The Top 10 Major Misconceptions Financial Advisors Have About The Retirement Plan Business

By Ary Rosenbaum, Esq.

Being a retirement plan advisor isn't an easy business because unlike other areas of financial advisory work, retirement plan work does involve more work and concepts about fiduciary responsibility, plan expenses, and plan administration. In addition to working with the client, retirement plan advisors serve as their client's ombudsman to smooth out any issues with the third party administrator (TPA) and other plan providers.

Retirement plan advisors don't need to become retirement plan experts, but to improve their client development and retention; they need to partner with good providers such as a TPA and an ERISA attorney. Through my articles (which I allow advisors to disseminate for client recruitment and retention), my speeches at 401(k) Rekon (and other similar plan advisor events), and my open door policy for advisor phone calls (I still don't charge for advisors to pick my brain), I am dedicated to helping plan advisors out because I believe that better educated and prepared financial advisors will result in better retirement plans because in most situations, the financial advisor is the gatekeeper between the plan sponsor and the other retirement plan providers. The retirement plan industry can often be a difficult place for a financial advisor to break into and there are many misconceptions that are out there that many advisors believe for one reason or another. So this article is an attempt to debunk many of these misconceptions.

10. A financial advisor can do it all on their own. Unless a financial advisor happens to be a well accomplished retirement plan administrator on the side, it is impossible that a retirement plan advisor can handle their client on their own. They need to find a support system since their role is not to be a retirement plan expert, so a financial advisor who wants to augment their services should partner with a few TPAs and an ERISA attorney to assist them with plan design, as well as a review of the plan document and administration of the plan.

9. A financial advisor shouldn't be particular in referring a TPA. I am often amazed how some financial advisors are very nonchalant with the TPAs that they refer their client to. For them, it's all about how the selection of the TPA is dependent on how easy is it for them to be paid. They often use payroll provider TPAs that don't exactly have the sterling reputation when it comes to plan administration. Financial advisors should use TPAs that are dedicated to quality service at a reasonable price. The reason is very simple why; referrals to incompetent TPAs reflect poorly on the advisor that they referred. Financial advisors should understand the value of a good TPA, especially when it comes to competent administration and plan design that can maximize contributions to their client's owners. Financial advisors should use TPAs with a strong emphasis on administration and plan design and should be less concentrated on how they can get paid or some claimed synergy with payroll.

8. A financial advisor should take all of their retirement plans to one TPA. TPAs are like every other business; they have their own niche in the marketplace. Some serve larger plans, some serve smaller plans. Some are 401(k) driven TPAs and others devote most of their time with defined benefit plans. Some TPAs only administer daily valued retirement plans and other TPAs don't have any. Since TPAs have their idea of what part of the retirement plan market they need to target, it would be unwise for a financial advisor to bring all of their retirement plans to one TPA. A financial advisor should work with a few TPAs and refer plan sponsor clients to the one which is the right fit, based on plan type and size. In addition, as they always say, you should never put all your eggs in one basket.

7. A financial advisor should just concentrate on 401(k) plans. While the retirement plan industry has a 401(k) focus, financial advisors should not dismiss other types of plans for their clients, as well as pursuing other types of plans from prospective clients. For example, defined benefit plans that have ceased their contributions and are frozen may be a terrific avenue for plan advisors to pursue because many of their investment decisions have been frozen (neglected) as well. The world does not have to fully revolve around 401(k) plan.

6. A financial advisor should have no problem referring work to a producing TPA. This is always the one comment that will get the most ire, from producing TPAs. For those that are not fluent in the jargon, a producing TPA is one where they offer financial advisory services through the TPA or their affiliated entity. While these producing TPAs will help advisors with their cases, they are the competition. They are the competition if they compete for retirement plan clients in the investment advisory side of the retirement business. While most producing TPAs will not steal a financial advisor's business, I did work for a producing TPA with a terrible reputation for doing that. Taking your business to your competitors isn't the most savvy business decision.

5. A financial advisor's job is all about picking out investment options. Picking investment options in a participant or trustee directed retirement plan is just one part of a financial advisor's job in assisting a plan sponsor with the fiduciary process. The fiduciary process does include investment selection, but also includes the development of an investment policy statement (IPS), retention or replacement of investment options based on the IPS, and the offering of investment education to participants if the plan is participant directed.

4. A financial advisor doesn't have to be concerned about education to plan participants. If the retirement plan is participant directed, to limit a plan sponsor's liability for gains and losses on the participant's accounts under ERISA §404(c), education is an integral part of the process. Advisors don't have to educate participants to become financial gurus, but just enough to understand basic investing concepts. If the advisor doesn't want to do it or doesn't have the confidence to do it, companies like Smart 401(k) and RJ20 are inexpensive options to handle that job.

3. A financial advisor doesn't have to prepare for the new fee disclosure and fiduciary regulations. With expected Department of Labor regulations on fee disclosure to plan sponsors and participants, as well as a changing definition of fiduciary, plan advisors should be aware of any anticipated change in the retirement plan industry and its effect on their business. Whether it's redrafting client service agreements for the fee disclosure regulations or considering their practice if the new fiduciary definition will now make them fiduciaries, plan advisors should consult with their fellow advisors and ERISA attorneys on what needs to be done in anticipation of any change. The early bird catches the worm and the advisors who have prepared for change will thrive more than those that haven't.

2. A financial advisor can't find the tools to help their business practice. Thanks to the proliferation of online tools for practice management and development, financial advisors can find a wealth of tools that can help build their practice. Whether it's prospecting and benchmarking tools from Brightscope, Fiduciary Benchmarks, Larkspur, Judy Diamond, or fi360, or turnkey asset management programs from the folks at Loring Ward or Advisors Access, there are enough tools out there for the advisor. Even a company like Acceleration Retirement can get you meetings with potential clients. For every tool you may consider, consider their costs as well. No such problem with 401(k) Rekon events as they are free, check their website for their list of events.

1. A financial advisor can believe that the administration of a retirement plan can be free. The biggest misconception in the retirement plan industry is that there are TPAs that charge nothing or a nominal amount for plan administration. This myth was nurtured by insurance company plan providers who offered their retirement platforms with a very little upfront cost of administration. These types of platforms may be a great fit for small plans, but not for medium size or larger plans. The reason is that the investment options in these types of platforms are layered with wrap fees and it's not because they wrap them in a tortilla. Wrap fees are added to the underlying investment, making them very expensive and cutting down on a participant's retirement savings. Since the plan sponsors never saw what those wrap fees (until fee disclosure will mandate them in 2012) were adding to their overall expenses, neither did their financial advisors. While many financial advisors understand the nature of wrap fees and the myth of free 401(k) administration, I recall meeting one advisor who swore the funds that the insurance company platform he was using was no load. Perhaps those funds had no front or back load, but they were still loaded with a ton of fees.

There you have it, 10 major misconceptions that financial advisors in the retirement plan business have that have been debunked. As previously stated, better educated retirement plan advisors will lead to better retirement plans. Hopefully, this article helps that education process along.

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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