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Capitalizing on A Changing Environment

The evolving retirement plan marketplace offers a wealth of options for advisors—if they know how to capitalize on them


Hall


Spring


Lee


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In the wake of recent industry and regulatory developments, advisors in the retirement plan industry have a great opportunity to reflect on their roles and more clearly identify how they want to deliver value to clients. In order to be successful, however, advisors have to know where to look for help. *PLANADVISER* spoke with members of The Standard's retirement plans team: Dan Hall, Vice President of Sales; Harley Spring, Vice President of Plan Services; Robert Lee, Regional Sales Manager for The Standard's eastern region; and Rob Baumgarten, Field Sales Vice President, about why advisors should look for provider partners that offer a robust platform and menu of services with a great deal of flexibility. The Standard's team took some time out to discuss how the right provider relationship can help contribute to an advisor's value as well as grow their practice.

PLANADVISER: What does the current client delivery model look like for the advisor?

Hall: It depends. Plan sponsors are much more sophisticated than they were just a few years ago. They know exactly what services they want for both themselves and their employees. Advisors need to be very clear about what they want to bring to the table and partner with providers who complement their value. The delivery model for advisory services is varied; providers must have the flexibility to complement their channel partners to deliver a complete package to the plan sponsor and the participant.

Baumgarten: Plan sponsors are more active in the marketplace—they're reading more, they have more information, and they're asking more questions. Given that the regulatory environment is much more complex, the selection of the right provider/advisor team is much more complex. Advisors are being asked to consult in a very meaningful way. One role advisors play is advising their client on the selection of a provider. Advisors need to understand what the sponsor needs and wants, and what's going on out in the marketplace. They need to be able to marry their value proposition with the right providers.

PA: How has the evolution of the marketplace affected the advisor/provider relationship?

Dan Hall and Harley Spring photo by Susan Seubert; Robert Lee and Rob Baumgarten photo by Brendan Hoffman

Hall: I see two distinct groups of advisors. The first group of advisors are 401(k) specialists who are truly committed to having a very clear, very comprehensive understanding of the 401(k) market. They have become students of 401(k) markets, law and regulations. They keep up on all the changes. In the second group are advisors who have good relationships with clients, but really prefer to have the provider do the heavy lifting. Both are valid models.

The one significant element that is true of both types of advisors is they own the relationship with the client. As a provider, we are tasked to deliver the services that will support that relationship. The advisor owns the relationship, and we supplement and support as needed.

PA: What are advisors looking for when they're examining providers or recordkeepers?

Baumgarten: The most successful advisors are figuring out how to align themselves with providers who complement their value.

For example, we work with an advisor in the Midwest who is dedicated to delivering excellent participant-level communication and education programs, as well as conducting all the enrollment meetings. The firm's advisors interact with participants one on one. Their philosophy is about cradle-to-grave investment support, advice and financial management. In this case, this particular advisor looks to us to be the fiduciary on the investment selection and monitoring for the plan, and we are happy to provide this complement to their value proposition.

We have another advisor in the Pacific Northwest who has a robust wealth-management shop. Their value proposition is selecting and monitoring the plan's investments. Because this advisor doesn't have a lot of interest in interacting at the participant level, they use our participant communication and education offering and we conduct all of the enrollment meetings.

Spring: From a service provider standpoint, what the advisors are looking for is the ability to flex as changes happen. We know regulations continue to change. We know rules, technology, and the marketplace continue to change. Some of that's at the mercy of the government and technology providers. The critical element that advisors look for in a service provider is the ability to flex and adjust easily as these changes happen.

PA: What are some other ways that you as a provider can be flexible in helping advisors deliver on their value proposition?

Spring: Sometimes, it's just about providing a consistent service model that supports the advisor in delivering great value to their client—no matter what the situation is. Suppose there's a situation in some city—for example, Sacramento—where the advisor is located and regularly conducts enrollment meetings. Perhaps the advisor's client has just opened new offices in Chicago and Dallas. It may be quite impractical for the advisor to fly to Chicago and Dallas a few times a year to do enrollment meetings, so a provider must be able

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—HARLEY SPRING

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to deliver that service in those cities on the advisor's behalf. In addition, the provider also can help deliver the annual plan reviews or lead the investment committee meetings. Maybe the provider also would act as the manager of the approval process and fiduciary for loans and distributions, which is one way to help simplify and reduce the administrative chores that plan sponsors face and a role the advisor may not want to play.

The bottom line is, the more ways a provider can help the advisor bring a full-service model to the table that speaks fully to what plan sponsors need, the better off that advisor will be—especially when it comes to retaining clients.

Hall: We're also moving into an age where there are many advisors who are commission- or fee-based. Fees, which are charged in dollars or as basis points, are billed or collected from participant accounts. All this is driven by the services the advisor provides, what the client is willing to pay, and how they want to pay for that value. It's important that a provider can accommodate a wide variety of payment options. It's also important that those options be transparent to sponsors and participants.

PA: How should an advisor partner with a provider to reduce a plan sponsor's fiduciary concerns?

Lee: The advisor needs to formalize the role that he is going to play with the plan sponsor. Essentially, the advisor needs to provide the plan sponsor with the road map of what fiduciary services will be provided and how those services relate to the plan sponsor's fiduciary obligations. For example, will there be direct investment advice to the participant or will it be just plan-level advice? Who will be making fund recommendations or decisions: the advisor, plan sponsor or the provider? If the advisor will be acting in a fiduciary capacity, they need to have the tools in place and a fund selection and monitoring process. When it comes to tools and processes, some advisors build their own, some buy and others count on the provider. The bottom line is they need to deliver. Applying that process, living up to the expectations, delivering those services year in and year out, monitoring the investments, and following proper due diligence all along the way is where the rubber meets the road.

"Either way, applying that process, living up to the expectations, delivering those services year in and year out, monitoring the investments, and following proper due diligence all along the way is where the rubber meets the road." *—ROBERT LEE*

All these steps are really important for the advisor to understand. Then, they go to the marketplace and find the correct partner—the correct product provider who's going to complement the advisor to provide a full and consistent fiduciary suite to the plan sponsor.

PA: Speaking of flexibility, is The Standard able to act as a fiduciary?

Baumgarten: Absolutely, especially if it makes sense for the advisor. StanCorp Investment Advisers, Inc., will hold itself out

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as an investment advisor fiduciary under ERISA Section 3(21) at the plan level if we do the fund selection and monitoring. We will even indemnify the other fiduciary parties when it comes to the fiduciary work we do. We also can act as an ERISA Section 3(38) fiduciary through Mainspring Managed, our managed saving and investment plan for participants, in the event that the advisor and plan sponsor require our investment advisory and retirement savings consultative work at the participant level. Again, the key is what services does the advisor bring to the table, what services do they want us to bring, and what services does the sponsor want?

Lee: It's important that the advisor help plan sponsors understand they are still accountable for many of the transactional duties under ERISA Section 3(16), even when performed by an outside provider. This would include duties such as cashiering in and out of monies to the plan; delivery of participant notifications, notices, annual reports; and signing off on loans and distributions. It's important that an advisor and a plan sponsor understand what their roles are and try to find a provider who is going to help them fulfill those duties, or mitigate the risk in fulfilling those duties. Some providers will even own some or all of the fiduciary liability under 3(16).

PA: How do you predict that the proposed changes to the fiduciary definition and new disclosure requirements will affect 401(k) advisors and their fiduciary status?

Lee: Presuming they are implemented as proposed, the rules are going to compel advisors to state clearly whether or not they're going to act in a fiduciary function—sometimes the advisor may not even have the choice. It might be at the institutional level, at the broker/dealer level, or the regional registered investment advisory level. In some cases, the advisors may have been serving as a fiduciary. With the new regulations, the advisor's compliance department or the advisor himself might determine it is not a role he wants to play anymore. He may find a provider to team up with who can do it with him.

Hall: Of course, there also will be advisors who are already comfortable with being a fiduciary. Either way, advisors will be able to leverage the new fiduciary regulations and the fiduciary services they or their partner providers bring to build a bigger book of business.

PA: Do you think plan sponsors are asking for more from their advisors when it comes to fiduciary status?

Baumgarten: Plan sponsors are relying on the advisor more than ever to advise them on what to do, and they know there's an issue out there with fiduciary liability and being accountable. They're looking to that advisor to tell them who is going to mitigate their fiduciary responsibility. In the end, the plan sponsor always has the responsibility of saying "yes" or "no" to a provider/advisor team and monitoring their actions and performance. The plan sponsor needs to be aware of the advisor versus the product provider's roles and monitor those accordingly. The advisor should take the lead in consulting with the plan sponsor around those issues, no matter where the fiduciary role resides.

PA: What do you see as some of the most common forms of fiduciary negligence by plan sponsors, and how can advisors assist them with those?

Spring: Some of the basic forms of fiduciary negligence are not getting deposits or contributions done on time; being able to ensure that fees are reasonable; understanding that lowest fees are not always what they seem to be; knowing that you create a plan document for not only legal protection but also specific plan goals, and you have to be able to follow that document. Those are some of the major ones that come up on a routine basis. Plan sponsors get overwhelmed and are not necessarily sure of what's actually happening within the plan.

Hall: I think plan sponsors don't know what they're doing wrong until somebody tells them. The risk, of course, is that that "somebody" could be the IRS or the Department of Labor, or it could be a lawsuit. Plan sponsors are relying upon a third party to step in and say, "Here's where your liability lies. Here is a common mistake that plan sponsors make or a common oversight and here's what we're going to do. This is the process we're going to put in place to ensure that doesn't happen."

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