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10 YEARS AFTER

Seven of the nation's leading advisor voices look back at the 2008 financial crisis, and how to blunt the impact of a recurrence on retirement savings.

By Judy Ward

Ask Bill Chetney what he remembers plan sponsors saying during the dark days of the 2008 stock market crash, and he responds with a string of expletives that a respectable publication can't print. "And I left out all the words that start with F,"

adds Chetney, founder of Carlsbad, California-based GRP Advisor Alliance, with a laugh.

More seriously, Chetney does have vivid memories of how the crash impacted sponsors and participants. "Everybody was really in shock," he says. "Plan sponsors realized, 'Wait a second, this is not always as simple and clear as it seemed.'"

Ten years later, J. Fielding Miller remembers that the average 401(k) participant's account balance dropped 35% during that time, and the stress that caused. Miller, the Raleigh, North-Carolina-based chief executive officer and co-founder of CAPTRUST Financial Advisors, also recalls the opportunities the crash created for advisory firms.

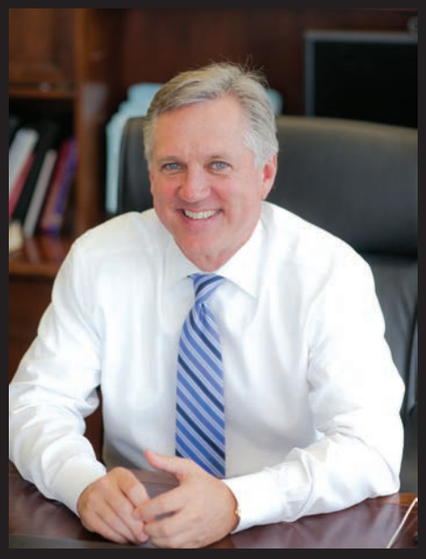
"I've been doing this for 30 years, so I've been through the '87 market crash, the tech crash in 2000, and then '08-'09," Miller says. "The advisory industry recoiled each time, and advisory firms laid people off during those times. But in all three instances, we viewed that time as a great opportunity." Sponsors became more aware of their fiduciary responsibilities and their need to get help fulfilling them, while more advisors felt motivated to switch to another firm. "Those are great times to prospect for business, because everybody is like a deer in the headlights," he says. "So we expanded during those times. And if it happens again, we'll run the same play."

Memories of the Crisis

We truly live in a global economy. That's what sticks out in Randy Long's mind 10 years later, along with how quickly information spread around the world. "It was unprecedented, how far-reaching the economic crisis was, in the United States and around the globe," says Long, founder and managing principal at SageView Advisory Group in Irvine, California. "For many American companies, things came to a halt. A lot of our clients' business credit got tightened up, and it really put a damper on their plans."

The market crash had a far-reaching impact. "It was definitely a cloud hanging over the economy, the markets, and business in general," remembers Vince Morris, Leawood Kansas-based president, financial services at Bukaty Companies. "At the time, it seemed like a doomsday scenario. In '07, we started to feel an impact on the economy, and in early '08 the markets went down. But it was not until September '08 that things really got more depressing, talking to sponsors and participants."

Bukaty fielded many calls during the crisis from participants who wanted to abandon equities and run to the sidelines. In his conversations with participants, Morris struck a balance between emotionally connecting and empathizing with what a participant felt, but also focusing on the participant's long-term goals and likely outcomes. "You need to recognize their fear. You can tell them, 'I totally understand how you feel: Your $100,000 account balance is now down to $80,000.' That way, you're acknowledging their loss," he says now. "But then you can talk about, 'What was your goal for retirement yesterday versus today: Has it changed? Do you now want to work forever?' Once



From left: Bill Chetney, GRP Advisor Alliance; J. Fielding Miller, CAPTRUST Financial Advisors

they realize their goal is the same, then you can talk about, 'How will it impact your account if you pull out today, and then the market goes up again? How would that make you feel?'"

Most participants ended up staying in equities, but not all, recalls Steve Ulian, Boston-based managing director at Bank of America Merrill Lynch. "I remember realizing that people who moved their money to more-conservative vehicles, if they missed out on the first 6 to 12 months of the market's recovery, missed out on a lot of upside," he says. "Especially for people nearing retirement, I remember thinking, 'That's incredibly sad.'"

A decade later, the crisis almost seems like a dream to Jim O'Shaughnessy, managing partner of Northbrook, Illinois-bases Sheridan Road. "But I can remember very clearly the amount of concern and tension, and how scared people were," he says. "The conversations we had with clients near the end of 2008 were about their feeling that the sky was falling. Everyone was really kind of stopped in their tracks, and people were having trouble thinking beyond the immediate crisis."

Since many employers' businesses got hurt, they soon looked to reduce their expenses. "Some not only stopped their 401(k) match, they cut back on their human resources staff, and those were often people who worked on the retirement plan," Miller says. "So that created room for advisors to come in and take that spot. The crash woke up employers to their fiduciary responsibilities, and that created a boon for our business."

Some lasting good did come out of the market crisis. Reflecting now, Troy Hammond says the industry did pretty well before then in educating participants about the inevitability of market volatility — but didn't do a good job giving people actual solutions to withstand it. "What that time taught us is that education is not enough," says Hammond, founder, president, and CEO of Pensionmark Financial Group in Santa Barbara, California. "We needed to do more to build backstops, and it drove us to think about protective solutions that help us to manage participant behaviors."

That realization coincided with the arrival of the Pension Protection Act of 2006 (PPA), which gave employers a clearer pathway to implement automatic enrollment and a QDIA (qualified default investment alternative). "Automatic plan features have done wonders," Hammond says now. "There is probably no single set of tools we as advisors use that has had more of an impact on plan success than those."

And Ulian traces the roots of employers' current interest in employees' holistic financial wellness to the market crash. "Prior to the crisis, when retirement providers talked to sponsors about letting us come in and talk to employees about their full financial picture, there was less enthusiasm from employers," he says. The crisis started the momentum to change that, and he calls

it the "silver lining" of the experience. "Employees did realize, 'Oh my gosh, this 401(k) account is the biggest savings vehicle I have, and I need help.' And employees made clear to their employers that they expected help from them. All the talk now about financial wellness is a result of the crisis, and employees asking for help from their employers. Now, plan sponsors are much more open to letting us provide that help."

Bracing for the Next Crash

Ulian sees keeping participants focused on long-term outcomes, not short-term results, as the key to limiting the harm of the next market crash when it happens. "The biggest thing we can do is continue to find ways to reinforce with participants that the market goes up, and the market goes down, and these are long-term investment vehicles for their retirement," he says.

What else can plan advisors do proactively to limit the impact of the next market crash on participants? Consider these ideas:

Help sponsors understand their QDIA's volatility potential

Equities have volatility, and won't go up forever, as Long says. Many participants got hit hard in the 2008 market crash because of their overweighting to equities, which he traces to the market rising steadily prior to that. "You could say that participants have that same sense of comfort today, because they have seen a nine-year bull market," he adds.

In the past decade, target date funds have put many Americans in better shape to withstand volatility, because of these funds' professional management and investment diversification. "But we are approaching the longest bull run in the history of the U.S. markets," O'Shaughnessy says. "Target date funds really came into vogue because of the PPA. The majority of people in target date funds now have been put in there since '08, so these people have not experienced a major market correction in them."

Some automatically enrolled participants 100% invested in a target date fund likely will get a shock when the next major market correction happens. "One of the biggest revelations after '08 was about the 'set it and forget it' investment environment we were in at the time," Chetney says. "The thing is, the disparity of returns in the 2010 target date funds was a 20-point spread. The SEC got very much up in arms about that, and target date funds were in the crosshairs. What happens if there's another major break in the market in 2020, and many target date funds still have that kind of exposure?"

Many sponsors still don't understand the potential disparity of returns for their plan's default investment, Chetney believes. They'd be smart to learn more about that, he says, and to determine the disparity of QDIA returns that they feel comfortable accepting. "If you ask the average committee member, they'd probably say that their plan's QDIA is risk-averse," he says. "But if you look at what they actually use as the QDIA, they often aren't."

Sponsors may get a surprise when they learn more about their QDIA's potential for volatility. "If you look at how target date funds are graded on the scoring systems, you see that managers are rewarded for taking risk and participating in the bull market," Chetney says. "So people are being told, at the end of the bull market, 'Jump in.'"

Advisors can play a big part in helping sponsors better understand their QDIA's risks, Chetney says. "I see some of the better advisors going beyond just looking at the scoring systems, and modeling for sponsors their target date funds' potential returns," he says. "They will model, 'If your default investment goes up 20%, this is what the range of outcomes could be, and if it goes down 20%, this is what the range of outcomes could be.' Some of the higher-flying target date funds do not look as good when you look at them that way."

Offer participant-level fiduciary advice

Plan advisors can add a lot of value by figuring out a scalable way to give participants individualized advice in areas including investments and deferral rates, Chetney says. "That is the next frontier of what we need to do," he says. "We've automated everything: auto enrollment, auto increases, auto investment. We 'auto' be talking to them."

But current fee levels don't usually support in-depth, one-on-one advice from a plan advisor. "We've priced that out of the market," Chetney says. "Back when I started as a plan advisor, we used to do 20-minute, one-on-one meetings with every single employee of every single client. The economics are gone for that now." Advisory firms that lack the size to do it can align with an outsourcer that offers a call center staffed by CFPs (certified financial planners), he says.

Some advisory firms have built the capabilities in-house. CAPTRUST gives participant-level 3(21) fiduciary advice, and Miller thinks of it as a key competitive differentiator. "But it is a hard and expensive thing to do," he says. "It took us years to get it to scale. We have invested more in that part of our business in the past three years than any other — and it's the fastest-growing part of our business now. The margins aren't as good, but they're getting better. And the impact is incalculable. It is the only thing that moves the needle: giving participants actionable advice, and then making sure that they carry through with it."

Instead of having CAPTRUST advisors give participants recommendations, the firm has hired

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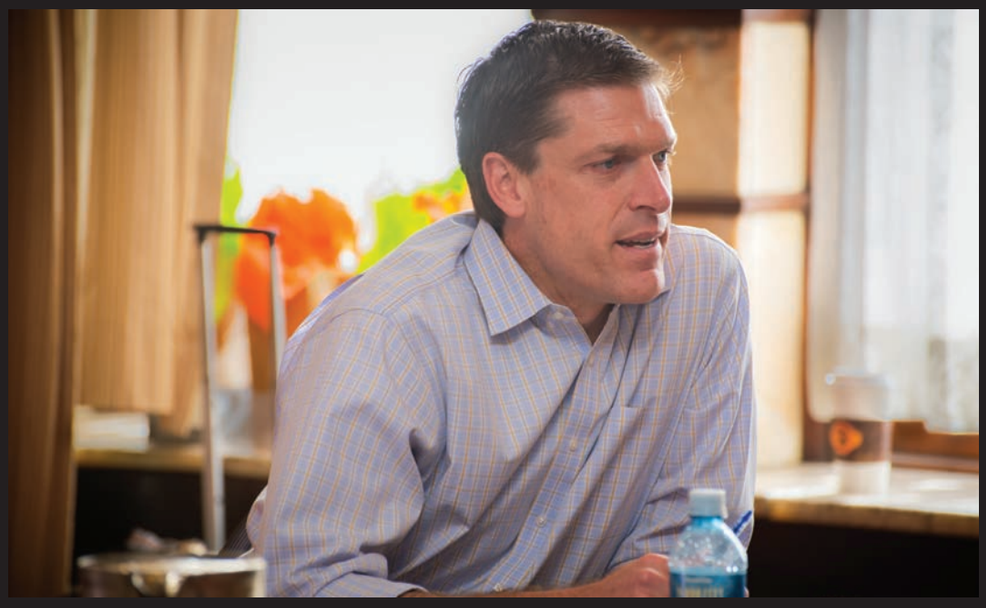

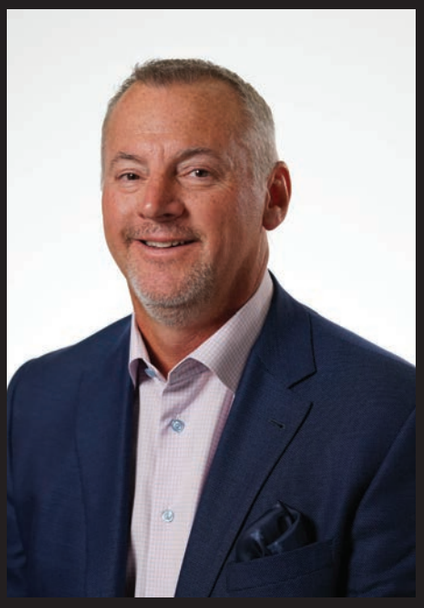

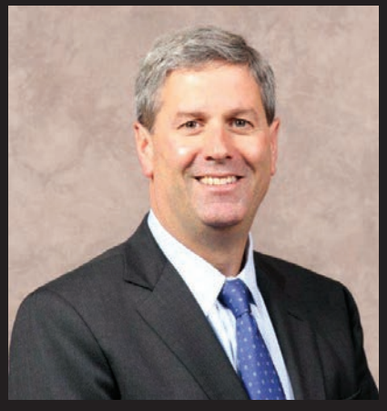

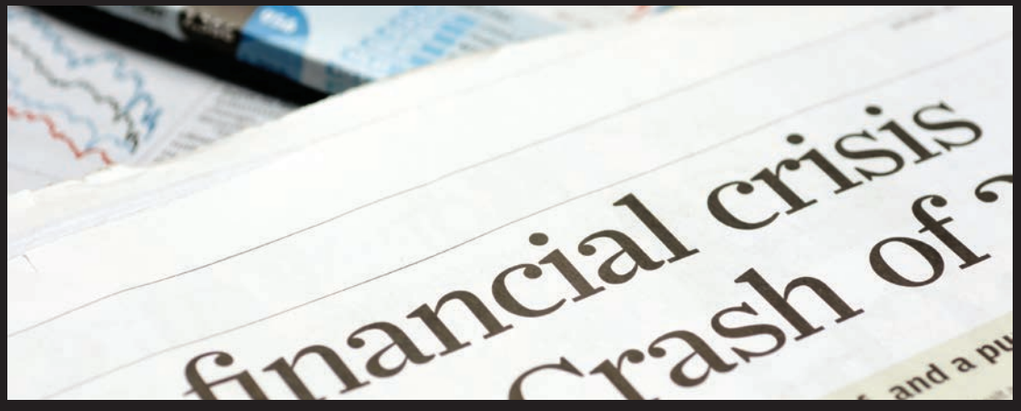

Clockwise from top left: Jim O'Shaughnessy, Sheridan Road; Vince Morris, Bukaty Companies; and Steve Ulian, Bank of America Merrill Lynch

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what it calls "retirement counselors" to do this work full time, traveling to client sites nationwide. The 28 retirement counselors include CFPs, former education specialists at providers, and ex-school teachers. CAPTRUST built out tablet technology so that the retirement counselors have a structured way to provide customized recommendations for participants. The advisory firm also hired staff for an "advice desk" so that participants can call in and get recommendations.

Pensionmark introduced its participant-level fiduciary advice offering earlier this year, after years of thought, legwork, and getting big enough to make it viable. "Where we can really move the needle as advisors is in offering much more robust financial-planning help for participants," Hammond says. "But the barrier to entry is tough, if you want to do it right: You've got to hire the right people, build some technology, and buy some technology."

Pensionmark has been very strict about providing participant-level fiduciary advice only if it's an employer-paid benefit and offered to all employees (not just senior executives), Hammond says. "In terms of employees who are going to really dig into a program like this, you are probably talking about 10% to 30% of an employee population," he says. "We feel that if you're providing a benefit paid by plan assets that only benefits 10% to 30% of participants, it generally doesn't pass the 'smell test' for us."

Ramp up help for participants nearing retirement

Most companies that implemented auto-enrollment did it just for new hires, which means that their newer employees — in a QDIA and deferring at healthy

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— *Troy Hammond, Pensionmark Financial Group*

rates — can better withstand a big market downturn. "Many longer-tenured employees still are vulnerable, because of their asset allocations and because they haven't saved enough," Long says. "Putting in 4% a year isn't going to get you to a safe and comfortable retirement." Reenrolling existing employees into a plan's default investment has gained some traction the past few years, but many sponsors still see changing a long-time participant's chosen asset allocation as too heavy-handed, he says.

If many employers won't go for reenrollment, Morris is asked, what can advisors do to help protect employees nearing retirement? "I think we need a service model for participant advice that incorporates more than just investments," he says. "It needs to include not only the accumulation phase, but the deccumulation phase, and things like Social Security optimization."

The 2008 crash put a spotlight on sequence-of-returns risk, especially for people close to retirement, O'Shaughnessy says. Sheridan Road has a service it calls Income Lens in the works, focused on individualized distribution-phase advice for participants. This service, costing $500 to $750 per person, primarily will target participants within seven to 10 years of retirement.

Income Lens will include investment advice but not related investment products, as it will be agnostic about the investments a participant utilizes, O'Shaughnessy says. The program will utilize a "bucket" approach to asset allocation for retirement. "We are trying to take out some of the sequencing risk for participants close to retirement," he says. "Our experience is that when people go into retirement or are nearing retirement, they want very little risk."

The service also will offer individualized advice on key decisions such as drawdown strategies. "These assets are to be used to create income. It's just that, as an industry, we haven't really worked with participants to help them understand how they can implement that," O'Shaughnessy says. "We are trying to give these participants the hand-holding they need, and to help them look at their situation holistically."

Incorporate participants' actual risk-tolerance levels more

The biggest problem in a market crisis comes from participants panicking and deciding to abandon the stock market entirely, Morris says. "I see a solution in having customized portfolios, so participants have more of a managed account-type allocation," he says. They would get an allocation matching their personal risk profile, plus access to professional advice and counsel, as investors long have had on the wealth-management side. "When the '08 crash happened, a lot of concerned wealth-management clients called us and said, 'What's going on with the market? This looks crazy.' And we could talk them off the ledge. We can tweak someone's allocation to be less volatile, but going to cash is never a good option."

Bank of America Merrill Lynch sees growing interest in managed accounts among sponsors who want a more-individualized solution for participants, Ulian says. "A managed account is much more of a risk-based tool than a target date fund," he says. Participants in one of its client plans can sit down with a financial advisor, or talk with a registered rep on the phone, to learn more about their individual risk tolerance and about where they stand with their retirement savings. "We help walk them through the managed account (risk profile) questionnaire, and where they are today," he says. "When it comes to participants truly understanding their situation and their risk tolerance, it's that one-on-one dialogue that makes the biggest difference."

And some target date funds now put a lot of emphasis on downside protection. In 2015, Pensionmark partnered with BlackRock to launch custom target date funds called the Pensionmark SmartLifecycle Funds. "We had surveyed our employer clients and their employees about what they want," Hammond says. "We learned that consistently, participants have 10 times the aversion to a loss than their attraction to a gain. Participants kept saying to us, 'I just hate losing money.' So we started to think through, 'How can we better protect participants from a loss?'"

Pensionmark Smart Lifecycle Funds have 50% to 60% of the volatility of a typical target date fund, Hammond says. The index-based target date funds utilize the "smart beta" strategy to limit risk on the downside. The asset-allocation pie looks similar to other target date funds. But rather than having cap-weighted indexes, the "smart beta" approach removes the most-volatile stocks within an index from that index fund.

Hammond says he 100% thinks it's worth sacrificing a little upside to get more protection and participant comfort on the downside. "What I have at the end of 30 years of saving as a participant is based on my compound return, not my average returns," he says. "And every ounce of volatility that you add to a fund decreases your compound return." Even more importantly, he says, the "smart beta" approach aims to keep participants calm enough to stay invested during a downturn, and not go to cash. "If the alternative is for someone to sell at the bottom and then buy again at the top, you may have saved that person 25% of their account value by staying in the fund," he says. "The true benefit is the behavioral part of it."

» Judy Ward is a freelance writer who specializes in writing about retirement plans.