9 Things That Financial Advisors to 401(k) Plans Can Actually Use

By Ary Rosenbaum, Esq.

Let's not dilly dally with my comparing acting as a retirement plan financial advisor for clients with piloting a jet when the crew ate fish for dinner that made all the papers including the Canadian Jewish News in Airplane! This article will tell you stuff that you can actually use in building and maintaining your retirement book plan of business.

Keep an open mind

You would think that is simple to do, but so many businesses including larger ones like Schwinn, Montgomery Ward, and even Blockbuster Video have fallen from the sky as business titans merely because they didn't understand the change that was coming to their business. Don't be like that. The retirement plan business can be very fluid and you must be willing to change with the times. I can recall telling my boss at a producing third party administrator (TPA) how he should push his clients to add automatic enrollment to their 401(k) plans to increase assets under management and to help with their clients' discrimination testing 6 years ago. I'm still waiting for a response. The point is that whatever change is coming to the retirement plan industry, you have to be ready for it and willing to accept that chance because if you can't change with the times, the times will change you.

The client comes first

Sure, it's an old saying, but so often I have seen it not being practiced. Putting clients' needs first and getting you paid second is what it is all about. That is why I always say that being a financial advisor is only one part of being a retirement plan financial advisor. Being a plan's financial advisor also means being their ombudsman when things go wrong with other providers, being their confidant, and most of the time, being their most trusted advisor. So when other providers scoff that you get paid quarterly for doing nothing, you know full well that as a good retirement plan financial advisor, you do a whole lot that has nothing to do with financial advice.

Find a few good TPAs

TPAs are like pizza shops, it's always important to know a few good ones. You should look for TPAs that you can partner up with, who can help you and who you can depend on when you need them. Remember that a no-frills TPA like a payroll provider is likely to give you less support than a fully bundled or unbundled provider will. In addition, a good TPA will help your claims in their plan needs while a bad TPA will give you more headaches and more work with the potential of having you lose that client if you pushed for that bad TPA. You also want to find a couple of TPAs because there is not one TPA that can handle all your plans because each TPA has a targeted part of the retirement plan business that they service. Some TPAs only work on 401(k) plans, some only handle larger plans. In addition, it's never a good idea to have all your eggs in one basket.

Have good fundamentals

Like a good baseball team, you need good fundamentals. So instead of bunting and defense, you have to concentrate on what really sets a good retirement plan financial advisor apart from one who is not so good. The fundamentals of being a good financial advisor for retirement plans rests on helping the plan sponsor manage the fiduciary process. That means understanding that all plans need an investment policy statement (IPS) that you have to meet the plan fiduciaries to review the investment options to see that it meets the IPS, as well as giving meaningful education and/or advice to plan participants if they direct their own investment. You can have all the flash of a great website, fantastic brochures, and well known clients, but it means absolutely nothing if you don't understand the fundamentals because poor fundamentals leads to poor execution on your part, which will certainly create a loss of clients and potential liability.

Surround yourself with a good team

Having played on some good teams and not so good teams, I can attest that it is important to surround yourself with a good team to augment your retirement plan practice. That means having a trusted group of outside, independent retirement plan professionals that you can rely on with help for your current and prospective clients. That means working with TPAs, ERISA attorneys (cough, cough) and Auditors that you can call upon to help you with any questions that you have, as well as to act as a sounding board as you have issues with the retirement plans you currently work on or are trying to recruit. In addition, you can use these resources in the client recruitment process to review a potential client or to get on the phone with the potential clients to work out the issues that they have. Of course, free help goes a long way, but it should never be taken advantage of.

Never fake it

Being a retirement plan financial advisor does not mean that you are a retirement plan expert, it jus means you should understand your role in the plan's fiduciary process. So if a question or issue is outside your safe area of retirement plan financial advice, ask your resources to help and never try to answer a question from your client that you do not know. Your clients will appreciate you for it and the professional resources you use will appreciate it as well.

The benchmarking/ prospecting tools: it's what you like

Ask two retirement plan financial advisors on which benchmarking/prospecting tools and services to use, you will likely get three opinions. Whether it's Brightscope, Fiduciary Benchmark, fi360, Larkspur, Judy Diamond, FRA/Plan Tools, or another provider, the choice is really yours, There is no science behind it, try these services out on a trial basis if you can or some access that you may get from a fund company's DCIO representative. These benchmarking and prospecting tools are like golf putters, it's all about feel and your comfort. Just because another advisor doesn't like a particular service doesn't mean that service isn't right for you. Since these services do cost a chunk of change, I suggest you pick one that you have already tried out and liked.

A word about that fund lineup

There are some things that are facts that many financial advisors don't realize about the investment options in the plan, but here are some tidbits. Keep the fund lineup in your participant directed plans at 12-18 (and even 18 is a bit high) because studies have shown that as the number of ingestion options go up, participation go down because participants stop deferring when they get confused over investment options and does a plan. In addition, if you are using a bundled provider that happens to be in the mutual fund business, keep proprietary funds to a manageable amount because too many proprietary funds doesn't look right if there is any litigation from plan participants over investment selection.

Focus on quality, not cost

Whether it's choosing a TPA for a current client or touting your service to a prospective one, I think it's far better to focus on quality of service rather than just on cost. Hiring a service provider is delegating a portion of the fiduciary's duty, but none of the responsibility so a plan sponsor needs to hire a competent provider if they want to avoid the pitfall of being a fiduciary. That is why it's important to keep an eye on cost, but focus more on competence. Too many providers advertise low cost, with low service to match. That also means that when you are competing against a competing advisor, it's important to stress that getting 60 basis points on a $14 million plan is a lot, but focus on the fact that this advisor wasn't preparing an IPS for his client or reviewing investment options or providing investment education to participants or doing anything to justify any fee whatsoever. Remember, plan sponsors don't have to pick the cheapest providers; they only have to pay reasonable expenses. Too many financial advisors have no idea on what their role is in managing a plan, so you should have no problem in picking up business this way.

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