The Struggles Of Being A Retirement Plan Provider And How To Manage It

By Ary Rosenbaum, Esq.

Being a retirement plan provider is like any other business in the sense that it has to be managed in a way where the doors can continue to be open. History is littered with businesses that failed to manage themselves correctly, just ask the brains behind Blockbuster Video and Montgomery Ward. While you're at it, you can talk to the people running Sears and Radio Shack, who will eventually go down that path to oblivion. So this article is about the struggles of running a business as a plan provider and what can be done in handling those struggles in a beneficial manner

Employee recruitment and retention

I have worked 12 years working for other people and it hasn't been as rewarding as the 6 years I have worked on my own, but that experience working for others still helps me today. When it comes to being a retirement plan provider, you need to have employees to help you out and handle the day-to-day tasks when the work is too big for one person. You'll need to recruit employees to staff your operations and you're going to have to find ways to keep them if they're any good. When it comes to recruitment, it's all about finding the right pieces to the puzzle, namely employees that will have the necessary experience and temperament to handle the job. When I announced I was leaving my position working for a third party administrator (TPA) because I could no longer deal with the minority partner, the TPA failed to conduct a real search for my replacement. The TPA called a head hunting attorney recruitment firm and asked for two candidates. It was the only time I ever saw someone get hired on the spot. While my replacement was an ERISA attorney, he failed to grasp how our business functioned. I worked with plan administrators and they were so busy, I had to handle a lot of the client interaction when it came time to plan amendments, restatements, and terminations. My replacement thought that he could rely on the administrators and secretaries for support, I knew the reality because I actually typed my own letters and made my own copies. I predicted he'd last 3 months and Andy only lasted two. Getting into fights with the bosses and contacting his employment attorney didn't help matters either The point is that you don't need to find bodies, you need to find the right bodies. You also need to fashion ways to keep them because I have never met an employee who thought they got paid too much and I never met an employer who thought they paid their employees too little. So compensating employees sufficiently without going out of business is important as well as developing empathy for the employees and understanding their needs. When I worked for that TPA, the minority partner who ran the day-to-day operation would have paid his employees nothing if he could. He would also consistently cut down on benefits especially health insurance and there is nothing worse than working for a benefits company with lousy benefits. Employees want to be compensated well, but they want to be treated fairly. They'll trade a better salary for better benefits, but they'll be unhappy if they have a lousy salary and lousy benefits. Employees also don't want to be treated like they're being nickled and dimed. To be honest when I left that TPA, I honestly say that the only thing that got the employees really riled up is when they stopped buying milk for the coffee machine They didn't fight about the paltry salary increases (well I did) or the annual health insurance change or when our 401(k) plan was changed to an insurance company provider because of wanting to retain pricing for clients on that platform, they yelled about the free milk. By the way, nothing changed and they had to buy their own milk.

Employee training

It's not enough to get warm bodies for you plan provider business, you also need trained bodies and training doesn't end when they're hired. I worked with two TPAs and the better administrators were the ones who were actually trained and who actually still continued with learning while they were working. The difference between a good provider and a bad one is having quality-trained staff. Poorly trained administrators make more mistakes than those with the education background; poorly trained advisors don't know the difference between managing a 401(k) plan and managing an IRA while a trained advisor will. Training has to be continuous because retirement plan laws and regulations change. I can remember working for a TPA in 2007 when an administrator was trying to tell me that the maximum vesting schedule for matching contributions was 7 years despite the fact that the law shortened it to 6 years in 2002. So it's important that training and continued training for employees occurs to make sure that the service provided is competent and error free.

Getting paid

I always say that you should not do work for free and if you're not being paid by your clients, you're doing work for free. Make sure your agreements specify how you get paid, when you get paid, and what happens when you don't. If your services are compensated by plan assets, that's one less headache because the plan custodian could help in processing payments. If the plan sponsor is compensating you directly, make sure you have a process in place when you're getting stiffed. Invoices and follow-up letters are part of the process. You may have to retain a collection firm and/or collection attorney to proceed against a client unwilling to pay. You also need to avoid stretching out the payment drama because you have a statute of limitations window that you have to collect or lose the right to that money when the allotted time ends. You need to know when clients will pay you and if they make excuses or stories, you need to just refer the matter out. I let one of my biggest clients have almost 4 years of avoiding to pay me because they never made promised phone calls, never provided a promised audit of money owed, and never gave me further work to justify the $40,000 of unpaid work. Like I told him repeatedly before sending it to collections, I would rather get 50% of something than 100% of nothing. Unpaid bills aren't going to pay your expenses, so don't be bashful to send matters to collections or run the risk that bills may never get paid.

Manage That Overhead

When I was going to leave that semi-prestigious law firm to start my own practice 6 years ago, I contacted another law firm to maybe come on board in an of counsel position. The partner at that law firm said that I needed to bring in $450,000 in business to pay for my $150,000 salary. My point was that if I had $450,000 worth of business, why would I need them? My old law firm didn't need the four people in billing or the fancy Long Island offices or the partner luncheons, these were needless expenses that were just going to make it harder to run the business because overhead are fixed costs and higher overhead just means more money you're going to have to bill and collect to manage what you have. When it comes to my practice, I try to have as little overhead as possible because it means there is so much less business I would need to continue my doors being opened and if I bill more, I maybe will have more to save and/or spend. When it comes to expenses, you really need to determine what's necessary and what's a luxury. As much as I would love having Mets season tickets, I know that it would make it harder for me to stay in business because the tickets end up being a fixed cost that needs to be calculated in order to make sure that my expenses are paid. More expenses will just equal fewer saving and more pressure to make sure that revenue exceeds expenses. While I would love to see the Mets 81 games, I'd like to keep my doors open just a little bit longer. Forget about the season tickets, the fancy cars or offices, there are just some expenses that are not necessary. When you have a retirement plan provider business, you will know that people will try to sell you things that you don't need. I ran into too many web companies and search engine optimization firms and referral lead services that try to sell me their services with some hefty price tags attached. I've been able to say no to these services because I have been to identify the best pipelines of referrals for my business. While I think an ERISA attorney is extremely important, I have yet to find the plan sponsor actively seek one on Google. Referrals for ERISA attorneys don't come from search optimizations firms, they come from recommendations and word of mouth. Articles such as the one you are reading help too. So you need to look at actual and potential expenses of your business and determine what you need and what's an actual luxury. When my business grows to a level I'm comfortable with, maybe I'll get those Mets tickets one day.

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