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401(k) Plans

Playing The 401(k) Game

Teamwork among multiple service providers and advisors makes for great play, with the plan sponsor coming out as the winner of the game.

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I recently had a conversation with a wealth advisor which ended with us commiserating over the fact that, even though there may be one plan sponsor for a 401(k) plan, in truth, we each had multiple "clients" related to the one plan that needed to be managed in one way or another. There is no wonder that the plan sponsor may be confused about who they need to contact with a question, when there are multiple providers and advisors serving them for different aspects of their plan. As an advisor of one sort or another, we may find ourselves in a similar situation as we try to serve other professionals assisting our client, the plan sponsor, toward the same goals. While there are many ways these services can be layered, packaged, and sold, putting cost and fees aside for a different conversation, managing relationships with our client and all of their plan's other relationships is primary in being able to serve our clients' needs.

Who's on First?

For those who are involved in selling plans, it can become easy to forget that, ultimately, we are problem-solving for an employer who needs the best solution for its retirement planning, for both owners and employees. For some, that may require a more complex plan design to maximize contributions for owners, particularly for smaller plans, or—going in the opposite direction for large plans—solutions that require additional technology or plan pairing to resolve issues with limits on highly compensated employee deferrals. The employer's needs come first. The financial advisor, third-party administrator (TPA), certified public accountant (CPA), investment platform, recordkeeper, or Employee Retirement Income Security Act of 1974 (ERISA) attorney are all generally retained by the plan sponsor to serve in its specific capacity, and simultaneously, each is a member of a supporting team. How the 401(k) team works together can mean the difference between a good retirement plan solution for the employer or a lousy one.

Who's the Manager?

The struggle is common. Who gets to "own" the relationship with the plan sponsor? Frequently, more than one of the parties with a relationship to the 401(k) plan wants to own the client, whether for assets under management, consulting, tax work, or plan design advice, because they are looking for a relationship that sticks, that is, a long-term client relationship, with a client who treats them like a trusted advisor. The truth of the matter is that the employer and its employees are best served when they have a team of trusted advisors working together *for* them, encompassing investments, tax, plan design, compliance, corrections, and recordkeeping, as well as audit services, if needed. Are they not all advising the employer in different aspects of the plan? The relationship with the plan sponsor will be "stickiest" when all advisors (using advisor as a general term) act more as team managers than owners, coordinating the team to reach a solution to a particular situation.

Managing a team means recognizing the gifts and talents of each player and using that to achieve the best result for the end goal! When a financial advisor (FA), TPA, and recordkeeper show up together to combine their talents, the plan sponsor gets the best result, whether for a sale or for ongoing servicing of the plan. Why? Because they typically each know where their responsibilities start and end, and where the talents of others begin and end. A wise advisor also knows when to pass things over to their partners and to shine a spotlight on *their* partnership.

As a TPA, my firm does not sell assets and we work with multiple platforms and many advisors. Our favorite financial advisors to work with understand the 401(k) rules well enough to discuss and then turn over plan design or distribution complexities to the TPA's expertise, which serves as an explanation as to why they partner with a TPA. This makes the financial advisor look smart because they partner with an expert! And the TPA should turn to the financial advisor with specific questions about the market, for additional personal financial planning, or other areas of expertise the FA may have. The FA and TPA should know their investment platform wholesalers well enough to get questions answered regarding pricing and revenue sharing, and the recordkeeping platform teams for assistance with transactional issues.

Whether it is a bundled administration/investment/recordkeeping package or unbundled with several plan advisor relationships involved, it is important for there to be a team effort and for the members of the team to play well together to accomplish the goals of the plan sponsor.

What's the Lineup?

Many times, the plan sponsor can feel as if it is in an Abbott & Costello routine as they try to figure out who to call with which problem, even when services are bundled. The more players, the more important it is to establish how they will work together. Particularly when there is a team consisting of FA/TPA/Recordkeeper, the aim should be to make sure that the client feels confident that he or she is able to have the plan well-served, even if he or she is not sure which person to call. That does not mean that the financial advisor must handle the plan document technical questions if he gets the client's call, but that the client knows the FA will follow up and take care of making the right connections within the team to handle the issue. Or the same applies if the TPA gets the call asking for enrollment materials, the client knows that the TPA will see that the request is handled. How those types of things are distributed behind the scenes can be decided up front by the parties involved.

So how does a group of firms become a team working for a plan sponsor? First, they agree on a lineup ahead of time. When working with a financial advisor with whom our firm has not previously had a relationship, we generally have a conversation about the roles played between our firms, how each handles things in general, and how to manage specific tasks between us. For example, we will ask whether the FA wants to be involved in distribution processing or not. Secondly, we together provide the employer with the lineup of the usual tasks and players, so they know who plays what part, including themselves as plan sponsor. Many of the investment platforms have a schedule that shows duties of the recordkeeper, TPA, and plan sponsor. Some financial advisors provide one that includes their responsibilities, as well. The responsibilities grid is a helpful tool that is typically provided as part of the plan installment package which may also include many pages of agreements and fee information from multiple parties. Once the plan is set up and running, providing the responsibilities grid to the main client contact again will emphasize roles and makes for an even more convenient resource.

Home Run

To make the plan sponsor's retirement plan a winner, the 401(k) team must communicate among themselves, create a game plan with a comprehensible line-up, understand the role that each team member will play, and how they all will play the 401(k) game together. Sometimes the players change, but the employer sponsoring the plan and its employees should always be the winner. Truly, the employer is the owner of the relationships and those servicing the plan may take turns managing the team, depending upon their areas of expertise and the specific needs at the time. Each of the players on the team looks smarter and serves the client better as trusted advisors when they build each other up, letting the employer know that they are serving as a team, and that each counts on the experts with whom they work to do the same. It is a home run in the 401(k) game when the team recognizes its collective ownership of the client relationship with everyone working toward the common goal to best serve the plan sponsor. ■