A Plan Sponsor's Guide To Choosing A Third Party Recordkeeping Firm

By Ary Rosenbaum, Esq.

I always say that picking a third party administration (TPA) firm is like picking a doctor. If you pick wrong, you may suffer some harm. Unfortunately, Consumer Reports doesn't post a guide on which TPA firms you should choose, but here is a list of things that every retirement plan sponsor should look to determine which TPA is the right fit.

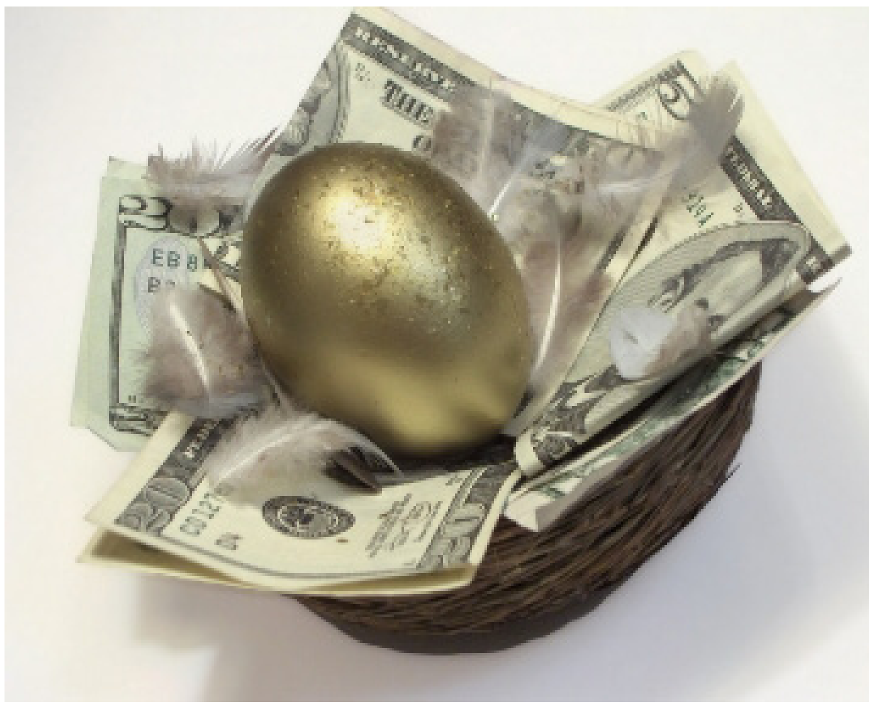
1. Does the TPA handle a plan of my size and design?

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 of 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 get a refund by complaining to my local governmental licensing agency. 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!



With 401(k) fee disclosure regulations to be effective in July 2011, there still are questions whether how effective they will be. Until that time, a retirement plan sponsor is at the mercy of what a TPA will tell them what their fee is.

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 vaguer as to their fees. 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 if 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 its own asset advisory firm?

People flock to stores like Target and Wal-Mart for one stop shopping. While this concept usually involves saving money, the idea of using your TPA for the administrative, legal, and financial components of plan does not reduce your administrative costs and actually may result in abuse because there is a lack of checks and balances than if you hired a TPA, attorney, and financial advisor that were independent of each other. That being said, would you want your car mechanic dabbling in auto sales? Would you want your tailor dabbling in selling clothes? Then why would you want your TPA dabbling in providing financial services? I think plan sponsors would want their TPAs to be concentrated on plan administration and it is my belief and experience that the best TPAs are the TPA firms that are non-producing (meaning they do not offer financial advisory services).

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. I would also ask what training the TPA requires for their administrators. Many TPAs may 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, 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 will have no damage on the plan sponsor.

I worked for a TPA where an administrator almost successfully directed a well known mutual fund company custodian to transfer a participant's account balance to this administrator's IRA. The only reason that this administrator 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 systems of checks and balances to ensure that something like this couldn't take place. 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 dear later.

8. Does the TPA have the bells and whistles you need?

Will the TPA have the necessary features that you need 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.

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

THE ROSENBAUM LAW FIRM P.C.

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