

## What is a TPA (Third Party Administrator)?

Pension Plan Consultants LLC (PPC) will provide day-to-day support for your retirement plan. Jim Jesikiewicz is owner of PPC and is an Enrolled Retirement Plan Agent (ERPA), which is an individual who has been approved by the IRS to practice before the IRS on retirement plan issues.



## What is a TPA?

Business owners can avail themselves of many professional resources: a life insurance agent, a CPA, an attorney and, yes, a **Third Party Administrator** (TPA). But, sometimes we have clients ask questions like "**Just what is a TPA, anyway, and when should I use one?**" So let's take a few minutes to review some of the important aspects of this question.

**First**, a TPA is a separate professional firm that performs administrative services for qualified retirement plans such as 401(k)'s and profit sharing. Generally, on a fee-for-service basis.

A retirement plan TPA can assist the business owner in addressing the complex problems and opportunities in retirement plan design and continuing administration. Specifically, there are four areas where a TPA may be of assistance: Consultation, Design, Administration and Special Services.

**Consultation** is much like kicking the tires of a prospective new automobile. The TPA can help the business owner identify business and personal needs for tax-deferred plans, employee retirement and savings benefits, as well as additional needs like meeting competition in your industry. In this area the TPA can gather data on your objectives, employee longevity and other census information, as well as information on your business tax and/or cash flow position.

The **Design** phase is where we give this potential plan a test drive. Do you need an economy car, a red convertible, a minivan, or a big Cadillac or SUV? After the initial consultation is completed, the TPA will crunch some numbers specific to your business, and make a series of alternatives available for your review. You may also wish to consult your attorney, tax and financial advisors regarding these alternatives. Reviewing the options is important so that you don't wind up with the wrong vehicle for your needs. Proper retirement plan design is quite critical: your plan should be built around your objectives, not on just what the advertised special is. The plan can, as much as possible within the law, be designed to maximize benefits to the employees the employer deems essential to retain (if that is one of your objectives) and should be provided on the most cost-effective basis possible. Plan design considerations take into account parameters such as the demographics of your employee group - are they all young or closer to retirement with long service - or a mix - as well as technical issues such as type of plan (for example, not every business should have a 401(k) plan), type of plan document, and other considerations that can affect the operation of your plan. These other considerations should not be taken lightly; provisions such as hardship withdrawals, loans, timing of distributions, design of any employer matching contributions and vesting schedules can have significant impact on how effective and efficient your plan will be.

After the Design phase is completed, it's time to take this new car home and start to enjoy the benefits. Your TPA services then go into high gear with the **Administration** phase. The TPA can also handle the installation (setup) or development of alternatives for you if you want to redesign the plan already in place. This will result in plan documents, IRS approval of your tax-qualified plan (if applicable), employee booklets, employee communication materials, enrollment forms, and probably employee meetings. You may wish to have an attorney to review all plan documents, communications, forms and materials.

Continuing administration services from your TPA also includes the all-important compliance work. Your new plan is a finely tuned vehicle; and you want it to stay that way. The TPA can produce periodic reports for your employees and the business, and also perform government-required compliance testing for coverage, participation, discrimination and benefit limitations. The TPA also handles other services such as preparation of the 5500 and any related Schedule(s), 8955-SSA, 5558 Extension returns and any Department of Labor (DOL) filings.

Other services in this phase include general record keeping such as computation of matching amounts and vested percentages. Payouts are also handled here - distributions to participants upon termination of employment, retirement, and death or for loans or hardship withdrawals, if the plan allows these features.

The final range of duties falls into the category of **Special Services**. These are not (one hopes) recurring needs, but should be there if needed. These are not the services that are considered the "day-to-day" services provided by your TPA. But what happens when you get a speeding ticket or get in an accident? Along with your legal and financial advisors, a TPA can assist you in handling an IRS audit, a DOL audit, or processing the termination of your plan through the IRS or PBGC.

Sound complex? Still sound confusing? Well, the TPA can assist you in maximizing the advantages of establishing a benefits plan. You shouldn't be sold an economy car if you need and want a red convertible. Or just the opposite. By selecting a good TPA, working with the TPA closely, by consulting your legal and financial advisors, your drive down the road of qualified retirement plans can be smoother and safer.

### Aren't You the Plan Administrator?

**"Aren't you the Plan Administrator?"** This is a question we have encountered from several clients. We are not the Plan Administrator. We are a Third Party Plan Administrator (TPA).

So what is the difference between a Plan Administrator and a TPA? The role of Plan Administrator is a legal designation, assigned in the plan document. It is the Plan Administrator's responsibility to run the plan, set policy, hire plan advisors, report to the government, and advise participants of their rights. Usually the Plan Administrator is the company that sponsors the plan.

A TPA does many functions of the Plan Administrator including calculating eligibility, vesting, and benefits. However, these services are done at the request of and for the benefit of the Plan Administrator. A TPA is an advisor to the Plan Administrator. The authority and responsibility for operating the plan remain with the Plan Administrator.

**I have received proposals from other vendors, but they never mentioned a TPA. Why?** Most likely the services of the TPA are "**BUNDLED**" with the financial vendor. You do need a TPA, however those services are also disguised as compliance services or administrative support. Additionally, most of the bundled services will be internet based, which is fine, but, the lack of service or the additional monitoring a local TPA is what a small plan provider needs.