

Why Retirement Plan Financial Advisors Should Care Who Their Client's TPA Is

By Ary Rosenbaum, Esq.

Ernie Banks was one of the greatest shortstops of all time and he never made it to the World Series, because his Chicago Cubs could never get past the "Billy Goat" curse. Don Mattingly never made it to the World Series either as his New York Yankee teams were littered with free agent busts (Ed Whitson, anyone?) and poor pitching, his bad back forced him to retire in 1995, one year before the Yankees ended their 18 year championship drought. Timing is everything in life, but so is being part of a good team. As a retirement plan financial advisor, you need to be a part of a good team of retirement plan providers because the quality of your team may determine your position as the specific plan's financial advisor and/or making your job easier or more difficult. So this article is going to try to explain why you should care about the selection of your client's third party administrator (TPA) and how the TPA can determine your experience working on your shared client's retirement plan.

You're more than a financial advisor

Being a retirement plan financial advisor is more than just being a financial advisor to your client. With many of your clients, you assume the role of an ombudsman/concierge for them. That means when it comes to selecting a TPA or working through the problems with the current TPA, the client often will rely on you to take on that role. One doesn't need to conduct a study to determine that competent, good TPAs create fewer problems than incompetent TPAs and fewer problems create less work for you. So it's to your benefit to make sure that your client is being handled by

a TPA that can handle the task of plan administration.

TPAs are more important than just getting paid

Too often financial advisors will help their plan sponsor client select the TPA, primarily based on how easy the advisor can get paid using the platform the TPA is using. So a broker may select an insurance company based platform or a registered

financial advisor should be more concerned with how the TPA does their job instead of how they pay you.

Focus on quality, not on cost

The fixation over fees and fee disclosure can have negative effect when selecting a TPA. While cost is an important consideration, it should never be a sole consideration because there are many low cost providers that also offer a low level of service. While it's a plan sponsor's fiduciary duty to pay reasonable expenses, they do not have a fiduciary duty to pay the lowest expenses possible. So when helping your client review and select TPAs, make sure the TPA can actually handle the job at a reasonable price.

Don't Just Pick One

When it comes to picking TPAs for your clients, you should keep in mind that there is no TPA that is the right fit for every plan you have. That might be because of plan size and plan type. That being said, from a practical standpoint, it is never a good idea to only use one TPA based on the belief that "you shouldn't have all your eggs in one basket." If you discover the one TPA you are

working with isn't doing a good job, then your entire block of business is at risk. I have worked with an advisor for 10 years now and very few years, he migrates his entire book of business to another TPA after there is some type of large miscue involving one or more of the plans that the advisor has at the current TPA. In an ideal world, you should house all your clients' plans in one TPA, but the fact is that the nature of the retirement plan business and good business sense won't allow that. On



investment advisor make have the client select an unbundled advisor because their advisor has all their clients' assets custodied at a specific custodian that the unbundled TPA uses. While getting paid is important, selecting a TPA just because you can get paid easier is not a good idea. A TPA is responsible for helping the plan sponsor preserve the tax qualification of the retirement plan by performing all the administrative duties that the plan sponsors has delegated to the TPA. So a fi-

the other hand, keep the TPAs you work with to a handful because when you have a dozen or so TPAs you work, things can certainly get confusing.

Value the Art of Plan Design

For the good TPAs, one of their great selling points is their sophistication in what I call the "Art of Plan Design." A good TPA will not only handle the administration and recordkeeping of the plans that their clients delegate to them, they can also design retirement plan programs that can maximize employer contributions to highly compensated employees (which includes the owners), which maximizes tax deductions. Maximizing tax deductions puts more money in your clients' pocket through retirement savings and less money in the pocket of government. There are too many TPAs who don't understand plan design, which may make life for them easy, but leaves money on the table for your clients. Retirement savings don't have to be built on 401(k) salary deferrals alone. There are enough tricks (all legal) that can help maximize savings through increased contributions to highly compensated employees. That maybe a safe harbor 401(k), new comparability/cross tested design, a floor-offset arrangement, a cash balance or defined benefit plan, and a non-qualified plan to name a few as plan design options. So work with a TPA that understands the rules concerning plan design because there is a lot of creative thinking that can help maximize employer contributions and tax savings for your client.

Pick a TPA you can lean on for help

There are many good TPAs willing to help you out with your current clients as well as offering the assistance when you are currently prospecting for clients. I know that having worked with one of the greatest 401(k) salesmen that ever was, the late Richard Laurita. Rich may not have understood a thing about retirement plans, but he knew when to assist the advisor he was working with during the sales process. I cut my teeth in 401(k) sales and client development by getting on many phone calls and going on many prospective client meetings with Rich and the advisor

he was trying to cultivate business with. In addition, there are TPAs with lots of good marketing materials that you could use with prospective clients. Don't be shy, there are quite a few quality TPAs that can provide with help for client development and retention, all you have to do is ask.

The conversion process is really important

Converting a plan from one TPA to another is like moving homes. It can be a



lot of aggravation and it can be a harrowing experience, it also can be seamless. First impressions in life are sometimes the most important, so the first impression that a plan sponsor may have when it comes to their new TPA is the conversion process. If a conversion process goes smoothly, it starts the client-TPA relationship on the right foot. When it doesn't go well, well often times, the relationship never recovers. So if you recommended a TPA or had any role in the decision making process, you should be involved to make sure that the process goes smoothly. Make sure the TPA identifies the people on their side that is doing the work on the conversion/implementation side, as well as you knowing the people from the soon to be former TPA (if it's a conversion and not an implementation of a new plan). If things go terribly on the conversion process, you will certainly get some shrapnel. I have seen an advisor here and there getting fired only because the conversion process to the TPA they recommended was a disaster.

Pick the best fit, forget about geography

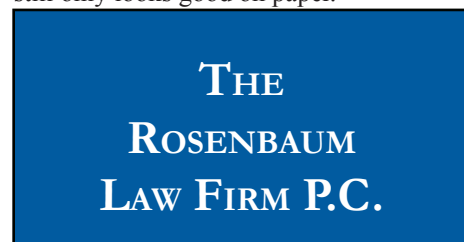
When it comes to selecting the best TPA for your client, consider what is the best. Too many people concern themselves with geography and where the TPA is in relation to the plan sponsor. Where your TPA was located was important when we didn't have fax machines and when we didn't have e-mail or overnight delivery to get things done. It's more important to find a competent TPA who charges a reasonable fee than finding someone in your backyard because unless you're going to socialize with them, you will rarely see them. Have your clients pick the best TPA, regardless of geography. While some areas of the country maybe better for healthcare, cheesecake, pizza, and bagels, there are quality TPAs around the country willing to do a great job for your clients.

The Producing TPA

As you know there are TPAs that are also in the asset advisory business and there is nothing wrong with. Just remember that in the retirement plan asset gathering business, they are still your competition any way you look at it.

The Payroll Provider TPA

I have said it multiple times; a payroll provider TPA looks good on paper. In practice, my experience has shown that it still only looks good on paper.



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