

# Key Ways to **TAKE CHARGE** of Your Data

The organization and maintenance of data is a major Achilles' heel for almost all industries, and most especially for the retirement planning space. The sheer amount of plan data is staggering. As of December 2023, there were roughly 700,000 401(k) plans that held around \$7.4 trillion in assets on behalf of approximately 70 million active participants and millions of former employees and retirees (Investment Company Institute). An advisor must have a complete, reliable dataset to make informed decisions and adequately meet each participant's needs. Especially now, with many advancements and changes impacting the industry, it's clear that proper data management will be essential to getting and staying ahead in the coming years.

In this article, we'll discuss the roots of this persistent problem and show you why you may want to revamp your data practices sooner rather than later.

## THE ROOT OF THE PROBLEM

The retirement industry is heavily dependent on data to abide by legal requirements and effectively support a wide range of participants. Though not exhaustive, here's a brief overview of a few key barriers faced by advisors in this industry.



**No Database of Record** – Different versions of the same data exist in multiple places (software, tools, Excel sheets, etc.), leading to inflated numbers and inaccurate records.



**Third-Party Integrations and Distributed Systems** – Advisory practices rely on third parties to provide API connections, which means data comes from many sources and in different formats. These systems are disconnected and poorly maintained, so data is not deleted or updated in real-time.



**Lack of Ownership** – With information flowing from different places, data ownership becomes murky. Often, a single individual is not assigned to maintain all aspects of the data infrastructure. Instead, several people are involved at different times with various systems, all with little oversight.

## RISKS AND OPPORTUNITIES

There are more retirement plans than ever in the marketplace, partly because the SECURE 2.0 Act requires many small businesses to offer a plan for the first time. In addition, advisors face the ever-present push towards modernization as plan sponsors expect holistic plan management, as well as a more comprehensive financial education offering to support their employees.

# RISKS

In light of these changes, keeping data organized, reliable, and secure is more important than ever. Otherwise, you'll leave your practice susceptible to risks, especially around compliance and legal, inadvertent miscalculations, and poor participant experience.

## RISK #1

### Compliance Issues

Litigation is always a risk in the industry, which now faces growing compliance burdens from legislation like SECURE 2.0 and Regulation Best Interest (BI). This legislation requires more careful data maintenance to ensure participants understand each option available and that advisors make recommendations that are truly in the best interest of each client. What's more, ERISA makes it clear that anyone who submits reports needs to have accurate data that can "be verified, explained, or clarified, and checked for accuracy and completeness" (Ilekel, 2024).

## RISK #2

### Incorrect Advice

Not every participant should receive the same advice and guidance from you. Age fields are a primary filter for correctly routing information and resources to each client. If these are out of date or empty, you run the risk of sharing information that is irrelevant to the employee's life stage. For example, you could provide student loan payoff tips for a near retiree or facts about retirement distributions to a young, new employee. Unhelpful or irrelevant messaging can undermine trust with your participants, and make them less likely to pay attention to your communications in the future.

## RISK #3

### Inaccurate or Impersonal Communications

Know Your Client (KYC) regulations place a hefty burden on the advisor to keep accurate records, including name, date of birth, current address, and customer identification number among other data points. You'll need to understand their basic risk tolerance to ensure your investment recommendations are truly in their best interest. Plus, you'll also need to keep good records of any financial products you recommend to avoid unnecessary compliance risk.

In addition, inaccurate records can lead to impersonal or incorrect communications. For example, if name fields aren't well-maintained, you may send an email with the wrong name in the salutation. This is likely to erode trust with your participants and may increase their likelihood of disregarding your messages. Keeping records up to date is essential to meet fiduciary responsibilities and maintain a personal relationship with your participants.

## RISK #4

### Incorrect Payments and Outdated Beneficiaries

Regularly completing death audits is a tedious but necessary data task, especially for pension plans. Otherwise, the plan sponsor may inadvertently send payments to deceased employees which is an expensive mistake, and time-consuming to correct. They'll rely on you to keep records up to date and free of errors. Even for defined contribution plans, it's a good idea to update records and remove deceased employees to ensure that the correct, current beneficiary receives the benefit.

Plus, if a plan sponsor wants to terminate or change a plan, data that isn't maintained will delay the process and could cause you to incur additional costs to do a cleanup or audit.

## OPPORTUNITIES

Along with avoiding these associated risks, well-maintained plan data will allow you to take advantage of several key opportunities to better serve your plan sponsors and participants, and help your business thrive in the future.

### OPPORTUNITY #1

#### Make Better Plan Recommendations

Knowing your participant base helps you to understand who you're serving well and where there are clear opportunities for advancement. Clean data allows you to pinpoint areas for growth and make informed recommendations for your plan sponsors. Does one group have low participation, low deferral rates, or poor asset allocation? Are certain demographics disproportionately in debt or behind on saving? When you understand which employees or groups are most at risk for retirement shortfalls you'll establish yourself as a valuable thought partner and cement your relationship with your plan sponsor clients.

### OPPORTUNITY #2

#### Uncover Wealth Management Clients

One way clean data can support AUM growth is by giving an advisor the resources to uncover wealth management clients. Many advisors are looking for opportunities to expand their presence in this market but with distributed data, it can be hard to know who is in the plan and get an accurate picture of their net worth. Well-maintained data gives the advisor a dependable resource to uncover high-net-worth individuals who may be looking for help managing their assets.

## OPPORTUNITY #3

### Provide an Enhanced Participant Experience

Of course, there's more here than just the opportunity to better source and understand wealth management clients. 97% of workers who have a plan will not actually be a wealth management client (Barstein, 2022). What's more, plan sponsors increasingly expect their advisor to help all their employees with all of their benefits. As one author put it, plan sponsors "expect the people they hire—not just for retirement planning but for everything—to be up on the latest industry trends, to move quickly, and to be ultra-responsive to shifts in the markets and in regulations" (Impreveduto, 2023).

Plan sponsors are looking for a high-touch service that doesn't break the bank and provides engaging employee education to reach a diverse population. A factory line worker will not respond to the same types of communications as a desk worker. An engaging participant experience will require a more personalized approach that accounts for unique demographic differences like age, type of employment, access to technology, financial status, etc.

The bottom line? Most retirement plan advisors will struggle with capacity, especially if they don't have a clear sense of the demographics contained within each plan. Accurate data provides the opportunity to deliver targeted, personalized education that meets the needs of plan sponsors and engages participants.

## RECOMMENDATIONS

So, how can you make sure your firm is poised to avoid risk and take advantage of these opportunities? Think of your data as the backbone of your business. To grow and scale, you'll need to set up healthy habits and practice good data hygiene. The earlier you start, the easier it will be for you to maintain. You'll need to begin with a thorough data assessment.

Here are some questions to get you started:

- Who is responsible for data in your organization?
- What maintenance (if any) is currently taking place?
- How complete is your dataset (first name, last name, date of birth, contact information, etc.)?
- Where does every piece of data come from?
- When it comes in, who manages or refines it?
- Is technology (AI or other tools) used to regularly check for duplicates?
- How many different programs do you use to house data?
- How many people can access and/or edit this data?



### AI Can't Fix Bad Data

As AI becomes more integrated into everyday life, industries are enhancing productivity with AI-powered tools. Many CRMs now feature AI that helps segment clients to provide personalized messaging and advice. However, to effectively leverage this advanced technology, accurate records are essential. While AI can identify duplicates and generate personalized emails, it cannot correct inaccuracies in client data, such as age or income. Maintaining your data will allow you to successfully leverage AI and take advantage of its time-saving capabilities.

Once you sketch out your data architecture, you'll be better able to make adjustments and see the possibilities for error. Not only will this help you streamline your workflow but it will also lend itself to creating a database of record that can become the single source of truth for your business, an essential component of scalability.

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## CONCLUSION

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The current practices around data management aren't working. Conducting regular audits, leveraging tech tools like AI to check for duplicates, and holding every member of your team to high standards for data integrity may just be the edge that will drive your practice into the future.

It won't be cheap (or easy) in the short term, but an investment in your data management now will ensure that your internal systems have staying power for years to come. With a little tenacity and a lot of time, advisor practices can create an efficient business and build a solid data foundation for the future, that can easily scale as the business grows. Ultimately, better data management means you can quit combing through endless lines of outdated information, and reinvest that time with your plan sponsors and participants.

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