The Good, The Bad, And The Ugly Of Plan Providers

By Ary Rosenbaum, Esq.

After 22 years on the retirement plan business, it's easy for me to say that most retirement plan providers are very good. There are a few plan providers that aren't so good because they are incompetent. Then there are a few that are absolutes thieves that steal money. Like the movie, The Good, The Bad, and The Ugly, as a 401(k) plan sponsor, you need to make sure that your plan providers are good, not bad, and ugly. This is what this article is all about, how you can avoid the bad and the ugly providers.

You need referrals, but….

The biggest mistake I ever made in hiring someone was not checking them out. As a homeowner, the most mistakes I made was hiring contractors for my house. One contractor that sticks out was the waterproofing company that installed the French drain in my house. I used Google to find a waterproofing company and didn't bother top Google the company's name once I decided to hire them. The problem is that I did research about the waterproofing company, I would have found out about their multiple complaints and the fact that the owner couldn't have a contracting license because he lost his podiatrist license for Medicare fraud. Despite what some search engine optimization folks trying to sell me their services will say, I don't believe many plan sponsors use Google to find third party administrators (TPAs) and financial advisors, it's usually through a referral by a company's hired professional (attorney or accountant) or by one of the company's other plan providers. Referrals are excellent ways to hire a plan provider, but they have their limitations. The limitations behind referrals are that you don't really know what's behind it, you are taking someone's word that the plan provider they recommended is good. Many times I've discovered that the referrals given aren't actually based on any actual knowledge. My lovely wife hates it when people make recommendations or statements without any actual knowledge. When I'm asked for referrals from other providers, I always make 3-5 recommendations because I want to make sure that the plan sponsor makes the final choice and picks the provider that they have the most comfortable with. So often I find advisors only offering their plan sponsor clients only one TPA referral and that's just based on the advisor parking all of their client 401(k) plans there. In addition, advisors have been known to refer plans to payroll provider TPAs because these payroll providers have referred clients back. So referrals are only good if they're based on actual knowledge and when you get several candidate plan providers to choose from on the referral.

Google is your friend

As discussed above, a simple Google search would have made me realized that the waterproofing company I found on Google was no good. A simple search on the principals of a plan provider could yield a few clues on whether the plan provider can be trusted. Jeff Richie, the principal of Vantage Benefits is going to be sentenced to 10 years after pleading guilty to stealing around $15 million from his 401(k) TPA clients. A simple Google search would have revealed that this wasn't Richie's first brush with the authorities. In 2008, Richie was sanctioned by the Securities and Exchange Commission and barred from the investment business for three years for conducting an unregistered and fraudulent offering' of securities in the retirement-services company he was running at the time. The $4.3 million SEC judgment made against Richie was waived based on his financial condition. That judgment was a clue that Richie might not be a plan provider that you could trust implicitly. So even with your current plan providers, a simple Google search could be a clue whether your plan provider is someone you could or shouldn't trust.Find out about training or the lack thereof. When I first started as an ERISA attorney affiliated with a TPA, it seems that they imported people from college (including my alma mater Stony Brook University) and just never bothered to get them the training they needed In the transition to working in plan administration. The problem with not providing training for employees, in the beginning, means they never get any better. In addition, retirement plan rules change and it's a must that plan administrators get continuing education. I've seen plan administrators in the business for 20 years that didn't know what they were doing because they never got the training at the beginning of the careers, as well as continuing education. It's an odd question to ask plan providers on what type of training and continuing education that their employees get, but I assure you that it's something worth asking.

Turnover can be a problem

One time I started a sports memorabilia business to sell stuff on eBay. I started an account with a sports memorabilia company and the odd thing is that I would have a new sales account executive every 4-6 months. I once worked for a company that had so much turnover that I joked we should install a revolving door at the front entrance. Good help is hard to find and I think if your plan provider is constantly changing the people on your account, it's a sign of a big issue. It either means they can't keep good people or that the people assigned to your account aren't very good, so there are a. lot of terminations. Regardless of the reason, I believe turnover is something you should be concerned with if the people you deal with change every few months or every year,

Reviewing contracts

One of the problems in the retirement plan business is plan providers making claims on. services that they will provide that they don't. The major problem is that while they may promise you the moon, the contract they provided you and signed promised to deliver far less. A contract with a plan provider is legally binding, yet almost no plan sponsors actually have an attorney helping them review contracts to make sure what's promised is actually there. Another topic that plan sponsors forget is the section dealing with terminating the plan provider's services, as well as any fees that may result from said termination. Whether it's a termination fee from a TPA or a surrender charge on a group annuity contract, you can't afford any surprises. If you have your contract you by an ERISA attorney (cough, cough), I assure you that there won't be any surprises.

Bad providers are full of excuses

Good plan providers make far fewer mistakes than bad providers. Even when it comes to the few mistakes they make, good providers are very transparent and will admit the mistakes they make. I find those really bad providers will make tons of excuses as to why a mistake was made. You can only blame so much on plan sponsors, yet bad providers are very skilled in trying to shift blame.

Lack of Communication

You're paying for your plan providers, so it's nice to hear from them once in a while. You certainly don't need to hear from them every day. Whether it's a change in the law or a volatile stock market, it's important that you hear from your plan providers. There are a lot of. plan providers who act as if they're stuck

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