

How 401(k) Financial Advisors Can Thrive Around Narrowing Margins

By Ary Rosenbaum, Esq.

There was a time when a 401(k) financial advisor could get 75 to 100 basis point working on a plan, those were the days of wine and roses. Now an advisor charging 25 basis points on a large plan is considered expensive. These are the pitfalls of a transparent marketplace focusing on increased fiduciary oversight and narrowing margins. This article is all about giving ideas to advisors on how they can better market themselves in an increasingly more competitive marketplace.

It's not 1998 anymore

I was the Vice President of a synagogue on Long Island and I was confronted by some of the old-time leadership who was lamenting how hard it was to get new members. Rather than developing new methods to increase membership, they just spent time complaining. A financial advisor could sit around and complain how they used to make more money and do less work back in the day, but that's going to do anything in bringing in clients and maintaining the practice. Thanks to fee disclosure regulations, an increased vigilance by plan sponsors over costs, and increased competition, an advisor has to work harder for less money than they did in 1998. There is no point in crying over spilled milk because anyone expects to see fee levels from 10-20 years ago again is going to wait more than a lifetime for them to come back. So rather than complain, an advisor should see how they can

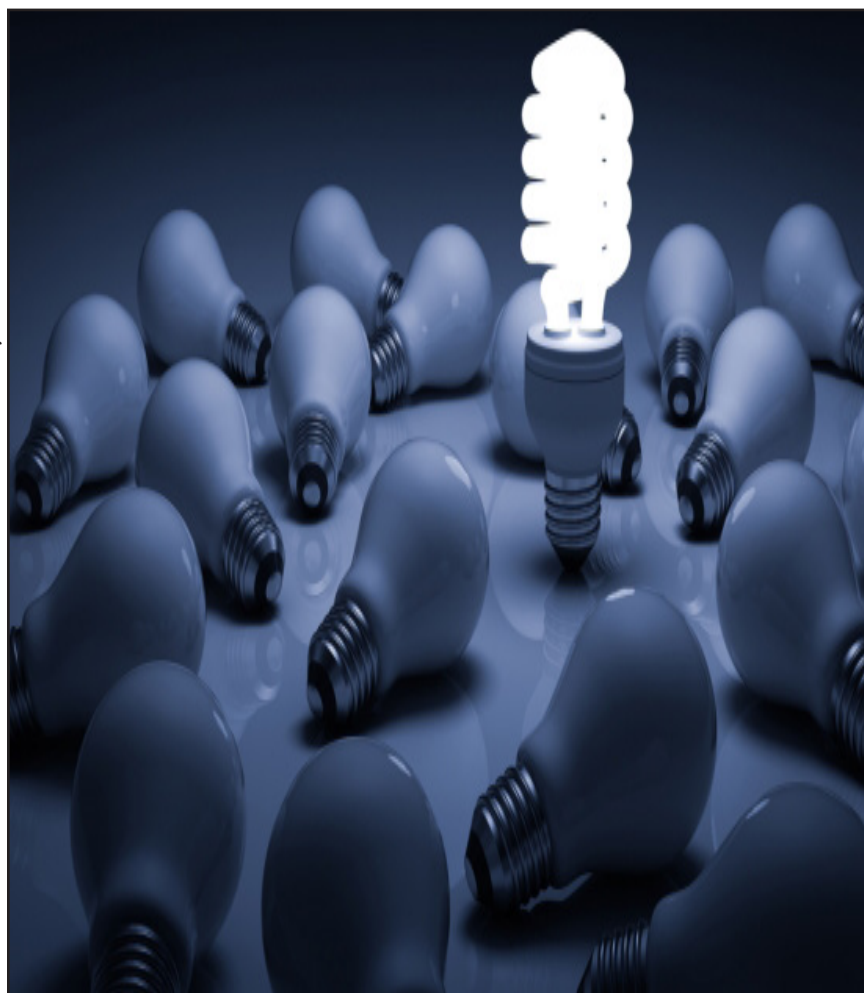
deal with a more competitive marketplace.

How to stand out in the crowd

It's not hard to stand out in the crowd anyone can light their hand on fire. It's a little harder to stand out in the crowd for the right reasons. For an advisor, one way to stand out in the marketplace is to see

sitting down with a client, helping them develop an investment policy statement, and reviewing and replacing investment option when needed. Advisors are also very cost conscious on the investment expenses of the investment options offered as well as the fees charged by the third party administrator (TPA). What I find missing from

most advisors is the interaction with plan participants. I've been to many enrollment meetings and I've been to many funerals and aside from the eulogies offered at a funeral, I can barely tell the difference. I'm a big believer that better interaction with plan participants will lead to increased salary deferrals, which will also increase an advisor's take (as long as they don't charge a flat fee). It's not rocket science to figure out that if participants increase their salary deferrals, assets will grow, and the advisor not only makes more money but can use that increased participation as a metric to show what a great job they're doing. The problem with the interaction is that advisors often talk to participants as if they were plan sponsors or even worse, someone with a background and understanding of plan investments.



what other advisors are doing in the marketplace and see how they can offer something unique that will allow them to stand out in a sea of financial advisors. The best way to stand out is really offer something that advisors aren't doing now. At this time, advisors are very good when it comes to

Advisors should target their audience at enrollment meetings and offer an enrollment experience that they can understand what the advisor is trying to teach them. Plan participants have a low threshold for paying attention and they need something in the enrollment meetings that will grab

their attention. The terms of the participant message need to be in basic English and an explanation as to why investing for retirement is a good thing for tax deferral and retirement savings. Plan participants really need a bottom line as to why they should save, how they should invest, and how easy it can be to do it. One great thing to encourage understanding of what you're trying to offer is to stage a trivia contest at the end with questions for participants on your presentation with nominal gift cards as the prize.

Enrollment meetings need to be informative, but they can be fun as long as the goal is for participants to get a better handle on their retirement savings. I'm not suggesting turning an enrollment meeting into an episode of Jeopardy!, but adding a little excitement in the enrollment meetings will go a long way into making an advisor stand out in the crowd. The other suggestions that will follow are also some advice on how advice can stand out from other advisors.

Referring a good quality TPA

A financial advisor is simply more than developing an IPS and helping a plan sponsor select investment options. Since the financial advisor is usually a plan sponsor's main plan contact, the advisor takes over issues that are really unrelated to being an advisor. The advisor ends up being the plan sponsor's ombudsman and usually having to contact other plan providers when things go wrong. They also act as a referral source where they may recommend a TPA or an ERISA attorney. That's why a financial advisor would be wise to only refer and work with quality TPAs. Working with quality TPAs means fewer compliance issues and fewer headaches than TPAs that aren't dedicated to quality work. Fewer problems on the administration side of the plan alleviate some of the work that an advisor has to be on top of. If a financial advisor is in charge of dealing with plan sponsor complaints, a good TPA will go a long way in cutting down on the number of potential complaints. Not only will it help the advisor in cutting down on complaints,



it will also help the advisor making a bad referral on a TPA. In terms of a financial advisor getting fired, one of the biggest reasons that no one ever talks about is when an advisor recommended a bad TPA that creates a whole host of problems with the plan sponsor. A good TPA will help minimize plan compliance errors and will help the plan sponsors maximize the use of employer contributions as a tax savings vehicle through proper plan design. Working with only quality TPA where the focus is on quality rather than the lowest price will help advisors stand out in the crowd.

Always looking for the newest thing

The financial advisors that tend to do well are those that are ahead of the curve rather than those who scoff at any change. I knew advisors who were practicing fee transparency 10 years ago, well before fee disclosure regulations were implemented in 2008. Those advisors did a lot better than those who waited until the last minute to disclose their fees. Registered investment advisors who were touting an ERISA §3(38) service before people knew what 3(38) did better than the advisor who complained that 3(38) was just a marketing gimmick. An advisor that grasps what's new and out there are going to do better than those who don't. I always tell the story of how I was working for a producing TPA and when automatic enrollment was finally made part of the Internal Revenue Code, I told my bosses how we should wrap our arms around it because it was a great way to increase assets which would increase revenue. I'm still writing to hear from them about it.

Whether it's something technological or something that is regulatory, financial advisors should get ahead of the curve by embracing what's news. Advisors who don't change with the times are changed by the times to their detriment.

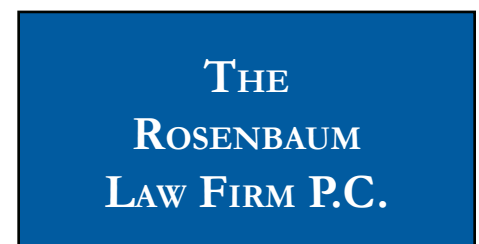
Better Marketing

Marketing is an essential part of allowing a financial advisor to stand out. However, it needs to be effective where plan sponsors want to hire the advisor after reviewing the marketing materials. Marketing has to be simple, sophisticated, concise, and serve as a call to action. It has to speak to the

plan sponsor and their sources of referrals in a language they could understand and the consequences if they don't hire the advisor.

Get me involved

I'm not going to be passive aggressive about it and talk about my open door policy about working with financial advisors around the country. An advisor who has used me as a resource tend to do better than those advisors who seem allergic to calling on an ERISA attorney. Whether it's serving as an attorney on a cost-effective retainer or calling for the free advice, I'm always there for the advisor who wants to bring sanity to what is often an insane marketplace when bad providers do well financially.



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