

FROM K-12 TO THE NONPROFIT ERISA 403(b) MARKET:

PASSPORT REQUIRED

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When I joined Cammack LaRhette Consulting in 1991, our primary function was to meet with participants and conduct transactional services (enrollments, etc.) with respect to such participants. To be certain, we did offer other services, such as maximum exclusion allowance calculations (remember those?) and other testing, but participant support was our primary function. At the time, as an entry-level employee, my day was filled with employee and retiree calls, troubleshooting enrollment forms and other transaction forms, and the like.

With 15 employees, we weren't a large firm, and though we had one client with more than \$100 million in plan assets, most of our clients

Switching from non-ERISA plans to the ERISA 403(b) world means learning new rules and a whole new mindset.

were in the \$5-\$25 million range. Many were multiple vendor, non-ERISA plans where we represented, in a traditional broker-dealer model, one (perhaps two or three, if we were fortunate) of the many vendors the client used. While we had an excellent reputation, we were little-known outside of the Northeastern United States, where the majority of our clients were located.

Flash forward 20+ years to 2012. Our firm is now one of the largest 403(b) consulting firms in the country, consisting of an almost entirely ERISA 403(b) book of business, with the notable exception being large church plans that share some common practices with our ERISA clients. Our average client size is in the \$100 million range, with several clients exceeding \$1 billion in plan assets.

Processing enrollments has become a thing of the past; our primary function now is to assist our employer clients—primarily health care, private higher education, and other large private nonprofits—with their plan governance and best practices. Since we're a nationally

recognized registered investment advisor (RIA) firm with clients from Maine to California, I now spend a large amount of time assisting with client retention/growth, as well as being one of the “faces” of our firm through speaking engagements and published articles such as this one.

So, if you’re an advisor looking to break into the health care or other private nonprofit ERISA 403(b) plan market, what can you possibly learn from our experience? Of course, not all elements of our firm’s transition will easily translate to other advisor practices. For example, we benefitted greatly from the shift of defined benefit to defined contribution plan models, which isn’t likely to happen again since defined contribution plans are so prevalent in the nonprofit marketplace now. But here are some elements in our transition that other advisors could use:

TRANSITION FROM THE PARTICIPANT AS YOUR PRIMARY CLIENT TO THE EMPLOYER AS YOUR PRIMARY CLIENT.

Our firm realized early on that it was relatively difficult to grow our practice one participant at a time, but if we could somehow convince the employer to be our client, that was quite another story entirely. If you exclusively have school districts as clients, this might be a difficult assignment, as many lack the employer infrastructure (a dedicated human resources department) for the employer to be your client. But if there are decision-makers in your school districts, can you cultivate (or have you cultivated) positive relationships with them? Has such cultivation had a positive impact on your practice? In the private nonprofit world, successful client relationships happen when you show decision-makers how your firm adds value. If you have at least one client that is not a public K-12 school district, this task might be a bit easier, as there is already an infrastructure in place (e.g., dedicated HR and/or finance personnel) to support such interaction.

BECOME A SUBJECT MATTER EXPERT.

In the ERISA 403(b) marketplace, plan sponsors are looking for specialists, not generalists. Pick a specific subject or subjects relative to the industry, learn everything you can about the topic, and use what you learn in practice. Send articles on what you’ve learned to decision-makers. Demonstrate your expertise by writing your own articles on the subject and speaking about it. (NTSAA/ASPPA conferences can be an excellent starting point for such efforts.)

Our firm started out by becoming experts on IRS audits for 403(b) plans. After that topic was mastered, we became experts in working with retirement plan operating systems, detecting defects that could lead to audits.

CLEARLY DISTINGUISH THE SERVICES YOU PROVIDE FROM THOSE OF PRODUCT PROVIDERS.

In a non-ERISA environment, if your firm is viewed as a representative of a particular vendor, it can be positive depending on the reputation of the product provider. In the ERISA 403(b) world, however, it’s viewed as a conflict of interest and something to be avoided. It took us several years at the beginning of our transition to reinforce the point that we were *not* the XYZ vendor rep that might serve the best interests of the provider, but rather a trusted independent advisor that would serve the best interests of our clients. In fact, some of our earliest clients thought our employees actually worked for the vendor, a misconception that we quickly and emphatically corrected!

DON’T JUST BE OPEN TO NEW IDEAS, EMBRACE THEM.

A lot of the concepts you may have embraced for many years in developing a successful school district practice may be completely irrelevant in the ERISA 403(b)

market, so you’ll have to dismiss them in favor of new ones.

For instance, you may be thoroughly convinced, as many are, that 403(b) plans should have as many vendor choices as possible. In the ERISA world, however, audit requirements and other compliance issues make it relatively rare for plan sponsors to use more than one vendor in their 403(b) plans. Even multiple-vendor plans rarely use more than two or three vendors. If you don’t embrace such an environment, your ERISA 403(b) practice may be short-lived. As a firm, we had to “learn to unlearn” many of the concepts that we’d mastered as non-ERISA practitioners. This was quite difficult at times, as it can indeed be challenging to teach an old dog new tricks.

In closing, breaking into the health care/private nonprofit industry can be a daunting proposition. It won’t happen overnight, but with the proper effort and focus, it’s not insurmountable. Our firm may be one of the more successful examples of that transition, but far from the only one. If you’re contemplating such a move for your practice, I hope you find some of the concepts mentioned here to be helpful. Good luck!



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