The Right Way and Wrong Way for a Retirement Plan Financial Advisor

By Ary Rosenbaum, Esq.

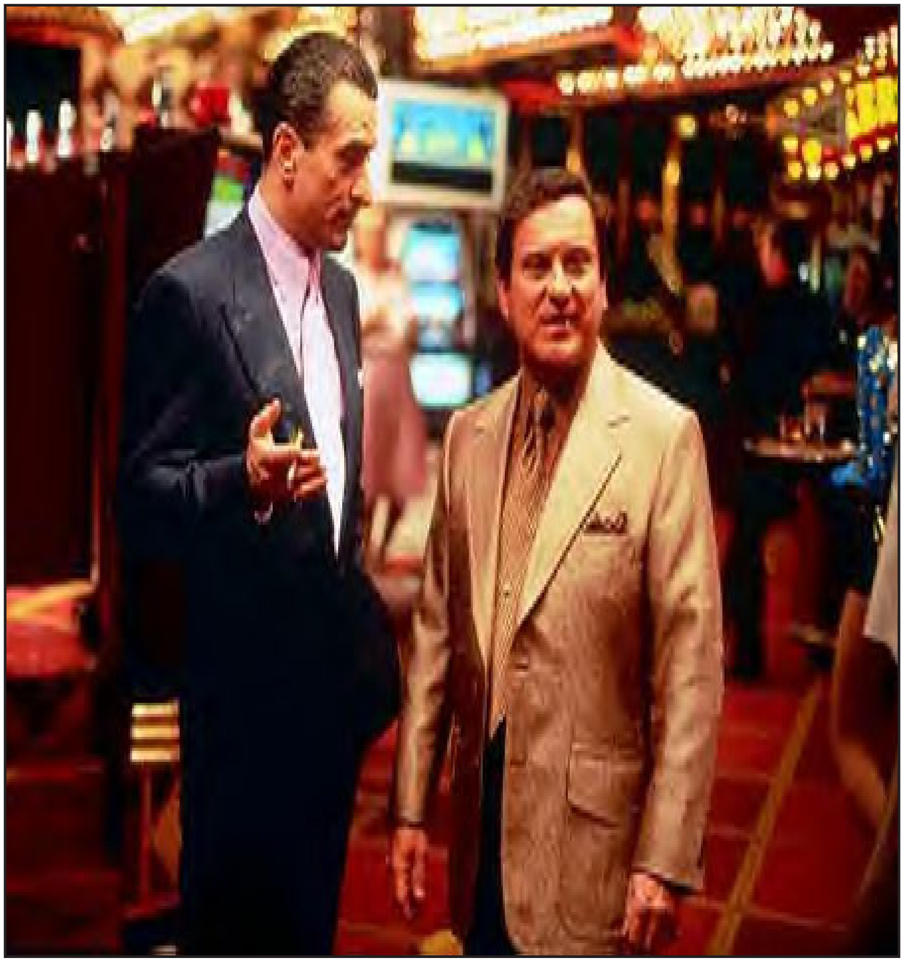
In the 1995 Martin Scorcese classic Casino, Robert DeNiro's character of Sam "Ace" Rothstein tells juiced-in slot machine floor manager Don Ward: "There's three ways to do things, the right way, the wrong way and the way that I do it." Fifteen plus years later, I still don't know what that means because Sam's way wasn't necessarily the right way. As a retirement plan financial advisor, there is a wrong way and a right way to operate your practice. So this article will try to delineate the right way from operating your practice as a retirement plan financial advisor from the wrong way.

Attitude

For me, the wrong attitude to have in business is to be arrogant. I can attest to it, having worked for a few people who have been arrogant. A few were the heads of third party administrators (TPA) and I worked for an arrogant managing attorney for a semi-prestigious law firm. Like I always say, she was a great managing attorney, ask her, she'll tell you. Seriously, arrogance is a blinding attitude. It disconnects you from your clients and it disconnects you from the changes in the industry that may impact you. A financial advisor who thinks that their clients need them more than they need their clients is going to be in for a rude surprise as this business will become more competitive over time, with many thanks to retirement plan fee disclosure. A retirement plan financial advisor is easily replaceable; you just need to make sure that you are indispensible. The right attitude as a retirement plan financial advisor is to be open to new ideas and not think that you know everything. Fourteen years later, I don't know everything in this business and I pride that I learn something new every day. Thanks to technology and regulations/laws, it's constantly changing and the financial advisor that will succeed over time is the one that's going to navigate those changes for their practice and for their clients. You can't navigate the tide of change if you know (or think you know) everything. Whether it's Roth 401(k), fee disclosure, or a boom in ERISA §3(16), §3(21) or §3(38) services, the successful retirement plan financial advisor will be on top of any sudden change in the retirement plan business because with change, there is always opportunity. You don't know everything and you're not G-d's gift to retirement plans, get over yourself. The right attitude will help you in the long run.

Handling the Practice

The wrong way to handle a retirement plan practice is to think it operates like every other part of your practice, it doesn't. Unlike private accounts you have with your clients, you tend not to actually invest that money since most retirement plans are participant directed thanks to the advent of daily valued 401(k) plans. While you don't make the investment decisions for the bulk of the retirement plan money you manage, you probably can attest that retirement plans take more time and pay less than your ordinary private clients. In addition, retirement plans involve more rules and regulations that your retirement plan clients have to adhere to rather than your normal clientele. The rules and regulations that your clients have to deal with the Internal Revenue Code and ERISA are naturally outside the scope of your practice and training as a financial advisor. That is why the right way in handling your retirement plan practice is not to treat it as the rest of your practice because it has so many different moving parts to it that you just can't ignore. The worst thing you can do, as a financial advisor is to dabble in retirement plans because you can't. While retirement plans don't have to be the focus of your practice, you have to be dedicated to working with your retirement plan sponsor clients and working with their other providers. How to get head in the retirement plan space if you don't know much about the rules regarding retirement plans? Well, that's the next point.



Teamwork

A plan sponsor has many providers that they work with in the management of their retirement plans. In addition to the financial advisor, there is a TPA, plan custodian, ERISA attorney, and auditors if the plan requires an audit. The wrong way in being a retirement plan financial advisor is to act as an island when it comes to the other providers, as if your practice has nothing to do with what they're doing. It doesn't work that way since many times, the financial advisor had some role in the selection of the other advisors because the financial advisor usually ends up being the plan sponsor's most trusted provider. So if you had a hand in the selection of the TPA, you'll want to make sure that the TPA is doing a good job because you're going to be the one who is going to hear it if they're not. The right way in being a retirement plan financial advisor is to be on top of everything and that includes making sure that the other providers are handling their end of the bargain by providing competent services to the plan sponsor. In addition, working with other providers can help augment your practice by helping you with recruiting clients as well as maintaining current ones. For example, knowing a few good TPAs will help you build your practice by developing plan designs that can help your potential or current client to maximize retirement savings for the clients' decision makers. A good TPA is something worth treasuring because they will add luster to your practice with good client management and intricate plan design and you can't get that kind of service from a payroll provider. Knowing a good ERISA attorney (cough, cough) can also help your practice by helping you review the client for any problems dealing with their plan documents and/or administration of their plan. I have seen too many retirement plan financial advisors being fired, not because of their incompetence, but the incompetence of the providers they recommended that the plan sponsor hired. The right way for a financial advisor is not to be an ostrich and out your head in the ground, you have to be cognizant of the issues that affect the plan on a day-to-day basis.

The Nuts and Bolts

When it comes to handling retirement plans, the wrong way for financial advisors to handle the nuts and bolts in managing the plan is to assume that the job of being an advisor to the plan is picking investment options for the plan. With thousands of mutual funds to select, any person with a little idea of picking investments could do that. The right way to being a financial advisor is to understand the true role of a financial advisor as it pertains to retirement plans. You are not in the investment option picking business; you are in the liability reducing business for your plan sponsor clients. That means the nuts and bolts of handling a retirement plan is to help the plan sponsor to manage the fiduciary process. Picking tbe investment options is one of the parts of the fiduciary process, but a small part to the puzzle of helping the client. The fiduciary process involves developing an investment policy statement (IPS) for the client, picking and replacing investment options based on the criteria set forth by the IPS, as well as offering investment education (or advice) to plan participants if they direct the investments under their plan account. A good retirement plan financial will handle these nuts and bolts in such a professional manner, that it will help reduce the plan sponsor's liability exposure as a plan fiduciary. Being a retirement plan financial advisor is much more than just picking funds.

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