

Free Advice In Dealing With A TPA's Business Challenges

By Ary Rosenbaum, Esq.

I always joke that when my wife discusses to people what I do as an ERISA attorney, she claims she has no idea. Imagine if I was a third party administrator (TPA). Being a TPA is the most difficult job in the retirement plan business because most people don't understand what you do and don't value what you do when you're great at it. Thanks to a competitive marketplace, it's hard for a TPA to manage the day-to-day issues of being in business and standing out in the crowd. This article is about the challenges that a TPA faces and how to deal with them in a super competitive business.

Letting people know what you do

It's kind of silly to suggest that as a TPA, you need to tell people what you do, but there is a large segment of plan sponsors and financial advisors who don't really understand what a TPA does. It's so hard to believe it, but it's true. A good chunk of those people who either hire a TPA or refer one have really no knowledge of what a TPA does and that's why some of the not so good TPAs (who tend to be the two big payroll companies) get a lot of traction and a lot of business in the marketplace. I always say that for marketing purposes, everything you do is making a connection with the audience. To properly advertise your role as a TPA you need to connect with the audience of plan sponsors and advisors and effectively communicate what you do as a TPA. If plan sponsors and advisers understand your role as a TPA, it gives them a better idea why they

should hire you or retain you for TPA work.

Dealing with the fact that you're more expensive

I was a guest of one of the leading national providers, speaking at a handful of advisor events. The local representative who served as my guide and driver was speaking with an advisor over a proposal he submitted with a local TPA. The next day, the

nated multiple employer plan which then required the plan to file an additional Form 5500. The problem with pricing TPAs is that most plan sponsors and advisors just see a TPA as a price and not a service. As a TPA, you have to stress your value even if you charge more. Too many plan sponsors and providers don't understand the difference between low cost and value. They need to understand that plan expenses have

to be reasonable and not the lowest cost. You have to market to them and educate them that you provide a value. While you may cost more, your dedication to your craft will keep the plans you handle in compliance with no need for future correction through self-compliance or voluntary correction. There are too many plan sponsors out there who have learned the hard lesson of picking the cheapest TPA and paying through the nose through additional corrective contributions they have to make plus earnings plus the cost of applying to a voluntary compliance program. There are too many plan sponsors who are unaware of the administrative errors that their plan has that causes the plan to be out of compliance and will only find out when they change TPAs or when it's discovered on a



plan audit. To market yourselves correctly, you need for plan sponsors and advisors to understand in terms of how good you are at your job and why picking another TPA just because they're cheaper is always a bad idea. TPA services aren't like the price of Tide where the supermarket will charge more than Wal-Mart, the quality of TPA

advisor tells him that his all in costs are 30% higher than from a competing proposal from another TPA. When I heard who the competing TPA was, I nearly lost it. It was from low frills TPA that is very cheap and isn't very good at what it does. I worked with this TPA in the past and it took them 3 months to liquidate \$1,000 from a termi-

plan audit. To market yourselves correctly, you need for plan sponsors and advisors to understand in terms of how good you are at your job and why picking another TPA just because they're cheaper is always a bad idea. TPA services aren't like the price of Tide where the supermarket will charge more than Wal-Mart, the quality of TPA

services vary by provider and a good TPA like yourself will keep plan sponsors out of harm's way.

The art of plan design

The Joker in *The Dark Knight* said it best: "If you're good at something, never do it for free." He was right, plan providers should never provide services of any kind for free. One problem that I find about good TPAs is while they're good at plan design, they never explain that to plan sponsors another plan providers. There is really good value to being good at plan design because it can allow a plan sponsor to maximize the use of employer contributions to benefit their highly compensated employees with a greater contribution while providing a minimum to the non-highly compensated.

Whether it's a safe harbor 401(k), new comparability, or the use of a defined benefit or cash balance plan, there are so many ways that a new plan design can make the plan more cost-effective and more efficient. I've seen too many 401(k) plans that fail testing without the incumbent TPA bothering to talk about safe harbor and I've come across too many TPAs that can't offer new comparability or cash balance plans because they don't have that background. As a TPA, you need to advertise what makes you special and I think being experts in plan design is what makes you special. The only problem with talking about plan design is many TPAs don't know how to effectively communicate with plan sponsors and other plan providers. As a TPA, you need to communicate about plan design on a level that plan sponsors and plan providers can understand. Plan sponsors have a short attention span already when it comes to talking about their retirement plan, so boring them with details about the general test or the Code Section dealing with minimum participation, plan sponsors want to know the bottom line on how much they can get for themselves as a contribution for highly compensated employees and how much it's going to cost them to provide minimum contributions for



the non-highly compensated employees. When I met a potential client years ago as a TPA attorney, I would just explain what it would cost them to correct a failed deferral discrimination test in terms of dollars and cents and how that could help the owner save herself from getting a \$10,500 refund of her salary deferrals. Plan sponsors are interested in the bottom line, so you need to tell them the bottom line on how a plan design can help them and don't inject any actuarial jargon that will get them off track.

The payroll providers in the TPA business

The two biggest payroll providers out there (ADP and Paychex) also happen to be in the TPA business. They are very popular in the TPA business in terms of the plans they service because most plan sponsors don't understand what I discussed above regarding value, plan design, and not picking someone as a TPA because they're cheap. The best way to compete against payroll provider TPAs is to follow some of the advice above and try to refer payroll business away from these payroll providers that are your competition. If I was a TPA, I'd refer plan sponsor clients to Paycor or Paylocity or another payroll provider who seem to do a better job with payroll and do

a better job of integrating it with your TPA services. It's not personal, it's business and I don't think it's good business if you have to associate with someone on a payroll period basis that is your competition.

Target your marketing

It's not enough you market your services, but you need to make sure you target your marketing. Marketing to people that won't hire you or can't refer your business is wasted time and money. I learned that many years ago when I was networking with small businesses and entrepreneurs that could never refer matters to ERISA attorneys and didn't know anyone that would need one. Find where you can target plan sponsors and

plan providers that can refer you business. That could be a trade association meeting or a meeting where financial advisors may attend. Whatever it may be, make sure the places are areas where you can generate business and if they're not, doing sponsor or attend their next event. To be effective, good marketing has to be seen by the audience that will hire you or refer you.

THE ROSENBAUM LAW FIRM P.C.

Copyright, 2018 The Rosenbaum Law Firm P.C.

All rights reserved.

Attorney Advertising. Prior results do not guarantee similar outcome.

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