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Independent Broker-Dealers Use Health Care to Attract Advisers

By SCOTT STEARNS

NEW YORK -- In a bid to attract financial advisers thinking of leaving large Wall Street firms to go independent, some broker-dealers are offering a remedy for a common small-business headache: health insurance.

Accustomed to comprehensive medical benefits at big firms like Merrill Lynch & Co. and Citigroup Inc.'s Smith Barney, advisers turning independent find themselves on par with the owner of the corner deli when it comes to securing health insurance. Most go through a local chamber of commerce, an industry association or a spouse's plan.

Recognizing a chance to sweeten the pot for advisers, a handful of independent broker-dealers are rolling out medical-coverage options. These firms hope to stand out among the hundreds of broker-dealers jostling to snag established advisers on the road to independence. By adding more advisers, firms hope to build their asset bases to spur revenue growth and profits.

AIG Advisor Group, a unit of American International Group Inc. that includes five independent broker-dealers, recently introduced a medical coverage program. Offered in partnership with BenefitProtect LLC, a Phoenix benefits-management firm, the program allows AIG's 7,000 advisers to purchase health insurance for themselves, their employees and families at competitive rates.

"These are small-business owners, first and foremost," said Kristina Pleiman, assistant vice president for business development at AIG Advisor Group. "Getting small-business insurance is difficult."

Advisers say securing health coverage directly from an insurance company can be expensive for a small practice. In cases where someone in the practice suffers from a pre-existing medical condition, it can be virtually impossible. At the same time, advisers affiliated with broker-dealers are independent contrac-

tors, and thus ineligible for the kinds of employer-sponsored benefits packages that employees of major Wall Street firms enjoy.

Les Szarka, president and chief executive of Szarka Financial Management of North Olmsted, Ohio, said health-insurance premiums have increased 45% during the past two years for his 10-person financial-planning firm. He finds health insurance both a financial strain on his business and a hindrance to recruiting. High premiums and difficulties adding people with family-medical issues to an existing plan have squelched several potential new hires, he said.

Mr. Szarka, an adviser for more than two decades who joined FSC Securities Corp., an AIG broker-dealer, in 2001, said he thinks other broker-dealers will have to find ways to provide for advisers' medical coverage or eventually fall prey to larger firms that can flex some muscle with insurance companies.

Mike Knoop, chief operating officer at BenefitProtect, said he expects more broker-dealers to sign on next year after the expiration of exclusivity arrangements it has with AIG and Securities America, a broker-dealer unit of Ameriprise Financial Inc. that has offered the program to its 1,800 advisers for about two months.

"We're starting to understand that's an underserved market," Mr. Knoop said of independent broker-dealers. "It could be a real opportunity for those independent contractors to gain access to affordable health coverage."

The health-benefits programs also could give at least a temporary edge to AIG and Securities America in attracting advisers, said Howard Diamond, managing director of Diamond Consultants, a Chester, N.J., recruiting firm.

"It will take time for other companies to gear up," he said.

Advisers say health insurance has bedeviled the independent side of the industry for years as firms struggled to craft programs that didn't run afoul of Internal Revenue Service distinctions between employees and independent contractors. Under the third-party health programs that are now taking root, broker-dealers don't contribute to the insurance premiums for fear of jeopardizing advisers' independent-contractor status. But they do evaluate and endorse these programs, offering them to advisers as packaged products.

In the case of BenefitProtect, advisers confer by telephone with the company's benefits counselors to craft health coverage tailored to their personal medical and financial situations.

Because the plans are individualized, the potential cost savings for advisers will vary. The firm says it can save people as much as \$100 to \$150 on monthly premiums by offering greater customization than would be available in a big group plan and by seeking the best deal from about a dozen carriers it works with, including Humana Inc., Assurant Inc. and UnitedHealth Group Inc. AIG hasn't projected cost savings for advisers because they vary from one person to the next, a spokesman said.

Jeff Montgomery, chief executive of NFP Securities Inc., a broker-dealer unit of advisory network National Financial Partners Corp., said intense competition for advisers is spurring firms to come up with offerings like health coverage. It is a way to offer something different at a time when all firms provide a similar set of support services, including technology platforms and assistance with practice management and compliance.

"It's an absolute fact that three-quarters of everything that's offered is commoditized," he said.

As for offering insurance, he said NFP Securities has "definitely looked at it, but we're not rolling out anything imminently."

Advisers who work as independent contractors of broker-dealers aren't the only ones concerned about health-care coverage. Registered investment adviser practices that secure custodial services from firms such as Fidelity Investments and Charles Schwab Corp. find themselves in the same small-business quandary.

Jim Dario, executive vice president at Fidelity Registered Investment Advisor Group, said the fund giant is hearing more concerns about health insurance from the independent advisers for whom it holds more than \$200 billion in assets. Fidelity doesn't currently offer a program. "We're continuing to look where we can add value to RIA's practices," Mr. Dario said. Schwab Institutional, which caters to independent advisers, also doesn't offer a health program.

Some broker-dealers are looking to money-management firms as another option for getting insurance for advisers. Dunham & Associates Investment Counsel Inc., a San Diego investment manager that oversees about \$860 million, provides a health-insurance program to individual advisers who park at least \$1 million in assets with the firm. Twenty broker-dealers make this option available to their advisers, according to Keith Gregg, executive vice president and chief sales officer at Dunham. These firms each must place at least \$25 million with Dunham to sign up.

Mr. Gregg said Dunham is the only investment manager with such a program for advisers, which it created as an incentive to attract assets. "You've got to add rare, distinct value," he said. Advisers are saying "thanks for thinking of us little guys out here in the field."