers who are trying to evaluate potential providers.

Just as plan sponsors are often not well-equipped to make important decisions regarding retirement plan administration, plan participants are also not well-equipped to make important decisions about their own financial situation and retirement preparation. Plan sponsors who decide not to provide access to financial advice do not change the need for advice that many participants have. Participants will be left to find advice elsewhere, which may result in sub-optimal outcomes. Fred Reish, a long-time expert on ERISA and 401(k) plan design and advice, recognizes that providing advice may not be a responsibility of an employer but states, “but, if not plan sponsors, who will?” (in Moore, 2014). Reish also argues that personalized advice, although expensive, is of tremendous value to participants (see Moore, 2014). Since many quality financial advisors target high-net worth individuals, advice through an employer-sponsored plan is often the best chance for many plan participants to receive quality financial advice.

Plan sponsors ought to approximate the value of the advice as part of a participant’s total compensation package. Historically, the costs of administering a defined benefit plan were borne primarily by employers. Although many of these costs have shifted to employees,

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providing access to personalized financial advice is a way employers can help employees prepare for retirement while also limiting their costs and risk exposure. Some providers of advice also recognize the potential financial and other benefits that employers as well as employees can receive by using their services (e.g., see HelloWallet, 2014; Financial Finesse, 2014).

Although holistic, comprehensive financial advice would be ideal for all participants, providing such advice might not be viable for a plan sponsor. However, plan sponsors can determine what is sustainable, which is most likely to be a combination of technology and personalized advice. Plan sponsors can also consider what might serve as a springboard for participants to pursue on their own. Plan sponsors may find success and satisfaction in encouraging participant action and ought to explore ways to encourage better retirement preparation. Ultimately, employers and employees benefit by successfully helping employees prepare for retirement, launch into retirement, and sustain adequate lifetime income throughout retirement.

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