

Factors In Hiring A 401(k) Plan Provider That Might Be Overrated

By Ary Rosenbaum, Esq.

One of my pet peeves in life that might be a personality defect is that I detest when people get lauded and championed, and they're not worth it because they're way overrated. It's probably some insecurity because no one would fawn over me. A prime example was a former relative (divorce can do that) who was pushed as a businessman because he ran a hotdog stand at a flea market and ran a dry-cleaning store that was just a drop because no dry cleaning was done on the premises. When it comes to retirement plan providers, there are certain factors in picking them, that are way overrated. This article is all about factors in picking retirement plan providers, that might be overrated.

Years of Experience

There will be retirement plan providers that will tout their years of experience. I worked at a law firm where the managing attorney thought she was all that and a bag of chips because of her dozen years as a managing attorney and 30 years of being an employment attorney. She never did anything as a managing attorney or employment litigator, that wowed me. Experience isn't all that, I have worked with plan administrators who had 20 awful years of experience and some with less than 5 years

of experience, that I would recommend to anyone. I knew a plan administrator with about 20 years of experience make the simple mistake of mislabeling who key employees, were, through attribution, that she forgot. A law firm partner was a key employee, so was his wife and so was his kid, all with the same last name. This mistake

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Being the cheapest

23 years ago when I founded my law firm, about 10 years before I went fully on my own. In 2000, I started the law firm as a side project to see if I could draw in business on many matters outside 401(k) plans. The idea was to become the Wal-Mart of legal services. I would charge just \$100 for a will. It was

an absolute mistake because I could never generate enough clients to generate a lot of revenue and no one picked a lawyer on price. Does anyone pick a doctor on price either? Clearly, no. Yet there are 401(k) plan sponsors who simply pick the cheapest plan provider, just based on price. The reason they do that is because plan spon-





there, that has more bells and whistles, but that might cost something, in increased fees. A nice website is a great selling point, but it isn't a great enough reason to hire a plan provider.

Payroll integration

ADP and Paychex tout their 401(k) TPA services by mentioning their seamless 360 payroll integration. Payroll integration is important for salary deferral information because a lot of times, the data from payroll providers could be bad. While payroll integration is important, it's not like it's the secret formula for Coca-Cola or the Colonel's secret recipe for fried chicken. Since ADP and Paychex see their TPA services as ancillary and that bread and butter is payroll, they do offer payroll integration with other TPAs. Payroll integration is important, but many TPAs and payroll companies offer it, so that isn't a reason on its own, to hire a retirement plan provider.

sors don't understand the concept of reasonableness. It is a breach of a fiduciary's duty for paying more than reasonable fees for the service provided. They always forget the services provided, part. 401(k) plan sponsors can pay more if they get more. The biggest fear that plan providers had with fee disclosure was that it would draw business to the lowest cost provider, and that has happened because most plan sponsors want something more than a no-frills service and that picking someone just because they're cheap runs a lot of risks. So if someone is touting how cheap they are, as a plan provider, make sure the service is competent because there are a lot of low-cost providers that aren't even worth their low-cost rates.

Number of plans under management or administration

There are plan providers that tout how many 401(k) plans, they have on their books under asset management or administration. While it's impressive to see how many clients they have, that number isn't as important as they think it does. Popularity doesn't mean quality. The two biggest 401(k) third-party administrators (TPAs) are ADP and Paychex in terms of clients and assets under administration, but I doubt many reasonable retirement plan professionals not on their payroll, would agree that they are a top-notch, quality TPA. It reminds me of the McDonald's argument.

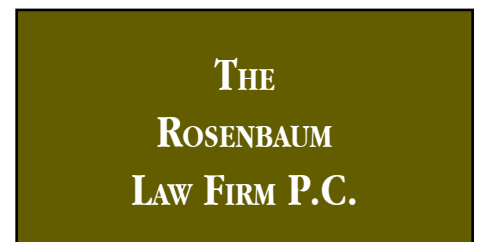
While McDonald's is the most popular hamburger restaurant in the world, does anyone think they have the best burgers? I prefer Shake Shack, IN-N-Out, Burger King, Wendy's, and everyone else, for that matter. Every single time I liked a menu item, they discontinued it (I'm the one person who liked the McLean Deluxe). While you don't want to have the Barney Fife of plan providers (one unspent shell in his shirt pocket), popularity as a fact alone, doesn't mean much in my eyes. It doesn't mean that they're excellent in what they do, it just means they have a lot of clients.

The bells and whistles

When I started working as an ERISA attorney in 1998, there were no 401(k) websites and all transactions were done by paper and telephone. When the first 401(k) websites started, the TPA I worked for, had one, but all it did was provide balance information by source and fund. So I'm still amazed by 401(k) websites that allow participants to change their fund allocation with the click of a button or the ability to request loans and distributions online as well. I'm still amazed by the fax machine. All TPAs and plan providers have websites and I don't think any plan provider has one out there, that is truly revolutionary enough that I would recommend hiring them, just for that. There is always going to be a plan provider out

They're local

Before the Internet and the web, it would make sense to hire a local plan provider. You would certainly want someone nearby. Thanks to technology, I think the idea that you need to hire someone in your area is obsolete. There is nothing wrong with being a West Coast company with East Coast retirement plan providers. With email, web uploads, and Zoom, you don't need to focus and hire a plan provider, just because they're local.



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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