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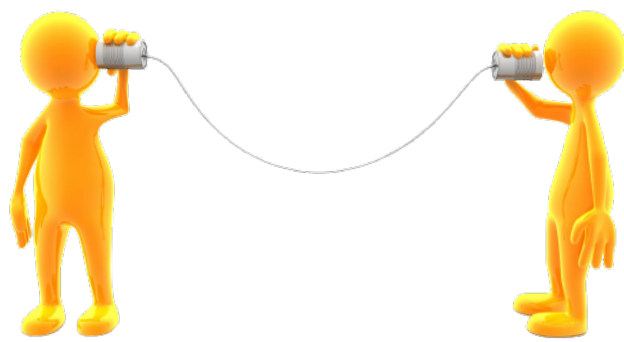
ADVISORS ADVANTAGE
A Publication for Retirement Plan Professionals

How Retirement Plan Providers Can Avoid Communication Problems.

It's all about relationships and communication.



Life is all about relationships, whether it's family, friends, or business. Whether it's starting a relationship, continuing one, or ending one, it's all about communication. I can honestly say from my life, the relationships that truly mattered that faltered were because of a lack of communication. Maybe I didn't say what I needed to say or maybe the other side wasn't listening or I wasn't listening, but it was the lack of communication that ended it. When you are a retirement plan provider, relationships are important and you can't afford to lose these relationships because of a lack of communication. So this article is about how retirement plan providers can avoid communication issues that could lead to a loss of business.

To read the article, please click here.

The DOL and the Proposed Fiduciary Rule: A Prediction.

My two cents.

Public comments regarding the Department of Labor's proposed new fiduciary rule were due and the process will continue.

I have said all along that the Department of Labor (DOL) will get a new fiduciary rule in place before Phyllis Borzi and President Obama will ride off into the political sunset.

The rule proposed in April will not likely be the same rule that goes into affect because politics is a game of compromise and the DOL will likely make some changes to get the heat off them that has been placed by Wall Street influenced lobbying groups and members of Congress that are financed by Wall Street dollars.

How do I know? I know a thing or two about people and politics and the fact is that since the DOL failed once at changing the rule a few years back, they are not likely to lose again are putting so much political capital into calling for a change. I also am a good listener and I listen when the DOL talks. "We aren't wedded to any particular choice of words or regulatory texts," Timothy D. Hauser, a DOL deputy assistant secretary, told a meeting of the Securities and Exchange Commission's Investor Advisory Committee. "The point is to improve this marketplace, not to defend the details of our package. There will be changes - no doubt about it."

What does this mean? It just confirms what I have been saying all along. The DOL will make changes to the fiduciary rule but they aren't married to the rule they proposed in April.
We'll all tune in and find out if the DOL follows through with their rhetoric. I believe they will.

The Numbers Game of 401(k) Plan Assets.

It tells a tale.

Life is a numbers game. Whether it's business, family, or pleasure, numbers do matter. What the numbers say today, may not say tomorrow and you can often predict the future of the numbers because demographics are pointing the numbers to a certain direction.

For the first time ever, there were net outflows from 401(k) plans in 2013 to the tune of a net of $11.4 billion. Baby boomers are starting to retire and let's face facts, a large chunk of 401(k) plan assets belong to baby boomers.

Net outflows aren't good news if you are a retirement plan providers. While much of that 401(k) outflow will be converted to Individual Retirement Accounts (IRAs) that does little good for the third party administrator that will have no say in the matter and the financial advisor who may not have the right to solicit that flow to IRAs because of their rule as plan fiduciaries.

Life is a numbers game and it's likely the net outflow will continue as long as the retirement plan industry does not do a better job in marketing their products and services to younger employees. There is enough time to turn the tide of net outflows, but the retirement plan industry needs to understand that the net outflow isn't going to be a one-time thing.

More focus and attention is needed for participant education and better marketing to wring more assets from younger plan participants.

For 401(k) plans, the best of times is now.

Yesterday is overrated.

I always tell this story because it's

funny: I went to a Jewish day school that didn't provide lunch, so I had to brown bag it everyday. On one day, my mother forgot to put in my can of Coca Cola in the bag and instead put in a can of Schaeffer beer. Let's just say as a 9-year-old teetotaler, I threw it right in the trash. As a parent now, I can understand how mistakes like this can be made, but I guess it helps I only drink bottled beer and my kids don't drink soda. So I won't make this mistake.

Everyone talk about how things were so much better way back when and I think people are wrong. They mistake the good old days not because they were better, but just because they were younger.

Look at beer. Was the time of Schaeffer, Schlitz, Lowenbrau, and Stroh's better than the microbrewery revolution that was started by Boston Beer Company? Was having only broadcast TV better than the hundreds of channels and streaming services we have now? Was the movie theaters riddled with poor seating and the smoking section in the last 3 rows better than the multiplexes today?

When people talk about how great 401(k) plans were back in the day when I started in the business in 1998, those people are usually retirement plan providers who has much better margins in business in the days before increased competition and fee disclosure.

Except for the inflated returns of the late 1990' stock market, which was nothing but a bubble, everything about 401(k) plans is better for plan sponsors and participants. While litigation has increased against plan sponsors, companies that sponsor retirement plans are now smarter for that and know more about fiduciary responsibility than companies did in the go-go 1990s.

Technology is better. I remember the first participant website I had to use when I enrolled in a 401(k) plan for the first time. It was using a platform called SmartPlan and there was nothing smart about it because the interface was awful. Everything is so much easier for plan participants on the web.

Education and enrollment materials are better. Investment options are better; investment options are also less expensive. Investment advisors are more knowledgeable. Third parry administrators are better in their customer service. Communication is better and information is easier to obtain thanks to the web.

The only people who think 401(k) pans are better back then are probably those that made a lot more on an industry that was cloaked in secrecy and hiding the balls from plan sponsors and participants.

Stressing Value is better than Stressing Cost.

It's a better sell.

Retirement plan providers need to look at their fees and determining what work they are doing for their retirement plan clients because like me, they may try to break

down their plan expenses into a day rate and try to figure out what their providers do for them.

Value is one of the more important concepts in business and plan providers (thanks to the transparency of mandatory fee disclosure) are under pressure to show their value to plan sponsors. By showing value, plan providers have the power to dissuade plan sponsors from every contemplating someone else from taking their spot as a plan provider.

When I talk about the Retirement Plan Tune-Up (the legal review for plans for only $750, cheap plug here), I always talk about the client who asked me to do one for them. Plan was safe harbor 401(k) and administration looked good. On this $14 million plans, broker was being paid about 60 basis points, which was pretty high for a plan of that size. When I asked for any plan education materials, investment meeting minutes, or an investment policy statement, I was told that the broker never provided them to the client. Let's just say that based on my advice, the broker was replaced by a 3(38) fiduciary for about half the cost. Needless to say, this broker didn't show value.

Too many retirement plan providers focus on cost and I think that's not a great marketing plan because saying you're cheaper isn't going to turn a lot of heads especially when there is more discussion and concern about fiduciary liability for plan sponsors. Stressing value is a better marketing plan, it shows plan sponsors how important they are and how much liability protection for a reasonable fee by using this provider. A plan provider can always stress low cost in relation to the competition as long as they stress the value of the services provided especially because low fees is often equated with the no frills and plan sponsors can't afford plan provider that don't offer frills.

Showing value is one of the most important concepts in retaining clients and it's better to market it than just saying you're cheaper.

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