Business Best Practices

How to Avoid TPA Partnership Pitfalls

As the TPA profession has matured, companies have learned the benefits of partnership. Local TPA firms provide administration and compliance services to their plans and advisors while partnering with national recordkeeping providers. Many defined contribution TPAs partner with other TPA firms that offer defined benefit and cash balance plan design and administration. An emerging partnership area over the past few years has been larger open architecture TPA/recordkeepers partnering with TPAs that do not provide daily valuation recordkeeping in-house. Focusing on the specifics of what a firm does well, rather than trying to be all things to all clients, is what a good partnership arrangement can support. With an effective partnership arrangement, your firm can offer all services to a client without having to perform all services independently.

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What makes for a successful partnership? We find that it is often the intangibles of firm personalities that can make or break a partnership. If the firms' visions and missions are similar, partnerships can still be unsuccessful if the details are not clearly delineated before the partnership is launched. Here are six partnership pitfalls and how to avoid them:

1. Firms select a partner based on efficiency and cost savings rather than alignment of core values.

Regardless of the industry experience of either firm, having matching "personalities" is the major factor in a strong, mutually beneficial relationship. A TPA firm on the east coast looking for a recordkeeper to partner with may want to avoid selecting a TPA/recordkeeping firm with clients in the southeast, even though both companies provide excellent service, because the firms might be competitors in other markets. Another key quality for effective partnerships is the willingness to admit, fix, and prevent mistakes, which are inevitable in the complex world of qualified plans—and this quality should be present in both TPA partners. Lastly, both parties should provide true fee transparency to the employer and participants, and together they should have a clear strategy on how they are going to communicate those fees and their value proposition as a *team.*

Partnering strategies that focus primarily on cutting costs and/or improving profitability are the arrangements that frequently fail, especially when high-quality service is the focus of a TPA firm. An example is offshore outsourcing partnerships that fall victim to the allure of cost savings—often touted to be as much as 50 to 75 percent. When expenses related to staff turnover, retraining, and U.S. personnel travel to the offshore location are considered, the cost savings are often closer to 25 to 30 percent. At this level, an onshore partner or virtual office with similar values to the primary firm is frequently an equal or more competitive alternative than the offshore firm. In addition, when layoffs are used as a cost-cutting technique in conjunction with outsourcing (offshore or onshore), remaining employees of the primary firm often experience low morale, which can affect client service and retention, which ultimately has a negative impact on the primary firm's bottom line. Ultimately, focusing on common values and using a partnership to manage growth outweigh the focus on generating higher profits.

2. Partnership firm's employees have limited experience, training, or organizational skills.

Despite technological advances and commoditization of the retirement services business, the key to success continues to be a well-trained, stable staff, especially in a TPA partner. Even if the arrangement

clearly defines each firm's tasks and/or plan types and has a good implementation plan, the model will still fail if one of the partner firm(s) has ineffective education requirements and/or cannot retain qualified people. Both firms must be aware of and approve education and training requirements of all employees. Without proper education and training requirements in place, a TPA firm might be better served by using its own resources to hire, train, and grow internally.

3. There is significant staff turnover.

Staff turnover can affect the partnership process in several ways. If layoffs at the primary firm take place as part of a cost-cutting strategy, historic knowledge of customers and processes can be lost. When institutional knowledge loss occurs, important processes are frequently overlooked and operational gaps appear, degrading the entire workflow process. Primary firms should determine the stability of the partner's workforce, e.g., the average length of service and knowledge level of a typical TPA employee. These statistics are critical in determining turnover rates of both firms, which can directly affect how smoothly the operation runs and how easily the partners will be able to absorb additional work.

4. Firms have insufficiently documented procedures.

Shifting unprofitable, ill-defined work to a partner can undermine the relationship, even if the partner firm is well managed and is in line with the primary firm's mission and vision. The key is first to clearly define and document all tasks, then to determine the tasks to be done by each partner and use a phased implementation plan that can be adjusted as the partnership moves forward.

5. Tasks are delegated with limited oversight.

It is common for many managers to adopt an "out of sight, out of mind" philosophy when it comes to managing partnership arrangements. Communication is key in these partnerships, and it is important to have effective review and oversight. Many partnerships fail because they are put in place and then little is done to monitor or review to see if the arrangement is actually working well. Communication is also critical when managing multiple offices' employees; internal processes and systems must be in place to keep partner employees in constant touch with what is happening at the primary office and to include them in meetings and other communications.

6. Firms take on too much at one time.

The retirement service industry is constantly dealing with deadlines. A common error when setting up partnership arrangements is transferring too many tasks or too much responsibility at once. Rather than using a phased implementation approach, some primary firms use a "throw the switch" type approach, where everything changes in a short period of time. This type of approach rarely succeeds because it typically results in unreasonable deadlines and insufficient definition of internal processes. Instead of cleaning up internally first, the decision is made to "transfer the problem" to the partner and hope for the best.

TPA partnerships take advantage of firms' specializations, allowing the two partners to grow more rapidly and become more successful. As Aristotle said many years ago, "The whole is greater than the sum of its parts." The key is to make sure all those parts are working together toward a common goal and everyone—from the owners to the administrators to the receptionists—know what those goals are and how they are expected to get there. ■