Superior Administration: Why Quality TPAs Outperform Bundled

Not all administration providers are created equal, and due diligence is required to find the best TPA partner.

BY JASON BROWN AND JASON R. OESTERLEI

One of the most difficult tasks for any TPA firm is trying to validate why they offer a better solution for retirement plan administration than a "bundled" model does.

This obstacle has become an issue primarily due to the widespread perception (in large part due to the distribution sales practices of recordkeepers and broker dealers) in the industry that there is not a significant difference between the two options. On the surface this may seem like a rational service assumption since both parties conduct compliance testing, complete 5500s, prepare plan documents and answer questions. However, it is always important to evaluate the depth and scope of the services being provided and what is required. Sufficient due diligence often reveals the differences in how these functions are executed and how they can impact the compliance, operation and functionality of a retirement plan.

This article highlights some of the major differentiating factors and why utilizing a superior TPA is the best strategic option for retirement plan advisors, sponsors and wholesalers.

ASIDE FROM HORSESHOES, CLOSE ISN'T GOOD ENOUGH

Year-end compliance work accuracy is of utmost importance and is highly dependent on the correctness of the data involved. The process entails a plan sponsor providing the participant data that are used to perform all the necessary compliance testing and government reporting.

However, the devil is in the details in regard to verifying the accuracy of the information. Often, bundled administration departments work under the auspice that the census data provided is accurate and processes the compliance testing without formal review. If the census data is inaccurate, the compliance testing would also be incorrect, which creates the potential situation of "garbage in, garbage out" for the plan testing and reporting results.

In comparison, a top-notch TPA will "scrub" the data and confirm there were no inconsistencies prior to the preparation of the testing. Additionally, participant accounts are typically reconciled through trust accounting to confirm that participants actually received the proper contributions when compared to payroll.

A strong TPA will also take additional time to properly review HCE and key employee groups to ensure they include the correct employees, since there are multiple definitions that could put a plan participant into these categories. It is absolutely essential for these to be accurate, as it dramatically impacts the testing results if they are incorrect. A sound TPA will provide a much higher level of due diligence and review than a bundled administration arrangement to help ensure that the compliance testing and reporting are accurate.

IF GIVEN A CHOICE, PEOPLE WILL PICK CREDENTIALS AND EXPERIENCE

When dealing with complex matters (especially those that have government involvement), I always look to align myself with the most competent and progressive people who will provide a high level of expertise and consultation. The rationale is that they will help validate that I am conducting matters in the most accurate and compliant manner. This same thought process also holds true for retirement plan administration.

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Operating a retirement plan outside of its stated plan provisions and inaccurate compliance testing and reporting are a pretty "black and white" matter since there is no ambiguity on what should have been done. That is where working with a CEFEX-certified and highly credentialed (ERPA, QPA, QKA, etc.) TPA firm can make a substantial difference when compared to bundled administration. They will provide a higher level of expertise, ongoing consulting and be the "prudent expert" and "watchdog" in regard to operational compliance matters for the plan sponsor.

Consulting TPAs will also provide assistance in government audit situations and can even represent the plan sponsor in front of the IRS if they are Enrolled Retirement Plan Agent (ERPA) credentialed. In comparison, most bundled providers do not regularly provide highly credentialed, long-tenured administration personnel, and most do not provide a high level of consultative guidance. In the aforementioned audit situation, bundled providers would in most cases recommend retaining an ERISA attorney since they do not typically engage in that level of service for their clients. DOL and IRS government examinations/audits seem to be more a question of "when" and not "if" in the current environment, so this capability should not be overlooked, but rather emphasized, as a differentiating factor. The questions then become, "How comfortable is the plan sponsor in regard to the accuracy of work and operational consultation the plan is being provided?" and "What would the plan sponsor do if they get audited?"

ASSEMBLY LINE OR CUSTOMIZED

In finals presentations there always seems to be a lot of time spent on the review of fees and on the investment lineups, but one of the most important (and most overlooked) aspects to having a successful retirement plan is proper plan design.

Having the expertise to draft and customize a retirement plan document is a huge advantage for TPAs, as not all plan sponsors have the same goals. TPAs will take the time to consult and have the ability to create (or refurbish) a retirement plan that best suits the goals of the plan sponsor. Whether looking to increase participation or overall retirement readiness, joining participating entities or creating tax-advantaged designs, TPAs will discuss strategies and develop the best solution for the plan sponsor. In comparison, bundled providers will rarely take sufficient time to truly consult in regard to the plan document unless the retirement plan is of "sufficient size."

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Also, they typically prefer "vanilla" plan designs since they are volume-oriented operations and do not want any level of complexity to complicate their processing. This holds especially true for new comparability plans and controlled groups. One way for a TPA to get this significant difference acknowledged is to ask the plan sponsor, "If I gave you a dry erase board and asked you to draw your ideal retirement plan, what would it look like?" This shows a TPA's ability to consult and design a retirement plan during the conversation, which is obviously much better than simply telling the plan sponsor what the firm can do in regard to plan design.

It will also help further validate why the plan sponsor should utilize a TPA instead of going bundled, as their plan will be more customized to meet their aspirations. Also, TPAs have the ability to be very flexible in regard to the plan design and provisions, especially when compared to the plan documents utilized by some very prominent national recordkeepers. This is an important aspect to keep in mind, as it will potentially allow the TPA to better align the plan provisions than a bundled provider can.

PRICE IS WHAT YOU PAY; VALUE IS WHAT YOU GET

Price is always a factor when evaluating service providers, but value often gets overlooked. This is somewhat understandable since it is much easier for people to read a spreadsheet comparing numbers than to comprehend the intrinsic value of services being offered that correspond with the cost.

Bundled administration firms always appear to have an advantage with fee structure. Since they typically build in revenue to cover their costs, they are always able to show no billable expense for the plan sponsor. TPA firms are typically fee-for-service (so the business can deduct the fee as a business expense); however, they have the same options to build in the cost of administration into the plan's overall pricing and not have a billable expense if desired.

An additional cost consideration has evolved over recent years: The pricing model for most national recordkeepers has actually become more competitive when working with a qualified TPA. Their position on pricing has changed in favor of utilizing strong TPAs due to the growing complexity of plan compliance work, their local service model and distribution capability. That being said, even if there happens to be a fee differential, the variance when compared to bundled administration costs is usually fairly nominal, even on larger plans. However, remember that cheaper isn't always better, and total cost just needs to be "reasonable."

CONCLUSION

There are numerous advantages in working with a TPA that go significantly above and beyond just looking at a spreadsheet. Furthermore, this best-in-class approach of "unbundling" allows for the selection of the best component providers of recordkeeping, administration and advisory services. If one part of the whole happens not to work, you can replace the piece without having to start over. Well-run businesses appreciate the ability to be nimble in selecting service providers.

In closing, not all administration providers are created equal, and due diligence is required to find the best TPA partner. Make sure to ask a lot of questions during the process, since the best TPAs are the ones who can answer questions with thoughtful insight and in easily understandable terms. PC

Jason Brown, APR, CBC, is a principal at Benefit Plans Plus, LLC. He has more than 16 years of experience in the retirement plan industry, including business development, consulting, administration and retirement plan advisory work. Jason also serves on the Plan Consultant Committee.

Jason R. Oesterlei, ERPA, QPA, QKA, is a principal at Benefit Plans Plus, LLC. He oversees compliance, consulting and plan design matters for the firm. Jason has 20 years of experience in the financial services industry, working in a variety of areas, including brokerage, insurance and third party administration.