FEATURE

The 5 Keys to a Strong TPA Relationship

How to find, and keep, good third-party administrator partners.

BY JUDY WARD

Advisor Michael Quinlivan started in the retirement business almost 40 years ago, working for a small TPA firm. "I am very keenly aware of how important a TPA's work is. So now, I work very closely with our clients and a TPA," says Quinlivan, president of Greensboro, NC-based Pension Planning Solutions, Inc. "And I try to be very sensitive to what a thankless task being a TPA is. If they do 1,000 transactions correctly, someone complains when they make a mistake with transaction number 1,001."

Divvying up the plan work and sponsor contact does not cause conflict in his company's relationship with TPAs, says Quinlivan, whose advisory firm does both 3(21) and 3(38) investment-fiduciary work. "We hash all that out at the beginning," he says, adding that the TPA generally focuses on compliance work and administrative issues. "I try to draw a line to let them make those decisions," he says. "A lot of times, a sponsor will call me with questions about those areas. But I will not try to do the TPA's work: I will say, 'Let me call the TPA, and have the TPA call you.'"

Advisors looking for strong TPA partnerships should focus on five key issues.

Mesh Well on Expertise Areas and Compensation Philosophies

"You have to be careful not to step on their toes," says advisor Paul Batt, president of PKB Retirement Services in Mesa, AZ. "I am not going to pretend to do a TPA's job. You have to make sure that the advisor and the TPA both understand their roles."

The advisor-TPA relationship works a lot better when each respects the other's expertise, says Tara Hessert, president of Dynamic Pension Services, Inc., a TPA based in Dayton, Ohio. "I say to advisors, 'Let us do the plan design. Let us do the compliance. Advisors, please stay to the investment side and the participant-education side," she says. "Too many times, the TPA is pushed backward. The thought is, 'You are just the TPA.' I have been told that time after time."

Some advisors get a lot more involved in plan design than others, and an advisor works better with a TPA that has complementary strengths. "Not all advisors are equal in terms of their desire to get 'into the weeds,' on design changes," says Paul Neveu, president of Syracuse, NY-based BPAS Plan Administration & Recordkeeping Services. "Our business model is built assuming that it is our job to do all the work on plan design. But some advisors are extremely savvy on plan design, and in those cases, we collaborate."

> Some advisors get a lot more involved in plan design than others, and an advisor works better with a TPA that has complementary strengths."

Advisors often bring in Edberg & Perry to crunch the numbers for a sponsor on design issues such as choosing which match formula most effectively spends the employer's match dollars. "Advisors do plan design, but they do it at a different level than a TPA. We are down in the weeds, and they are taking the 30,000-foot view," says Susan Perry, president of the Phoenix-based TPA. "As a sponsor, you need both viewpoints. A plan-design choice may look great at 30,000 feet, but down here in the weeds, it is not going to work."

And just as advisors should seek out TPAs whose expertise meshes well with their practice, they should look for TPAs with a compatible compensation philosophy. "A big hot-button issue is revenue sharing," says Deborah Aboudara, president of The Retirement Team, Inc., a High Point, NC-based TPA. "You want to feel comfortable that there is no conflict of interest for the TPA. Many recordkeepers have a revenue-sharing program, and the TPA may be able to 'opt out' of the program, depending on the recordkeeper chosen and size of plan assets. Some TPA firms keep some of those revenue-sharing dollars: They do not use the revenue sharing to offset their fees. It is important that an advisor understand that."

Know What You Don't Know, and the TPA Does

Experience has taught Batt when he needs a TPA's knowledge to help a sponsor client. "On plan design, there are times when I feel fairly comfortable and confident dealing with the sponsor myself," he says. "But I am no TPA, and there are other times when I bring in the TPA and make sure that we are on track with the design." For instance, he always involves a TPA when a sponsor considers adding a profit-sharing element to its retirement plan, to get the TPA's expertise on different options for formulas.

Some advisors hesitate to lean on a TPA's expertise, however. "I have seen every type of advisor, some of them good, and some of them not so good," says Hessert, who has been in the retirement business nearly 30 years. Asked about the biggest problem that comes up in working with plan advisors, she says, "Universally, the issue tends to be that everyone thinks that the advisor is the be-all, know-all, and that everything the advisor says is golden. I have found that to not be the case."

Aboudara senses an unacknowledged fear that some advisors have about less-familiar plan designs, such as defined benefit plans and cash balance plans. "Because of their lack of technical understanding, they are uncomfortable with that design, even if they come across a client that would be a good fit to have one of those plans alongside its 401(k)," she says. "In those cases, I hope that the advisor would come to us as a resource and say, 'I do not understand this design.' It is OK that the advisor does not understand it: We can coach the advisor on how to talk to the client about that plan design. Our role is to help the advisor look good with the sponsor, so we will say, 'Let's talk about the highlights of this design, so that you are comfortable with it.'"

Agree on Who Deals with the Sponsor and When

Some TPAs such as St. Louis-based Ekon Benefits, which also serves as a recordkeeper, do not focus on working directly with executives at a sponsor client. "Generally, we do not deal with the decision-makers at the sponsor at all," President Keith Kowalczyk says. "The advisor has all of that contact. Our day-to-day contact is with the HR or payroll department. It works for us because the advisor trusts us to not make mistakes."

Some TPAs like to have regular, direct contact with the executives who run a sponsor's plan. "There are TPAs that are never in front of the client, and do all their reporting through an advisor. But an advisor that works with us has to be OK with allowing us to be visible in the client relationship," Hessert says. "I want to get to know the sponsor and its plan and its demographics, so that I can give the sponsor good information. I want the sponsor to say, 'She helped me make a more-informed decision by giving me the information that I could use to make that decision."

> "Think about the advisor-TPA partnership more as a relationship than as a transaction."

However, some advisors hesitate to let a TPA have direct contact with a sponsor. "The frustrating thing is when I am not allowed to talk to the client," Aboudara says. "That can be challenging, because sometimes the advisor is a control freak. If everything is bottlenecked in the advisor's office, the sponsor is not well served."

It works best for an advisor and TPA to agree upfront on who will work directly with a sponsor when, Perry says. "Usually, we will explain it to sponsors as, if they have questions about anything that has to do with investments or with money, they should contact the advisor," she says. "If a sponsor's question relates to operational details of the plan, the contact is us."

Look for a Compatible Working Style

Think about the advisor-TPA partnership more as a relationship than as a transaction, Perry recommends. "It is like any other relationship: Find somebody who you want to work with, somebody who fits your personality and style," she says. "If you are one of those advisors who wants to function in your own world and not keep in touch with the TPA, you probably are not a good fit for me. But you may be a good fit for a TPA down the road who also likes to work that way."

Look for a TPA with similar communication instincts, Aboudara suggests. "Some firms do nothing but communicate via email. Some people can tolerate that, and others cannot," she says. "On the other hand, I have been known to actually visit an advisor in his or her office, and I have had advisors here, visiting me. We should all do that."

Patience also plays a big part in advisors working well with a TPA, Kowalczyk says. "Sometimes in their discussions with our staff, advisors are over-bearing," he says. "Some advisors are Type A personalities, and the people I have on my administrative staff are analytical types of people: They are more detail-oriented, and more project-oriented. Advisors that are Type A can have a mindset of, 'I am first in line, I want it today.' My staff has other things to do, and they have to do them in the order of the requests."

Keep Each Other in the Loop

"As an advisor, you have got to be pretty open with TPAs. And look for a TPA firm that is willing to communicate and keep you in the loop," Batt says. He wants to know about developments in his plan clients' work with a TPA, such as doing a plan amendment, getting nondiscrimination testing results, or issues arising with loans or distributions.

Aboudara does not think of her TPA role as a quarterback, but as a facilitator in getting things done for a plan. "We try to keep advisors in the loop, and give them all the information they can stomach," she says. Some advisors want to keep close tabs on a plan's operational details, while others prefer to focus on big-picture work with a sponsor and participants.

And advisors should proactively update a TPA about developments in their work with a plan client, Perry says. "If the advisor goes to a quarterly review meeting and the client says, 'Oh, by the way, we would like to make this plan-design change,' and the advisor relies on the client to later call us about that, that might not happen. If the advisor emails me to tell me about that conversation, I can then look into it.'"

> "Just as advisors should seek out TPAs whose expertise meshes well with their practice, they should look for TPAs with a compatible compensation philosophy."

Both advisors and TPAs also should contact the other when they hear about potential problems, Perry says. "If an advisor finds out that the client feels like it is taking too long to process distributions, for example, I want to know about it," she says. "At the same time, the TPA should not talk to the client and hear about an issue impacting the advisor, and not communicate with the advisor about it. The street has two directions."

» Judy Ward is a freelance writer who specializes in covering retirement plans.