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Retirement Plan Audits - How CPAs Can Differentiate Themselves in a Competitive Environment

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In the world of qualified plans, the audit is oftentimes viewed as a necessary evil. Many plan sponsors view the audit as a cost, whether borne by the plan or the plan sponsor, that delivers little benefit to either the plan or the participants. As the auditor, how can you deliver value beyond simply doing your job in order to avoid the dreaded "just a commodity" label?

To avoid being seen as a commodity, you must deliver services beyond the list required in the audit. Of course, you should be timely, accurate, and professional, but how else should you set yourself apart from the rest of the pack or avoid being replaced by a lower cost alternative? The answer is to add value through a consultative approach.

> *"How else should you set yourself apart from the rest of the pack?"*

Step 1 – Learn to identify non-audit related "red flags"

The first step in adopting a consultative approach is to identify plan related items that can be used to open a more robust conversation. Staying aware of plan hot topics and industry trends will keep your conversations relevant and timely.

Based on recent litigation, fees are increasingly being scrutinized within qualified plans. Certainly, the fees need to be reasonable and benchmarked to justify their reasonableness, but the ways in which fees are being applied is also important. Who is paying the fees? Are they coming from a revenue sharing agreement between the investment manager and the recordkeeper or through an explicit billed fee? A plan sponsor should be able to identify who is getting paid, from where, and with what.

Furthermore, is the plan keeping up with trends in the industry? Is the plan following practices such as fee leveling, automatic enrollment and automatic increase, or offering a Roth option to participants? Have the fiduciaries executed open market searches for recordkeeper services or target date fund providers? If advice or managed account services are being offered in the plan, what level of due diligence has been conducted on the providers? All these topics can easily be converted into value-add conversations that could differentiate you from your competitors.

Step 2 – Know what to look for

Following is a list of items to look for that may lead to a deeper conversation:

- *Is the fund menu comprised exclusively of institutional share class investment options?* – In other words, does the plan have funds that are generating revenue sharing, or do the fees only pay for investment management costs? In some plans, specifically the smaller ones, revenue sharing may be reasonable to cover plan costs. It is worth exploring if a conversation regarding such a topic has been documented in the meeting minutes. In some cases, lower share class alternatives could lead to lower overall plan costs.

- *Does the plan offer more than 20 investment options?* – This one is simple. If the plan offers more than 20 options (the target date suite counting as one option), there may be a benefit for both the participants and plan fiduciaries in reducing the total number of funds. There is both behavioral and quantitative data that would suggest a potential benefit to reducing the total number of funds being offered. In many cases, fewer funds (15 or less) may be able to cover the same number of asset classes while reducing the complexity for participants and protecting the plan sponsor from having to monitor too many investment options.

- *Has the plan engaged an independent co-fiduciary?* – At the risk of appearing self-serving, we believe it is important to recognize the value of a prudent expert. A co-fiduciary, either 3(21) or 3(38), can assist a plan sponsor with the investment oversight and monitoring responsibilities associated with being a retirement plan fiduciary. Like other costs embedded in the revenue sharing dollars, the cost of such services can be paid by the participants.

Step 3 – Expand your network

No one can be an expert in all fields, and you don't need to be to add value to your client relationships. After identifying potential topics to discuss with your clients, explore your network to find prudent experts on various plan topics. Reach out to your contacts to inquire about their position or thoughts on the topics identified and gauge their willingness to be referred to the client for a deeper discussion. Most industry experts are willing to have a preliminary conversation at no cost.

Connecting a client with a high-quality referral will make your clients happy while strengthening your relationship. Demonstrating that you value partnerships with industry experts will build your network, broaden your industry knowledge and, over time, differentiate you from competitors.

Exhibiting the ability to add value by expanding beyond the normal scope of an audit through this consultative approach can put you ahead of the competition by becoming a resource to your clients for all plan related questions. These additional touchpoints can keep you in contact with your clients year-round, outside of the typical audit season. In addition, expanding your network to include more industry experts in related fields can potentially open more doors for referrals for your business.

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- Plan Benchmarking
- Investment Menu Analysis and Design
- Total Plan Fee Analysis (full fee disclosure)
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- Employee Communication and Education
- Asset Allocation Analysis
- Investment Manager Searches
- Liability Driven Investment ("LDI") Strategies for Pension Plans
- Quarterly In-Person Meetings with Finance/Investment Committees
- Strategic Guidance on Relevant Topics of Interest

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