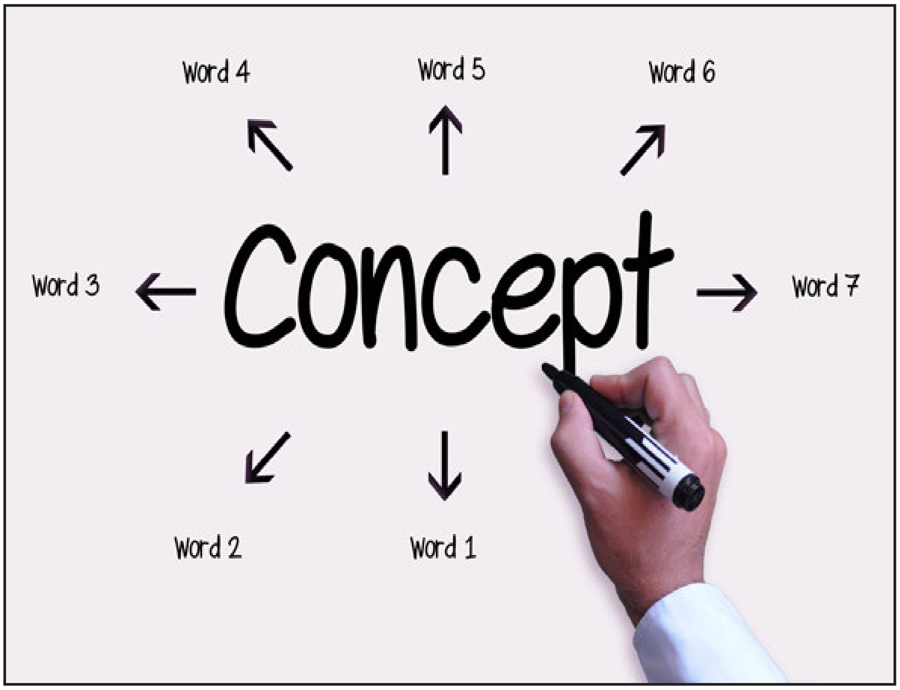
Concepts That Retirement Plan Advisors Shouldn’t Focus On

By Ary Rosenbaum, Esq.

Being a financial advisor isn’t as easy as many people on the outside think. There are so many things you need to manage in terms of your practice and dealing with potential and current plan sponsor clients. There are so many pitfalls to avoid and one of them is relying on concepts that could spell problems for your practice because you’d be focusing too much on the wrong things. This article is about concepts you shouldn’t rely on as a retirement plan financial advisor.



Focusing just on your practice and not on the industry

Your practice pays your rent, but you need to understand the role of your practice in a larger setting, the retirement plan industry. What happens in the retirement plan industry affects your practice, so that means you need to keep your ears to the ground and understand what’s going on out there. You need to be aware of the changes in the business and how that can affect your business. Changes in the retirement plan business are like a wave and you need to navigate and ride that wave. You need to make sure that your retirement plan practice changes with the times, otherwise it will change your practice and that’s not going to be a good thing.

Focusing only on fees

Thanks to transparency as a result of fee disclosure regulations, there clearly has been a focus on fees in the plan advisory space. In the good old days, advisors were making 75 to 100 basis points. Thanks to transparency and competition, the days of wine and roses is gone. So while many advisors are cutting their fees to the bone, it is an absolute mistake to focus only on fees in marketing your services to potential clients. Plan sponsors aren’t going to hire you just because you’re 10 basis points cheaper than the current advisor. You should show how your fees are lower, but you need to emphasize that you are providing more fiduciary liability protection to the plan sponsor because you do a better job in managing the fiduciary process. When one of my Retirement Plan Tune-Up reviews showed the plan sponsor that paying 60 basis points for a broker who was doing no work on a $14 million plan, it took a registered investment advisor to not only show he would be charging 25 points, but he also had to show what he would do for his fees that was a better value than what the broker was giving. Cost is important, but showing that your services are a value is more important. Your services as a plan advisor isn’t a cheap commodity like a bottle of Coke Zero at Wal-Mart, you need to show why your services are a better value than what the current advisor is offering.

Only emphasizing your fund selection

When it comes to advising a retirement plan, investment selection is just one small part of your service as a plan advisor. Too many advisors just care about selecting funds, but your job is much more important than selecting 12-20 mutual funds out of thousands. Your job as a financial advisor is to help a plan sponsor minimize their fiduciary liability. That means helping them manage their fiduciary process. That means helping them develop an investment policy statement. That also means actually adhering to the investment policy statement by selecting and removing investment options when needed. That also means providing enough investment education to plan participants if the plan is participant directed. As a plan advisor, you also know that you serve as ombudsman for your client if there are any issues with the TPA and other plan providers. So it makes no sense to emphasize the part of your job that’s a small part of what you do. Of course if you serve as an ERISA §3(38) fiduciary, you know full well that when you have discretionary control, the liability you take on is far more important than the mutual fund lineup.

Using only one TPA

One of the best resources for an advisor building their practice is using third party administrators (TPAs). They are a terrific resource in helping advisors get clients in the sales process and can be a great asset in the client retention business. However, one of the biggest mistakes you can make as a financial advisor is only using one TPA. Why? Besides the fact that you don't want to put all your eggs in one basket, it's a better idea to work with a handful of TPAs. Why? There isn't a TPA that is the perfect fit for all the clients you work with. Some TPAs have no idea how to handle some retirement plans, like a defined benefit or cash balance plan, and there are some 401(k) TPAs who have fee structures that can only handle certain plan sizes. I know this great TPA, but their $7,500 minimum isn't a good fit for a plan with less than a million in assets. TPAs need to fit like a glove for your clients and if you have a book of business of varying sizes and features, you'll need more than one TPA to work with. While it may be important to you to have only one TPA to work with, what's best for your client is that you work with a few TPAs and find one that works best with your client because your client's needs are more important than yours.

MUTUAL FUNDS

Discounting plan design

Plan design is the dominion of ERISA experts, namely TPAs and ERISA attorneys. However, you don't need to be an expert in plan design to understand that plan design should be a concern for your plan sponsor client. You should never discount plan design and that's why you should always consider using a TPA that understands plan design issues. Why is plan design so important? It's all about plan efficiency. A good plan design will maximize the use of employer contributions as tax deductions as well as benefiting the highly compensated employees. For example, there are so many 401(k) plans that fail their salary deferral discrimination testing, yet their TPA never bothers to see whether this testing failure can be corrected through a safe harbor plan design or another alternative than just refunding the deferrals of highly compensated employees. It's probably the reason I've always had a strong bias against payroll provider TPAs because I've seen them many times not take plan design as serious as they should. Some plan design concepts such as safe harbor, new comparability, or a 401(k) plan in conjunction with another plan such as a cash balance plan can be a very creative method for plan sponsors to maximize employer contributions for their highly paid employees while ensuring a benefit for the rank and file employees. Inefficient plan design will leave money on the table for the government to tax and leave highly compensated employee devoid of any meaningful employer contributions. That's why it's not only important to use multiple TPAs, it's also good to understand the need for your potential and current plan sponsor clients to have their plan design reviewed with a TPA that's an expert in plan design.

Relying on the TPA's ERISA attorney

It's not just for me to drum up business as an independent ERISA attorney, but I certainly need to emphasize the role of the TPA's ERISA attorney, as I served in that capacity for more than 9 years. Unlike an independent ERISA attorney who represents your plan sponsor client with an attorney-client relationship, the TPA's ERISA attorney works for the TPA. That means if there are any issues or problems caused by the TPA, the TPA's attorney's role is to cause as little damage to the TPA as possible. As an independent ERISA attorney, my client's needs come first. When I was the TPA's attorney, the TPA's needs come first. So if you're looking at what's best for the client, hiring an independent ERISA attorney might be the better bet if you're looking for legal advice that is untainted by any divided loyalties that a TPA's attorney has.

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