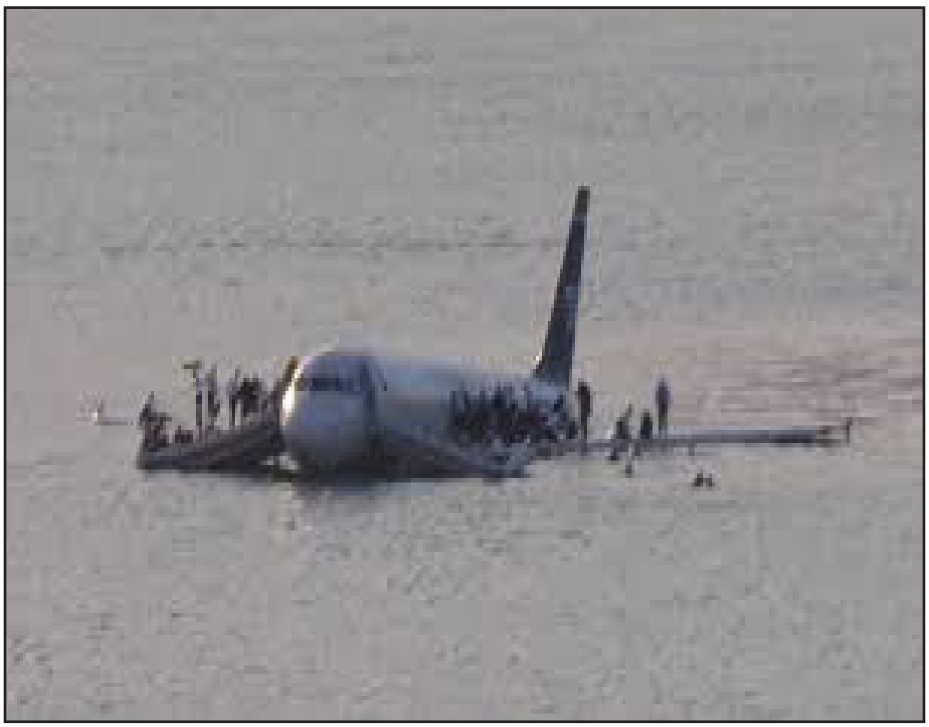
What A Retirement Plan Financial Advisor Needs And Where To Get It

By Ary Rosenbaum, Esq.

A checklist is an informational aid that is used to reduce failure by compensating for the lack of memory and attention of people. It also helps to ensure consistency and completeness in carrying out a task. I've learned the need for checklist as my memory is stretched with the tasks of being a solo lawyer, father, and husband. A checklist is essential for aviation safety as it's used for pre-flight and for certain safety situation in-flight. For example, during the "Miracle on the Hudson" of US Airways 1549, the co-pilot had to go over three-page emergency procedures checklist in an attempt to restart the engines immediately after the multiple bird strike caused the thrust to be lost. As a financial advisor, you need to identify what you need to run a retirement plan advisory practice. So this article is all about letting the financial advisor know what they need for their practice and where to find it.



Advisory agreements

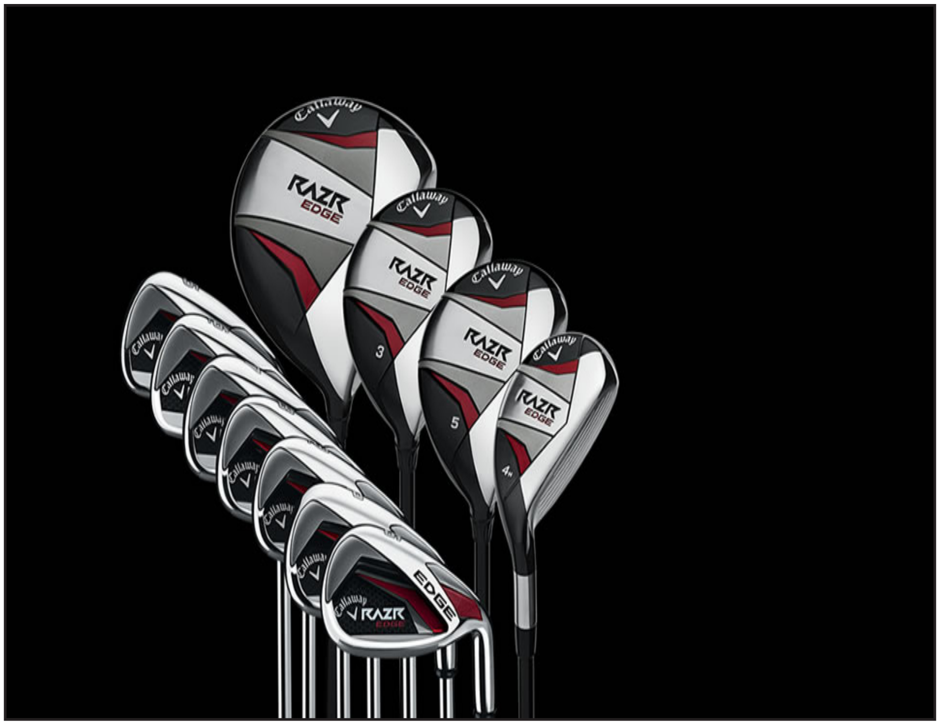
For a retirement plan advisory practice to function, you need advisory agreements for the clients that specify what they do for clients, what the fee is, and what fiduciary role (if any), the advisor will take. Of course, all registered investment advisors (RIAs) will serve in a fiduciary capacity. So a retirement plan practice needs an advisory agreement specific to retirement plans because advising retirement plans is certainly different from advising individual retirement accounts especially when you have participant direction of investments in most retirement plans. RIAs also need to make sure tat the plan are specific to the fiduciary role they will play in their advisory agreements with specific clients. An RIA serving in a co-fiduciary function will have a specific agreement; they will also need a specific agreement if they are an ERISA §3(38) investment advisor with discretionary control over the fiduciary process. Fi360 is also well known for offering support to advisors with agreements and I know a pretty good ERISA attorney who drafts these agreements at a reasonable flat fee (cough, cough).

Investment Policy Statement

One of the responsibilities that a financial advisor has in working with a retirement plan sponsor is developing an investment policy statement (IPS). If the advisor is working as an ERISA §3(38) financial advisor, than that advisor has the full responsibility of working on the IPS and implementing it. It should be noted that an IPS isn't legally required, but it's a necessary document that serves as a blueprint that details when investments are selected and when they need to be replaced for a plan. While it's a necessary document, it's just a document. That means it doesn't have to be read like a piece of literature. It needs to be broadly drafted with enough flexibility for when investments need to be monitored and replaced. The reason for the broad drafting is that IPSs that are too rigid in monitoring and replacement may result in liability issues if the plan sponsor and/or advisor forget to replace certain investment options that are underperforming. It's not enough that an IPS be implemented for a plan; the plan must actually follow it. An IPS that is not followed is actually worse than a plan not having one. Where to find sample IPS documents? The World Wide Web is a great source to find samples and you can always email me for free samples.

Partnering up with another advisor

If an advisor is new to the 401(k) advisory space, it might make sense to actually partner up with another advisory practice in handling clients than doing it on their own. Being a retirement plan advisor takes a lot of work and requires a skillset that not every advisor has from the get-go. That's why it may make sense for the new advisor to partner up with an expert in the business and split the fee. James Holland from Millennium Investment and Retirement Advisors (MIRA) is an expert financial advisor who devotes a bulk of his time in helping less experienced advisors in developing and maintaining retirement plan clients. Advisors may not want to share business with other practices, but it certainly beats handling plans alone when that advisor doesn't happen to have the requisite experience to properly handle the client. The advisor loses by subjecting them to potential liability, poorly serving the plan sponsor client, and in likelihood, losing that plan when the lack of experience is exposed to the client. So any advisor that doesn't happen to be an expert in the retirement plan service will certainly help them out by partnering up with one that does.



Partnering up with other providers

Whether the advisor is experienced or not, being able to work with other retirement plan providers such as a third party administrator (TPA) and an ERISA attorney will enhance their practice and help their clients at the same time. While a financial advisor is a financial expert in selecting investments, they usually end up becoming much more than that. Since the financial advisor is the main contact for many retirement plans, they actually become an ombudsman/jack of all trades/gopher. If there is a problem with another plan provider, the advisor maybe called on to help. If there are administration and/or legal issues, they maybe asked to help even though they don't have that knowledge. So that's why it's paramount for a financial advisor to develop relationships with other retirement plan providers. An ERISA attorney is an excellent resource to call up for any questions regarding plan documents, plan qualification, and plan design issues. While many law firm attorneys are not interested in helping out advisors without billing them by the minute, my practice has always been open and welcoming to retirement plan advisors with questions because relationships is what matters most in the retirement plan business and I would be on the corner begging for money if I didn't develop relationships with other providers As for TPAs, my ego is small enough to recognize that the TPA is the most important provider to develop a relationship with. They have enough resources and tools to help advisors get clients and maintain clients through the bells and whistles that their services can offer in plan administration and plan design A good TPA will also help an advisor out by partnering up with client recruitment meeting and as a former TPA attorney that worked with the greatest TPA salesperson I ever knew (Richard A. Laurita, R.I.P.), I can attest that many times the TPA was the essential component in getting new business for the advisor. TPAs have different levels of expertise and may serve different sizes of plans, so it will make sense for advisors to work with a few TPAs that they could partner with.

Picking a benchmarking tool

An essential element in being a financial advisor is helping a retirement plan benchmark investments and plan fees. Instead of doing the work themselves, they can hire a service that can d that work at a reasonable fee. Who to use? To me, benchmarking tools are like golf clubs: choice is based on feel. So a financial advisor should look at the benchmarking services like Brightsope, fi360, Fiduciary Benchmarks, and FRA/Plan Tools to see which one is the best fit and best value to the financial advisor.

Getting another provider to offer financial advice

If a plan's investments are directed by a participant, it is essential that the participant gets investment education. Investment education is just generalized information on investing and it's completely different than investment advice that is advice geared to specific investments based on the retirement needs of specific plan participants. Investment advice can only be offered by advisors who will serve as plan fiduciaries and that abide by the financial advice regulations that would require the advisor to get an audit to verify that they offered a level fee (to make sure the advice is not biased to get the advisor more remuneration based on the advice of using specific investments). Most financial advisors don't want the headache of offering advice because of the costs of compliance. However, there are outside providers that are in the business of only offering advice based on the investment selected by the plan's financial advisors, Rj20 and Smart401(k) are two of the leading providers in investment advice. The fact is that plan participants that received investment advice will tend to better than participants that don't. So a financial advisor should consider of offering investment advice to plan participants offered by an outside provider

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