

MUTUAL OPPORTUNITIES IN DEVELOPING ADVISOR/TPA PARTNERSHIPS

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A widely used business strategy for financial advisors who work with individual investors is to establish relationships with

centers of influence, particularly CPA firms. These strategic partnerships engender benefits for all parties involved: Clients receive a more comprehensive set of services, and advisors and CPA firms develop a new referral source that leads to business growth while significantly increasing their competitiveness.

A relatively untapped extension of this strategy is to build strong

partnerships with third-party administrators (TPAs) that can benefit advisors engaged in 401(k) business, as well as the TPA firms.

To be sure, some of the several thousand qualified TPAs across the US already offer investment services (“producing TPAs”), but many others do not generate revenue from investment services. Without investment advisory services, the latter group might be at a competitive disadvantage relative to firms with a more comprehensive solution, and they may fail to capture a potential revenue source at a time when their services have become commoditized in a “race to the bottom” for fees. Recent

actions by some large providers to disengage independent TPA services have added urgency, leaving plan administrators in a vulnerable position with fewer referrals and slower growth.

As former president of the American Society of Pension Professionals & Actuaries (ASPPA), Sarah Simoneaux, principal of Simoneaux and Stroud Consulting Services, is in a unique position to provide insight on this emerging partnership opportunity. She believes independent advisors and TPAs should develop a new partnership paradigm that benefits non-producing TPAs and gives advisors an opportunity to engage



Dimensional Fund Advisors'
London office lobby.

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new prospects, including “orphan” plans likely to be created by the recent fee disclosure regulations. “The vast majority of TPAs provide very high-quality services that are frequently undervalued by advisors and plan sponsors,” she says, adding that TPAs would like to see a more balanced compensation model that would motivate referring 401(k) business to the advisor.

In her opinion, advisor/TPA partnerships are not more prevalent due to three factors:

commoditization of TPA services, misconceptions of advisor/TPA roles and compensation in servicing plans, and the complexity and cost of government regulations. Traditionally, the advisor in the small and mid-size employer 401(k) market has controlled the plan sponsor relationship, bringing in the TPA as a commodity provider as just one part of the overall qualified plan sale.

“TPAs often feel they do the majority of the plans’ servicing work for low fees (especially compared

to asset-based fees frequently paid to advisors) and that neither the plan sponsor nor the advisor appreciates their role in keeping the plan in compliance,” Simoneux says. “Advisors believe they’re held responsible for TPA administrative errors or service gaps and can lose 401(k) business as a result. The truth, as always, is somewhere in between. The most successful partnerships exist when the advisor understands the complexity of plan design and administration, and the TPA values the advisor’s role in working with the investments and the participants.”

Successfully building these connections is not trivial. Advisors must identify the right firms to mitigate the reputational risk if the TPA can’t provide the level of service expected by the plan sponsor and participants. TPAs must balance the risk of losing referrals from advisors who might see them as competitors with the

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opportunity to strengthen their business and develop an economically sustainable model.

Simoneaux believes both risks can be mitigated by a well thought-out business plan for the partnership, with clearly defined goals and objectives, a sales and marketing strategy, and metrics to measure success. Furthermore, she says location and matching firm “personalities” are major factors in a strong, mutually beneficial relationship, one in which both parties provide true fee transparency to the employer and participants.

Personal referrals from satisfied plan sponsors and other advisors, especially for local providers, are

still a good, traditional way for advisors to identify quality service providers. Simoneaux also suggests using the ASPPA service provider certification (<http://www.asppa.org>), a process that requires TPAs to go through a rigorous, independent best practices audit annually in order to obtain and renew their certification. High-quality TPAs should be able to show that close to 100% of their senior-level administrators hold either ASPPA or NIPA (National Institute of Pension Administrators) credentials. Excellent TPAs will also have measurable service metrics, not just statements about providing high-quality services.

Although it is more complex to keep track of multiple partners,

Simoneaux suggests that advisors develop good relationships with two to three TPAs. At least one partner should be a local provider who can go onsite to local employers’ offices. Another partner should have the ability to do open-architecture daily valuation recordkeeping. A third partner should be considered for specialty plan designs such as cash balance plans, ESOPs, and 403(b)/457 plans.



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