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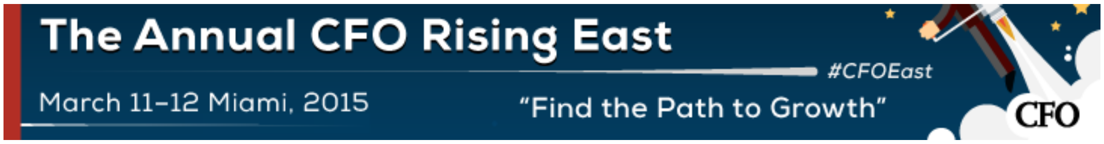

Compensation

How to Pick a TPA for a Deferred Comp Plan: 7 Tips

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John L. Sanford

February 19, 2015 | CFO.com | US

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For most companies, preparing a request for proposals for third-party administrators (TPAs) of nonqualified retirement plans is a relatively infrequent occurrence, compared with doing so when seeking TPAs for other types of benefit plans. For that reason, companies may not follow some best practices for creating such RFPs.


John L. Sanford

RFPs for nonqualified plans — tax-deferred, employer-sponsored retirement plans that fall outside of ERISA guidelines — are often triggered by mistakes made by a company's existing provider. Sometimes, a merger or acquisition forces a decision between two or more TPAs. And some companies just want to periodically test the market. Whatever the case, considering a change often involves a broader "market" review.

Nonqualified plans are unique. Virtually every plan design is different. Even within a single plan, key employees may have different features or benefits ranging from crediting rates to distribution flexibility. There is also a wide variety

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of nonqualified plan TPAs — large institutional platforms, national and regional firms, boutiques, online only, etc.

A TPA needs to coordinate with the plan sponsor and its payroll manager, plan trustee and investment manager, as well as plan participants and their advisors. The plan sponsor is responsible for the safekeeping of the plan and plan balances, so it is incumbent upon them to be good custodians of funds owed to the key employees.

In light of the unique nature of nonqualified plans and the central role TPAs play in the success of these plans, selecting the right TPA is critical. Below are seven things to consider when using an RFP process to hire one.

1. **Price Matters — But It Isn't Everything**

The cost difference between the top service providers and the next tier is minimal, but the value you sacrifice for the nominal savings can be significant. Chasing the lower price and changing service providers too often will end up costing you in service quality. Change TPAs for the right reasons and assume the decision will lead to a long-term relationship.

Some lower-cost TPAs, when taking over a plan, ignore its history — that is, data on things like past deferral elections, past distribution elections, reallocation of monies from fund to fund, and historical company contributions — and start fresh with data collection. Other TPAs charge extra for taking on the historical data.

The history is important. A nonqualified plan is a contract between employer and employee that can last for decades. Remember that these plans can be customized for subsets of key employees or even an individual. It's a best practice for historical negotiations and exceptions to be documented and carried forward to new management. Being aware of reasons for past decisions can help avoid unexpected costs and lawsuits.

Violations under Section 409A of the Internal Revenue Code are also expensive and time-consuming to fix, and some may even require a participant to restate income taxes (federal and state) for prior years.

2. **Focus Your Efforts**

Sending RFPs to 10 firms is overkill and costly. Pre-select a small group of TPAs that align with the RFP objectives and can handle the plan design. You will receive better responses and more aggressive quotes, since the invited TPAs will feel like they are already in the "finals."

3. **Guard Against Team Turnover**

Many plan sponsors request to meet the TPA's "team" or daily contact person with whom they will be working. In my experience, though, the teams change constantly, which can negatively affect service levels. Ask about team-member turnover and request that replacements have at least as much client-service experience in a similar role.

4. **Don't Miss Out on Key Ancillary Services**

Ask the TPA to prepare and deliver an annual report on the plan's health, design, and features. The report should also include feedback from contact with participants (calls, emails, surveys), cash flows, funding, investment options, market trends, and a legislative update. To reduce costs, some TPAs don't provide this service. But not having this information each year can lead to errors that trigger penalties and end up costing more in the long run.

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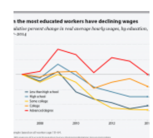

Matthew Heller
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Also, when an error is caught after the fact — and sometimes that happens years after the fact — there are legal and accounting costs for correcting the issue and refile prior years' taxes.

Some TPAs offer reduced fees if promised services are not delivered. Getting service-performance standards in writing, and creating a structure that incentivizes great service, is a best practice that benefits the plan sponsor, creates value, and enhances the participant experience.

5. **Apply Automation Appropriately**

There are wide gaps between administrators when it comes to process automation. The RFP effort should identify processes that can be automated and those that require human intervention. Most administrative mistakes occur when people touch data. The RFP process can benefit the plan sponsor by clearly identifying the risks associated with working with each TPA. Some of the risks will be related to manual "enhancements" to the system or process.

Again, 409A errors are costly. While RFPs don't usually ask TPAs how much they paid to clients and participants (and their representatives: lawyers, CPAs, etc.) for 409A violations, penalties, and corrections, it is good perspective to have.

6. **More Questions Don't Ensure a Better RFP**

Over time, RFPs have become longer and more generic. Questions are often repeated or irrelevant, driving up the plan sponsor's time commitment and increasing costs. It sometimes seems that the RFP is not even reviewed before being sent out, or is a conglomeration of several RFPs (not necessarily for nonqualified plans)that were found in a drawer. Take an active role in making the RFP precise, constructive, and informative. Only including questions that actually provide valuable insight and information, and facilitate informed decisions, will be better for all involved.

7. **Finish Strong: Make the Most of Finalist Presentations**

Some plan sponsors make decisions as if the best presenter is the best TPA choice. That's not always true. Even smooth, seemingly impressive presentations may not hit on key points that can drive a clear decision. Identify the key differentiators prior to the meeting. Your focus should be on the decision-making criteria and a Q&A with the TPA candidate. Each attendee from the plan sponsor should be armed with questions.

Conclusion

Nonqualified plans are increasingly popular — according to the most recent MullinTBG/PlanSponsor Executive Benefit Survey, more than 84% of responding employers had at least one deferred compensation plan — and have powerful financial impacts on both the plan sponsor and its key employees. The funding, investment options, and administration of these plans can make or break their perceived and actual value. It is important to select the right TPA.

John L. Sanford is a principal of Mullin Barens Sanford Financial and an independent consultant with more than 25 years of experience designing nonqualified retirement plans. Please see www.mbsfin.com for more information.

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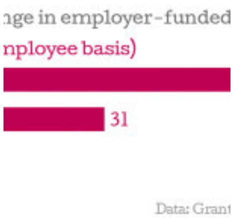

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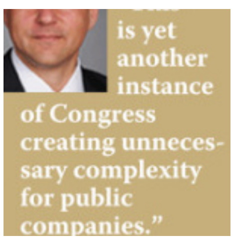

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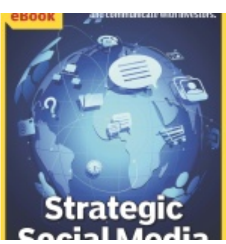

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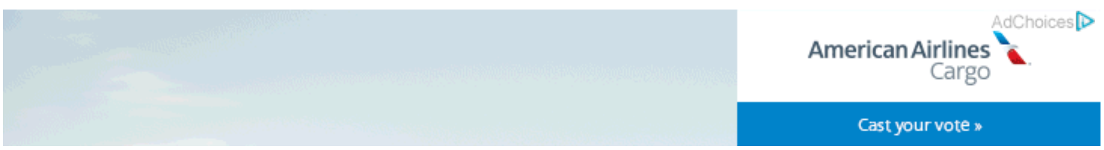

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