How Retirement Plan Advisors Can Lose Clients In A Flash

By Ary Rosenbaum, Esq.

Building a book of retirement plan clients for an investment advisor is tough work. Clients don't fall from trees and it can take months or years to actually land the potential client that you have visited and called countless times. While adding clients to a retirement book of business is important to grow, so is client retention. It is easier to lose clients than it is to gain. Having worked 24 years in the retirement plan business closely with investment advisors, I have seen firsthand how easy it is to lose clients. If you follow some of the steps I've outlined, you can avoid losing your retirement plan clients without really trying.

Put Your Clients' Needs Ahead Of Your Own

My father took his brand new Nissan Maxima to a local car mechanic because he had a problem with his shocks. Rather than taking on the job, the mechanic suggested that my father take the car to Nissan because the factory warranty covered that repair for such a new car. The mechanic put my father's interest instead of his own, his reward is that my father and I have been his customers for the last 25 years. Too often, financial advisors, third-party administrators (TPA), and ERISA attorneys look to their own pocket first, instead of their clients coming first. Putting your needs in front of your clients will eventually be found out by your client, it may take time, but they always find out.

Refer All Your Plans To One TPA

Every company has a product or service with a certain niche and marketplace it serves. One size doesn't fit all and the same goes with TPAs. Some TPAs specialize in larger plans and their high minimum fees support that, others work with smaller plans. Some are better with defined benefit plans, some TPAs have no defined benefit administration service. Finding a TPA for a client is like picking a suit, it needs to be a good fit. Instead of being more concerned about putting all your plans under one roof, the client's needs are paramount. So pick the right TPA that fits best for each client. As far as putting all your plans under one TPA roof, remember the old expression, never put all your eggs in one basket.

Ignore What The TPA Is Doing

I often complain that plan sponsors have a set it and forget it mentality with their retirement plans. They set up a plan and put it in their drawer, never to care about it again. The same goes for some investment advisors. They place their plans with the TPA and never concern themselves with what the TPA is doing. The best financial advisor serves as a check and balance on the TPA. No one is suggesting that you should check the TPA's work, but make sure all statements are given out to participants, valuation reports are done, and Form 5500 is drafted for signature. It is also important that the financial advisor serves as an ombudsman if they have an issue with the TPA's service. Having worked for TPAs for nine years, the best financial advisors are those who were heavily involved with the administration of their client's plan.

Ignore The Significance Of The Investment Policy Statement

When it comes to the use of an invest¬ment advisor, one of the most important responsibilities is for the advisor and the plan sponsor to develop an investment policy statement. The investment policy statement is a blueprint that will determine how investments are chosen for the plan, and whether the investments are directed by the plan's trustees or by plan participants. The use of the investment policy statements is one of the strongest protections that a plan sponsor can implement to minimize liability from a lawsuit by a plan participant for losses sustained to their account balance, whether they directed the investment or not. The failure to have an investment policy statement is a breach of fiduciary duty. Too many plans do not have an investment policy statement and I sense many of them actually have a financial advisor. The lack of an investment policy statement is one of the easiest mistakes to correct and one of the most tragic mistakes if it's not and the plan sponsor and trustees are sued. Also, it has come through experience that in recent Department of Labor audits, plan sponsors have been asked to produce an investment policy statement upon request. The drafting of an investment policy statement with a plan sponsor is one of the investment advisor's most important roles. Fail to fill that role and another investment advisor may replace you in that role.

Don't Consistently Review Plan Investments

It's not enough for an investment advisor to implement an investment policy statement with the plan sponsor. An invest-

ment advisor must sit down with the plan sponsor at least semi-annually to determine whether the plan investments are still suitable for the criterion set out by the investment policy statement or whether there are other changes to the investment such as mutual fund management change or style drift that may make a financial advisor eliminate it as a suitable plan investment. An investment policy statement is not worth the paper it is printed on if it is not used to weed out the investments that are no longer appropriate for the plan. Ignoring the investments of the plan is dangerous for the plan fiduciaries and the future of the financial advisor handling the plan investments.

Ignore Plan Costs

Even with fee disclosure regulations in 2012, investment advisors should be mindful of costs being charged to the plan sponsor by their providers including themselves. The advisor should always be aware of the fees being charged by the TPA, especially if the TPA was selected on the advisor's referral. An investment advisor should be aware of the fees being charged if the plan is on an insurance company's platform. I was shocked when a broker told me that the mutual funds on an insurance company's platform were no load, without hidden fees, and the administration of the plan was free. The broker probably also thought that the Earth is flat and Paul McCartney is really dead. Seriously, an investment advisor should be mindful of all fees including their own. It is incumbent on the financial advisor to determine whether their fee is reason reasonable, as compared to the level of service and what is offered in the marketplace. I have seen too many advisors charge up to 100 basis points for financial advice on a participant-directed 401(k) plan, where most advisors may charge from 25 to 75 basis points, depending on the plan's asset size. You should be compensated on what is reasonable in the marketplace, no more and no less.

Ignore Internal Changes Of The Plan Sponsor

Too often an investment advisor will help a plan sponsor implement a new retirement plan and just ignore internal changes within the plan sponsor that may determine whether the retirement plan still works for the retirement plan needs. The defined benefit plan that was a great idea when the plan had three participants may not be working out if there are six people. The demographics of the plan sponsor may determine whether the safe harbor 401(k) design is needed, no longer needed, or too expensive. Is a cross-tested/new comparability profit sharing allocation needed to give a greater contribution to the highly compensated employee? Should the plan add automatic enrollment or a Roth 401(k) feature? These are the questions that a financial advisor needs to be aware of. Working with a TPA, ERISA attorney, and plan sponsor will get those questions answered.

Treating Your Clients Like They Are On Assembly Line

Many retirement plan providers like payroll providers acting as TPAs have an assembly line attitude towards the design and setup of retirement plans. Based on their plan documents and administration, they take a cookie-cutter approach and make sure that the plan sponsor fits on that cookie. I always say that regardless of the cookie-cutter approach, no two plans are the same. Sometimes, the plan design and the needs of the plan sponsor fall off of the cookie. Retirement plans aren't something you can construct on an assembly line, so don't assume all of your clients can be treated the same and make sure that the other plan providers you refer to the client can help meet the needs of that specific client because the same answer or approach may not be right for every client.

Being Complacent

One of my least favorite sayings is "if it's not broken, don't fix it." I always find that most of the time, it is really broken and should be fixed. Even if it isn't broken, it shows a level of complacency with an eye toward reactive action instead of proactive action which can be fatal for the investment advisor of a plan. The plan sponsor's needs, change the investment lineup needs to change, and the laws concerning retirement plans change. The investment advisor who sits back and fails to understand the changes that the retirement plan industry may take will surely lose clients. Complacency is deadly for any line of business, especially since financial advisors will circle around like vultures to pick up your clients when you have been asleep at the wheel. Working as a financial advisor for a retirement plan can be difficult work. Based on its rules and complexities, it requires dedication and the ability to work with TPAs and ERISA attorneys who can help you maintain and grow your book of retirement plan clients. There is no time for dabblers in the retirement plan business, be dedicated to retirement plans and your client's needs or get out of the way for someone who will. You can ignore my advice and you can learn that it is easier to lose clients than to gain them and you can't replace a lost client quick enough.

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