

A Retirement Plan Sponsor's Guide To Choosing A Third Party Administration Firm

By Ary Rosenbaum, Esq.

With fee disclosure regulations to be effective on April 1, 2012, many retirement plan sponsors like you may be on the lookout for hiring a new third party administrator (TPA) after they find out what the fees they are actually paying to the old one are unreasonable. Even if you are not looking for a new TPA, as a plan fiduciary, you need to shop around your plan to other TPAs in order to make sure you are exercising your fiduciary responsibility prudently by confirming that the fees you pay to the TPA are reasonable for the services provided.

1. Does the TPA handle a plan of my size and design?

Like every other business, TPAs have their niche. Some are experts on defined benefit plans; some are stronger on daily valued 401(k) plans. Some TPA firms cater to the small plan market, other TPA firms have such high minimum fees that only a plan over \$5 million should consider that TPA for it to be cost effective. So determine whether the TPA's niche fits your Plan's profile, ask them what their client base looks like in plan size and design.

2. Ask for recommendations from their clients and advisors they work with.

I once picked a waterproofing company for my home by looking through the yellow pages and they were such a disaster that I had to complain to my county's consumer affairs department. I could have avoided it by asking for referrals, so don't be like me. While a TPA will cherry pick their most satisfied clients, you still ask for the list and contact these clients to determine whether their situations are similar

to yours. Also, ask for a list of financial advisors that the TPAs often work with to determine whether they have had any issues working with the TPA. While that list will be used for cherry picking as well, it may give you some insight as to whether your financial advisor can work with this TPA.



3. Ask them for a menu of fees, in ENGLISH!

Many TPA firms will give a laundry list of fees in easy to understand language for the plan sponsor. Some TPA firms (insurance companies) are more vague. If the TPA can't provide a simple, one page description of all their fees, ask them for one. Ask for the base fee, any per head charges, any asset based fees, surrender charges, conversion fees, termination fees, plan document fees, loan fees, distribution fees, wrap fees, and any revenue sharing

fees received from mutual fund companies as well as what the TPA will use those revenue sharing fees for. There will be no sticker shock if you ask for all the fees written down in easy to understand terms.

4. Will the TPA offer you the team approach or one person to contact?

TPA firms offer clients a dedicated plan administrator that will handle their plan or a team approach of various administrators who may work on the plan in one fashion or in another. While most TPA firm will appoint one of their administrators as the direct contact at the TPA to work with the plan sponsor, the larger payroll companies use the team approach in handling their smaller clients. I believe that the team approach is flawed because plan administration is difficult enough without having to discover who to contact at the TPA when a problem arises. Your retirement plan is important enough that you should have a direct contact at the TPA to handle your call when a problem arises.

5. Does the TPA have a conflict of interest?

As part of the fee disclosure regulation, a TPA is supposed to advise you of any conflicts of interest they may have. This conflict may result in the TPA also having an advisory firm on the side that may assist you with financial advice or it may be that the TPA sells their own proprietary mutual funds. My advice is that you should pick a TPA that is independent and without any conflicts of interest. Being a TPA is tough enough work that you don't want the firm you select to be preoccupied with other interests like promoting their own stable of mutual funds or any revenue sharing

deals from the funds they recommend. It's best to work with a TPA that is investment neutral, meaning they don't care what type of investment you're in (as long as it's allowed under the Internal Revenue Code) and are concentrated on providing you with the best administration possible at the most cost effective price.

6. What experience and training do the TPA's administrators have?

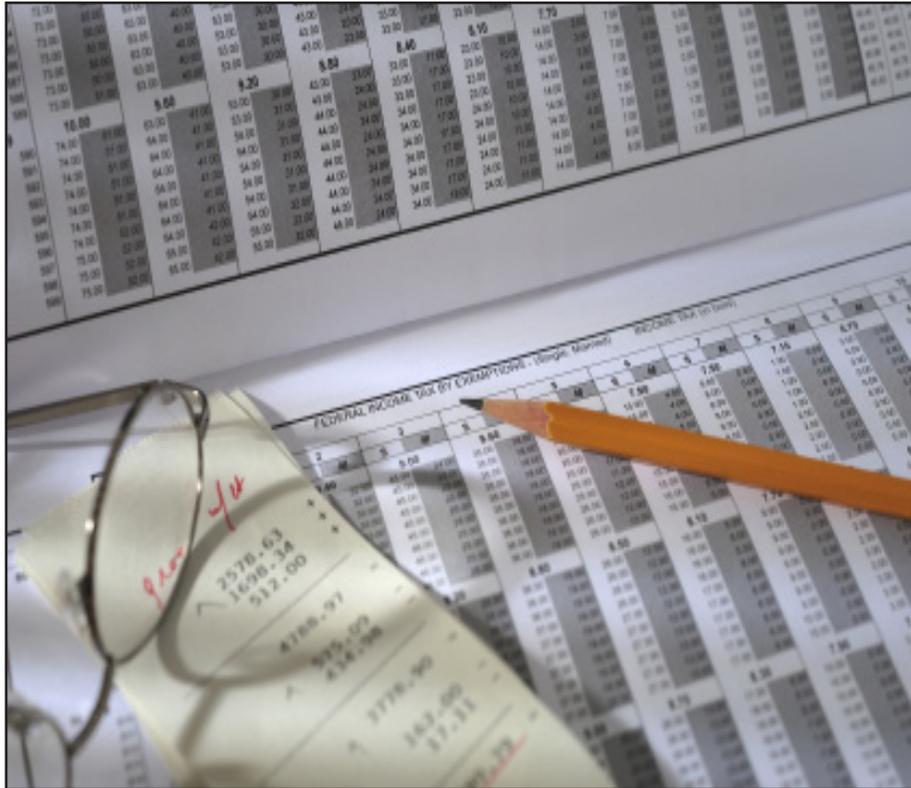
I once worked at a TPA where I jokingly said that many of their administrators "just came off the boat." That joke was not because they were new immigrants (hold the hate mail, I am the child of immigrants), but because many of our administrators handling the retirement plans of our clients had very little experience and absolutely no training. I have a client today with an administrator who has 20+ years experience and once ran her own TPA. Which administrator will give better service? Experience counts for something, but not everything. I would also ask what training the TPA requires for their administrators. Many TPAs require their administrator to get accreditation from the American Society of Pension Professionals & Actuaries (ASPPA), some provide on-site training. A trained administrator is better than an un-trained one, trust me.

7. What type of back-up (systems and insurance) does the TPA have?

We live in a post-Bernie Madoff world and a plan sponsor has to be vigilant to make sure that the organizations that may access to their money have systems in place like quality control and insurance to make sure that any potential fraud or negligence will have no damage on the plan sponsor.

I worked for a TPA where an administrator almost successfully directed a well known retirement plan custodian to

transfer a participant's account balance to his IRA. The only reason that he was caught was because he made a mistake on his own IRA account number. This administrator was not prosecuted because the TPA's co-Managing Director didn't want anyone to find out that there were no system of checks and balances to ensure that something like this couldn't happen. Find out from the potential TPA what



types of systems of quality control that they have in place to deter fraud from their employees.

Ask the TPA what type of E&O insurance or bonding they have. Ask whether they have a SAS (Statement on Auditing Standards) 70 report and which auditing firm prepared it. It's better to ask now than pay later.

8. Does the TPA have the bells and whistles you need? Will the TPA have the necessary features in \ to properly administer your Plan? Does their website measure up for participant access? Will the TPA offer the services you need? If you are making a changing of TPAs, will the new TPA at least perform the same services as the current TPA?

When I was working for a TPA, we took over a 401(k) plan as a client where we were not performing the same services for the human resources (HR) director that the

old TPA did. From Day 1, the HR director was against the change and needless to say, we lost the business less than a year later. If you want change that you can count on, make sure that you will receive the same level (if not better) of service from the new TPA that you currently receive from the old one.

Picking a TPA solely on price is another mistake to avoid. The lowest cost provider may also be the one who provide the lowest level of service. As a fiduciary and plan sponsor, you don't have the pick the cheapest TPA, you only need to make sure that the costs you incur are reasonable for the services you receive. The only way to make sure that is the case is by shopping the plan around to other TPAs.

This guide is not exhaustive in its coverage, but it will certainly give you insight on asking the right questions to determine whether a TPA may

be the right fit for your retirement plan. A little insight is always better than going in blind.

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