The Crucial Mistakes To Avoid As A 401(k) Plan Provider

By Ary Rosenbaum, Esq.

I've been in my own practice for 13 years. As the story you might know, I had enough of working for lawyers and third-party administrators (TPAs) who had no vision and wanted to do things that no longer were working. Starting your own practice isn't easy and mistakes were made and mistakes are going to continue to be made. The point of mistakes is that we're not perfect and the goal is to learn from them. I've made mistakes and quite a few to mention. This article is about some mistakes to avoid as a retirement plan provider.

Not understanding your employees are your most important asset

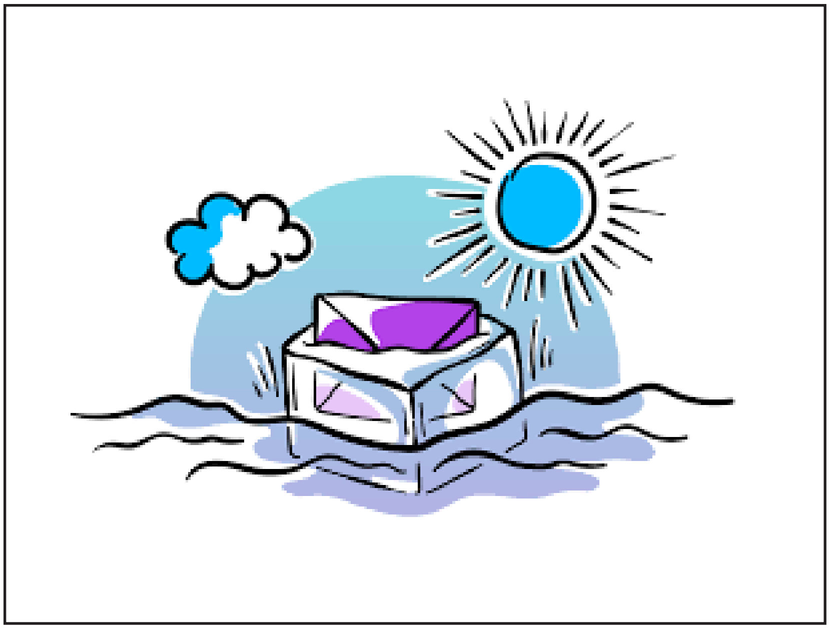
My father was a licensed electrician and a partner in a unionized electrical contracting firm. The "A journeymen" electricians they would get were dependent on what the union would give them. Some were very good workers, many liked to goof off and not put in an honest 35 hours a week. When my father would find "A' electricians that were good, he tried to be a supportive boss and that no one would ever want to leave by goofing off. My father was a tough boss, but he was fair, and he was good to his best workers. It's hard to find good workers for a plan provider. Unlike Local 3 IBEW A journeymen, there isn't a bonafide apprenticeship program that provides the necessary training for plan provider employees. I worked for a TPA that recruited many fellow Stony Brook graduates without the training they needed to succeed. This industry has many great and proficient workers, and there are quite a few employees out there who are awful, probably because they didn't get the training they needed in the beginning. I always say that I won't hire an employee because I was an employee once. Whether it was the lack of a bonus or the annual fight for a raise, I never felt appreciated. Your employees are your most important asset and they have feelings. You give what you get when you have no loyalty or support towards them, you will get it back in fewer employees. Replacing good employees is a hard thing and it can be costly to find a replacement. If you treat your employees well, they will be long-term, which brings up a major misconception.

Mistaking long-term employees for being loyal

I am truly amazed at people who can spend 10-plus years working at a place because the longest job I've ever had is the one I currently have: Managing Attorney for The Rosenbaum Law Firm. I suppose it's hard to fire yourself or quit yourself. I'm glad that there are some wonderful professionals who can work at a place for 20-plus years and are treated so well that they don't want to go anywhere else. That being said, I have seen plan providers make the mistake of mistaking long-term employees as people they should support no matter what because they believe long tenures imply loyalty. I worked at a TPA where the miserable guy running the place had two pet administrators and thought they were gold because they had been there for 20 years. Honestly, they were there for 20-plus years because nobody else would hire them. Long-term doesn't mean loyalty. It could be, but that's not always the case. Some people stay because they love working there, some people stay because they have no place else to go.

Not understanding what networking really is

When I worked at that semi-prestigious law firm, I couldn't rely on our existing clientele for ERISA legal work because the partners guarded their client lists, like it was the family jewels. So I decided to try building relationships through articles like this, which plan providers could disseminate to their current and potential clients, which would help with goodwill. That worked well. What didn't work out well was the networking meetings I attended. I found a group of small business owners that met at the local Panera or these restaurant meetups. The problem was that for networking, I picked a group of small business owners who were sole proprietors who were just trying to make ends meet. They didn't have money for a retirement plan or didn't know any business owners who could use my help. In addition, the one or two advisors in the group or insurance people in the group didn't have any retirement plan clients and were only interested in selling me their financial products. I actually hired one of these advisors who sold me a proprietary product closed REIT for a rollover IRA and then a year later, disparaged it when it changed brokerage houses. The biggest nuance to networking that so many plan providers fail at, is



that they think things move quickly and everything has to be a direct sale. I have networked with financial advisors for years, providing free advice every now and then, and maybe getting a referral every 5 years. The direct sale of networking is what drives me nuts. During COVID, I helped a friend by partaking in an online networking meeting and one guy who sells wine gifts opined that one of my conference logos would look great on a bottle of wine. I don't send gifts to clients and business partners, and if I would, it wouldn't be on a cheap bottle of wine with a caricature of me on it. I never tried to directly sell to a financial advisor or TPA, I think it's kind of cheesy. Perhaps they have an ERISA attorney of their own, but the point is that people know what I do, and when they need ERISA help, they might call me. I work with so many advisors around the country and they have been my best referral sources, so there is nothing more aggravating than having a financial advisor that I don't know, trying to sell me advisory services that I don't need. Networking and hiring a plan provider is based on trust. If I truly needed a financial advisor, who would hire: an advisor I know for 10-15 years who has referred me to clients or someone who just emailed me and is a complete stranger? The retirement plan business is relationship driven, it is built over time and is built on trust. There are no shortcuts and developing a successful book of business takes time. Find the right audience and find the right attitude to be successful at networking.

The cold emails

One of the first things I bought after starting my own practice was a subscription to Constant Contact. It was the perfect fit for the dissemination of newsletters for both plan sponsors and plan providers. I have about 12,000 email addresses for my database and it's a great thing for my practice in distributing my articles. There are people that might no longer want my content and there are no hard feelings. There is a simple unsubscribe button on the emails and for every email newsletter, I might get a couple of unsubscribes. People shouldn't feel like a hostage to a barrage of my content. What I've noticed lately is a barrage of cold emails from plan providers and companies that provide services to law firms. These emails are annoying and what is more annoying is that there is no simple way to unsubscribe. Some might request you to email back, but most have no mechanism to unsubscribe. It's annoying, especially when they try following up. In addition, I'm getting emails from advisors whom I don't know and want my business with such generic emails that it's clear they don't know what I do for a living. One just bothered me, it included: "I provide investment management and financial planning services to individuals and families. Many of my clients have similar backgrounds to yours and I wanted to ask if you have any interest in talking." What kind of similar background? Lawyers? Aerosmith fans? New York Mets and Rangers fans? I had another advisor who was impressed with what I'm doing in the legal industry, which means he doesn't know what an ERISA attorney does or just found an attorney email list to send a generic email. I have used the same auto mechanic and the same local pizzeria for the last 25 years. At both establishments, I get great service and I'm treated like family (actually better, you should meet my family :)), there is a warmth there that can't be easily duplicated. Cold emails are just cold, they can't be heated by a microwave. The greatest 401(k) salesman I knew was Rich Laurita and he knew almost nothing about 401(k) plans. What made him a success was his warmth and understanding of people. He knew how to create loyalty and relationships that lasted way past his lifetime. Cold emails to complete strangers aren't going to generate the business that you think it will.

Sponsoring everything

When I started my practice in 2010, I joked that there was an industry of people who just wanted to separate me from my money. When you start your own practice, you need web hosting, a website, business cards, stationary, and a whole lot more. I wasted money on a public relations guy who was more interested in getting himself clients and there were people who just wanted me to sponsor their events. You can go broke sponsoring events and I think the high sponsorship fees and pay for play speaking gigs is what led me to start my own conference, That 401(k) Conference (which is virtual in late January and live in Arlington, Texas on May 3rd and Yankee Stadium on June 7th, cheap plug here). I'm not telling you not to sponsor anything (my events need sponsors), but I advise you to be very careful in how you spend your dollars. Make sure the events are cost-effective and that they will cater to an audience that will help you get clients. If those criteria don't fit, then spend your money elsewhere. I've seen too many plan providers go belly up because they spent what they didn't have.

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