

A GUIDE THROUGH 401(K) LAND

Compass Retirement Solutions is like a personal shopper/manager for fast growing companies who need expert help with their retirement plans.

BY CHRIS MCFADYEN

Neil Netoskie is senior vice president and manager of Compass Retirement Solutions, a division of Compass Bank's Wealth Management Group. Compass Retirement Solutions is a third-party consultant offering client companies advice on the selection and monitoring of retirement fund providers, including the 401(K) providers ING, The Hartford, The 401K Co., American Fund, Diversified Investment Advisors, Principal Financial Group and Manulife Financial.

Netoskie is one of three consultants within Compass Retirement Solutions. Netoskie and another partner have offices in Houston, and the third is located in Birmingham.

What is your service area and how many total assets do you oversee under consultant contracts?

We're in Colorado, Arizona, New Mexico, Texas, Alabama and Florida. We started our division four years ago. We have 75 plans and roughly \$350 million in assets that we are advising on — in a consulting or advisory capacity. In custodial type work, actuarial or defined benefits, we have another \$100 million.

What size are the companies that are your customers?

Our average size company has 50 employees, and it goes up to as high as 3,000 employees. A lot of the larger clients we started with three to four years ago when they were small, with 100 or 50 employees. And as they grew and now have \$3 million to \$5 million in their plans, they have had to upgrade. Retirement plans, like computer systems, have to be upgraded.

Explain what a third-party consul-

tant does for a company's retirement fund. Who are your competitors? Don't other banks offer company retirement products?

Compass doesn't have its own retirement product, proprietary product. We have a group of consultants and what we do is to help find solutions for companies. We meet with them and tell them what we can do. A lot of companies don't have a clue how performance is measured and what they're paying in fees. Part of our process of evaluation is to assess the fees they are currently paying, evaluate the fund's performance and technology and any kind of services that go along with it and compare it with what the outside world has to offer.

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We have been offering this service for about three years. There are some other consulting groups in the marketplace, companies like Hewitt Associates and Mercer. But among banks, there are no others that are offering this service. Typically, they will have their own proprietary products, but we have no products to sell.



Neil Netoskie

We at Compass had some clients who were dissatisfied with what they had and were looking for a solution, but the bank didn't offer that service. So we created a multi-vendor platform to offer our clients, pulled together 20 different vendors, so we could select among the top 20 record keeping providers in the marketplace. Our clients look at multiple products without having to go to five different brokers.

What motivates companies to enlist your services?

It's a combination of two things. One is a matter of poor service that they may be getting, with a lot of companies not knowing how their plan compares to other people. Then there were others who knew they had a good plan at the time they bought into it, but they hadn't looked at it again in 10 years.

Don't many in the retirement fund industry intentionally make it hard for companies to know what fees are being charged?

It's the industry's fault that they don't disclose like they should. But when you go to compare prices, the

human resources departments of many companies are so busy they don't adequately question what they are paying for.

Yes, many funds hide the fees within the fund costs. If you don't see it, you don't think about it. A company might add a 1/2 percent onto every plan. Fifty basis points over the life of owning a company's mutual fund, that's a lot of money. If the CEO doesn't know it, the employee doesn't have a clue. With us you pay a fee, but my fee is a one-time percentage of what the cost is.

What other services do you offer in your consulting role?

As laws change and fund managers change and fees change, we're involved as a group conducting annual reviews with the company, and we conduct educational meetings with the employees, servicing enrollment and ongoing performance of the company's plan.

The number one reason companies are looking for a new provider is service, or lack of it. Number two is fiduciary: Something's wrong with the current plan and it puts the company at risk. Only 25 percent of companies with retirement plans have an investment policy statement. We're just now hitting the stage where baby boomers are reaching retirement age and when something goes wrong, everybody's pointing fingers. Some are pointing to the employer and saying they didn't give me good options.

If your investment statement is sound, it's a road map for choosing the right funds. If someone sues, say they were not good options, and asks how did you pick these funds, and you say I liked the manager or I liked the fund and give no sound reason for the choice, that puts the company in a defensive position.

A big part of what we offer is to go out and help with education by holding meetings. The employee may not want to participate. The only thing the employer can do is offer the service. But the employee can't come back five years from today and say they didn't know their choices, when twice a year you offered investment education, retirement education and they didn't take advantage of it. You document who was at those meetings, and we sometimes help them do that as well.

Does offering a wide variety of investment choices relieve a company's fiduciary risk?

Twenty years ago the practice was

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to throw as many funds as you could at the employee and let them pick. What happened was that when there were more than 10 funds, they tended to stifle. Employees were over-

whelmed by the choices and they would retreat into the stable value and money market instruments. If they don't understand what they are buying, they won't buy it, will take the path of least resistance. The problem is, that with a stable value of 3 to 4 percent, you're barely keeping up with inflation.

You can never eliminate market fluctuations, but you can reduce how the plan moves. A lot of companies offer high-risk fund choices that, on the surface, are giving employees what they want, but they are unaware that they run the risk of losing 50 percent of their account balance. It is my job to help them make sound investment choices but still take advantage of the marketplace.

You should offer them a diversified choice but not by any means a very high-risk fund. They may not be sophisticated enough to understand the risk. That's my job. And the plan can have dozens of tools for it. •

Chris McFadyen is the editorial director of Business Alabama.

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