Mistakes that Every Retirement Plan Financial Advisor Should Avoid

By Ary Rosenbaum, Esq.

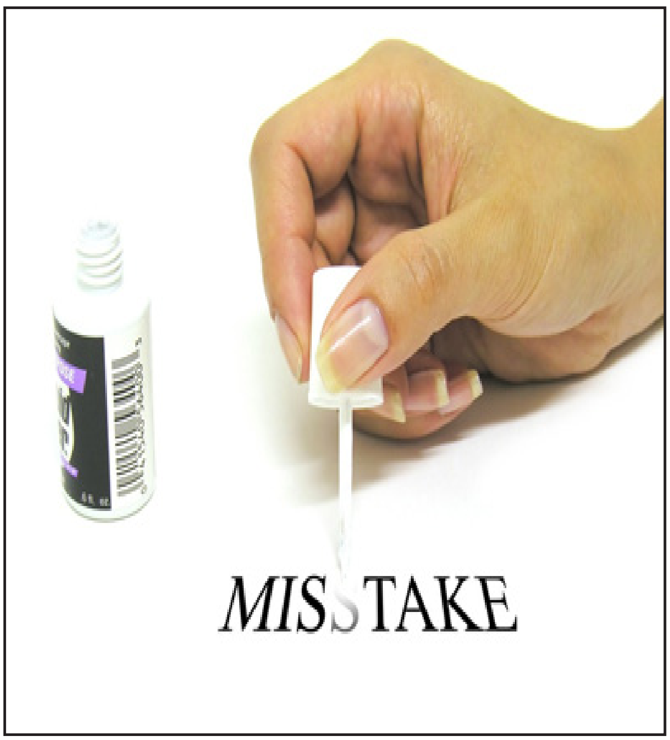
We all make mistakes, well except my mother. There are mistakes we made that we thought were in good in hindsight when like I thought joining a semi-prestigious Long island law firm would help build my dream of building a National ERISA law practice. Then there are some mistakes than we should have known when we made it like when I ordered a hamburger the day after the Great North American Blackout of 2003. Despite what some other kinds of plan providers think, being a retirement plan financial advisor is a hard enough job thanks to the recruitment and retention of plan sponsor clients. So this article is to advise financial advisors on what mistakes to avoid in their role when working with their retirement plan clients.

Thinking picking investment options is what it's all about

Many financial advisors tout their talent of picking investment options and that's fine when you are touting your role as a financial advisor. However, when working with retirement plans on participant directed 401(k) plans, picking investments shouldn't be the retirement plan financial advisor's greatest strength. The greatest strength that a financial advisor can have is assisting plan sponsors in manage the fiduciary process. That means helping the plan sponsor develop an investment policy statement (IPS), reviewing investments on a regular basis to make sure it meets the criteria set forth by the IPS, and making sure participants get the information they need to make informed investment decisions.

Forgetting the Small Stuff

Whether you're a broker or a registered investment advisor, you understand that you may be sued if something does go wrong with a retirement plan that you may manage. The problem may not be your fault, but thanks to civil litigation, people who have done wrong have been sued. So it's important that with all your retirement plans you handle, you should keep good records. Keep a written set; upload the files as a pdf or some type of computer archive. Take good notes of any meetings with the plan fiduciaries, keep a hold of any participant investment education/advice materials, and keep attendance sheets of any participant meetings. Under ERISA Section 404(c), participants are responsible for the gains and losses in their account if they direct investment unless there was a problem with the fiduciary process of investment selection and participant education. So it's important to document that the process was done correctly, to minimize and/or avoid any financial liability if a participant is suing for money they lost.



Pretending You Know

Financial advisors don't have to be experts when it comes to the inner working of retirement plans and ERISA, so the worst thing to do is to let clients pretend that you do. The greatest third party administrator (TPA) salesman I ever met, the late Richard Laurita knew very little about the retirement plans and never pretended he did. I often joked he couldn't spell 401(k), but he didn't need to. So when he needed retirement plan questions answered for the financial advisors and plan sponsors he was trying to impress, he brought someone like me in on a conference call or a meeting to answer the retirement plan questions. The worst thing you can do is pretend you know, letting the client thinking you know and getting the answer wrong.

Going it Alone

As a financial advisor, you have enough on your plate to handle all the retirement plan needs of your plan sponsor client. You're in charge of helping them with the fiduciary process; you can't be expected to be an ERISA attorney and/or TPA. That is why to really augment your practice and offer the level of service that your plan sponsors deserve; I suggest finding a good TPA and ERISA attorney (cough, cough) that you can always rely on for quick answers on how to help your current clients and prospecting new ones. I have built my practice since my days as a TPA attorney in helping advisors around the country with their current and prospective clients. Having a back bench of retirement plan professionals to assist you without having to hire them full time is very attractive because it offers your clients a concierge retirement plan service that will help you maintain that business.

Not Understanding the Value of a Good TPA

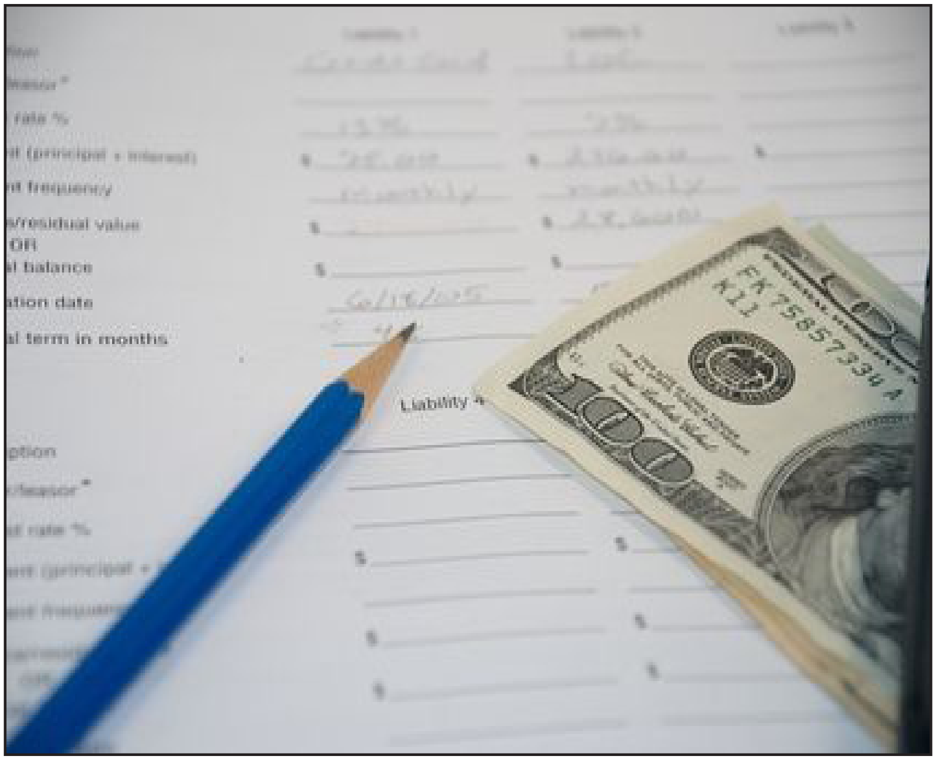
Whether you like it or not, as a retirement plan financial advisor, you are often helping your plan sponsors clients select a TPA. While plan sponsor may not fully grasp the difference between TPAs, as someone in the retirement plan industry, you should. TPAs are an invaluable plan provider and can certainly assist you in helping maintain and recruiting clients by advising you on plan design and issues that can negatively affect a retirement plan's continued tax qualification. So that is why you shouldn't be fixated on price as the determining criteria in selecting TPA. Look for competent service and understanding of plan design because it may help your client maximize their tax savings through increased contributions to the highly compensated employees, i.e., the decision makers who likely hired you.

Picking Providers based on easier it is for you to get paid

Whether you are a broker or a registered investment advisor, you should never advise a plan sponsor pick a specific custodian and/or service provider just because it's easier for you to get paid. The selection of plan providers such as a TPA or record keeper should be best for the client. It's quite obvious, but you'll be surprised with what I have seen over the years.

Using only one TPA

They often say that you should never put all your eggs in one basket. You should also not have all your plan sponsor clients with one TPA for the same reason. In addition, there is not one TPA who is the right fit for every type of retirement plan and retirement plan size. TPAs should be selected for each individual plan sponsor client that is the right fit and if you work with different types of plans and plan sizes, then you should know that there isn't one TPA that is the best for every client because every TPA has its own sector of the market it services and level of expertise. So find a few TPAs that will be good for your clients, based on your book of business and pick the one from the list you work with that will fit the best to meet your client's needs.



Picking a producing TPA

I know, I know. It's probably the most controversial thing I say, but a producing TPA is a TPA with its own registered investment advisory business or brokerage (insurance or stock) on the side. I just would not recommend any financial advisor use them because no matter what they say, a producing TPA is your competition. Many producing TPAs will state that they never steal any business from advisors who bring them business, but I worked for one that did. So while I understand that many producing TPAs would never steal clients, would they fire a client who fired their advisor or would they continue to service that client and offer financial services when asked? If the TPA would pick up that business, then you have the answer you were looking for.

Not being ahead of the curve

In the great Westerns, it was often shown that to find out whether you were being followed was to listen to the ground. I have worked for a couple of business who either didn't keep their head to the ground or scoffed at various changes that were going on in their respective industry. This ignoring of changes in their industry put at their competitive disadvantage, which is something you cannot afford to as there are countless advisors who want to replace you as your clients' financial advisor. That is why when they are recent changes such as fee disclosure regulations, the proliferation of ERISA fiduciaries, and multiple employer plans, you have to keep abreast of these changes to remain competitive. I always say you have to change with the times or the tines will change you. Always be informed of the changes in the retirement plan industry space. Sign up for my newsletter, read 401khelpcenter.com; Benefitslink.com; Plansponsor.com; Planadviser.com; riabiz.com; and other relevant online news sites. You'll learn something to help your business out.

This is just a short list, but enough ideas on which mistakes you can avoid as you continue down the road in building you retirement plan business. Any questions? You know where to reach me.

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
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