Dealing With The 800 Pound Gorilla Plan Providers In The Room

By Ary Rosenbaum, Esq.

It's the constant talk of the retirement plan industry, there has been a huge upswing of plan provider purchases over the last few years. Whether it's third-party administrators (TPAs)or registered investment advisors (RIA), the merger and acquisition activity has created a few huge plan providers, what we could call 800-pound gorillas. For the smaller plan providers out there, this has created a little anxiety. Some have become a lot paranoid, but I believe this is a challenge that any small provider out there can meet. This article is about my two cents on how it can be done.

Change is opportunity

I always say that any plan provider out there needs to be ahead of the curve, when it comes to change. For example, there were many plan providers out there, that couldn't deal with the change that came along with fee disclosure. So many insurance company providers exited the business shortly after fee disclosure regulations were implemented. Interestingly, those exits where providers sold their blocks of business helped create one of those 800-pound gorillas, that helped empower themselves through a variety of acquisitions over the last few years. Any change out there in the retirement plan business is an opportunity and you need to take advantage of that opportunity. If plan providers are getting larger, they certainly won't be as nimble as you are. The reason I started my practice 11 years ago is that I no longer wished to deal with a law firm bureaucracy that took 6 months of approval to publish one of my articles. Larger plan providers will be out there in the business, but they can't be as quick as smaller providers like you when it comes to all facets of the business, especially marketing.

The sky isn't falling

When fee disclosure regulations were implemented, there were a few people in the industry that said that fee transparency would create a race to zero and plan sponsors would only pick the cheapest providers. As we know, that didn't materialize. There are a few Chicken Littles that insist these mega TPAs and RIA firms will squeeze smaller firms out of the business. One particularly wrote an article about that fear and used it to knock a pretty well-respected trade organization that represents RIA and brokers of all shapes and sizes for this. The beauty of the retirement plan business is that there is room for everyone. For example, I've lived in New York all my life and with respect to my friends in Chicago, the New York Metropolitan area (especially Brooklyn) is the pizza capital of the world. Yet we have Dominos, Papa Johns, and Pizza Hut locations around the New York metropolitan area. We have Olive Garden here, which is almost the same level as frozen Italian entrees. I'm not comparing retirement plans to pizza, but I'm saying there is enough plan sponsors put there that still can be the focus for a small to medium-sized player in the retirement plan space. Just like there are some people in New York for a taste for Dominos (probably after drinking), there is enough of a marketplace of retirement plan sponsors for you. Even with McDonald's and Burger King, there is plenty of room in this country for better hamburger joints like Shake Shack, In-n-out, and Five Guys (we don't have Whataburger in New York yet). I always say one of the keys to being successful in business is to differentiate yourself in the marketplace. Look at what other competing plan providers offer and see if there is something that you can do to stand out and differentiate yourself from the competition.

The truth about mergers and acquisitions

The two TPAs I worked for, were pur-

chased by bigger companies. They were both bad experiences. When the second one was purchased, I remarked to employees that when there is a purchase of a business, change is inevitable. That's just reality. Of course, one of my fellow employees, we'll call her Norma, told our boss that I was being negative about the purchase. Despite the tongue lashing by the boss, I still hold that mergers and acquisitions bring change to the businesses they purchase and I will contend that they cause hiccups along the way. One truth when a large provider buys another provider of any size, people will lose their jobs. That's just the reality, larger providers buy smaller providers, and will try to cut costs off the purchase price they just shelled out, by eliminating redundant positions. Not only are employees placed on waivers, but larger providers may also jettison lines of business or parts of the marketplace that are unprofitable. It may mean a larger provider may decide that they want to focus on the more profitable lines of the retirement plan business, which might be eliminating smaller and medium-sized plans from the part of the business that they want to serve. Like I said, change is opportunity. Mergers and acquisitions may free up retirement plan professionals that you want to hire and free up plan sponsor clients that are no longer profitable enough for these larger plan providers. In addition, when plan providers are purchased, I've seen too many plan providers ruined. What people like with a certain plan provider, in terms of the employees there, may end when that plan provider is purchased. For example, a TPA that I was a huge fan of was bought a couple of years ago. One by one, everyone I liked at that TPA either was terminated or left. A very well-known RIA was just bought out and I offered condolences to the person I know there. Mergers and acquisitions can be a bad thing, most of the time.

Bigger is not better

Back to food, does McDonald's offer the best hamburger out there? Even out of the big 3 (McDonald's, Burger King, and Wendy's), McDonald's is probably last. I'd rather go hungry than eat a sandwich at Subway. Bigger is not better. Sure, a large TPA may have a fancier website and more personnel, but that doesn't guarantee a better service. With so many layers of bureaucracy, I don't think that larger plan providers offer a better service. As a smaller plan provider, you might be able to offer a better and more personalized service because your service would be more of a direct model than one layered and layered by higher-ups. As discussed before, being smaller allows you to be more nimble.

It really shouldn't change you

The consolidation in the retirement plan business really shouldn't change you or the service you provide. In the end, it's not going to change the fundamental concepts of the business. I've been in this business for over 23 years and for every nickel someone predicted the end of the business (whether it was fee disclosure, the fiduciary rule, or any down market), I'd have a lot of money. There are things you can do to highlight your business (as discussed below), but you shouldn't let it impact you or the quality of your service. While you can always improve the level and quality of your services, it should not fundamentally change you.

Up the marketing

I'm always frank and honest, that's probably kept me from many events. I will always say that most plan provider marketing s*cks. With the competition getting bigger and bigger, this might be the right time to focus on marketing by hiring people in this business that are good at it. Find a marketing expert whose focus is the retirement plan business by creating marketing that will highlight your business as you try to stand out among the larger competition.

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