Why Hire an Unbundled Service Provider?

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Plan Consulting • Administration • Design

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9/12/2014

As a Third Party Administration (TPA) firm we are often asked by employers and their financial advisors, "Why should we use an unbundled services arrangement?" To answer this question, let's distinguish between unbundled and bundled services.

To properly administer a retirement plan, there are typically three services that an employer needs:

1**) investment services**, the picking and monitoring of investment options available in the plan;

2) **recordkeeping services**, the process of keeping track of individual participant account balances by type of money (for example, employee deferrals, employer match, rollovers, etc.) and by investment option; and

3) **administrative services**, which includes the design of the plan, maintaining the legal document and preparation of all required compliance testing and governmental reporting.

Some employers may choose to add a fourth service by using an attorney to handle the plan's legal documents, rather than using plan documents provided by the administrative firm.

In a true "bundled" service arrangement, all services are provided by the same company or financial institution. However, this is rarely ever the case as most employers are "unbundled", at a minimum, with respect to investment services for which they hire a financial advisor. We believe best practice for most employers would also be "unbundled" with respect to recordkeeping and administrative services.

The perceived disadvantages of "unbundling" recordkeeping and administrative services generally fall into two areas – 1) the belief that adding more parties adds more cost, and 2) the belief that adding more parties adds more complexities for the employer. Let's examine these perceptions and then consider the added benefits of an "unbundled" arrangement.

<u>More Parties Equates to More Cost</u>

Regardless of the arrangement, the same services needs to be performed for the plan, whether the services are completed in a "bundled" or "unbundled" environment. <u>As a result, the overall cost is generally the same.</u> The difference is that in the "bundled" environment most of the costs are typically calculated on and charged against the assets held in the plan rather than being directly billed to the employer. This same structure can easily be accommodated in an "unbundled" environment – all an employer or their financial advisor needs to do is ask! The "unbundled" arrangement actually provides the employer with more flexibility to structure costs, as it can choose how much it wants to pay out of corporate assets versus how much it wants to have the plan participant's pay – either as a charge against the assets or a bill to the trust.

More Parties Equates to More Complexity for the Employer

In reality, even in a "bundled" offering, each of the service areas is handled in separate departments within the same institution. So, an employer will likely deal with as many, if not more, parties. With an "unbundled" model, the majority of the contact by the employer is with the TPA that provides the administrative services for the plan. You will talk to and deal with your TPA on a day-to-day basis and they will often serve as the quarterback for dealing with the recordkeeper when needed for payroll or distribution issues, or the attorney, if the employer chooses to use one.

Extra Benefits with the "Unbundled" Structure

The additional benefits of using an "unbundled" arrangement include – 1) the ability to replace one service provider without changing them all; 2) more sophisticated plan designs and plan documents; and 3) more comprehensive and technically proficient services.

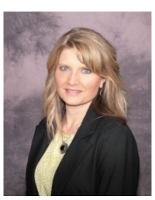
In an "unbundled" arrangement, you can replace one service provider relatively easily if they fail to meet service standards for the plan. Making the same change out of a "bundled" arrangement can be burdensome and can disrupt long term relationships that the employer has come to value when one party to the arrangement is no longer acceptable.

In a "bundled" arrangement, the financial institution is often looking to standardize the services provided for all of their clients. As a result, they generally only make available basic design options and plan documents. If an employer requires something more custom they are just out of luck. In an "unbundled" arrangement, a TPA can customize each plan to fit the employer in question. A TPA will also generally be better about contacting employers about the real world impacts of design changes initiated by the employer or those mandated due to changing governmental rules.

Lastly "bundled" service providers generally provide services via service teams and call centers. These departments are often staffed with relatively inexperienced employees who rely on training manuals to answer most employer questions rather than dedicated professionals who are familiar with the employer's plan. Much of the training that the staff at the "bundled" provider receives is focused on customer service and telephone etiquette, not on understanding the technical aspects of the plan administration. On the other hand, the staff at a quality TPA firm has more comprehensive technical training and many more average years of experience in the industry than their “bundled” counterparts. More training and practical experience also allows a good TPA to prevent many data and compliance mistakes that an employer might inadvertently make. A competent TPA will review the data the employer provides to them and will work with the employer until good data is received. A “bundled” provider is generally shielded from their mistakes by caveating that their reports are based on information the employer provides, which they do not review or scrutinize. They simply load it into their system and print off the resulting reports. Unfortunately, if the employer has not provided accurate data, it becomes a scenario of “garbage in, garbage out.”

Why Should You Use an “Unbundled” Services Arrangement?

The perceived disadvantages to unbundled arrangements are just simply not true. Regardless of the arrangement, the true “all in” cost is not that different. With an “unbundled” arrangement, the employer will receive more competent and proactive service, which benefits not only them but also the financial advisor. Lastly, if an employer is unhappy with any part of their service package, their hands are not tied as they can replace the poor provider without eliminating them all.



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