Advisers not enough to guarantee a strong retirement

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Starting a new job often includes enrolling in a company's retirement plan. As defined contribution plans, such as 401(k) plans, become more common than pension plans, American workers are increasingly responsible saving for retirement. Rui Yao, a nationally recognized expert on retirement savings from the University of Missouri, suggests that employees can't trust that the retirement plan sponsored by their employer is in good hands just because the plan uses an advisor. To ensure a strong retirement plan performance, consumers must be active participants in retirement planning, she says.

In one of the first known academic studies devoted to evaluating fund selection offered in defined contribution plans, Yao, a professor of personal financial planning, examined retirement plan performance based on using plan advisors, plan size and plan choices offered. She found that plan advisors alone are not enough to ensure strong retirement plan performance.

"Plan advisors make recommendations regarding investment options that are offered in the plan," Yao said. "It is critical for plan sponsors that such recommendations are beneficial to participants."

Using data from an independent provider of retirement plan ratings and investment analytics, Yao evaluated retirement plan performance and its relationship with the use of advisors, comparing the performance of plans and funds offered within plans against benchmarks. For the study, Yao looked at data from retirement plans from 2013, 2014 and 2015.

After controlling for plan size and use of advisors, Yao found that working with an advisor was significantly and negatively related to retirement plan performance in 2013, the best year in terms of market return. She saw only slight improvements or no significant results in the latter two years when the market was flatter.

Yao's advice for employees hoping to make the most of their defined contribution retirement plans is to ask a lot of questions—of both their own financial advisors and of their employers.

"Some advisors are incentivized to market different funds, and while they are financial experts, they do not always have a fiduciary responsibility to their clients," Yao said. "They are required by law to disclose this information, so it's absolutely ok—and advisable—for plan participants to ask their employer what kind of legal responsibility the plan advisor bares."

Yao provides the following advice to plan sponsors, plan participants, and participants' financial advisors looking to strengthen their retirement plans:

- Plan sponsors should require advisors to provide objective data on a regular basis and disclose this information to plan participants.
- Plan participants should ask their employer how their plan advisor is paid, how funds in the plan are chosen and how those funds perform against benchmarks.
- Individual financial advisors should monitor the plan performance and evaluate funds in their clients' retirement plan portfolio by objective measures, identify performance issues and ask their clients to report such issues to their employer.

More information: Use of advisors and retirement plan performance. *Journal of Financial Counseling and Planning.* In Press

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