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Firm aims to make DB plans a product advisers can sell

by Brooke Southall

SAN FRANCISCO — A small company is betting that it can turn defined benefit plans into a mainstream product for financial advisers to sell.

Dedicated Defined Benefit Services LLC in San Francisco bought the small-company retirement division of Greenwood Village, Colo.-based Great-West Retirement Services last year in an effort to make the pension plans simple and easy for advisers to sell much more broadly.

Prior to the deal, the company was mostly a sales organization.

Regulatory changes

The decision to invest heavily in the business comes on the heels of favorable regulatory changes, said Karen Shapiro, Dedicated DB's chief executive.

"A lot of the tax code changes have made the defined benefit plan to the small business really attractive, and we're finding an appetite from financial planners, financial advisers and [certified public accountants]," she said. Changes include a jump last year to $180,000, from $160,000, in annual benefits a retiree can receive.

The Pension Protection Act of 2006 sweetened the deal by allowing a plan sponsor to deduct up to 150% of the current unfunded liability of the plan.

This gives employers the option to contribute more in good years and less in slower years to maximize the benefit of the deduction.

"Mainstream interest in this kind of product has been a long time coming," said Brian Graff, chief executive of the American Society of Pension Professionals and Actuaries in Arlington, Va.

"Sophisticated people have known about it for years, but because of advisers, the word's getting out, and it's starting to spread," he said. "Advisers used to hear 'DB' and think 'actuary' and 'icky.'"

That doesn't mean it isn't worth introducing, said Ron Cordes, chairman of AssetMark Investment Services Inc. of Pleasant Hill, Calif., which manages $20.5 billion.

"This is a good product in a crappy old wrapper," he said.

But the old wrapper is a problem, Mr. Cordes added.

"We haven't gotten a lot of traction," he said.

The most obvious benefit is that there is no limit on how much an individual can contribute. Even for those above 50, the maximum contribution is $50,000 within a 401(k).

"The average contribution is $130,000, but we have some over $200,000," Ms. Shapiro said.

But while a new class of DB plans boasts inarguable strengths, advisers who want to make a business of bringing them to clients face some of the same difficulties caused by 401(k) plans, said Ward Harris, managing director of McHenry Consulting Group in Emeryville, Calif.

"Back five or eight years ago, 401(k) plans sounded like a great idea, but advisers realized it's hard work, and it's hard to get paid," he said. "The solo defined benefit plan makes a lot of sense, but only if you can get paid." Yet Dedicated DB ironed out many of those issues during the past year, Ms. Shapiro said.

Minimized hassles

"We saw an opportunity to make a product. Now an adviser just needs to qualify somebody," Ms. Shapiro added.

"The administrative hassles are minimized to the point where it makes sense," said Russ Charvonian, partner with The Renaissance Group LLC of Ventura, Calif., which manages $500 million.

But Mr. Harris said it may be difficult to make sales of the product into a profitable business without charging a "heavy" fee.

That isn't necessarily a problem if one views the DB plan as a service to clients as part of a wealth management program, said Russell Cesari, wealth adviser for Northwest Financial LLC of Herndon, Va., which manages $230 million. He sells about two DB plans each quarter and uses one himself.

But these impediments have also left Dedicated DB with a relatively open playing field, Ms. Shapiro said.

In the case of the 401(k) king, Fidelity Investments, the DB business gets referred to local third-party administrators, according to Steve Austin, spokesman for the Boston-based company.

"If that business comes up, we refer it to our [third-party administrator] clients," he said.

The Charles Schwab Corp. of San Francisco also refers out the business, said spokesman Mike Cianfrocca.

Advisers clearly like the product, considering that most of those who sell it make themselves the first customer, said Catherine White, vice president and product manager of Single DB Plus at OppenheimerFunds Inc. of New York, which has sold 200 of the DB plans.

"It was a slow start, because advisers were more comfortable in the 401(k) marketplace, but it has been growing for us," she added.