

THE
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ADVISORS ADVANTAGE

A Publication for Retirement Plan Professionals

The Struggles Of Being A Retirement Plan Provider And How To Manage It.

What you have to deal with.

Being a retirement plan provider is like any other business in the sense that it has to be managed in a way where the doors can continue to be open. History is littered with businesses that failed to manage themselves correctly, just ask the brains behind Blockbuster Video and Montgomery Ward. While you're at it, you can talk to the people running Sears and Radio Shack, who will eventually go down that path to oblivion. So this article is about the struggles of running a business as a plan provider and what can be done in handling those struggles in a beneficial manner.



To read the article, please click [here](#).

Why So Serious? Try Some Humor.

It can help.



When I worked at that law firm, I always felt I was Al Czervik, the Rodney Dangerfield character from Caddyshack while the Managing Attorney was like Judge Elihu Smails or maybe Smails' wife since the Managing Attorney was female. Regardless, I was

always treated as if I didn't belong. Didn't matter if I brought in business or got my name quoted nationally or gave away U.S. Open tickets at Bethpage, the Managing Attorney didn't like me. They were so serious there. Like the Joker in The Dark Knight, I always wanted to know: "Why so serious?" If you read my blog posts and articles, besides the grammatical errors, you probably notice the humor. Maybe I'm a failed comedian, but comedy here and there is my way of making the audience more comfortable when they have to digest some dense topics like ERISA and 401(k).

You should never take yourself too seriously. You shouldn't belittle what you do, but a little

humor goes a long way in breaking down walls that might be placed up by an audience that feels they're going to be bored with what you're going to say in your role as a retirement plan provider.

Don't operate your business as a retirement plan provider as a stuffy country club. Marketing materials and discussions tinged with a little humor is a great way of breaking down barriers with potential clients who view talking about retirement plans the same way they think about going to the dentist.

Plan Sponsors' Short Term Focus on Funds.

Always looking at the short term.

An MFS Defined Contribution Investment Trends Study found that nearly 6 in 10 retirement plan sponsors surveyed say they consider a track record of three years or less when selecting managers.

Is that really a surprise? Most people in life think short term and no one thinks shorter term than retirement plan sponsors. Retirement plan sponsors don't have the time or the patience to think longer term when it comes to their retirement plan and the investment options offered under the Plan. The study also suggested that plan sponsors fail to focus too much on performance and too little on allocation.



So it's up to the financial advisors for the plan to help the plan sponsors identify the bigger picture.

The problem today in my mind is the many retirement plan sponsors out there that still don't have a financial advisor or have an advisor that rarely meets and services the client.

Just another thing to think about if you're a retirement plan financial advisor.

Beer and the Payroll Provider TPA.

King of TPAs is as flat as King of Beers.

I'm a beer snob and I'm proud of it. I like the taste of beer and I'm not going to waste my time, money, and calories on a mass-produced inferior product like Budweiser, Bud Light, Coors, and Miller. I would rather drink water than their beer-flavored water. Bud Light and Budweiser are produced for the masses, Sam Adams and the other microbreweries are produced for people with taste for beer.

I'm also a TPA (third party administrator) snob. I believe



that plan sponsors have better outcomes when they hire better TPAs. They have less administrative issues and plan designs that are more efficient.

For the past 6 years, I have been highly critical of payroll providers that serve as TPAs. Annually, I have written an annual article that has been circulated by the good TPAs and financial advisors around the country. Other than being threatened with litigation by one payroll provider TPA (which they never pursued after threatening me to change the article, which I didn't), I had not been contacted by representatives of a payroll provider TPA. While part of me thinks that it maybe best to ignore someone like me, the plan provider in me who wants to get better thinks it's a good idea to engage your critics.

So a representative of a payroll provider did contact me a few years back. He might be a lower level representative, but I give him credit for making the attempt. He suggested that he would have a higher up contact me to go over the issues that I have with payroll provider TPAs in general. Despite my criticism of them in the past, I have enough of an open mind to know that I can be wrong about payroll provider TPAs. Once again, it was proven to me that my opinion is still reasonable.

The representative made the typical payroll provider TPA mistake to justify why my opinion was wrong. He claimed they are one of the largest TPAs out there. The mistake is trying to equate popularity/size (number of plans they serve as TPA) with competence. That's like trying to equate Bud Light (the most popular beer in the United States) with taste. We know that many times, the more popular product in the marketplace is not necessarily better (PCs vs. Apple Macs, VHS vs. Betamax). The fact that plan sponsors think that it's a good idea to have their plans administered by their payroll provider doesn't mean in reality that it is.

So a higher up contacts me with this payroll provider who is involved with the administrative side of the ball. While this payroll provider stated that they did new comparability/cross tested allocation, they do not do any work in the form of aggregated testing with a defined benefit plan (which is inconsistent what some of their salespeople have claimed when a TPA client of mine was trying to recruit one of their clients). In addition, when I told him of some of the glaring mistakes they have made and how fixing their plans through self-correction or voluntary compliance is a boon to my legal practice, there was no answer. I was just very underwhelmed that he had no explanation for these issues.

Again, I have an open mind and my views are not set in stone. However, the payroll provider TPA have gone out of their way not to prove my opinions are wrong. Until then, I'll continue to mount my criticism.

Chained potential clients.

The ties that bind are something hard to pierce.

How many times as a retirement plan provider that you contact a retirement plan that is paying too much money and getting too little back in plan services?



If you're a registered investment advisor offering 3(38) service and you're charging 20 basis points, you're perplexed that you get the brush back when the potential client has a broker charging 60 basis points. If

you're a great third party administrator (TPA) you maybe shocked that a plan sponsor still wants to use the TPA who's charging double and not even doing a great thing.

If you spoke to 100 rational plan sponsor, 99 of them would probably sign up for your services that helps limit a plan sponsor's liability at a better price. However, as you know, relationships aren't about rationality, there are just ties that bind for one reason or another.

When I was at that semi-prestigious law firm on Long Island, I was approached by a union client that wanted to go with me because I was going out on my own. They were unhappy about me leaving and were not taken with my replacement. They even goaded me into drafting a retainer agreement and I was wary because it is questionable whether signing that client was an ethics violation because they had counsel. Ultimately, they didn't pull the trigger just because they were afraid of the repercussions of firing a law firm that was a firm that used to hold weight in city politics. When my replacement didn't last long, they thought about hiring me again, but didn't. They would rather be unhappy with the attorney and law firm they had, just because they were afraid of the heat they would get by ditching that law firm. Again, it's irrational, but it's the ties that bind. That client chained itself to that law firm.

I had an advisor trying to work with a potential union client where the 401(k) plan was extremely high in fees and the plan providers were not offering plan participants any investment education. Plan participation was poor and the advisor showed he could shave costs by 2/3. The union client didn't hire him and was offended when he tried soliciting them. Years later, they hired an investment advisor who was heavily linked with unions. Again, the ties that bind.

When a potential client rejects you where it was so clear that they should have hired, don't be offended. Most of the time the incumbent plan provider is juiced in, maybe the plan provider is related to a decision maker. Maybe the broker is kicking back money to the new chief financial officer (I saw that happen) or maybe the plan provider and the decision maker go to the same house of worship or golf club, While you may claim that the plan sponsor has blind loyalty to their plan provider, sometimes that the loyalty is just based on a tie that binds and that is nearly impossible to break.

As Michael Corleone said: "it's business, not personal."

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