FEATURE

Teaming to provide defined contribution plan services is evolving — **and thriving.**

Going it Alone is Going Out of Style

BY ELAYNE R. DEMBY

TROY HAMMOND IS VERY BIG ON TEAMS. "IT'S SOMETHING WE ARE VERY BIASED ABOUT," SAYS HAMMOND, PRESIDENT AND CEO OF PENSIONMARK RETIREMENT GROUP. Hammond is not talking about the local sports teams. He's referring to using the team approach to provide his firm's clients with 401(k) plan services. "We think it's the most effective way to deliver services to the client. We can take on more clients with less staff because we're more efficient," Hammond says.

Pensionmark has used the team approach since its founding in the late 1990s. Rather than having one advisor do it all, Pensionmark took each part of the services provided to 401(k) plans and broke it up among a team of specialists.

Hammond is not alone in his enthusiasm for the 401(k) team advisory approach. "We are big proponents of teams. It's how we structure our organization," says Jon Upham, principal of SageView Advisory Group.

More and more retirement advisory firms are moving away from the soloist, "do-it-all" model to the team approach, leaving many to question the future viability of soloists in the industry.

The Trend Toward Teams

Twenty years ago, the 401(k) service model was very different from what it is today. Back then, the majority of plans used the bundled approach serviced by one advisor, says Joseph W. Mrozek, managing director and head of small and middle market sales for Bank of America Merrill Lynch's institutional retirement and benefit plan services business. Even just 10 years ago, brokers receiving commissions still dominated the defined contribution space, notes Andrew H. Prevost, president of Meltzer Retirement Plan Services.

However, at the beginning of the 21st Century, plans — particularly larger ones with more than $100 million in assets — started to become too complex for one advisor to service. "Large plan sponsors grew skeptical that one person could know everything, and looked to firms with teams of experts," says John Curry, senior director of marketing at CAPTRUST Financial Advisors.

Additionally, as plans grew, sponsors also began thinking about themselves more as retirement plan sponsors and fiduciaries and not just as purchasers of a product, explains Curry. "The stakes became higher for the plan sponsors in terms of fiduciary responsibilities," he says. This led to plans seeking out firms that had specialists who could both service the plan and ensure that all regulatory requirements were being met.

In response to market demand, advisory firms began building teams of specialists to service clients. "People weren't told to team, it happened naturally," says Mrozek.

Smaller margins and the need to have scale to profitably service clients are also driving the teaming trend. Clients want more services, but fees are getting compressed, so advisory firms must be able to deliver offerings cheaper. Having people specialize helps to build scale and profitability into an advisory business, says Patrick Rieck, executive director, retirement sales and business development at Morgan Stanley Wealth Management.

For example, CAPTRUST ran about 1,500 investment reviews as of the end of the second quarter of 2013, says Curry; and has a team that drafts requests for proposals. That kind of scale, he says, allows CAPTRUST to deliver these services more efficiently and at a lower cost.

While teaming originated in the institutional/$100-million-plus plan space, it quickly moved downstream. "It's now very difficult to be a solo practitioner in the up-market — plans with greater than $25 million in assets," says Peter Prunty, head of institutional consulting for UBS Wealth Management Americas.

If they're not already with a team, plans are moving to advisory firms that have teams. Metzer takes on 55-70 new clients annually as an investment advisor representative, says Prevost, with close to 90% of those new plans coming from individual brokers who don't offer the team approach.

Plan sponsor demand and market forces has lead to a huge consolidation in the advisory space in the last five years. There has been competitive pressure for solo shops to "join up" over the last several years, says Curry. Right now many individual brokers are looking to join teams, merging or leaving the business because they can no longer compete, says Prevost.

The team approach provides a lot of advantages to both advisors and clients. "If one person is providing all services, they are

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not going to be super good at everything, nor super efficient," says Hammond, "If someone is only providing investment advice, then they are going to be better at it." Teams allow advisors to deliver a higher level of service and to be more focused on service, he says.

Additionally, Prevost says, being part of a team allows advisors to collaborate across all providers and more clearly demonstrate the work provided for the fees received, making it easier for them to show value. Firms with a team-based approach can also provide a career path and professional development for advisors, says Upham.

For plan sponsors, it's a one-stop shop, Prevost says. They can provide all aspects — whether legal, consulting or employee education — from one firm. A team approach also provides more than one contact point for clients, says Upham, and allows for specialization. It also demonstrates that the advisor is investing in the business with subject matter experts as opposed to just selling, he adds.

Joining a Team

Solo advisors who have grown to the point at which they have no more capacity may want to explore joining a team, says Scott Matheson, senior director and defined contribution practice leader at CAPTRUST. Advisors may also want to explore joining a team when they have grown to the point where they spend more time on HR and payment issues and less time actually serving and advising clients, he says.

The normal route for advisors to become part of a team is to join one. Hammond says that if you are a single advisor with an assistant, hiring five people to build a team is probably impossible. "It's easier for solo advisors to join teams that are already built," he says.

Once solo advisors decide to join a team, the good news is that many teams are looking for advisors to join them. Advisors then have to determine which team they want to join. A good place to start would be to reach out to others in the industry and get references, says Hammond. "You are taking on the team's identity," he says, "so you have to make sure it fits with what you want your image to be."

Advisors should also review why they want to join a team, says Matheson — for example, to outsource the running of the business or to focus on consulting. Teams are not one-size-fits-all, and the appropriate team for any specific individual advisor depends on what the advisor wants to do, he says.

Finding a good business fit is also crucial. Advisors should look at their businesses, says Mrozek, and determine four things:

- what their target market is
- what they are selling
- the specific industries they focus on
- what their key differentiators are

After analyzing exactly what their own business is, advisors should seek out teams that target the same market and industry and sell the same products. "After analyzing exactly what their own business is, advisors looking to grow their team and footprint should seek out other advisors that will complement their practices and service models," says Mrozek.

The business model of the firm advisors are looking to join should also be considered. Advisors have to decide whether they want to sell their practices to the new firm and become an employee or affiliate, says Hammond. Pensionmark's business model is a non-purchase model, he notes.

The "culture" of the team is also an important consideration. "You want to have an idea about what the culture and core values of the firm are," says Jim O'Shaughnessy, a managing partner at Sheridan Road. It's important to get with someone you feel comfortable working with and sharing a business with, says Prunty. "After all, you have to be able to work with them 8 to 10 hours a day."

Sheridan Road speaks to dozens of advisors yearly about joining the firm, says O'Shaughnessy. "Ultimately people are working on their own, but they have to have desire to work on a team and be able to work efficiently as part of a group," he says. At Sheridan Road, all advisors are employees of the firm, getting paid salary plus bonus, so everyone has to be comfortable working with each other, he adds.

Professional development is another consideration. "Advisors should look at whether 'Brand X' has the ability to help them grow," says Curry. For example, Merrill Lynch likes to leverage experts to help advisors with practice management. "We provide ways for advisors to take their practice to the next level," says Mrozek.

The Future of Soloists

Today, the market that's most likely to still be serviced by solo advisors is the small plan market — plans less than $20 million. In the under-$20 million market, advisors are generally talking to the owner/CEO, says Curry; and servicing the plan is straightforward and patterned more in the traditional broker/advisor role.

Rieck believes that going forward, soloists are likely to remain in that end of the market, because small business owners look for more comprehensive services and are not looking for specialization. Solo practitioners may never become extinct, agrees Upham, but will most likely find themselves segmented to smaller and smaller plans.

Others, however, question the future of soloists, even in that end of the market. The team approach can easily scale down to service plans as small as $5 million, says Prunty, and is a better selling point than a solo, Jack-of-all-trades approach. Prevost says solo practitioners have three choices: build out teams themselves, join other teams or watch their business model dwindle.

Ultimately, remaining a soloist may be a personal decision, says Rieck. Advisors may be comfortable with the number of clients they can service on their own and may want to maintain control over their own book of business. Remaining solo, however, will create significant limitations in terms of growing their business, he says.

Going forward, the top advisors in the business are going to be affiliated with larger teams, says Hammond. The advisor consolidation seen over the last few years will continue, he says, and at an even more rapid pace. "You cannot be a generalist in today's regulatory environment; you need to have teams of specialists to service DC plans," says Prevost. In the DC world, most brokers like to focus on investments, but that is just one small piece of the DC business.

Teaming, says Mrozek, continues to

evolve. It started with investments and is now looking at the behavioral side of plan sponsors and participants. "Teams have evolved to meet trends and needs," he says.

"As we move to an environment where more and more DC plans require advisors to be fiduciaries, a team approach is the most effective approach to delivering services and giving clients services that they expect. Our top advisors are teams and have been like that for a while now," says Prunty.

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WHAT'S A TEAM?

There are no hard-and-fast rules as to what constitutes a "team" for providing services to 401(k) plans. Different firms have different concepts of what defines a "team." At its most basic, a team is essentially two or more advisors who band together to service clients with the level of specialization dependent on the size of team, says Rieck. "We look at a team as a formal group in an office or offices that shares servicing efforts," says Prunty.

Just as there are different definitions of what constitutes a team, different firms structure their teams differently. At CAPTRUST, generally one person is the sales and relationship person, says Curry. Another is usually the point person who is able to call on the team's experts to resolve issues or address specific needs on the fly. And there is an internal person strapped to the desk to take calls whenever any of the other advisors are traveling, unavailable or on vacation, says Matheson. A CAPTRUST team can also include technical experts specializing in ERISA, investments, plan design, communication, education or record keeping.

CAPTRUST has "one unified practice," says Curry. Not only are CAPTRUST advisors able to call on experts, but they can call on each other. If an advisor runs into a situation that another advisor has had previous experience with, the advisors can engage in a conversation. "Advisors can share experiences to help clients," he says.

SageView uses a local client service team model, says Upham. Teams are structured so that they are local (meaning within the client's region), and generally consist of three advisors who service the client: a lead advisor, an investment consultant and a relationship manager who is involved with the plan sponsor staff and manages the plan day to day.

Some SageView clients may have more than three team members, says Upham — for example, a larger plan may have a principal meet with them from time to time. Teams may also utilize SageView specialists to service clients such as employee education or compliance experts. "So there are exceptions to the core three-person team, but that's where we start and adapt from there. This structure allows clients to have more than one point of contact, and not rely on a 'Jack of all trades,'" says Upham.

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Hammond says that at his firm, teams are segmented into components of service. "We service over 1,000 plans, and we segment out every single component of service," he says. A team can consist of:

- a relationship manager
- an operations manager who handles the day-to-day stuff, including loans, 5500s, plan documents, etc.
- a dedicated investment team
- an education team
- a conversion team
- a call center

Sheridan Road was started in January 2005 by three advisors, breaking up the business into areas of specialty, says O'Shaughnessy. Today it is a 25-person team focusing specifically on servicing retirement plans that leverages each person in the team for each deal depending on the specific needs of each client. A plan may only use five or six people on the team, he says; some people may "touch" a client once a year, while others do so every day.