Does *Your* Firm Have a Financial Advisor?

by John Sullivan, MBA,
CFP®, ChFC, CLU, AIF®
World Equity Group
Arlington Heights, Illinois

Early in my business career, the name on the "Human Resources" door was "Personnel" and the description was apt at the time. Personnel Managers were responsible for hiring, firing, and management-employee relations. Since then, Human Resource managers have had to add to their responsibilities a number of other duties that are not easily understandable. Health care plans, disability insurance, alternate compensations, and various types of retirement plans have been dropped on Human Resource professionals because "those things have something to do with humans".

One of the current headaches in the H.R. department is the 401k plan. It seems that now it is not enough to simply *have* one, but the employees expect it to be a *good* one and employers are being sued left and right over issues like "hidden costs", "shadow index funds", "soft money", "revenue sharing", "proprietary trading", '12b-1 fees", etc, etc. Why is this happening? The root cause is probably that the "products" (mutual funds) are "shipped" to the customer by a supplier who knows that they do not have any knowledgeable incoming quality control. H.R. managers are expected to be part attorney, part investment manager, part financial advisor, and full-time genius, but can they be expected to be experts on mutual funds?

As one who is amazed at what H.R. folks have on their plate, I wonder how they can be expected to deal with the avalanche of new responsibilities that their 401k plan will require – to say nothing of disability insurance, life insurance, health insurance, and other benefits that many companies offer. I also wonder, "Why don't they get help?" There are many, many people trained and experienced in this area as well as in various types of insurance. The only difference is that they are trained and experienced in these areas with *individuals* rather than companies.

Financial planners/advisors with private clients routinely deal with evaluation of mutual funds and other investments, long-term care, life, and disability insurance, retirement planning, education planning, estate planning, stock options, pensions and 401k plans. They also have access to software and tools that no H.R. department would typically have. I am not sure why companies rarely have a financial advisor but I can think of several possibilities:

- It is less expensive to rely on the existing vendors of these products.
- Companies may not know that such individuals exist.
- They may think that the entire financial industry is sales-based.
- They might not realize just what their H.R. managers have to do.
- They might not know how to find a capable financial advisor.

The first step to understanding the value of such an individual is to realize that such an advisor *sells no products.* Product salesmen work for their *own* firms-not for *yours*. Your advisor should have no conflicts of interest when evaluating the funds in a 401k plan or when he recommends a particular provider of health insurance. Since he has no conflicts of interest, he is able to act in a *fiduciary* capacity. Unlike virtually every vendor of financial products to the firm, he is required to *put the client's interests first.*

The second step to understanding the value of such an individual is to visualize what services they might provide. For example, a financial advisor might evaluate the funds in the 401k plan, report the results, work with the provider to improve them, evaluate the overall lineup and suggest changes, and make sure the plan costs are reasonable and *known.* He might create an Investment Policy Statement for the plan and set up a procedure for achieving any or all "safe harbors".

He might examine the overall investment dollars in the plan and educate the participants regarding the fund offerings and asset allocation principles. He does this with no conflict of interest such as different funds paying the 401k salesman or his firm - directly or indirectly - different amounts. He might set up a process by which he provides monitoring reports on the funds on a periodic basis. *He knows what questions to ask.*

He might help the H.R. department evaluate health care and other insurance products. He might keep the company aware of financial issues that could affect employee benefits. He might provide capable and impartial advice to employees regarding their retirement. His time might be a benefit given to exiting employees. Basically, the services that such an individual would provide to a company are the same as they provide to individual clients.

Finding such an individual, however, takes more than a trip through the yellow pages. The first point to understand is that the titles, "Financial Advisor", "Wealth Manager", "Vice President of Investments", etc, are self-awarded and mean nothing in and of themselves beyond "stockbroker" or "salesman". The term, "Financial Planner" is used routinely - rightly so or not - by stockbrokers, insurance salesmen, tax preparers, accountants, attorneys and others. None of these titles necessarily mean any experience or competence.

One would be wise to visit the Certified Financial Planner™ website (www.cfp.net) and the Financial Planning Association website (www.fpanet.org) to see what they have to offer. Fiduciary360 (www.fi360.com) would also be worth a visit in search of those trained in prudent investment practices and fiduciary duty. Another very good place to look is the National Association of Personal Financial Advisors (www.napfa.com). If investment issues are going to be your primary concern, you might look for a Certified Financial Analyst™ (www.cfainstitute.org). Visit The American College (www.theamericancollege.edu) for information on designations such as CLU™, ChFC™, RHU™, REBC™, CASL™, etc. Finally, the FINRA website (www.finra.org) will be of help in determining which designations would be useful for someone meeting the specific needs of your firm. Such information is also available at www.investopedia.com.

What should be on the job description of a financial advisor to the firm? First and foremost, they should act in a fiduciary capacity and be willing to sign, along with their firm, an acknowledgement of fiduciary responsibility. You may be surprised to find out how difficult it will be to find someone who will state, in writing, that they will put the client's interests first and disclose any conflicts of interest. Second, they should submit the Code of Ethics that rules their behavior. Only a fraction of those in financial services are subject to such a Code, so this will narrow down your search as well.

Third, you might want to consider a ban on solicitation of your employees for business outside of the services they provide in the workplace. Many 401k and insurance providers to companies sell these products on favorable terms in order to have access to your employees to solicit business that has nothing to do with the benefits your firm offers. This seems vaguely akin to a conflict of interest. After all, when you chose a 401k provider, did they disclose that their rollover forms and telephone conversations would encourage your employees to open accounts with them?

Fourth, they should have qualifications that are relevant to your needs. Determine the areas where your firm could benefit from financial expertise and match them up with the training and designations that your financial advisor should have in order to meet those needs. Is your primary need in the area of your 401k plan? Is it in the area of employee insurance? Would you like to offer financial planning to your employees? Are your employees receiving the financial education that they should receive? Would high net worth employees benefit from estate planning seminars? Do your employees *really* understand the importance of investing in their 401k? Are your needs multiple? *You* must decide what your needs are, and then you should be confident that you have *prudently* selected a *qualified* financial advisor.

Finally, the financial advisor you chose should have the qualities that will make him (or her) a valuable addition to your company. He or she should be judged as you would judge a prospective employee. Is he going to work for our company or for himself? Is he engaged in what we do? Will he work well with our other employees? Is he willing and able to help us? Is this person cost-effective? Will he or she make our company better? After all, you will be choosing an "employee" who ***could*** increase returns for participants in your 401k plan, increase participation levels, help to choose providers of your very important company benefits, help insulate your firm from litigation, help your employees plan for retirement, and - perhaps most importantly - make your company a better place to work.