# Financial Engines prepares to roar

By Editorial Staff *Thu, Sep 15, 2016*

*Counting on synergy between its institutional managed accounts and its 120 newly-named Financial Engines Advisor Centers, the Silicon Valley managed account giant wants to aggregate all of a middle-market client's assets, says EVP Kelly O'Donnell.*

When an executive from Financial Engines shared the stage with Department of Labor Secretary Tom Perez as he announced the publication of the DOL's fiduciary or "conflict of interest" rule last April, many people understood the significance.

No other private sector company took direct part in that historic—skeptics might say infamous—moment in the history of U.S. pension regulation. The message seemed clear: The Obama administration's DOL approves of the way Financial Engines delivers advice to people with tax-deferred savings.

This week, it was NASDAQ-listed Financial Engines' turn to make a couple of announcements. The provider of online managed accounts and financial guidance at about 690 companies, said it would rebrand 120 former The Mutual Fund Store locations nationwide—purchased by Financial Engines in 2015 for $560 million—as "Financial Engines Advisor Centers."

In a media blitz yesterday, Financial Engines executive vice president Kelly O'Donnell explained to reporters that the move involves than a superficial name-change. Financial Engines intends to begin offering in-person advice along with robo-advice, and it plans to begin serving not just the 401(k) market but also the rollover IRA market and the aggregated taxable and non-taxable accounts of families, both before and after retirement.

"We're broadening our focus beyond retirement," O'Donnell told RIJ in a phone interview yesterday. "We've learned that retirement isn't the only financial goal that people have. People have told us loud and clear that they need help with the big picture. Not just retirement but also college savings and health care, and putting it all in perspective.

"So we're bringing to market a new offer. We'll provide a dedicated advisor to the workplace participants we serve. We'll continue to have online service and professional managed accounts for 401(k) participants, but we're also offering relationships with advisors who will focus on aggregated accounts—not just 401(k)s but also IRAs and spouse's accounts. We'll put all of it together in a comprehensive plan. These are services that used to be reserved for the high net worth clients."

The DOL rule will, arguably, force some asset managers and distributors who are already in the rollover IRA space to lower their fees to DOL-friendly levels and add scalable robo-advice to their offerings. To move to the rollover IRA space and the broader advice space, Financial Engines already has those elements, but has only recently added the necessary human advisors by buying The Mutual Fund Store.

O’Donnell thinks that, of those two camps, Financial Engines is better positioned. “The DOL broadened 401(k) protections to the IRA, and we’re uniquely positioned to provide that help. We’re one of the only providers that can manage your 401(k), your IRA and your taxable accounts. And, unlike retail advisors who can only make money through the rollover, we’re agnostic [as to whether the client rolls over or not],” she said.

Financial Engines needs to be agnostic on rollovers, because otherwise conflict with some of its partners in the 401(k) business might occur. According to O’Donnell, her firm contracts directly with plan sponsors in about half of its 401(k) business and works with the recordkeepers on the other half. Some of those partners may prefer to see money stay in a plan when a participant leaves the company or retires, while others may prefer to encourage a rollover.

In any case, Financial Engines will not be necessarily competing with the wirehouses for high net worth rollovers. The wirehouses trawl for accounts worth $250,000 or more, but Financial Engines mainly serves the middle or affluent market.

“We’re targeting and working with different customer than most other companies,” O’Donnell said. “Our average balance is $123,000 and our median balance is only $55,000. “Our founding mission was to work with people who don’t otherwise have access to professional financial services. We use scale to reach people who aren’t typical financial service customers.”

The Mutual Fund Stores’ median client account balance was $223,000, O’Donnell said, describing the stores as modest offices without the “mahogany desks” or high-rent urban locations of large financial institutions. As for pricing and products, O’Donnell said that Financial Engines will be offering non-proprietary, institutionally-priced funds and modest advisory fees.

“At this point, we’re not getting into specifics on pricing, because we’re still testing. But we will be coming to market with something that’s one-third or one-half of the 150 to 200 basis points that you might see elsewhere. There will be no account balance minimums,” she said.

Income Plus, which is Financial Engines' systematic withdrawal service for retirees, will be available to clients in 401(k) plans and clients of The Mutual Fund Store," she added. About 10 years ago, Financial Engines emerged as an advocate of using systematic withdrawals for retirement income between the ages of about 65 and 85, and then relying on a longevity annuity for subsequent income, if needed.

But when Income Plus was rolled out in 2011, the annuity was left out except as an out-of-plan option. That was mainly because plan sponsors in general resisted the inclusion of annuities in workplace plans, and still do. Going forward, "we will advise on life insurance," O'Donnell said, "but otherwise we won't have sales capability on insurance products." Annuities don't appear to be in the picture.

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