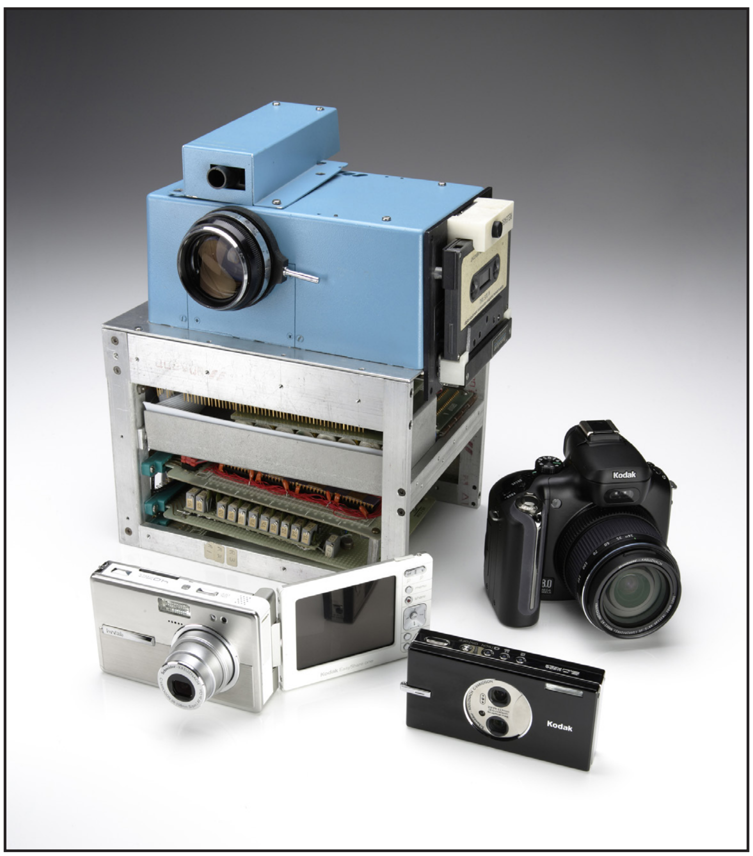
Mistakes A Retirement Plan Provider Should Avoid Making

By Ary Rosenbaum, Esq.

The history of business is littered with big companies making huge mistakes that either forced them out of business or made them quite smaller. Just ask Kodak, who did nothing with the fact that they invented the first digital camera because they were afraid how that would impact the bread and butter of their business, camera film. Excite, which is now ask.com could have bought Google for $750,000 when it was a small company. Montgomery Ward was one of the nation's retailers and didn't want to build larger and more locations after World War II because of a fear of a depression while Sears did. So when it comes to being a retirement plan provider, there are many mistakes they can make with severe consequences for their business. This article is about which mistakes a retirement provider should avoid making.



Being stubborn, arrogant, and closed-minded

We all make mistakes and the lesson is to learn from them. The problem is that stubborn, arrogant people never do. They think they know everything and they certainly don't. Arrogance is a bad trait to have especially if you are in the retirement plan business. Over the years, I've seen too many providers fail because they didn't sense the change with fee disclosure and there will be those providers that will fail because of the new fiduciary rule. The industry is rapidly changing and being arrogant and closed-minded to that change is a tragic mistake. Those type of arrogant and stubborn plan providers are like the rest of the passengers who decided to stay in the ballroom after the ship turned over in The Poseidon Adventure rather than travel with Reverend Scott (Gene Hackman) and the people he convinced to save themselves. We know what happened to them. Change is like a wave, plan providers need to ride it rather than standing pat because they are stubborn and arrogant.

Being everything for everybody

As a retirement pan provider, you can't possibly cover every segment of your business. Retirement plan providers need to develop a niche and their place in the marketplace. A third party administrator (TPA) needs to figure out what type and what sized plans they want to handle. The same can be said of financial advisors. No retirement plan provider can effectively handle a plan with $100,000 of assets and $100 million of assets, it's impossible. I always say that you can't be everything for everybody and any retirement plan provider that thinks they can is making a real big mistake.

Going beyond what they know

In the quest for trying to be everything for everybody, many providers make the mistake of going beyond their knowledge in trying to handle retirement plans beyond their expertise. I've seen so many times where TPAs and financial advisors make the mistake of handling clients where they don't have the background to effectively service them. A TPA that only handles defined contributions plans shouldn't start handling defined benefit plans. A financial advisor that doesn't know much about retirement plans is probably not going to do a good job with them. There is nothing wrong with turning down business because taking on business that you can't handle is something a provider should not be doing. A retirement plan provider can't fake knowledge and eventually that inexperience will show. There is no shame in turning down business you can't handle, so a plan provider is making a mistake by taking that business on.

Not considering what the future brings

I can't predict if my Mets will repeat as National League Champions or what will be the winning Powerball numbers, but I was able to predict that fee disclosure regulations were inevitable and how it would impact the 401(k) business. I have also made predictions how the new fiduciary rule will impact the retirement plan business and I think I'll be right. Yet there are too many retirement plan providers that are too focused on the present and forget the changes that this industry constantly goes through How many retirement plan providers got out of business or were put out of business by the fee disclosure regulations? Unlike Rocky III, when Apollo Creed told Rocky--who was slacking in training-- "there is no tomorrow", I assure you there is a tomorrow, and plan providers should avoid the mistake of just thinking about today.

Having a thin skin

When I was the Managing Editor of the college newspaper, a reader sent a letter to the Editor-in-Chief bemoaning the many grammatical errors in our paper. Rather than accepting the criticism or explaining that the long hours on production night precluded credible copy editing, our Editor-in-Chief sent in photocopies of the many awards our paper got from Newsday. It was embarrassing to see how riled up she got when all she could have done was to accept the justified and constructive criticism. When you put yourself out to the public, you're prone to criticism and it's part of the game when you provide services as a plan provider. If someone isn't happy with your services, you listen to criticism, promise to do better, and then determine whether the criticism is justified or not. I've never been afraid to complain about things and that's always a problem with people that can't handle the criticism. When I complain, I want someone to listen and if they're not listening, I'll take my business or work elsewhere. There is nothing wrong with disagreeing with the criticism as long as you actually listen and deem whether the criticism is justified or not. I always believe that a disgruntled or unhappy customer just wants the plan provider to say they're sorry or just to listen with the complaint. Having a thin skin and trying to cut off the complaint without listening to it only makes things worse.

Not caring about employees

I worked 9 years working for third party administrators and I survived. I worked 2 years for law firms and I barely survived. There is a reason I can't work for anyone anymore. One thing I learned with working for the TPAs is that good experienced workers are hard to come by. They can make or break the plan provider through their work because competent work goes a long way in client retention. Good retirement plan professionals have intricate knowledge that can't be easily duplicated. There are too many retirement plan providers with ill-trained staff that put retirement plans at risk, so the retention of experienced staff is an important goal. It's important to treat employees well through, pay, benefits, and a positive work environment. Too often, plan providers think they are good employers because they don't hear many complaints from staff, but many employees don't complain for fear of retaliation. I spoke once or twice at work and needless to say, it made me an outcast. At one job, I was told that some of my honest comments were destroying the morale of the company even though that place had the lowest morale in any organization I've ever been a member of. The point is that caring about employees through words and action is a big deal and not caring about them is a big mistake.

Having huge overhead

Thanks to fee disclosure regulations and the overall industry over the past 25 years, margins in the retirement plan business are getting smaller. What a provider can charge 20 years ago, they'd be lucky to get half of that today. Of course, competition, technology, and automation have helped lower costs, but it's still a concern as fees for plan services are getting lower and lower. So while fees are getting lower, plan sponsors often make the mistake of having a high overhead. When I worked for a semi-prestigious mid-sized Long Island law firm (sorry Lois), I noticed our huge overhead of fancy offices, three people in human resources, four people in billing, and a lot of other waste. That was a problem for me because that overhead created a need to bill and that becomes difficult when the need is to bill hourly. I'm honest with my billing and that was a problem that led me to starting my own law firm. If your clients never see it, an extravagant office is a very unnecessary expense. That money should be better spent in lowering fees, rewarding employees, and anything else that will enhance the business. It makes no sense to spend lavishly on stuff that doesn't draw a dime for the business.

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