



NAPA NATION ROCKS

The 2017 NAPA 401(k) SUMMIT set a new standard for the industry's annual convention for plan advisors — bigger, more advisor-centric, and a new level of after-hours entertainment.

BY JOHN ORTMAN AND JOHN IEKEL

Mark McGrath and his Royal Machines bandmates delivered a high-energy set at the inaugural "NAPA After Dark" event.

The 16th NAPA 401(k) SUMMIT, held March 19-21 in Las Vegas, got rave reviews from attendees, speakers and exhibitors alike. This year's attendance totaled nearly 2,000, including nearly 1,000 advisors — by far the biggest SUMMIT ever.

For a taste of the four general sessions, four “super sessions” (new this year), 16 workshop sessions, and evening entertainment that highlighted the 2017 SUMMIT, here's our wrapup.

Firms ‘Putting Their Pencils Down’ on Fiduciary Rule

The DOL fiduciary rule may be on the horizon. Or not. But regardless, there will be a need and role for advisors — it just may be different than it was beforehand, avowed a trio of industry execs.

Panelists at the “super session” included facilitator Joe Gill, Vice President, Retirement Solutions, Prudential Investments; William Chetney, GRP Advisor Alliance, GRP; and Edward O'Connor, Managing Director, Morgan Stanley.

The rule has certainly generated discus-

sion, debate and angst for the better part of six years. And there's no end in sight — despite being in effect, the rule is not yet applicable. And just in time, a new administration arrived — one that is skeptical of, if not hostile to, the rule. And for advisors that spells frustration at best, and difficulty at worst.

“It's very problematic,” said O'Connor, who expects that there will “very likely be a succession” of 60-day delays in the implementation of the rule. As a result of the current 60-day delay and the prospect that a protracted period of delay and confusion lies ahead, he said, “a lot of firms have just put their pencils down.” He added, “we're very hunkered down to be ready.”

But the debate, and the ultimate fate of the rule, may not matter, according to O'Connor. Morgan Stanley is looking beyond the DOL rule, he reported, which means embracing the spirit behind it. “We need to get to a higher standard of care regardless of where the DOL rule goes,” O'Connor said, adding that the rule has already sparked product innovation.

Chetney agreed, but noted that if the precedent set by the six years it took to implement the 408(b)(2) regulation is any indication, the fiduciary rule could be delayed

even more. “I wasn't overly concerned” about its application, he said.

Especially painful, said Gill, will be the rule's effect on rollovers. O'Connor sounded a similar note, remarking, “If you're primarily in the rollover business, you've really got to rethink that.”

But, Chetney pointed out, there are questions about advice that concern more than rollovers. “This is where we broaden the services,” said O'Connor, for instance through conversations about financial wellness. Even the DOL, he said, did not understand the value of those additional questions.

Another result of the rule: Generalists “are not going away,” said O'Connor. He said he thinks they are here to stay, and suggested, “Think more about leveraging generalists.”

Revenue sharing, in light of the rule, evokes the thought, “Let's get the handcuffs now,” said O'Connor. He said that it is “not as transparent as it needs to be,” but that doesn't mean an advisor can't make money, even under the rule. “It's not zero revenue, it's transparent revenues,” he said. “We have to be comfortable with people knowing how much they pay us,” he added.

Remember that “you're the advisor, pos-



POST-FIDUCIARY WORLD: Prudential's Joe Gill, Bill Chetney of GRP and Edward O'Connor of Morgan Stanley (L-R) shared their firms' approaches to compliance with the DOL rule.



BEFI COMES TO FINTECH: Kristen Berman, cofounder and Head of Product at Common Cents Lab, explained how behavioral finance is revolutionizing financial wellness at fintech firms.

ing the questions and educating,” O’Connor told attendees. He said that “we need to talk more broadly than what the DOL is talking about right now.” And he recommended that advisors document what they do for their clients. “Many times, an advisor does things they don’t get paid for. We have to do a better job of documenting that.”

Graff: ‘There Is a Way to Fix This’

With that resolute assessment, NAPA Executive Director Brian Graff apprised attendees at the opening session of this year’s SUMMIT on the current high level of federal activity affecting retirement plans. Graff said that he is concerned “every waking

moment” — but also that there are things that can be done.

Among the areas of constant and fevered activity are tax reform and the DOL’s fiduciary rule. “I have never seen a level of activity like this,” said Graff, adding “I wish I could tell you” where it’s going.

Tax Reform

Tax reform was one of candidate Donald Trump’s central campaign promises, and President Trump and the Republican-controlled Congress are discussing ways to oblige. And that could have implications for the retirement plan industry and those whom it serves.

UNDER SEIGE: “Tax reform is an exercise in making choices,” NAPA Executive Director Brian Graff said in his Washington update kicking off the 2017 SUMMIT.

“It’s impossible to do tax reform without winners and losers,” said Graff. He noted that Speaker of the House Paul Ryan (R-WI) remarked in a Dec. 4, 2016 broadcast of “60 Minutes” that the tax reform plan he was advocating “plugs loopholes” to pay for lower tax rates. “What does that mean?” asked Graff, adding, “One man’s loophole is another man’s incredibly important tax preference.

“At this point, if they do tax reform, there is no chance — no pathway — that we get through it unscathed,” said Graff. “You have to understand, in the context of tax reform, everything is about trade-offs. Tax reform is an exercise in making choices,” he added, noting that the job is to get legislators to understand them. “There are people in Washington who do not understand the relative importance of retirement savings plans,” he said.

There is good news, however, Graff said — legislators realize that cutting savings incentives is not good for economic growth, and are cognizant of the political consequences of tax incentives that are attuned largely to those with high incomes.

The Fiduciary Rule

What the Trump administration is trying to do is “figure out what the effect of the rule would be,” said Bradford



OH, SNAP: Jania Stout with new BFFs Sebastian Bach and Donovan Leitch of the Royal Machines.



ROCKIN' IT: The Brooklyn Bowl's concert stage was ground zero for the first-ever NAPA After Dark event.



VIPs ONLY: The Brooklyn Bowl venue hosted the inaugural "NAPA After Dark" event featuring a concert by the Royal Machines.



LIVIN' IT UP: Limp Bizkit's Fred Durst fronted the Royal Machines for a set.





TECH-TONIC' SHIFT: Bukaty's Vincent Morris, Cynthia Loh of Betterment for Business and Chris Costello of bloom, inc. explored the intersection of human advice and robo-advice.

Campbell, partner at Drinker Biddle & Reath and former head of the EBSA. Graff added that the administration is trying to determine if real-world experience is proving that the Obama administration's calculations concerning the rule are incorrect.

"What I'm freaking out about," said Graff, "is that there would be a delay, then a comment period, then another delay." Worse, Campbell posited, would be if the industry was to start complying with the

rule only to have changes made. That, he said, "would be a problem of Biblical proportions."

So what if that happened? Campbell observed that the DOL's March Field Assistance Bulletin provided some assurance that it would be okay to not comply with the rule if the delay of the rule is itself delayed, but it is an imperfect solution. He noted that the problem is that the DOL doesn't enforce provisions involving prohibited

transactions.

And stopping the rule is not as simple as it may seem, Graff cautioned. "There is no button they can press" to just stop the rule, he said, adding, "The DOL can't just issue a piece of paper saying the rule will go away — the regulation is law." The only way to do it, he said, is to put in place a regulation that accomplishes that. But that entails economic and regulatory analysis, which "almost certainly" some consumer groups would challenge in court.

It is possible, they said, that Congress may intervene. "Congress is definitely interested in this," said Campbell, "but be careful what you wish for." Graff expressed skepticism that congressional action will be the answer, saying that "the other thing to keep in mind is the Senate. The idea that Elizabeth Warren and Bernie Sanders will not filibuster — no chance."

Campbell suggested that it may be better to pursue the matter through the DOL and not the legislative process. Graff considers that the most likely route; Campbell agreed, as long as the regulatory process is moving; but if it is not, Congress likely will get involved, he said.

"We're in the middle of it — I promise we're in the middle of it," Graff said of the efforts of NAPA and the American Retirement Association. "It's not going to be perfect," he cautioned. "There are no magic unicorns here."



PLAN SPONSORS: Execs from three plan sponsors shared their perspectives on and concerns about their advisors.



PEER-TO-PEER: This year's advisor-only roundtable discussion was bigger than ever.



BENCHMARKING: Ellen Lander, Principal and Founder of Renaissance Benefit Advisors Group, offered guidance on choosing the right benchmarks for a plan and monitoring them effectively.

What Do Plan Sponsors Really Want From Their Advisors?

What factors affect plan sponsor satisfaction with advisors and their services? A SUMMIT session offered some answers drawn from a brand new survey of plan sponsors conducted by NAPA and The Plan Sponsor University (TPSU).

Discussing the survey and the results were American Retirement Association Chief of Marketing and Communications Nevin Adams; Fred Barstein, founder and CEO of The Retirement Advisor University and TPSU; and Warren Cormier, CEO of Boston Research Technologies.

Why do plan sponsors hire advisors in the first place? By far the biggest criterion was industry training and credentials; 92%

considered that at least somewhat important, and 63% said it was very important.

There was a bit of a divide between plans with \$50 million in assets or more and those with less regarding how plan sponsors found their advisors. Requests for proposal (RFPs) were the most popular, but the former were almost twice as likely to use one; even so, only 38% of them used such a means.

That low figure is at least partially explained by widespread lack of understanding about RFPs and how to go about using one. But they see that changing. "We're seeing more sophisticated plans doing it," Barstein said, adding, "It's going to spread."

The question, he said, is who does it. He noted that advisors may consider crafting their

own. "I think it's brilliant to create your own RFP" and give it to a potential client, he said.

And how satisfied are plan sponsors with the advisors they hire? The survey says 53% are satisfied overall with their advisor. Cormier noted that while that rating may sound okay, the last such rating showed 70% satisfaction. "That actually surprised me," Adams remarked; however, Barstein said he was not surprised.

Barstein contends that in this case, "plan sponsors don't even know what it means to be satisfied." He said that while the industry focus is on preparing people for retirement, "we forgot to bring our own clients with us" and that there is a need to educate employers on why preparing people for retirement is important to the company. "Remember the HR person and benefits person thinks about retirement plans the way you think of compliance. They don't like it," Barstein said.

Not only that, the panelists also said that plan sponsors showed a less-than-perfect grasp of how those qualifications are indicated. "Plan sponsors may not understand there are letters after your name and what you did to get them, but those letters after your name mean something," said Adams. Barstein sounded a similar note, telling attendees: "It's vastly important and vastly underrated" to have some indication of credentials and experience.

Though a strong majority kept the compensation they provided to their advisors the same as the year before, Adams indicated that they may not entirely grasp



PASSING THE TORCH: Paul D'Aiutolo (L), NAPA's incoming President for 2017-2018, praised predecessor Sam Brandwein.

what that money pays for. "They've got to know what they're getting for that money. You've got to be up front. You've got to help them," he said.

And Adams noted that the discussion of fees and the trend toward flat fees, which he said is already in motion, spells closer examination of the fees advisors charge. "They may be looking at your fees in a different light," he said.

The Department of Labor's fiduciary rule is double trouble, the survey found. Not only does it affect what an advisor does, their clients don't get it.

"Guys, plan sponsors don't care about this," said Adams. Barstein agreed, noting, "It's not something I would ignore, but it's just not on their radar now."

Despite scrutiny of fees, the satisfaction rating, and the lack of understanding of advisors' experience and what they offer, the survey still found only a 12% turnover rate. The main drivers of loyalty, they found, were the advisor anticipating clients' needs and advisors helping them to stay in compliance.

By far the biggest reason plan sponsors switched advisors was their perception that the plan outgrew the advisor; a distant second and close third were the cost of the advisor's services and the perception that the advisor was not responsive and did not help with critical services.

Barstein offered an antidote to being one of the advisors who is switched out of a client. "The most important thing is not what happened, it's what's going to happen. If you tell a client that, you'll never be fired."

The Trump Effect on the U.S. Economy

Claus te Wildt and Stephanie Link, two of today's top investment analysts, shared their takes on key trends, indicators and what the future may hold for the U.S. economy at one of the SUMMIT's four "super sessions."

Link, managing director of active portfolio management at TIAA Investments, listed a number of positive economic indicators in the U.S. economy:

- The consumer sector — 70% of GDP — is showing signs of life, led by a turnaround in consumer confidence. "Consumers are feeling better, especially about home values; housing valuations are at a decade's high," Link noted.
- "We're seeing cycle highs in consumer optimism," she said, including spending on experiences, electronic devices and cars.
- Manufacturing, at 12% of GDP (but with a significant multiplier effect), is poised for increased spending, though there is no increase yet.
- Bank lending is trending up.
- The dollar has stabilized, and interest rates are going up, but slowly.

"Add it all together," Link said, "and the U.S. economy is poised to accelerate."

The Trump Factor

Claus te Wildt, investment director at Fidelity Investments, offered an interesting view of President Trump. "I view Trump as a tech stock," he said. "He could fly high, or he could be a train wreck. We don't know yet which ... Normally presidents don't matter much [to the economy], but I think



FUTURE RESULTS: TIAA's Stephanie Link (top) and Fidelity's Claus te Wildt shared their takes on a range of key economic and investment trends, and likely outcomes.



WHY YOU?: Keynote Scott McKain, Chairman of the Distinction Institute, urged advisors to view customer experience as a key differentiator.



FIRST 100 DAYS: Keynote speaker Joey Coleman, Chief Experience Composer at Design Symphony, applied his “First 100 Days” customer experience methodology to onboarding new clients.



CLUBBING: Tuesday evening’s social happening was held at Drais, Las Vegas’ hottest nightclub, featuring stunning rooftop views of The Strip.

this one could be consequential.”

In te Wildt’s view, President Trump “is very lucky to be taking over the U.S. economy right now.” Why? “Manufacturing has been coming back since 2011; we’ve worked out excess housing inventory; and companies have more cash than they know what to do with,” he said. “Then Trump steps in to add more fuel to the fire — bringing

back jobs and cash from overseas, and more spending on defense and infrastructure.”

However, te Wildt sees three risk factors in Trump’s approach to spurring a continuing recovery:

- **Geopolitical:** Threats from North Korea, ISIS, and the Middle East in general.
- **Execution:** Efforts to repeal Obamacare raise questions about the administra-

tion’s ability to execute. “We don’t know whether he can deliver on tax reform,” te Wildt said.

- **Policy:** Trump’s trade policies are not beneficial to the U.S., te Wildt declared. And if 3 million people are deported under a new immigration policy, there will be a severe impact on the U.S. economy, he noted.

All in all, this is a volatile time, te Wildt concluded. As a result, he said he is recommending investment grade corporate bonds for safety.

Looking ahead at Trump’s legislative and regulatory agenda, Link said she foresees tax reform next year, and infrastructure spending in 2018 or 2019, but regulatory reform sooner, citing the enthusiasm for regulatory reform among businesses of all sizes in the wake of Trump’s election. Te Wildt also emphasized the importance of the enthusiasm for Trump’s plans for deregulation, especially among small businesses: “All went straight up after election,” he said.

As the economy improves, Link expects cyclicals to outperform defensives, especially in the financial, tech, defense, experiences and energy sectors. She also touted expected earnings growth in niche sectors like construction cranes, truck engines and aero tech.

Te Wildt on Tax Reform

Te Wildt is not bullish on corporate tax reform. “If there are across-the-board corporate tax cuts, everybody wins,” he explained. “But the danger is if those cuts must be revenue-neutral, because then you create winners and losers. Some industries do well and other pay the price. Then, in addition to political conflict — Democrats versus Republicans — you have conflicts between industries. That’s why I’m not sure corporate tax reform or the proposed Border Adjustment Tax are doable.”

How’s Your Value Proposition?

In an era of fee compression, how can you escape the race to the bottom? While there are several answers to that question, basically they all focus on one thing: proving your value to prospects and clients.

How severe is advisor fee compression today? In a SUMMIT “super



VALUE PROP: Joined by Morgan Stanley/Greystone's Jim Detterick and Pat Oberlander of UBS, Fiduciary Benchmarks CEO Tom Kmak shared best practices in building a better value proposition.

session,” Tom Kmak of Fiduciary Benchmarks used the conference app to poll the standing-room-only audience of nearly 400 advisors on eight questions over the course of the session, including these two:

- How severe is advisor fee compression? A total of 85% said either extreme (35%) or common (55%). Only 10% said it's a minor issue, and no one said it's nonexistent.
- How important is price in landing a new client? A total of 79% said either critical (9%) or a major factor (70%). Only 21% said it's a minor factor, and no one said it's not a factor.

Kmak served as facilitator of the session, joined by Jim Detterick of Morgan Stanley Wealth Management/Graystone Consulting and Pat Oberlander of UBS. The three shared their takes on three key differentiators for advisors: quality, service and value — and added a fourth: “extra credit.”

Quality of You and Your Firm

How do you convince clients and prospects that ERISA requires that fees must be reasonable — not low? “Employers want to get the best deal they can,” Oberlander observed. Quoting Warren Buffett — “Price is what you pay; value is what you get” — he noted that the key is to maximize value.

Oberlander's combined wealth management/retirement practice focuses on small businesses and their owners. For him, in serving the small business niche, the key differentiator is trust. Their secret sauce: “a concierge level of service.” In both parts of the practice, he says, they strive to be “the first people the client calls” for help.

Transparency is a key to demonstrating your value, says Oberlander — “Here's what you pay, here's who's paying [sponsor and participants], and here's who gets the fees. Then use benchmarking tools to connect the services provided.”

For Detterick, it's all about the metrics — backing up the firm's talk about their key differentiators with numbers showing their performance in moving the needle on retirement readiness, for example. “We also talk about our intellectual capital and bench strength, and how our service model differs from our peers,” he said.

Services You Provide

Most advisors provide the same four essential services: investment advice, plan management, vendor management and participant services. Investment advice isn't really variable, which makes the variability of the other elements — especially vendor management and participant services like education — important ways to create differentiation, Oberlander noted. “In the sales process [for prospects], we transmit our “concierge” message,” he said. “Plan takeovers are different; there's more emphasis on our fees. But both start with the same model.” Detterick agreed, noting that, “Repeatability is an important key to building a practice” — an important consideration that constrains variability.

Value to Plan Sponsors and Participants

How do you measure value? To Detterick, the answer to that question must be on an individual client basis. “What's important to your company?” he asks cli-

ents. “How does that affect the choices you make with respect to your retirement plan?” With many services models now available, it's important to boil it all down to what's important to the client, “and help them get more bang for their buck.”

For prospects, “at the end of the day, client references are the ultimate value message,” Detterick noted. Of course, that can't be the sole focus. His firm also does research and analysis on prospects that they share with the prospect — in some instances where they really want to land the client, he indicated, a significant amount of research and analysis.

For Oberlander it's about pain points. “Listen to prospects.” He said. “What are they striving for? Find that out and address it.” For existing clients, he said, “it's all about delivering on your promises.” He reported that in 2016 his firm began documenting the results they achieved for each client, with the intent of delivering a presentation annually showing metrics and other documentation in areas like outcomes and retirement readiness.

Extra Credit

“Extra” credit is a term Kmak uses to describe the extra work that every advisor provides to clients: extra work, extra meetings, extra reports, asset allocation models, fiduciary services, etc. The question is, how do you build all that extra work into what a client pays?

“How bad do we want a piece of business?” Oberlander asked. “The more we want it, the more we're going to do research on that prospect. But we do have a limit. We can always come back to that prospects when the opportunity arises in the future.”

Who Cares About the Fiduciary Rule?

With that question, one of the panelists at a SUMMIT workshop session captured the discussion's import: There are matters fiduciaries must address regardless of what the fate of the fiduciary rule is.

Panelists included moderator Lisa Kottler, Senior Vice President of Retirement at NFP; Jason Roberts, founder and CEO of the Pension Resource Institute; Karen Scheffler, Senior ERISA Legal Counsel at AB; and David Levine, Principal at Groom Law Group.



LEGAL EAGLES: NFP's Lisa Kottler (L) hosted a discussion of the fiduciary rule featuring Jason Roberts of the Pension Resource Institute, AB Senior ERISA Legal Counsel Karen Scheffler and Groom Law Group's David Levine.

'Informed Speculation'

Panelists were unwilling to speculate about the rule itself. "Informed wild speculation" was how Roberts characterized it. "No one knows" about what will happen with the rule, Levine agreed, adding, "anyone who does — look askance."

Scheffler said that regardless of the rule's final disposition, "there are certain market changes that are afoot that aren't going to go away." For instance, said Scheffler, the current practice of considering 401(k) rollover plan assets to be ERISA plan assets is one of the "sorts of trends that will continue."

"My advice," said Levine, is "look at what you're doing, consider what you're doing. Don't get caught up in the nuances of the regulations."

Start with the Services

Roberts said that at his firm, "we say, 'Let's start with the services.'" He recommends looking at demand and considering what the needs of client sponsors are, what the market is and how to fulfill those needs.

"The biggest gaps I see," said Roberts, are in wealth management agreements that have been repurposed. "In those I find that if you're going to disclose that you're a fiduciary — with regard to what? Make sure that's clearly set out," adding, "You cannot contract around fiduciary duty."

Careful Is as Careful Does

"I think you should be careful. Don't lock yourself and your client in," said Levine. "The starting point you should be coming from," he said, is to ask yourself how you make money and where the money goes. "As a fiduciary, it is important to do things carefully," Levine said. "I have seen many times in which the Department of Labor asks if there is money behind the scenes."

Scheffler readily agreed, noting that when she worked at the DOL, they were "suspicious of everyone. There was always something to find." And she doesn't appear to think things are any different now. "There is going to be an approach of suspicion."

So how can advisors best gird themselves for that? "Being able to vet what you're doing against best practices is really vital," Scheffler said. She added that in her experience, she has learned most people want to do the right thing, "But they don't know how to do it."

Roberts, too, sounded a note of caution that not only is the DOL not backing down on enforcement, there is the market to consider. "When the market goes down, claims go up. Clients don't like to lose money," he said. Not only that, he cautioned, the DOL's been very clear that "QDIA protection evaporates" under certain circumstances.



POLLING APP: Many sessions utilized the instant-polling function built into this year's SUMMIT app.

Scheffler questioned how serious a risk of lawsuits advisors run. "If you look at the litigation out there, it's all against plan sponsors," she said. "You don't really see financial advisors named in lawsuits along with plan sponsors. It raises the question — how big is your risk, and what is your responsibility to assist plan sponsors regarding litigation?"

Still, Levine suggested, "You need to have resources so your business can keep going" in the event that you are involved in a lawsuit. **N**