DC EDGE

STRATEGIES OF TOP RETIREMENT PLAN ADVISORS, FROM BLACKROCK

Breaking It Down

Simple explanations are one advisor's key to guiding DC plans toward better retirement outcomes

Featuring insights from Robert Lawton, President of Lawton Retirement Plan Consultants, LLC, in Milwaukee, Wis.

When it comes to advising DC plan sponsors, keeping it simple pays off. "The reality is that plan sponsors are really busy. The more straightforward you can make things, the better," says Robert Lawton, President of Lawton Retirement Plan Consultants, LLC, in Milwaukee, Wis. Many of the Fortune 500 companies he has spent three decades advising on 401(k)s and other types of defined contribution plans "typically have more than just one retirement plan they're working with. And a lot of them are very complex," he says. "They need to understand things quickly and clearly."

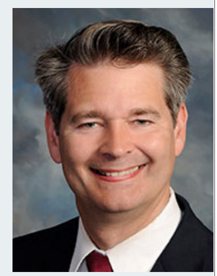
We turned Mr. Lawton's annual list of "the signs of a successful 401(k)" into a cheat sheet for other advisors to share with plan sponsors. In Mr. Lawton's experience, DC plans work best when they follow these strategies, from boosting participation and contributions to tailoring investment choices to their employees. In a recent Q&A, he shares more:

BlackRock: *How do you recommend that advisors help plans understand how they add value?*

Lawton: Everybody wants to understand the value they're getting from spending the dollars on these various retirement plans. But determining value, from the advisor's perspective, is best figured out by matching up the company's objectives with how the plan is working. It's not all a matter of cost. If the plan sponsor thinks, "I don't have to spend a lot of time with that plan because it works so well. It has good investments and employees understand it," that could have high value.

One of the major reasons plans move to different advisors is because the current advisor can't fix what is wrong. A lot of times the employer can't articulate what is causing frustration. This is an opportunity for advisors to demonstrate their consulting skills.

The objective really is to get HR talking about the plan. Once you zero in on the pain points, you're halfway to formulating a solution. For example, I work with a plan that is extremely generous to participants. But for many



ROBERT LAWTON
President,
Lawton Retirement Plan Consultants, LLC

employees, their first job may be at this firm. The employer, quite rightly, feels that employees don't appreciate the level of contributions it makes to the plan. Another example: Sometimes HR doesn't like the plan because it is too difficult to administer or understand. If HR doesn't like it, employees won't care for it, either.

BlackRock: *You list plan participation and contributions as keys to success. How can advisors help plans increase participant engagement?*

Lawton: Auto features, including reenrollment, are proven strategies to help participants engage, especially the lower paid group that hasn't historically participated in retirement plans to the extent necessary to build a retirement-ready account balance. Any lack of opt-out from this group has to be considered a big win.

HR is always afraid of making employees mad, but it turns out that what we've seen in survey data is that employees really appreciate the guidance. I call the auto features "guardrails." But many people refer to them as making DC plans look more like DB plans, and not taking choice away but helping participants make better decisions by putting these guardrails up.

BlackRock: *BlackRock's DC Pulse Survey also found that plans and participants alike are largely dissatisfied with the current state of retirement communications. How can advisors help?*

Lawton: You have to really understand the corporate culture. For example, I work with a client who employs a lot of very creative people. Our employee-education sessions are not of the traditional, instructor-led variety. We have conversations about different topics related to the plan. I talk a lot less, employees talk a lot more, and we all sit around in kind of a U-shaped configuration.

There's another consulting opportunity for advisors: Financial wellness is merging with retirement-plan education. Folks that are really doing a good job with financial-wellness education are doing it online with these little five-, 10-, 15-minute modules. It's just a natural progression for retirement-plan education to merge with financial-wellness education into something that is more holistic for employees. Believe it or not, the average person out there doesn't put together a family budget. But really, they should.

BlackRock: *When it comes to investments, what are the needs you see among participants?*

Lawton: Advisors need to help employers design an investment menu that addresses the needs of four main groups:

Do-it-for-me investors, who hand over management of their 401(k) investments to a target date or model portfolio option, and represent up to 75% of a plan's participants, in my experience with the plans I have advised.

Core-funds investors, who are familiar with the markets and will invest in the core group of actively managed and index funds a 401(k) plan offers. This generally is about 10% to 20% of participants.

Index investors, who believe only index investments make sense and that active management will never beat passive. They comprise another 10% to 15%.

Specialty-funds investors, who may only invest in a fund or two in the plan. They typically include executives using the 401(k) as a diversifier. This group is roughly 5% of total participants.

BlackRock: *Are you recommending any shifts in fixed income investments?*

Lawton: I think it makes sense to offer more fixed income options. Pre-financial crisis, the majority of plans offered only a money market fund and an intermediate-term bond fund. I recommend plans offer greater diversification, with access to high-yield bonds, international bonds and corporate bonds, as well as a stable value or guaranteed fund.

BlackRock: *In light of volatility, are you looking more closely at active strategies?*

Lawton: If you believe in reversion to the mean, and if you also believe that the near future is not going to be like the recent past, then it will be important to have a good menu of actively managed options for participants to choose from. Passive management has certainly thumped active recently. But my experience has shown that the past isn't always a good indicator of the future.

BlackRock: *Pulling it all together: What about your process for building a successful DC practice do you think is truly differentiated?*

Lawton: There are around 300,000 financial advisors nationwide. To a buyer of investment advisory services, we all look pretty much the same. Differentiating ourselves is a major challenge. The trend, because of the deepening complexity of everybody's business, is toward specialization. If advisors don't have a niche, they are running to find one.

I have found that my message—keeping it simple—resonates with certain types of management teams. I don't try to be everything to everyone. Too many advisors feel like they need to make every sale and work with every prospect. That's impossible—and not a good business strategy. You end up with a practice that has too many difficult and unprofitable clients. And you don't have much fun.

I look for clients where I know I can add value, based upon my knowledge base and skillset. That forms the basis for a good long-term relationship. Never overpromise and always over-deliver. I am blessed to work with the clients I have. ♦

DC EDGE
Published by BlackRock, Inc.

Please direct story ideas, comments and questions to:
Kelly Greene, Editor
Telephone 212-810-3730
kelly.greene@blackrock.com

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