How a Retirement Plan Financial Advisor Can Survive In The World Today

By Ary Rosenbaum, Esq.

If I could pinpoint what it takes for a financial advisor to survive and thrive in this business, I would say it takes two things: a hook and timing. A hook is a marketing term, it's something to attract a plan sponsor's attention or encourage them to hire you. Timing is everything in life because ten years ago in this business, very few plan providers talked about fiduciary responsibility and fee transparency and even less plan sponsors cared. If you have the right attitude in this business and you're willing to learn, the time is right to build a retirement plan book of business than can be of substance. Hopefully, this article will help you along the way.

Be Open to Change

Whether you are an ERISA §3(38) fiduciary or not, whether you tout index funds or not, what really matters is only one thing. Regardless of your status in this business, you just need to be open to change. It sounds simple, doesn't it? But it's not, especially if you work for someone else. The reason I went on my own to start a national ERISA practice 4 years ago last month because I was tired of working for people who were not open to change and didn't see the future that was at their doorstep. Whether it was the third party administrator (TPA) that didn't understand that fee transparency was going to be the required norm of the business or the law firm managing attorney who didn't understand the power of social media and flat fee billing, I knew that I had to go on my own. I'm not suggesting that anyone go on their own; but I am suggesting that you be open to change. When you're working for someone else, sometimes you have to be the agent of change and speaking from experience, it's hard if they are not willing to listen. This retirement plan business was in constant flux. 25 years ago, most 401(k) plans weren't participant directed and daily valued. If they were daily valued, they might have been stuck in some expensive insurance-based product. What do you think happened to those TPAs who decided that their future lied with their present book of business, trustee directed 401(k) plans and they weren't interested that the future was daily 401(k)? Well, they didn't do so well. People can be stubborn, I know since I'm a Taurus. It's OK to be stubborn at times, but never let stubbornness get in the way of making money. There has been a seismic change in the retirement plan business in the last 35 years. However, unlike an earthquake, you have a lot of warning because changes in this business take time. Fee disclosure regulation was a 10-year struggle. It took 10 years for 401(k) plans to become more palatable when participant direction was easier to process through daily valuation. Change happens in this business, you'll know about it, be open to it and embrace it if you can. Roll with the tide or the tide will roll you.

Understanding your role

While a part of the role of a retirement plan financial advisor is to select investment options, it's only part of the puzzle. However, too many investment advisors only care about the investment options they pick, so they miss the big picture of their job. Basically, the role of a financial advisor is to reduce the fiduciary liability of their plan sponsor clients. So picking investments isn't enough. It means developing an investment policy statement with their clients and reviewing and replacing investment options based on that statement. It also means offering investment education and/or advice to plan participants. While the nuts and bolts of the fiduciary process aren't as sexy as selecting all-star mutual funds or your own proprietary investment models, it's what is going to keep you and your clients out of trouble. If you know your role as a financial advisor, you already have won half the battle.

Realize what you don't know and partners up with those who do

The days where you could be a financial advisor and dabble in the retirement plan business with a single plan are over. Barney Fife had one unspent bullet in his pocket and there were lots of financial advisors who had that one plan on their books and those days are over because the streets are far more dangerous. Thanks to fee disclosure, uneducated plan participants, and plan sponsors who neglect their duties, it's a far more litigious times. The streets are less like Barney Fife's and more like Sergeant Phil Esterhaus', so let's be careful out there. The increased litigation threat and the more control exerted by the Department of Labor indicate that any financial advisor who wants to be in the retirement plan space need to be geared towards that specialty. That doesn't mean that a financial advisors needs to be as education in retirement plans as an ERISA attorney and/or a TPA, it means they need to understand their limitations and partners up with the plan providers. Finding good payroll provider partners can augment your practice because for the most part, you'll get free expert help. One of my better clients who is a financial advisor thinks it's a great boost to current and potential clients that he could get an ERISA expert on the phone with him and these clients or prospects at moments notice. Rodney Dangerfield in the classic Back to School said that if you want to look think, surround yourselves with fat people. I say that if you want to look smart in the retirement plan business, surround yourself with the best retirement plan experts out there. Experts also include other financial advisors who work on a national level by offering ERISA §3(38) fiduciary services. Despite being in the same provider space, these national advisors can help you grow your business if you are new to this space. Too many advisors see retirement plan experts as avenues for new clients through referrals, but they are easily more suited as an avenue for new clients because they help your practice stand out among your competition.

Offering the value proposition

The fear concerning fee disclosures is that somehow that the focus on the amount of fees would lead to a race to the bottom and only the low fee providers would gain business in a fee transparent environment. While these low cost providers may get some business with plan sponsors who only think about low cost rather than reasonable costs, there is enough for all sorts of advisors. Years ago before I started my own law practice, I started a law practice with the idea that I was going to be the Wal-Mart of legal services. A will would be $100, tax preparation would be $150 and it was an absolute flop. Why? Unlike groceries and household goods, legal services are not something that people shop on price. I believe the same for most retirement plan services. I think advertising that your fees are so much lower than the incumbent provider is a losing argument. I believe the right argument is stating that you offer a value proposition. Your fees may be lower, but your services are that much better than what the incumbent provider is doing. A perfect example is when I was reviewing a $14 million 401(k) plan and I noticed that the incumbent broker was making 60 basis points. When I asked the plan sponsor whether they were any fiduciary meeting or any investment education/enrollment meetings with participants, I was told there wasn't any. So a well-known ERISA §3(38) fiduciary reached out to the client. Instead of just saying they were only charging 30 basis points, they offered their value proposition that not only were they half the cost of the broker, they offered a fiduciary service where they assume discretionary control and the liability over the fiduciary process. That's value and that's what a plan sponsor needs. Low cost isn't value, especially if the service is as no frills as the price.

Realize that it's a small community of plan providers

There is the old joke that if you urinate in the pool, there will be a colored cloud following you. However, if you develop a bad reputation in the reputation in the retirement plan business, it will follow you. Despite the vast size of this country, the retirement plan business has a small town feel to it where everyone sort of knows everyone. So if you act unprofessional or if you steal clients by underhanded methods, people will know that. If you do a great job with clients and you play nicely with other plan providers, people will know that too. Your reputation in this business is extremely important if you want to succeed in this business, so make sure you do right by your clients and other plan providers. If there are other plan providers who are helping you with free work/advice, don't abuse it. Do what's best for the client and not for yourself. If you follow the straight and narrow, you'll be able to develop a nice reputation in this business and it can only be an asset in growing your business.

THE ROSENBAUM LAW FIRM P.C.

The Rosenbaum Law Firm P.C.
734 Franklin Avenue, Suite 302
Garden City, New York 11530
(516) 594-1557

http://www.therosenbaumlawfirm.com
Follow us on Twitter @rosenbaumlaw