The fiduciary role

Choosing a qualified adviser to oversee your 401(k) lets you breathe easily

INTERVIEWED BY DENNIS SEEDS

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Organizations that sponsor a 401(k) or qualified retirement plan are legally responsible as fiduciaries for the decisions surrounding the plan — and many choose a fiduciary adviser to handle those important duties. This might seem like an involved task for plan sponsors, but proper preparation can significantly simplify the undertaking.

An adviser manages the retirement plan in the best interest of its participants — minimizing fiduciary risk, implementing an investment management process, monitoring all plan fees and developing and maintaining an education program.

"A goal of the plan sponsor should be to hire a true retirement plan expert," says Wendy L. Eldridge, partner with Aurum Wealth Management Group, an affiliate of Skoda Minotti. "A fiduciary adviser should ultimately become part of the company's 401(k) department."

Smart Business spoke with Eldridge on the role of a fiduciary adviser and how to choose a qualified one.

What is the role of a fiduciary adviser?

With regard to a retirement plan such as a 401(k) or profit-sharing plan, a fiduciary adviser is hired to implement process. This process includes plan design, record-keeper/TPA search, investment selection, fiduciary governance and employee engagement. There are two types of fiduciary advisers that can be hired for qualified plans. They are defined under the Employee Retirement Income Security Act Section 3(21) and Section 3(38), respectively.

A 3(21) adviser serves as a co-fiduciary to the plan. In this capacity, the adviser will make recommendations but the ultimate decision (liability) still rests with the plan sponsor. In contrast, the 3(38) adviser engages with the plan as a full scope fiduciary. A 3(38) adviser is responsible for making all investment management decisions which further insulates plan fiduciaries from personal liability. This standard of care affords the plan sponsor the highest level of fiduciary protection.

Why is there a need for a fiduciary adviser?

In the last five to seven years, the 401(k) landscape has changed immensely. With the recent surge in retirement plan litigation, the importance of compliance (e.g., disclosures, fees, plan document notices) has never been greater. A true 401(k) adviser understands the nuances of operating a plan and therefore can be instrumental in providing that fiduciary umbrella over the plan. Too often, brokers whose primary practice is insurance, annuities, etc., may position themselves as retirement plan experts but are not able to provide that additional value since it is not their core business.

How does one find a qualified adviser?

Most plan sponsors have traditionally found advisers through referrals. However, a growing number of plan sponsors find their advisers online through LinkedIn or an online retirement plan resource such as BrightScope. Some organizations are hiring independent consultants that can manage the entire search process for them.

How often should a plan sponsor evaluate its adviser?

It is an industry best practice to review an adviser annually. However, the plan needs to establish annual goals. It is difficult for an adviser to meet a plan sponsor's expectations without such goals. Once these are established, the evaluation process becomes more concrete for both sides.

The assessment should cover quantitative and qualitative measures. Quantitative evaluation would include fees, investment returns, and participation and deferral rates. The qualitative aspect is what separates the retirement plan adviser from a broker. These items can include assisting with the year-end testing, Form 5500 and plan audits, helping employees enroll as well as conducting quarterly meetings.

What else should a plan sponsor consider?

Many organizations still do not have a retirement plan adviser and work directly with the record-keeper. By engaging a fiduciary adviser, the plan sponsor can gain peace of mind and a sense of independence. The benefits show themselves across investment recommendations (i.e., looking beyond proprietary funds), fee negotiation to ensure market competitiveness and providing one-on-one financial guidance to the plan's employees. ●