The High Price of Going Cheap

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Earlier this summer, in my article about the importance of benchmarking, I shared my story about having to buy a new pool pump. I thought, or at least hoped, that the pump would be the one "big" purchase for the season. Turns out, I was wrong, very wrong. A few weeks after installing the pump, my automatic pool robot (vacuum) broke, for the second time. The first time it broke was about 2 years ago. My husband and I had it fixed, even though the repair cost several hundred dollars, but at the time it made sense. We weren't ready to purchase a new one (which by the way for any non-pool owners reading this are even more expensive than pumps). But this second break was far worse than the first, so like the pump, we had to get a new one.

We shopped around, narrowed our search and found a vacuum we wanted. We contacted the dealer directly and they offered us an interesting option. We could save $100 off the price if we purchased an open-box product. A vacuum that was supposedly purchased, but never actually used, and returned. Considering our other expenses this summer, we decided to give it a try. Unfortunately, it was a big mistake. Not only was the product used, it didn't work, it would only run for about 40 minutes before turning itself off, no surprise why it had been returned. We never got an instruction manual either so we couldn't even troubleshoot the problem on our own. Ultimately, we returned the defective robot, paid the up charge for a new one, and lost more time and more money in the long run. That was our price for going cheap.

Inherently, we all like to save a little money, don't we? Whenever and wherever we can, and in most cases, we're successful. As a society, we pay attention to sales, wait for discounts, use coupons, etc., but there are times when I deliberately pick and choose. In other words, I don't wait for sales on everything. I will pay more for what I want and/or what I consider to be the best for me.

When it comes to your retirement plan, many plan sponsors rely on their adviser to recommend what they believe is best for them, even if the adviser is not a fiduciary on the plan. This happens quite often when hiring a TPA. More often than not, it's the adviser on the plan who finds the TPA. Some advisers will "shop around" as they should since not all TPAs are created equal, but sometimes an adviser will just work with one TPA who they use for all their plans. Other advisers however are just focused on fees and for those that are, it glaringly shows in their plans. They rely heavily on payroll and/or bundled solutions, or low-cost TPAs, basically the cheapest options available because they don't fully understand or appreciate a TPA's value proposition. Often, the selling point with payroll or bundled providers is that the TPA services are FREE or will be given for FREE, which, by the way, are never really, FREE, you'll pay one way or another. Since TPA fees are generally transparent, or hard-dollar costs billed directly to the plan sponsor, not paid through the assets of the plan (even though they can be) they're an easy target for criticism and negotiation, with no focus on qualifications, service and/or support.

Recently, we took over a case where the adviser was clearly focused on fees (and perhaps an underlying relationship as well). Qualifications, credentials, service and support were completely absent, as was communication, but the TPA was most definitely cheap. As a matter of fact, some of the lowest TPA fees we've ever seen. The TPA even threw in 3(16) services as well for signing the Form 5500, not that the client knew, since there wasn't any contract either. We learned from the client that they never actually spoke with the TPA directly. They also never met the TPA, but that's not uncommon. All communications with the TPA were made via email and/or through the adviser.

Regretfully, and most unfortunately, the client is paying a much higher price now, and not just in a monetary way, as a result of their former TPA. We had to redo 5 years of Form 5500 filings through a voluntary correction program due to erroneous allocations, calculations and inaccurate information. We suspect, although cannot confirm, that the 3(16) services provided by our predecessor was a deliberate act on their part (much easier to just get things done without questions). We later discovered that the client never even asked for 3(16) services, nor were they charged for them, they were just being "provided" (another red flag in and of itself). The client just kept paying the TPA's invoices year after year, while the TPA kept signing and filing erroneous returns with missing schedules and information. Any credible 3(16) service and/or 3(16) administrator would charge a separate fee for their services, as you are certifying to the administration of the plan, and that the information contained in the filing is truthful and accurate to the best of your knowledge.

At this point you may be wondering how could this happen? The answer is easy. First, there are no regulatory agencies or organizations that oversee TPAs. Actuaries, yes, but TPAs, no. There are no licensing requirements either. TPAs should be credentialed, or work with credentialed administrators and/or employees, but it's not mandatory. Second, and perhaps even more important, we're only human. In my last article, I mentioned how I was told by a plan sponsor, "how can I know what I don't know?" and that is a true and fair statement, and very telling. Retirement plans have a lot of moving parts. There are professionals out there, working in the industry, that don't understand all of it. And let's be honest, if you've never worked on a retirement plan, would you know who a TPA is or what they do?

Anything that the client may have saved in fees over the years has been long lost to the correction program, increased TPA and actuarial fees, not to mention attorneys' fees and costs, filing charges, etc. What's even more disturbing is that our client is most definitely, not alone. There are more cases out there, most of them as unsuspecting as our client, who have no idea they may be in trouble, facing potential fines and penalties. We can only hope they address their situations before an IRS, DOL and/or PBGC inquiry or audit.

The moral of the story is this: do your homework, especially if you're an employer and it's the first time you're offering a retirement plan to your employees. If you're not familiar with all the moving parts, how to operate a plan, who the players are, etc. do a little research. Google it! Everything you want to know about anything is out there. Ask questions and ask for contracts. Everyone involved in your retirement plan should have a contract, including the TPA. Ask for detailed explanations of fees; and make sure you have a full and complete understanding of how you'll be billed, what's included in the services and what's not. Also, make sure you understand everyone's fiduciary status, including your own. In general, TPAs and actuaries are not fiduciaries, but 3(16) administrators can be fiduciaries to the plan, depending on the arrangement. Some TPAs can provide both services so make sure you read those contracts and understand the difference. If you're still unclear, consider seeking the assistance of an ERISA attorney before you sign anything. Let the attorney review the contracts.

I'm not trying to discourage anyone for offering a retirement plan to their employees, on the contrary, I believe all Americans should have access to some type of savings vehicle that allows them to save for retirement. But I'm also a firm believer, as is the culture at our firm, being proactive is always going to be better than reactive. Lastly, and absolutely the most important takeaway from all of this is, paying more for something is OK. Even the DOL doesn't expect you to pick the cheapest solution for your plan, but they are expecting you to follow prudent processes to determine what's best for your plan! We all the deserve the best, don't you?

Priority Pension Services, Inc. (AFI) is a full-service employee benefits consulting, actuarial, insurance and third-party administration (TPA) firm. If you have any questions or would like more information on other helpful topics, please don't hesitate to contact me on Linked In, email: ginam@ppsafi.com, direct: 516-584-2750 ext. 2 or visit our website at *www.ppsafi.com* where we have helpful links, valuable resources, an events calendar and more.

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