



An “Un-bundled” 401(k) Provider Approach

A Smart Choice for Your Clients

By David S. Horvath, CPA

The following article is directed towards financial advisors, consultants and other professionals that advise clients on the management of 401(k) plan assets. The article compares some alternatives for plan administration. Plan sponsors may also find this article of interest.

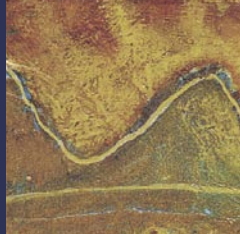
As a financial advisor or insurance consultant, you know that when it comes to selecting 401(k) providers, many of your clients assume the safest bet is to go with a single vendor for both financial management and plan administration services. But clients opting for this “bundled” approach may quickly find themselves dissatisfied with the quality of service and guidance they receive.

At first glance, a bundled 401(k) solution can appear attractive. For one, it seems logical to only have to deal with one vendor, rather than three with the “un-bundled” approach: your firm, the financial services company you help your client select and a 401(k) administrative specialist. But a quick comparison of bundled versus un-bundled offerings makes a compelling case for tapping a coordinated team of specialists rather than a single 401(k) service provider.

Bundled Providers’ Support Often Generic, Ineffective

While mutual fund and other financial services companies offering bundled 401(k) services often excel at their core business – collecting and managing assets – plan administration is typically not among their strengths. For these companies, anything not directly related to the plan’s financial management tends to be secondary.





The fact that plan administration takes a back seat with bundled providers is reflected in their approach to employee education and their customer service overall. When the 401(k) plan is set up, little or no support is offered to individual employees to help them understand the new plan and their investment options. Ongoing support for both employees and the plan sponsor is usually provided through phone banks staffed by representatives unfamiliar with your client and his or her specific plan. Oftentimes, answers provided are generic, leaving callers to fill in the gaps.

And, when legislative, regulatory or legal changes impact 401(k) plans, bundled providers' client communications tend to be similarly watered down, as mailings go out to potentially thousands of plan sponsors nationwide. That leaves companies looking elsewhere for specific guidance tailored to their unique situation.

A Team of Specialists Provides High-Touch Service

An un-bundled approach, on the other hand, usually delivers a significantly higher level of client service, as each specialist on the coordinated team focuses on what they do best:

- The financial advisor enables the sponsoring company to structure a plan aligned with its goals, select an appropriate fund company and family of funds, and help conduct group and individual employee education sessions.
- The selected mutual fund or insurance company focuses on managing plan assets effectively.
- The third party plan administrator provides smooth plan operations, recordkeeping and compliance. It also delivers proactive, in-depth communications to plan sponsors and ready availability to answer client questions.

Since both financial consultants and third party plan administrators tend to focus on clients in their own geographic region, this team approach fosters more personalized client relationships. When plan sponsors switch from bundled 401(k) providers to an un-bundled approach, their CFO, HR director or another individual responsible for day-to-day plan operations typically experiences a marked improvement in service, as well as in the quality of consulting they receive.

Plan Administration Specialists Provide Knowledgeable, Proactive Support

When your client taps an experienced third party plan administrator, that firm normally assigns a select group of employee benefit professionals specializing in the complex rules governing 401(k) plans to your client's case. That team manages every aspect of plan administration, compliance and communications to your client. In the process, team members become intimately familiar with your client and his or her unique needs. When your clients call with questions, they get answers directly from the individuals administering the plan. And those professionals are well positioned to dig deep for answers to those questions, ensuring your client understands all of the relevant issues and options.



Moreover, when legislative, regulatory or legal changes take place, third party plan administrators typically can communicate those changes more quickly to clients, and with more relevant information your client can act upon. The administrative team is then there to guide your client to comply with those changes. In many cases, it can spot opportunities for your client to sidestep compliance problems, streamline plan operations and save money.

A Smart Choice for Fast-Growing Companies

An un-bundled, three-pronged approach to 401(k) plan management is particularly effective for dynamic companies that are growing through acquisitions. When an acquisition is undertaken, the blending of the two companies’ 401(k) plans presents unique challenges. Bundled providers are often ill-equipped to handle those complexities, forcing acquiring companies to turn to external ERISA¹ consultants for guidance.



An independent 401(k) administrator, on the other hand, is likely to see that your clients understand all their options to have the best plan for their circumstances moving forward. In cases where a company has anything other than a generic 401(k) plan – for example, it offers company stock as an investment option in the plan, or the company has an Employee Stock Ownership Plan in tandem with the 401(k) plan – a third party specialist is more likely to have the in-house expertise needed.

Selecting a Strategic 401(k) Administration Partner

If you decide to partner with a third party plan administrator and pursue un-bundled 401(k) plan sales opportunities, keep the following in mind as you select a partner:

- In this competitive market, look for a firm demonstrating a commitment to partnering with you to go out and sell the work, including strategizing to land specific cases. Such a partner can greatly enhance your ability to present compelling proposals, as well as demonstrate a coordinated team effort to service your client effectively.
- Make sure the firm will not be competing with you by offering investment services to clients. Some third party administrators have their own financial advisors in-house to capture both investment-related and administrative revenue.
- Once you sell the business, you want to be sure you can retain it. Evaluate both the quality of the firm’s staff and its approach to client service. The staff should be comprised of specialized professionals in either accounting or with certification in benefits administration. In the case of some smaller administrators, just a few individuals have such backgrounds, with much of the back office work handled by clerks with less training and technical competence.

An effective strategic relationship with a quality third party plan administrator not only enables you to sell ongoing and potentially lucrative 401(k) consulting work, but can also lead to referrals to the administrators’ other clients for the services and products you offer.

1. *Employee Retirement Income Security Act of 1974.*

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