Things About Plan Providers That Shouldn't Impress Plan Sponsors

By Ary Rosenbaum, Esq.

There are certain things in life we really should be impressed by, but we always end up being impressed by the wrong things. People are impressed by looks and money rather than the character of a person or their generosity. People have always been more impressed with flash than substance, so that should also continue when retirement plan sponsors select their plan providers. There are certain things they shouldn't be impressed by with their current or potential providers and this is what this article is about.

The Provider's Offices

I have worked for Third party administrators (TPAs) and law firms and I can attest that the quality of work isn't weighed by the cleanliness and attractiveness of our offices. I worked for one TPA that went from an office that looked like Hitler's bunker to a law firm office look and the quality of our work didn't improve to justify the better office. One thing that most clients forget is that they are paying for their plan provider's office in some fashion. One of my favorite political moments is when the moderator shut off the microphone of Ronald Reagan at a 1980 New Hampshire Presidential debate. The problem was that Reagan sponsored the debate, so he yelled that he was paying for the microphone. When you look to the extravagance of your plan provider's office, the client is paying for it. When you see an extravagant office, it's a small logical leap to assume that the fees are a little high, it's just human nature. Fancy offices don't suggest that the plan provider is competent, charges a reasonable fee, or will help the plan sponsor limit their liability.

Years of Experience

Plan sponsors need to hire experienced plan providers, but the number of years means absolutely nothing. A person with 25 years of experience isn't necessarily more competent than the person with 10 years of experience. Once you vouch that the plan providers have experience, the amount of years is irrelevant. In a sense, too many years of experience is an actual albatross because too many years of experience does tend to breed arrogance, complacency, stubbornness, and not being open to something new. I worked in the TPA space for 9 year and the most experienced administrators were not usually the best. Years of experience is not a true barometer of a person's competence, it's just a measuring stick, just like height. Unless you're building a museum to commemorate the history of plan providers, years of experience is a meaningless statistic.

The Alphabet Soup of Acronyms

I'm an ERISA attorney and I don't throw out the acronyms that I have a JD degree and an LLM degree in taxation. Yet I find so many plan providers, especially financial advisors, that drop a few acronyms to show they have these certifications/ designations.. Quite honestly, when it comes to a financial advisor, you just need to make sure they have a securities license and if they are a financial advisor, that the firm has the RIA designation. Every other acronym is essentially meaningless. If the retirement plan isn't offering life insurance to plan participants, do you really need a financial advisor that is a chartered life underwriter (CLU)? When it comes to many of these designations in the financial world and even the TPA world, the acronyms just become a confusing alphabet soup that is only confusing to the plan sponsor. The acronym alphabet soup is so bad that I know a financial advisory firm that created its own designation. Such a confusing designation, it includes a number in the acronym. It has something to do with dimensions, kind of like the Twilight Zone. I give them credit for creativity when your starting financial advisory fee is 75 basis points; you need smoke and mirrors like a phony designation to justify the fee. Plan sponsors need

to understand that they are hiring plan providers, not curriculum vitaes.

Number of clients

Many plan providers will tout how many clients they have and how many assets under management or administration (for TPAs). I'm very proud of large plan providers, but that doesn't mean I'd hire them. Bigger does not mean better, I'll put up a burger from In n Out, 5 Guys, and Shake Shack against McDonalds every day. Just because a plan provider is larger doesn't mean it's more competent, more reasonable in fees, and a better fit for the plan sponsor. It's great to note how many clients that a plan provider has for purposes of vetting plan providers, but a plan sponsor really does need to make sure that the plan provider has more than just a handful of retirement plan clients. The two biggest TPAs in the business happen to be the two largest payroll providers and I write annual articles on how you shouldn't hire a payroll provider as a TPA. There are a lot of small to medium sized plan providers that do much better work than the larger plan providers. So a plan sponsor shouldn't be impressed how many a clients a retirement plan provider actually has.

Ancillary Services

As discussed, the two largest payroll providers also serve as 401(k) TPAs because they see 401(k) administration as an ancillary service to their bread and butter, payroll. There are many financial advisory firms that offer affiliates that sell insurance or accounting services or something else ancillary to financial advisory work. There are TPAs that have an affiliated financial advisory firm or an insurance brokerage firm to sell ERISA bonds and/or fiduciary liability insurance. It's nice that there are plan providers who grow to different lines of business so that they can have synergy in the marketplace. That's great, but a retirement plan provider that offers different lines of services shouldn't be impressive. A TPA that sells an ERISA bond doesn't mean that the TPA is competent. The financial advisory firm that sells IRA services doesn't mean that they are good at financial advisory work. Plan sponsors shouldn't be impressed that a plan provider wears different hats for their different businesses.

Bells and whistles

Many plan providers offer wonderful literature and websites, but that isn't reason enough to hire them. For example, websites of TPAs can vary for participant directed 401(k) plans. Some aren't very good and some are extravagant. A plan sponsor needs a website that is easy for them to navigate, but there are websites that may be visually stunning, but have too much information that can confuse plan participants. A plan sponsor shouldn't be over-impressed by literature and/or websites because that really isn't a measuring stick on whether the plan provider is competent or not. Marketing materials and websites cost money too, so plan sponsors may be paying for the plan provider to develop materials and internet infrastructure that the plan sponsor really doesn't need.

Location

We live in an age where we can easily communicate with people around the country and around the world. Yet there are many plan providers that tout how close they are to their clients or where they are located. I worked at TPAs for 9 years and I can probably count on two hands how many clients I met. Plan sponsors don't need to hire plan providers that are across the street. There is nothing wrong with hiring plan providers that are out of state or even on the opposite side of the country. As long as the retirement plan provider is located within the United States and has the proper licensing to work out of state, it really doesn't matter where they are. A plan provider isn't like a doctor, where they need to be local in case of an emergency. Competence for a plan provider is more important than their location.

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