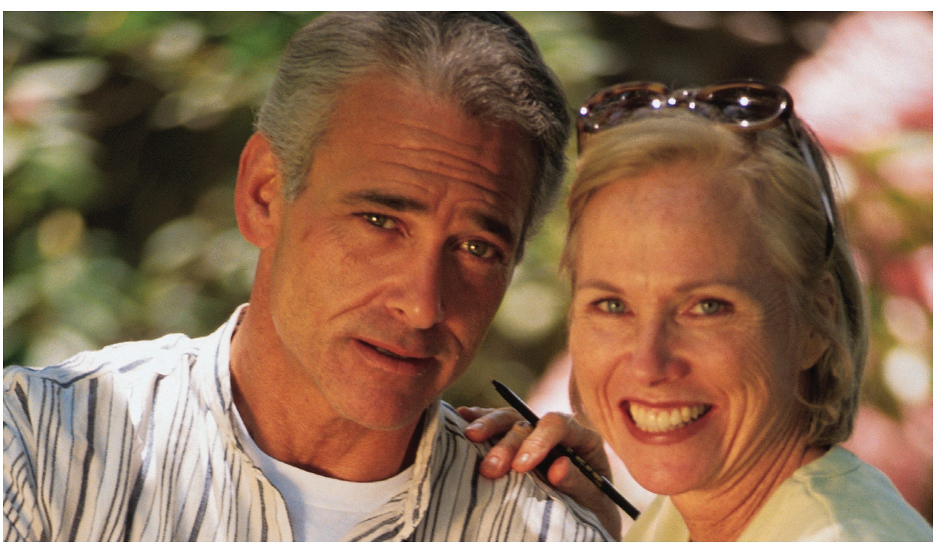
by Kevin Watt, AIF

How A Turnkey Approach Creates Opportunities for Advisors

A successful 401(k) practice presents tremendous business value. In addition to helping plan participants achieve a successful retirement, California's financial advisors can build their client base and increase assets under management since 401(k) clients typically offer a dependable line of business.



However, many advisors are acutely aware of the stigmas attached to 401(k) plans — they're laborious; the administrative duties are never-ending; and advisors may find themselves in the role of fiduciary to the plan, which is something few want. Some advisors find theses hurdles too overwhelming to ever grow beyond one or two plan clients, and some even overlook the lucrative space all together.

But there is an opportunity for advisors who are willing to reexamine how they have handled their 401(k) business. Turnkey 401(k) solutions are becoming more popular among advisors who seek relief from the time-consuming aspects of a 401(k) plan.

These turnkey solutions free up advisors to have more direct interaction with plan participants and increase business-building activities.

As interest in these solutions grows, it's important to determine what type of 401(k) practice can benefit most from a turnkey solution. With high levels of specialization already in place, firms that focus on large plans typically do not achieve significant increases in efficiency or time savings from turnkey options. Advisors who focus on large and mega plans (those with more than $200 million in assets) often have entire departments for services like regulatory updates or benchmarking.

However, advisors who service smaller plans (those beginning at $5 million in assets) stand to benefit greatly from increased efficiency and time savings. These advisors wear many hats and take on many plan-related responsibilities including selecting and managing investment line-ups, benchmarking, working with plan sponsors, conducting enrollment meetings, and more. They also have to keep up with changes to ERISA law, as well as the potential for bearing fiduciary risk. An advisor could be liable for problems with the plan or errors, particularly during an audit conducted by the Dept. of Labor.

California presents unique challenges for advisors who are servicing small plans. How much a person pays in taxes partly affects how much they save, and participants count on advisors to help navigate the tax impact on retirement savings. Although many California residents enjoy high incomes, they also have appreciably higher taxes than many other Americans. California's top marginal capital gains tax rate is 33%, which is the third highest rate in the industrialized world, according to the Tax Foundation.

Advisors work with plan participants to make sure they put enough money away to fund their dream retirements. But this one-on-one work can only occur if advisors have enough time to work directly with participants. This is a challenge for advisors who face a mountain of obligations that come with servicing these small plans. For these advisors, a turnkey 401(k) solution is an appealing option.

Key Considerations of a Turnkey Solution

Turnkey solutions streamline activities

so advisors can focus on their business, but not all offerings are created equal. When evaluating the products offered by different providers, advisors must keep in mind things like fiduciary service; benchmarking and analytic offerings; and necessary administrative activities, such as enrollment meetings and regulatory filings. When considering a turnkey 401(k) solution, advisors should perform a comparative analysis on these three key components offered in most products:

- **Third-Party Investment Management** — Selecting and monitoring an investment line-up usually places the advisor in a fiduciary role. It's a very time-consuming, labor-intensive activity since advisors must establish review criteria and document a regular review process. Many turnkey solutions do offer some fiduciary services for advisors who want to offload fiduciary commitment, but products may include varying fiduciary services. With some solutions, the third-party manager assumes a significant portion, if not all, of the investment fiduciary responsibility and accepts liability for investment option decisions. Other solutions may offer only the bare minimum or nothing at all. For the advisor who doesn't want to serve as an investment option fiduciary, it is critical to have a complete understanding of the level of services that are offered before committing to a product or provider.
- **Benchmarking and Analytics** — Benchmarking is another necessity that can take time away from working with plan participants. A turnkey program may offer advisors benchmarking services to help ensure that their clients are being offered high-quality funds and services at a reasonable cost. Benchmarking is a value-added service that can be passed along to clients to help reinforce that the advisor has the participants' best interests in mind.
- **Administrative Support** – Many advisors enjoy working with 401(k) plans because they help participants prepare for a dream retirement scenario. For advisors who service smaller plans, this enjoyable aspect is limited by the hours upon hours of time spent managing administrative and regulatory requirements. While it's impossible for advisors to completely avoid paperwork, various turnkey solutions can make the administrative process more efficient. Most solutions offer a single point of contact for advisors to expedite questions, a simple enrollment process, or a variety of other back office activities. Streamlining the administrative and support process can provide another benefit to advisors – increased time to prospect for new clients. This one-two punch can turn a 401(k) plan from a questionable value proposition into an opportunity to increase participant interaction and grow a practice.
- **More Time, More Opportunities** Plan advisors who can streamline these activities have more time to meet with prospective clients, work with business owners, and help participants navigate plan options – all of which can lead to increased business and referrals. Lessening the administrative burden frees up time for advisors to return to their primary purpose — helping plan participants succeed in a retirement environment that demands a personalized approach. Everyone benefits when advisors have more time to spend with their clients. ❑

Kevin Watt, AIF and vice-president of Defined Contribution Markets for Security Benefit, has more than 20 years of experience in business development, product design, marketing and sales of 401(k) plans. In California, Security Benefit and its subsidiaries work only through local, independent advisors. Security Benefit, through its subsidiaries, partners with local TPAs that help connect providers and advisors and offers flexibility to accommodate advisors who are seeking either a commission- or fee-based compensation model. Security Benefit Corporation (Security Benefit) is an intermediate holding company. The information contained herein is not intended as and should not be construed as tax advice. For more information on this topic, call Security Benefit at 800-747-5164, Option 6.