Classic Mistakes That Retirement Plan Providers Should Avoid

By Ary Rosenbaum, Esq.

Being a retirement plan provider isn't easy. I should know being an ERISA attorney for 20 years. Not only are you running a business, but you also have to deal with the systematic changes in the retirement plan industry and dealing with your employees. Yet, I have seen so many classic mistakes that retirement plan providers make that hurt their business that can easily be avoided. So this article is about classic mistakes that retirement plan providers make.

Being stubborn and arrogant

I know a thing or two about being stubborn, I am a Taurus. While I am stubborn at times in my views, I don't let it affect my business. The two worst traits I've found in retirement plan advisor is being stubborn and arrogant about change. The retirement plan industry is fluid, it has changed quite a bit since I started 20 years ago. Retirement plan providers that are stubborn in their ways can't change with the times and neither those providers that are arrogant. When I first started working, I worked with a paralegal named Marge who taught me more than any class or textbook could. Marge told me when Tax Reform Act of 1986 came out which fundamentally changed retirement plans, especially defined benefit plan, there was a lot of third party administration (TPA) firms and other retirement plan providers that went out of business. Marge was right because we see that anytime there is a fundamental change in the retirement plan industry, there will be providers who will exit the marketplace by leaving the business or selling out. Quite a few plan providers left the marketplace after fee disclosure regulations did. A classic mistake for being a plan provider is being stubborn and not being open to change, especially in a business that is constantly changing. Another classic mistake is being arrogant, that you know everything. People, who claim they know everything, don't know much.

Not providing training to employees

I worked for 9 years at two different TPAs and one of the biggest parts of my job as the ERISA attorney was that I had to put out fires, most of which were created by our own employees. We had plan administrators who were fresh out of college and had little training. I also worked with administrators who had 15 years in the business and didn't have any training either. I also worked with administrators who have 20+ years of experience but hadn't kept up on the law since the Tax Reform Act of 1986. Regardless of the experience of the staff, it's incumbent on the plan provider to provide training to their employees, as well as continuing education after initial training. The laws change, so anyone that deals with retirement plans need to be up to date on what the law is. I remember getting a little angry when a 401(k) administrator was telling me that he used a 7 year graded schedule for matching contributions, 5 years after it was eliminated (6 year graded is the maximum since 2002). Trained employees mean fewer mistakes and fewer client issues. Spending less time on fixing the mistakes by their own employees by providing training is cost-effective. From experience, one of the biggest problems in dealing with plan providers is dealing with employees who clearly don't know what they're talking about.

Not valuing employees

My running joke about employees is that I don't want to hire one because I was one too. The employer-employee relationship for me is best summed as this: no employer thinks they pay their employee too little and no employee thinks they get paid too much. Within that relationship, there needs to be a meeting of the minds when it comes to providing salary and benefits because the employer will want to pay as little as possible and the employee wants as much money as they can get. No plan provider can pay employees what they can't afford, so it's always a balancing act. Salaries and benefits are a big concern, but plan providers need a little empathy when it comes to salary and benefits. Plan providers need to have a stable group of competent employees and they have to value their superstar employees. Not having a stable group of competent employees leads to a revolving door of hiring and firing sub-par replacements and the constant transitions aren't good for the plan provider and it isn't good for the plan sponsor client. Plan providers need to show their employees that they're valued and the best way is to provide salary and benefits that make them appreciated. If providing salary is a problem, the plan provider needs to make it up in benefits. There is nothing worse than working for a benefits company that provides a lousy salary and worse benefits. A classic mistake for any plan provider is not valuing the best employees and taking them so much for granted that they decide to move across the street and work for the competition.

Valuing the wrong employees

In addition to not valuing employees, a classic mistake made by plan providers is when they value the wrong employee. I'm not talking about nepotism because nepotism in a family run business means that the kids are expected to be the next generation of the firm's leadership. I'm talking about valuing the wrong employees, incompetent employees that for some reason or another, have too much influence and are valued too much. I call it the "Norma Principle." It's the theory that many small to medium-sized companies inexplicably favor an employee or group of employees that are actually incompetent. There are many reasons why that employee or group of employees is favored: it's a warped view of loyalty, these employees become friendly with the higher-ups, or someone in charge takes a liking to these employees for one reason or another. A perfect example of the Norma Principle at work was at the very first job I ever got. I was a lowly ERISA attorney working for a law firm associated with a TPA. That TPA had many excellent administrators, but for some reason, my boss loved this guy Orville who worked for there. Orville was a nice guy, but a terrible employee. He was a terrible office worker. Then they made him a computer tech guy and he knew less about computers than my late grandmother. Then they made him an employee in the distribution department. Orville almost made a distribution to a former 401(k) participant of $30,000 when they only had an account balance of $18,000. That was a problem. The person in charge of the 401(k) practice actually had to call my boss to ask for permission to fire Orville when many employees were fired for a lot less. The employees who should be favored are the ones that do the best work, the ones you can trust, and the ones that represent the best value to an organization. A classic mistake is The Norma Principle because the "Norma" tends to be incompetent; they tend to backstab fellow employees and will do almost anything to protect their spot.

Not being savvy and marketing and social media

I worked at a law firm with a great marketing department yet the department was being wasted because there was a lack of social media and law firm marketing. The marketing department was busy publishing articles for the law firm administrator that didn't draw a dime of business and being involved in events that also didn't draw a dime of business. At that time about 10 years ago, I realized that the only way I could grow my practice as by publishing articles that you have in your hand and social media but we had an advertising committee (chaired by an associate attorney who didn't draw a dime of business) that said all social media is advertising. I find social media on LinkedIn and Twitter as the most cost-effective way of advertising that really isn't advertising because it's subtle by promoting the expertise of the author. An article such as this isn't advertising my services, it's offering expertise that helps me build my brand and stature in the business. A classic mistake by plan providers is not understanding the nature of marketing and social media. They also don't understand the need for quality in the presentation of marketing materials because as my friend Ron Nehring would say: "quality of presentation implies the quality of content." Great marketing and active social media is the best way to build a plan provider business, the fact you're reading this article is proof. I've been lucky that I could produce social media, but not everyone can do it on their own. If they can't a plan provider should hire a marketing company that deals with the 401(k) industry and understand it such as Sheri Fitts and Rebecca Hourihan.

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