



WHEN “CONFLICT-FREE” ISN'T FREE FROM CONFLICTS

EXECUTIVE SUMMARY

Conflicts of interest have long been a detriment to the integrity of the financial services industry. The Department of Labor's Fiduciary Rule and the SEC's Regulation Best Interest are aimed at either eliminating conflicts of interest or requiring their full disclosure, with the ultimate goal of protecting unaware individuals. In response, many retirement plan consultants are scrambling to position themselves as being conflict-free. But what does this really mean? Well, that depends on who is answering the question.

We strongly believe that a retirement plan consulting firm must truly be free from conflicts of interest, both actual and perceived, to ensure it will always act in the best interest of your plan and your participants.

Otherwise, you will face the risk that your interests and your consultant's interests do not align, and that's where the problems can begin.

This paper identifies several potential conflicts of interest faced by retirement plan consulting firms, and highlights the potential pitfalls associated with each conflict.

CONFLICTS OF INTEREST

Conflict: Offering individual private wealth management services to retirement plan participants for an additional fee.

Problem: How can a consultant be objective in assisting your plan participants with deciding whether to stay in the plan or roll over their plan assets when the consultant's firm will likely make more money after a rollover to their wealth management division?

Conflict: Cross-selling other proprietary products and services to the plan and plan participants without adequate due diligence.

Problem: How can you rely on your consultant's recommendation to utilize its other available products or services for your plan if they have not provided you with unbiased, evidentiary support that their products and services are the most appropriate fit for your plan?

Conflict: Receiving indirect or marketing revenue from recordkeepers and other third-party service providers.

Problem: How can a consultant remain unbiased in its recordkeeper and other service provider recommendations when it receives revenue from these same firms?

CONFLICTS OF INTEREST

Conflict: Receiving indirect or direct compensation from investment management companies for such activities as hosting internal training events or conducting due diligence.

Problem: How can a consultant remain unbiased in its investment recommendations when it receives revenue from the investment managers that it is recommending?

Conflict: Linking retirement plan consulting pricing to other service offerings.

Problem: How can decisions related to the hiring of a retirement plan consultant, or the utilization of other services it offers to the plan, be objective and independent when the pricing of these different services are linked together?

Please note that we have highlighted above just a few of the many conflicts related to practices that are common for many retirement plan consulting firms that claim to be “conflict free”.

CONCLUSION

The solution? The easiest way to avoid the pitfalls associated with conflicts of interest is to avoid doing business with a retirement plan consulting firm that engages in these conflicting practices. Another approach is to identify and address all conflicts of interest. You could then enter into a written contract with the firm that restricts it from engaging in any activities with your organization or your plan participants that could pose a conflict.

Are we suggesting that retirement plan consulting firms and their affiliates cannot sell any other services? No, but **other services offered by your retirement plan consultant must not interfere in any way with their ability to act in your best interest!** Therefore, restricting your consultant from selling other services to your plan, or from accepting revenue from other providers to your plan, is necessary to avoid having your plan decisions called into question.

In summary, not all firms meet the highest standard of being conflict-free. Unless a retirement plan consulting firm can show that it **1) never sells products or competing services to your retirement plan participants for additional revenue, 2) never receives revenue from other service providers or sources of influence, and 3) is in no way affiliated with a firm that has competing interests**, then that firm cannot possibly meet the highest standard.

With all of the risks associated with sponsoring a retirement plan, why would you want to knowingly increase your risk exposure?

View our [Conflicts of Interest Checklist](#) to help you identify if your retirement plan consultant is always acting in your organization's best interest!

