

## Implementation of a Fiduciary Standard

Have you ever heard these statements from your plan sponsors?

- *“Our employees feel like they are on an island”*
- *“Investments are managed by the previous quarter’s performance”*
- *“I am a new CEO and do not understand my fiduciary responsibilities”*

In my opinion, today’s employer is perplexed.

Their company’s cash flow is stressed and employee benefits remain a top line challenge. Lacking a quality statement of worth, the 401K, 403b and SIMPLE IRA may succumb to these challenging revenue realities. Implementing a fiduciary standard may help to create a new landscape of opportunity. Helping employers feel confident about these vital programs creates a dialogue outside of product selection and plan design. Separate from the legal safeguards, a superior fiduciary system may help to create goodwill, client trust, and cross marketing opportunities. It is the mantra of our practice to help make employers look good. This requires similar components to that of an excellent wealth management engagement – deep discovery combined with seamless integration. This illustration describes an employer that is attempting to correct their important need with an unclear strategy. A quality fiduciary review can uncover something entirely different.

Acme Network’s six person management team, frustrated, decided to put their plan out to bid. They utilized their deep community network to identify four potential advisory groups. Three of the four teams migrated to a product strategy that entailed replacement of their existing plan provider. According to Step 1 of the Prudent Practices this discounts the importance of “organizing.” Roles have not been acknowledged, an investment policy statement did not exist, nor was there an investment committee. The client voiced dissatisfaction with their provider, but additional discovery determined their true complaint centered on the ongoing service deficiencies of the assigned Financial Advisor. The team made the calculated choice to not pursue a product focused strategy. Instead, a case was presented for a sound fiduciary process that would **eventually** include a platform review. Explaining the need for greater fiduciary understanding and oversight, the process uncovered their deeper need.

Secondly, a two year “Client Engagement Roadmap” gave Acme a tangible vision of our relationship. Each quarter detailed what was to come – develop an investment policy statement, employee education meetings, and eventually a plan provider search. Formalizing the plan helps define the investment selection process. This additional process allows plan strengths and weaknesses to be objectively reviewed. For instance, perhaps a number of asset allocation funds are not being utilized. Certain asset classes may be underrepresented and sector funds, outside the committee’s risk tolerance, are unknowingly being included. The implementation of quarterly reviews elevated Acme’s plan acumen. They may begin to ask questions that demonstrate a new level of involvement i.e, “what the heck is a benchmark?”

The third step with Acme, in partnership with the plan provider, is to establish a due diligence system. Designed to perpetuate the process, tools are deployed to implement a fund selection framework, termination criteria, and watch list safeguards. The fiduciaries steadily gain confidence in the system. As the investment committee meetings progress, their level of engagement will grow. Armed with the system, the investment selection and review process can become more agnostic. Rather than keeping a mutual fund in the lineup because it had always been part of the plan, the group is able to review the investments at arms length. Monitoring via an investment policy statement also allows them to better communicate with the participants. When requests are made for a speculative offering or a hybrid investment, the committee can refer to their document as if it was a board of directors: here’s the rules and how we follow them.

In the end, the plan sponsor goes from an employee of the plan, entirely without focus, to its owner. The implementation of the fiduciary standard may transition Acme’s 401k from a burdensome clerical exercise to a vital piece of their employee recruitment and retention program. The advisor also accomplishes her goal. By remaining product agnostic and allowing the standards to guide the engagement, she is viewed as a strategic advisor, and made her employer look good!

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