BENEFITS AND COMPENSATION

7 Signs You Have a Good Retirement Plan Advisor

By Matthew Gnabasik, Partner, Cerity Partners | Jan 9, 2020 | Benefits and Compensation (https://hrdailyadvisor.blr.com/category/benefits-and-compensation/)

When 401(k) plans first hit the scene in the early to mid-80s, financial advisors focused primarily on investment lineups, and that was OK with plan sponsors. However, as assets grew and the shift from defined benefit to defined contribution plans accelerated, employers began to realize they needed more help in this fast-changing retirement landscape. They needed an advisor who was a dedicated retirement specialist with the time and resources to help them manage their plans effectively.

The Importance of Choosing the Right Advisor

The best of today's Employee Retirement Income Security Act (ERISA)-focused advisors think holistically and are knowledgeable about all aspects of retirement plans, not just investments. They understand that strategic plan design, fees, financial wellness, and issues of fiduciary risk are equally important. They also understand that the ultimate purpose of a participant-directed defined contribution plan is to put employees on track for a secure retirement while minimizing the employer's risk profile.

Advisors who aren't versed in best practices across all these elements, and who don't understand this purpose, can easily undermine a plan's long-term success and diminish employees' retirement prospects. That's why it's vital to make sure the advisor you're considering is keeping abreast of developments in the retirement plan industry.

(https://news.blr.com/app/uploads/sites/3/2018/10/Legal-Representation-01.jpg)

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So, How Do You Know if Your Retirement Advisor Is a Good One?

The short answer is that good advisors drive overall plan success. They make plans demonstrably better by focusing on the five critical components of effective retirement plans: design, vendor management, retirement readiness, fiduciary risk, and investments. They also measure plans regularly and use data provided by recordkeepers to identify opportunities for improvement.

Additionally, good advisors typically possess these seven characteristics:

- **Fiduciary, fee-based firm.** Not all advisors are created equal. You want to work with an advisor who will operate as a fiduciary—as either a 3(21) or a 3(38) advisor, which means he or she assumes some or all of the responsibility for the plan investments, thereby reducing your risk. And as a fiduciary, he or she is required to act in your best interest and the best interest of plan participants, not his or her own.
- **Experience.** You want to work with an advisor who has extensive experience working with plans of similar size to yours and ideally in the same industry. The advisor should also be competent in all the areas you wish to focus on to make your plan more effective. To help in your assessment, ask for specific examples that demonstrate how the advisor has improved the operations and outcomes for other clients.

- **Relevant scope of services and focus.** It goes without saying that when you hire a third-party professional, you want to make sure that person can deliver the services you need to achieve your objectives. In the case of hiring a retirement advisor, that means knowing that many "old school" advisors focus almost exclusively on investments, while good advisors focus on all of the elements of a successful plan.

Top advisors also regularly measure and track key plan health indicators and report them to the plan committee. Additionally, you'll want to find out if the advisor works alone or as part of a larger team. Larger organizations typically have a broader service offering and multiple consultants with different areas of expertise who can support your primary advisor. These firms also tend to have in-house staff who can assist with employee education, compliance issues, investments, and plan design.

- **Well-defined client service delivery protocols.** It can be frustrating if your advisory firm doesn't have well-defined client service protocols. This runs the gamut from being able to meet client report delivery standards to returning phone calls and e-mails in a timely fashion to being able to adjust on the fly in the case of unforeseen circumstances. The best professional service firms use enterprisewide client relationship management (CRM) software, such as Salesforce or Microsoft CRM, to help manage the overall client experience.

Additionally, they often use a team-based service model to capture the expertise of individuals across the firm. Lastly, and perhaps most importantly, the advisor and the firm need to articulate and measure client service standards. Good advisory firms establish overall plan goals, regularly survey clients, and assign a senior member of the firm to serve as an "executive liaison" you can call to discuss service issues or unmet expectations.

- **Competitive fees.** You want to make sure the advisory fees you're paying are competitive. To make this determination, you can send a request for proposal (RFP) to a few firms to compare costs or use an objective, third-party database like Fiduciary Benchmarks (https://www.fiduciarybenchmarks.com/benchmarking-services/). Another approach is to conduct a request for information (RFI) whereby you ask for a simple fee and service proposal from a couple of advisors to benchmark your current advisor's fees.
- **Proprietary reports.** Many advisors use off-the-shelf investment monitoring reports provided by third parties. Although convenient and inexpensive, these reports tend to use simple pass/fail scoring systems that can force a plan sponsor to make frequent changes to the investment lineup. Also, these third-party reports rarely cover other essential topics like target-date fund and stable value due diligence or overall plan health. That's why the best and most sophisticated of the ERISA consultant community use their own reports.
- **Right fit and a focus on making the plan better.** This is arguably the "softest," most qualitative aspect of hiring a good advisor. Yet in many respects, it may be the most important. You want to hire someone you like and get along with. You want to know that the advisor truly cares about you and your plan participants and isn't just punching a clock. The marketplace of competent advisors is large enough to usually offer a few quality choices. The advisor you select should also provide an approach for measuring (not just benchmarking) your plan. In short, is he or she going to help put your employees on track for a secure retirement, and will he or she reduce your risk profile? If yes, you've potentially identified a good advisor.

Do Your Homework

Like hiring any professional, following a disciplined process usually eliminates—or at least significantly decreases—the chances of hiring a "bad" advisor. You might start by asking your other trusted advisors—recordkeeper, attorneys, auditors, and professional colleagues—for the names of advisory firms they consider reputable. From there, you can create a shortlist of firms to interview and whittle down the names. Or, as briefly mentioned above, you could conduct a more formal search using an RFP. Regardless of the approach, the goal remains the same: to find an advisor who will help your participants get on track for retirement security and reduce your organization's risk profile.

Matt Gnabasik is a Partner at Cerity Partners (https://ceritypartners.com/).