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4 Questions Every Retirement Plan Fiduciary Should Ask Their Financial Advisor

The ultimate responsibility – and liability – lies with you, the fiduciary. At the end of the day, you need to know that your financial advisor is on your side and is equipped to handle the ever-changing complexities surrounding the retirement plan market.

The following is a list of questions to assist you in determining whether your advisor is the right person for the job:

1. What is the process you use and how do you document the research and investment recommendations you make? We believe a thorough investment due diligence process includes a written Investment Policy Statement (IPS). Although an IPS is not a requirement, a lack of an IPS can demonstrate a violation of the Prudent Man Rule as outlined by ERISA. Your IPS should include a quantitative and qualitative approach for selecting and monitoring your investments. This means that you should look at factors other than performance or peer rankings. You should carefully evaluate the actual risk factors associated with each investment available to your participants. Your investment advisor should follow the IPS and have a comprehensive process for retaining all research files and minutes from your meetings. Furthermore, all research files and meeting minutes should be forwarded to you after each meeting and maintained in your 401(k) file to demonstrate your commitment to oversight of that advisor.

2. How do you ensure that the advice you provide is independent and objective and that conflicts of interest are minimized? One of the best ways to ensure your advisor maintains his or her objectivity is to hire an expert that is truly independent. This means that their broker/dealer does not manufacture any proprietary products and that the advisor does not receive any direct or indirect compensation from investment or administrative service providers for “pushing product.” It is their responsibility to act in the best interest of the participants and to avoid pressure from outside influences when selecting investments. Following a documented process can help avoid regulatory action or opportunities for potential litigation.

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3. Do we have a written contract in place that shows you are serving in a fiduciary capacity on our plan?

Because of the litigious nature of the retirement plan industry and new fiduciary rules, many investment advisory and brokerage firms will not allow their advisors to take on any fiduciary responsibilities in writing. However, this is a critical step in ensuring you are protected. The most reputable firms that are known for their defined contribution plan services have actually encouraged their advisors to sign as fiduciaries and have been doing so for many years. These firms provide their advisors with the specific tools they need to adequately meet their obligations. This contract should detail the specific role of the advisor, the scope of services they will provide, their role in working with employees, and the compensation they will receive, among other things. In the past, we have found that most advisors carry no special credentials or training to adequately service retirement plans. The trend in 2017 has been for financial institutions to no longer allow their advisors to service retirement plans unless they meet specific requirements. In some cases, institutions are getting out of the 401(k) business altogether. You should know that your advisor's motivations align with yours. If they are willing to sign on the dotted line, you can reasonably assume they have your plan's best interests at heart.

4. What compensation do you receive from our plan? If you want to know someone's motivations, ask them how they get paid. The retirement plan industry is notorious for burying fees, and in the past, it has been extremely difficult to identify the compensation your advisor actually receives from your plan. You should be familiar with various compensation arrangements such as 12b-1 fees, asset based compensation, "wrap" fees, and revenue sharing agreements. Because of new fiduciary rules and fee disclosure regulations, many leading investment advisors typically work on a consulting basis and are compensated through a fee-for-service arrangement. These fees can be paid directly by the company or built into the plan so that they are passed along to plan participants. Regardless of how your advisor is paid, you need to be able to identify the total amount of compensation he or she receives on an annual basis.

To find out more about your responsibilities to oversee your financial advisor, visit our website at www.grinkmeyerleonard.com or contact us today.

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