

“TPA Alpha”: A New Approach to Evaluating TPAs

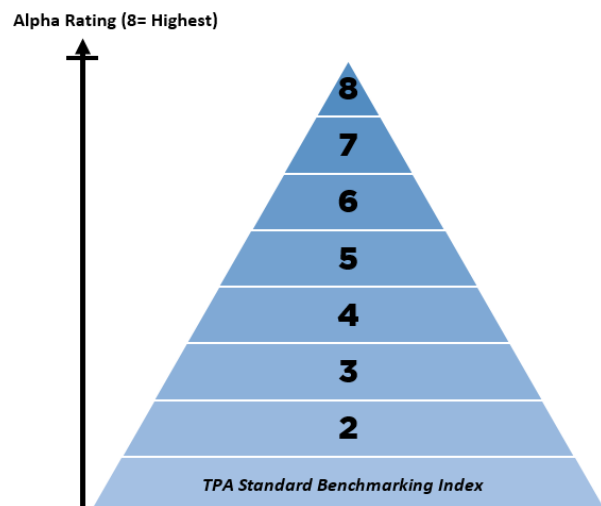
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Over the years we have spent a lot of time discussing the differences between average retirement plan third party administration firms (TPAs) and those that provide superior quality and capabilities for plan sponsors. However, circumstances still exist where retirement plan advisors put the fee structure of two (or more) competing TPAs on a spreadsheet and make the decision on which firm to engage based primarily on cost. We find this process somewhat vexing, as advisors typically spend an inordinate amount of time screening mutual fund performance to justify value (performance vs. cost), but do not incorporate a similar thought process when evaluating administration service providers. That being said, what if TPAs were evaluated for value and performance in a similar manner as mutual funds? If so, determining a TPA’s “Alpha” potential could be a great place to start.

What is Alpha?

Alpha is the rate of return that exceeds what was expected, or predicted.

Alpha should be utilized as it is one of the most prominent and applied metrics in evaluating a mutual fund’s performance and can actually be correlated to the TPA market. Determining Alpha is important because it provides a tangible measurement that helps substantiate the performance of a mutual fund relative to risk, which in turn supports the value that a fund manager is creating when compared to the Index Benchmark. The overall objective is to validate if the investment manager is providing a higher level of skill in selecting the mutual fund’s portfolio than other money managers in his category.



*Full descriptive model on pg. 3

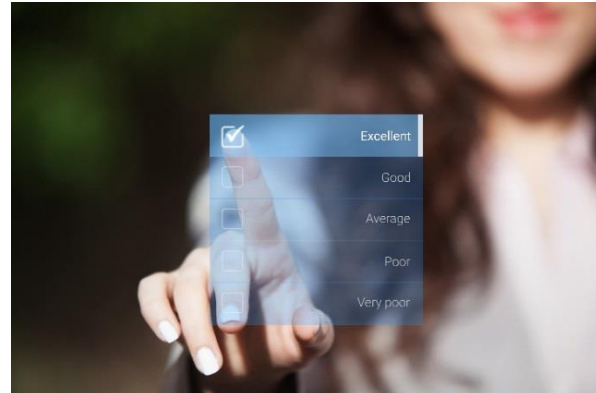
As widely known and accepted as Alpha is in validating investment selection and due diligence, retirement plan advisors and plan fiduciaries have not yet incorporated similar concepts of Alpha to review and validate the selection of TPA firms. Much like investment managers, there are TPAs that underperform the market and deliver negative Alpha; some that are level with the market and deliver no Alpha; and other quality TPA firms that outperform the market with regard to services and capabilities that can deliver positive Alpha. That being said, if a similar premise was utilized in selecting TPAs, then the firm that has the highest probability of delivering positive Alpha would be the most obvious and prudent choice. How can this evaluation be conducted?

To create an Alpha validation process, a TPA Benchmark Index must first be established to determine what features and services are typically offered within the universe of TPA firms and what is to be expected. Once the index is established, it can be utilized as a baseline for evaluating additional capabilities that a TPA may offer.

Listed below are services that are typically performed by the “TPA market” (independent from record-keepers). Please keep in mind that not all TPAs perform these functions at the same level, but these are considered standard services.

We will use the components below to establish the Benchmark Index for the Alpha creation comparison:

- **Plan Document**
- **Compliance Testing**
- **5500 Preparation**
- **Dedicated Contact**



Next, it is necessary to determine additional services and capabilities that could help mitigate fiduciary risk, support retirement plan advisors and increase the proficiency of a retirement plan above and beyond the “TPA Benchmark Index;” thus, enhancing the opportunity for a TPA to deliver Alpha. Each item listed below would offer an incremental increase above the Benchmark Index and potential Alpha creation:

- **CEFEX Certification**
 - Only certification process that validates a TPA firm is utilizing Best Practices in regard to processes and capabilities in conducting plan administration and operational compliance services
- **ERPAs and Other Highly Credentialed Staff**
 - Provides superior level of technical experience and application
 - Government audits are a matter of “if and not when” and ERPAs can represent the plan sponsor in government audit situations
- **Strategic, Tactical and Personalized Plan Design**
 - Strategizes to create tax efficiencies for business owners, retirement readiness for plan participants and allow Highly Compensated Employees (HCEs) to defer more income...”What are the sponsor’s goals and how can they be accomplished?”
- **Full Trust Accounting, Contribution Accruals and Census Data Verification**
 - Verifies that each participant account is correct by dollar amount and source
 - Confirmation of employees that should be included in testing along with verification of HCE and Key employee status – Helps ensure highest level of compliance testing accuracy
 - Ease of year-end data compliance material completion and submission process ([Click here](#) to view an example)
- **Operational Risk Mitigation**
 - Ongoing operational support and consultation by highly skilled/dedicated Relationship Managers (RMs)
- **Market Intelligence and Business Development Support**
 - Partners with service providers to provide innovative industry insights, tools and support
 - Proactive in the proposal analysis process
- **Responsive Plan Assistance and Support**
 - Responds to client inquiries in a timely fashion; and in the medium the inquiry came in (email-email, phone-phone, etc.)
 - Develops and distributes helpful and interesting content across preferred client Mediums

TPA Alpha Index

Alpha Rating (8= Highest)



- **TPA Standard Benchmarking Index**= Baseline TPA service offering (plan document, compliance testing, 5500 preparation, administration, etc.)

Once this comparison is completed **it simply becomes a question of whether or not the retirement plan advisor and plan sponsor want to engage a firm that offers mediocre tools and services in relation to what the plan sponsor needs (the TPA Index), or one that has the ability to deliver Alpha.** If given the choice (much like the investment selection process) plan sponsors are going to take Alpha every time! Remember, cost is what you pay for, but value is what you get. Make sure your TPA of choice has the capability of delivering Alpha for you and your clients!

Contact sales@bpp401k.com or call any of the numbers below to learn more about how you can partner with BPP, a TPA firm committed to delivering Alpha!

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