Seven Deadly Sins Every Retirement Plan Provider Should Avoid

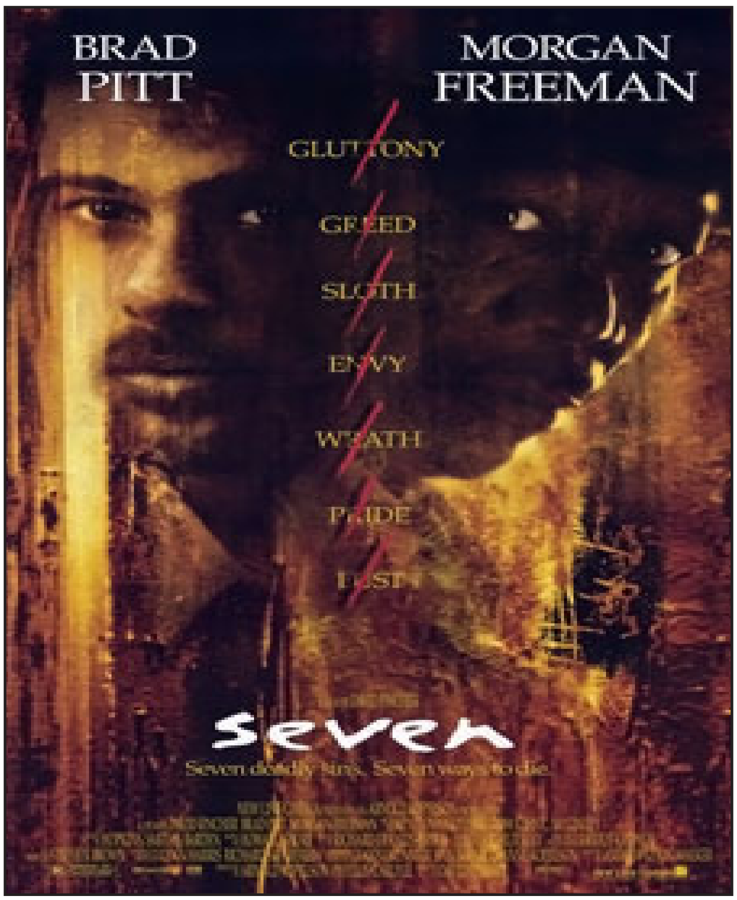
By Ary Rosenbaum, Esq.

The movie Seven taught me that the seven deadly sins are wrath, greed, sloth, pride, lust, envy, and gluttony. It also taught me not to open up any boxes delivered by a truck in any desolate place. Seriously, there are many mistakes that retirement plan providers make that are essentially deadly sins because they threaten the existence of that provider. So this article is about seven deadly sins that plan providers should avoid if they want to stay in business.

Arrogance

I didn't witness the sinking of the Titanic, but I did watch the 1993 New York Mets. When it comes to the retirement plan industry, the two biggest disasters that I witnessed close by involved the disgrace of an independent fiduciary and the disestablishment of a very successful third party administrator (TPA). I am not trying to bring up some old sordid details. While the situations were dissimilar, one similar trait held by both providers led to their downfall: arrogance.

If there is one trait in business that can be fatal, it's arrogance. You shouldn't think that you're bigger than this business because it fools you into a sense of false security that you are bullet proof, nobody is bigger than this business. Not only does arrogance give providers an aura of indestructibility, it also blinds that provider to the changes in the industry around them. I always say the beauty of this business is that I learn something new everyday, whether it's a change in the law or regulations, or learn about a new provider or whatever it may be. The arrogant provider is immune to the advice and has little care in changing their business model even if the industry is changing around them. The point is that the providers who thrive in this business aren't arrogant, they are always willing to listen to new things and willing to learn new things. They understand that if the business changes around them and they don't change, they wouldn't be indestructible, they will be out of business.



Complacency

The second deadly sin is complacency. Complacency is a two fold, being complacent in the retirement plan industry and being complacent with your clients. Any business whether it's retirement plan based or not, has to change with the time because fact is that no industry is immune to change. You need to be ahead of the game and understand any new changes that go on. Ask the folks at Blackberry about complacency. If you park your car on the raceway oval, don't be surprised everyone else passes you by.

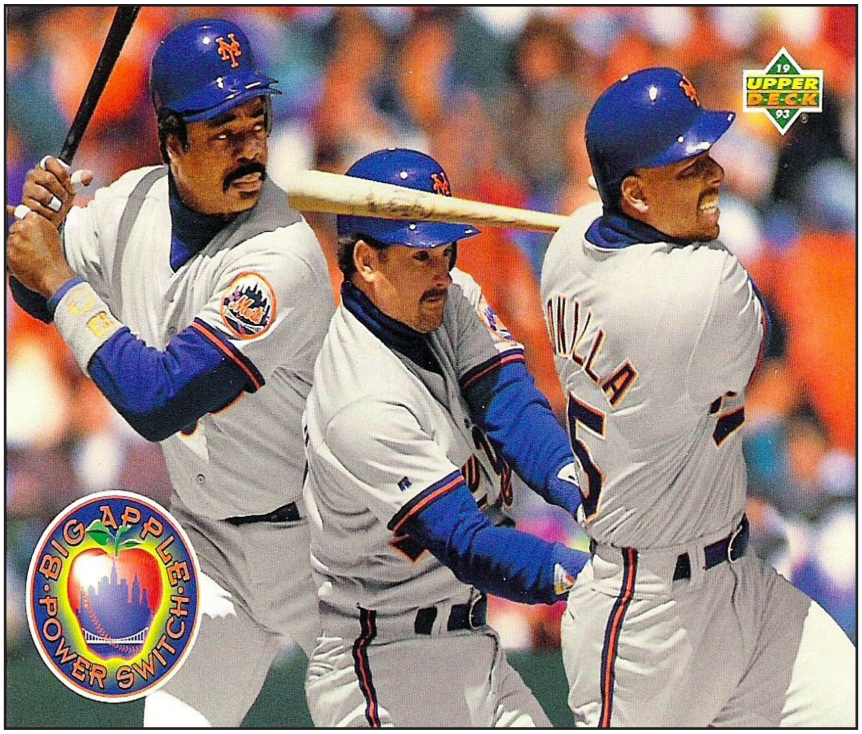
Working with your plan sponsor clients, complacency is all about taking your clients for granted and not reviewing their plan for new plan design studies, cost analysis, or plan provider searches. I've seen too many plan sponsors lose clients because these reviews come from a competing provider. Time and time again, I would hear the client ask why their current provider didn't think of a new plan design first or review of plan fees.

Retirement plans and the retirement plan industry are fluid, which means what is good today maybe not good for tomorrow. You can never be too complacent because losing your client or your competitive edge is just around the corner.

Incompetence

Mistakes happen and I've seen even the best providers make mistakes that they eventually correct. Incompetence in the retirement plan space isn't about making mistakes; it is a system wide malaise affecting a retirement plan provider that is consistently making the same type of mistakes.

Why are some providers so incompetent? Having worked for one incompetent provider, I can attest that there are two reasons for it: poor training and a lack of checks and balances. Whether you are a TPA or a financial advisor or any other type of provider, make sure that your employees have the right type of training and believe me, the experience of your employees isn't an issue if they get the right training because I have seen administrators who have been in this business for 15 years make easy mistakes because they didn't get the right form of training. Incompetence is also a breeding ground when the plan provider doesn't have a system of checks and balances to ensure work is being done correctly. A TPA that has only one individual working on their clients will have loads of errors if there is no process in place to review that individual's work. I remember an administrator almost succeeding embezzling money from a client's 401(k) plan and the only reason he was caught because he got the account number of his individual retirement account (IRA) wrong. That was a TPA without checks and balances.



Turnover

As they say in sports, you are only as good as your team. One of the most neglected aspects of this business is keeping that plan provider team together. I have been with a TPA that had too much turnover; I jokingly said our front door should have been replaced with a revolving door. Seriously, too much overturn among your employees disrupts client services and when the main client contacts for the client changes every 6-12 months, the clients will notice and complain. As you know, it's hard to find good help and sometimes harder to keep that good help. For your business health, make sure turnover is minimal.

Inflexibility

Every retirement plan provider has the right to turn down specific lines of work, but some providers are too inflexible. I jokingly call the person who runs the place, Dr. No, because he always shoots down any new idea. This TPA only wants to use one specific platform and they only want to work with registered investment advisors. They have turned into a high-end provider except they don't have the clientele or the fees to support that lifestyle. Maybe if they were a little more flexible, they would be a bigger fish in a bigger pond.

Hypermobility

The opposite of inflexibility is being too flexible or hypermobility (I had to Google that). At the opposite spectrum of the provider who says no to everything is the provider who says to everything including taking on business that they have no business taking on because they don't know how to properly serve that business. Too many TPAs take on different plans for administration even if they have no idea how to properly administer them. I have seen too many daily 401(k) plan mishandle a cash balance because they don't have the background to properly administer them and I have seen financial advisors struggle as an ERISA §3(38) fiduciary when they don't have the background to act competently in that space. Always saying yes is just as bad as always saying no; actually it's worse because it's more headaches and more liability.

Greed

Gordon Gekko said in the movie Wall Street that "greed was good" and we all know how that turned out. Greed like arrogance is something that blinds as to why you became a retirement plan provider in the first place. The idea with being a retirement plan provider was to make money, but also to properly serve retirement plan sponsors. When you lose sight of your clients as plan sponsors to take care of and just see them as large piggy banks, then it's just time to leave the business because fee disclosure regulations and disclosures are your worst nightmare. If you're lucky, you may have plan sponsors clients who don't exercise their fiduciary duty by benchmarking your fees, but eventually they will find out the truth. The days where financial advisors can charge 75 basis points and never show up to see the client or the TPA pocketing revenue sharing without disclosing it to the client are gone. The days of wine and roses in this industry are long over and if you can't see that because you're greedy, then it is too late for you. I have seen some of the worst providers out there, find "religion" and become decent members of the retirement plan provider society again. It's been a year and change since fee disclosure and if you haven't stopped being greedy, someone else is going to stop you and the long ride down isn't as fun as the long ride up was. No one stays on the top forever, especially if you're greedy.

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