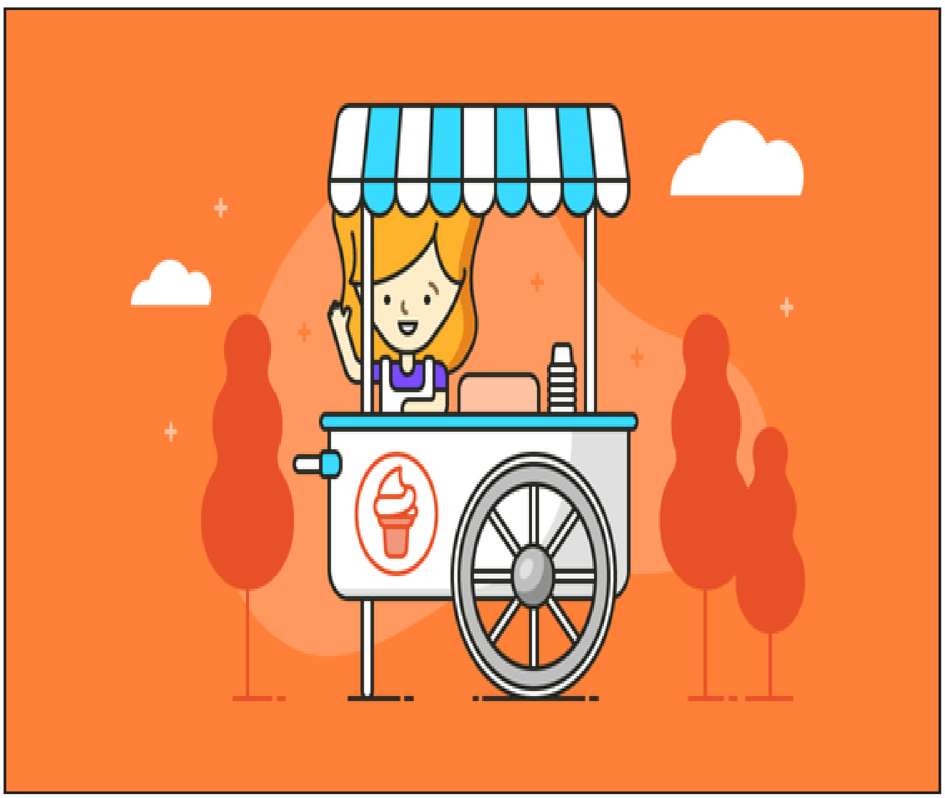
Big Concepts That 401(k) Plan Providers Forget About

By Ary Rosenbaum, Esq.

Whether it was working for others or working for charitable organizations, it seems that there is a culture out there that seems to forget why these businesses and organizations exist. Culture is hard to change because culture and tone are set by the top. It's amazing what people will forget and it's amazing what plan providers forget in dealing with their business, with their clients, and other plan providers.



The client is always right *

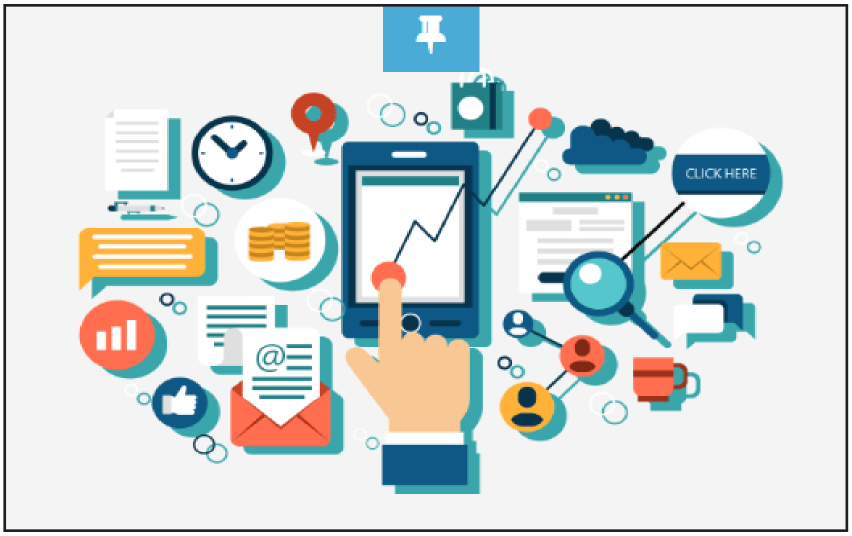
There is the old adage in business that the customer is always right. It doesn't mean that the customer is always right. The customer is always right" was originally coined in 1909 by Harry Gordon Selfridge, the founder of Selfridge's department store in London. The adage is used by businesses to convince customers that they will get great service and convince employees to give customers great service. It doesn't mean that the customer is always right and I can tell you that, just by standing 10 minutes at the Costco Customer Service/returns desk. There are just too many plan providers that forget that the customer is always right when it comes to expecting great customer service. Too often, plan providers forget they're in the business of servicing retirement plan sponsors. There are many reasons why a client may leave and poor customer service is always at the top of the list for reasons why. I've certainly had clients mishandled by third-party administrators (TPAs) and financial advisors through some awful customer service. Whether it's poor service, unreturned phone calls, or neglect, this level of customer service will make any plan sponsor client leave. I add an asterisk at the headline for this paragraph because as you know, plan providers can't provide service to a plan sponsor client that violates the Internal Revenue Code and ERISA (at least they're not supposed to).

It doesn't cost you to say sorry

I've had relationships crumble and never repaired, just because the other side that aggrieved me wouldn't say that they were sorry. People may say that I'm stubborn, but I believe that you can't forgive people who don't think they did anything wrong. People make mistakes, we're not perfect. Yet refusing to offer an apology is a hill that many plan providers are willing to die on. Most 401(k) plan sponsors are reasonable people and they're willing to accept the apology of a plan provider that has done wrong. So apologizing for doing something wrong is just good business sense, it doesn't mean that the plan provider is attaching some huge check to it. I've seen TPAs who have made errors, shift blame to plan sponsors even if it isn't the plan sponsor's fault, just because they didn't want to apologize for the mistake they made. Major fights between a plan provider and a client could have simply been avoided with an apology.

It's a relationship-driven business

I worked with Richard Laurita for about 9 years at two TPAs and I will vouch that in my mind, he was the great 401(k) TPA salesman I ever knew. Rich (as everyone would call him) probably couldn't spell 401(k), but he understood that the 401(k) industry is a relationship-driven business. So many of my greatest friends in this business like Bill Schories, Matt Curtin, and Jamie DeRubertis, I met through Rich. Whether it's dealing with clients or other plan providers, it is a relationship-driven business. How you act with clients and other providers goes a long way because it develops your reputation. Plan providers can develop a poor reputation if they mishandle clients or mishandle



other plan providers. How many producing TPAs in the past developed a poor reputation by stealing clients from financial advisors? I know a few. How advisors are well known for not servicing their clients as they're supposed to? You will or won't be surprised by how many. A plan provider's reputation is everything and how they deal in relationships with plan sponsor clients and other plan providers, goes a long way in developing that reputation. How a plan provider deals with those relationships will indicate whether they have a solid or terrible reputation in the retirement plan providers.

Communication is key

When dealing with plan sponsor clients, some plan providers have a set it and forget mentality with them. That means that once the plan provider contacts them annually (the TPA) or semi-annually (the advisor), the plan sponsor never hears from them. I will see that almost every relationship I've ever had that faltered was because of a lack of communication. There are many reasons to lose a client, but a lack of communication is one of the easiest mistakes you avoid. Whether it's a newsletter, an email, or a phone call, a plan provider makes a huge mistake by not reaching out to clients periodically. Another mistake dealing with communication has nothing to do with frequency. A problem with communication is that many providers, especially TPAs do a terrible job in letting their clients know what they do for them. If a plan provider doesn't communicate and stress their value as a plan provider, it shouldn't come to a shock when a plan sponsor client places no value on their work when they switch to another provider for a few dollars less. If a plan provider doesn't stress their value to their clients, plan sponsors won't think twice of making a switch even if it isn't in their best interest.

Getting ahead of change

One of the most frustrating parts of working for others and working for a handful of organizations is resistance to change. The most frustrating experience I had in business was the two years that I served as an associate at a semi-prestigious Long Island law firm. As an associate, I had a tough time getting business from the clients belonging to the firm's partners. Since I had to make rain, my idea was to write articles that plan providers could use in their marketing materials (sound familiar?). Our law firm bureaucracy slowed down my article production, requiring multiple levels of partners to finally approve an article 6 months later. I also thought I could use LinkedIn or other forms of social media to drum up interest. The problem is there was a low-level partner who didn't bring in business, who swore up and down that social media violated the New York Attorney Rules on Advertising, which it didn't (great social media isn't advertising). I also had a Managing Attorney who looked so down on social media, that she thought it was unbecoming of a lawyer to use that (I jokingly said she treated me as if I was trying to sell fish out of my trunk on the side of the road). I knew then, that the law firm was way behind the times and that their way of doing business in generating clients was going to suffer as social media would take flight as a great generator of landing business. 10 years later, I have a successful National Retirement Plan law practice and that firm is about 40% smaller than when I left. When I started as an ERISA attorney in September 1998, my greatest teacher was a paralegal by the name of Marge, who worked in the business before ERISA. Marge told. me that there were so many TPA firms that went out of business after the Tax Reform Act of 1986 because they couldn't adapt to a changing landscape as that law eliminated many of the perks for highly compensated employees in retirement plans. Marge said that these firms couldn't adjust to the change and just went out. So anytime there is a change in the retirement plan business, expect many plan providers to exit stage right by either going out of business or selling to. a larger competitor. How many large insurance company providers have folded their hands and walks away from the table after fee disclosure was implemented in 2012? A lot and we still see some casualties today with mega-mergers and small TPA firms just selling out to larger rivals. In 2007, I predicted fee disclosure and an end to revenue sharing and people thought I was nuts including many of my bosses at the time. The retirement plan industry is constantly changing and any provider who doesn't see that is either blind or too arrogant. Being ahead of change is a better business proposition than following it or being too stubborn to admit that change is happening.

Marketing is a big thing

I never took a course at school for marketing and I'm sure that some cynics will say that it shows. I think marketing is an integral part of any plan provider that wants to grow its book of business. The retirement plan industry is a show and tell business and show does a lot in helping plan providers grow their footprint in the business. Of course, marketing has to be backed up by a service for plan sponsors and other plan providers that meet the expectation caused by that marketing.

THE ROSENBAUM LAW FIRM P.C.

The Rosenbaum Law Firm P.C.
734 Franklin Avenue, Suite 302
Garden City, New York 11530
(516) 594-1557

http://www.therosenbaumlawfirm.com
Follow us on Twitter @rosenbaumlaw