



# Survey of Third Party Administrators (TPA)

## Executive Summary

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### **Background:**

The American Society of Pension Professionals & Actuaries (ASPPA) recognized the need to get feedback from its Third Party Administrators (TPA) members on their core business and outlook for their marketplace. ASPPA partnered with Brightwork Partners, LLC—a leading research-based consultancy firm—to ask one hundred-fifty firms numerous questions ranging from key industry trends to best practices to concerns about industry issues.

“The findings represent the first comprehensive profile of the industry ever conducted on behalf of an association,” said Brian H. Graff, CEO and executive director of ASPPA. “We expect TPA owners will find the results helpful as they compare their firm to the overall industry, as well as with firms similar to their own.” ([ASPPA News Release](#) October 15, 2010)

### **Methodology**

150 TPA firms whose employees are members of ASPPA  
Owner, part-owner or senior executive knowledgeable about the firm’s financial performance  
Conducted online July 16 to August 16, 2010

### **Overview of Survey Topics:**

- I. **Business Profile** describes these firms in terms of how long they have been in business, their assets under administration, their average case sizes and other variables
- II. **Concerns and Opportunities** looks into the broader marketplace in terms of challenges (many) and opportunities in the years ahead
- III. **Plans Administered** arrays the number and types of plans administered by these firms and the growth rates for each type of plan
- IV. **Services Offered** quantifies the range and prevalence of specific services offered to clients and whether these are delivered strictly in-house or through an outside partnership or alliance
- V. **Revenue and Expense** reports the average top line for these businesses, the contribution of various product lines to revenue, the distribution of expenses by type and operating margins
- VI. **Business Development** describes the various approaches these firms take to drive sales
- VII. **Education, Training and Succession Planning** looks at how these firms train and support employees and the role of professional designations in these businesses
- VIII. **Segment Profiles** summarizes many key findings across such variables as assets under administration, whether the firm is a producing TPA and other dimensions



## Key Summary of Highlights

### I. Business Profile

The average TPA firm has been in business 20 years, has 16 employees, 1.5 offices and administers \$329 million in 401(k) assets. Among firms offering these services, average TPA revenue in 2009 was slightly over \$1.5 million and advisory and brokerage revenue was just under \$500,000.

The average case administered by these firms is slightly over 43 lives and \$1.2 million in assets (p.14). One in five firms describes themselves as producing TPAs; almost one in five (18%) describe their firm as a registered investment advisor (RIA) while an additional 57% of firms have a relationship with an RIA. Nearly one-third (30%) of firms say they are affiliated with a broker-dealer.

Self-described producing TPAs trend larger on all of these metrics. Producing TPAs are much likelier to be an RIA (57%) or to see themselves affiliated with a broker-dealer (70%). The largest TPA firms—those administering 250 401(k) plans or more—have average TPA revenue of just over \$2.5 million and advisory and brokerage revenue of nearly \$900,000.

Larger firms administer somewhat larger plans on average—51.9 lives and \$1.4 million in assets for the largest TPAs vs. 37.7 lives and \$1.0 million in assets for the smallest. The largest firms are about as likely as all firms to be producing TPAs but they are likelier to be an RIA, have a relationship with an RIA or be affiliated with a broker-dealer.

### II. Concerns and Opportunities

Business issues dominate owners' concerns; at least one in three are very concerned about achieving their profitability and growth targets, competing with bundled providers or payroll firms and dealing with the cost of regulatory compliance.

Organizational and staffing issues constitute the second tier of concerns, especially fostering a successful organizational culture; retaining, training and developing key staff and succession planning. Of at least some concern to most TPA owners are the competence of third party advisors they work with; fiduciary exposure; retirement income success for participants and recruiting key talent.

Most owners are not especially concerned about possible margin compression resulting from fee transparency, communicating effectively with local media or consolidation among investment providers. Owners of smaller firms are much more concerned about most things, especially fiduciary exposure, escalating professional organization dues, the cost of regulatory compliance and achieving their profitability targets. Larger firms are more concerned with competition from payroll firms and potential margin compression resulting from fee transparency.

Firm owners perceive few major opportunities in this environment. Expanding into the 403(b) market or acquiring or merging with another firm are the two most prominent, but cited by scarcely one in three respondents. Investment advisory services or becoming an RIA are not perceived as opportunities by more than a handful of TPAs.



Smaller firms are less likely than larger ones to see opportunity; larger ones are much more likely to see opportunity, especially partnering with local payroll companies or acquiring or merging with other TPA firms.

### **III. Plans Administered**

Although 401(k) plans represent by the far the biggest revenue source to TPA firms (68% of 2009 revenue), most firms also administer a wide range of other plans including profit sharing plans (nine percent of revenue), defined benefit plans apart from cash balance plans (seven percent of revenue) and combined defined benefit/defined contribution plans (five percent of revenue).

Although growing from a small base, owners report major increases in the number of 403(b) and 457 plans they added last year. Larger firms are typically more likely to administer each type of plan tested. The exceptions are SIMPLE IRAs or SEPs, which are more likely to be administered by smaller firms.

### **IV. Services Offered**

Unsurprisingly, virtually all TPA firms offer plan design and consulting, Form 5500 preparation, compliance testing, participant information and transactional services and plan installation support to their clients.

At least half of all firms also offer trust accounting, custom documents, enrollment services and ongoing post-enrollment participant education.

About one in five or fewer firms offer daily valuation recordkeeping (21%), investment advisory services, trading services or trustee and custodial services.

Producing TPAs are much likelier to offer investment advisory services, ongoing post-enrollment participant education and enrollment services.

Larger firms are at least somewhat more likely to offer most services, especially daily valuation recordkeeping.

About one-quarter of TPAs (23%) offer an investment platform through a custodial firm such as Schwab or Matrix—a figure that is much higher among producing TPAs (38%) and RIAs (56%) and somewhat higher among larger firms (27%).

### **V. Revenue and Expense**

Owners expect both TPA and advisory and brokerage service revenue in 2010 to be about the same as they were in 2009. Producing TPAs have slightly higher average TPA revenue than service-only firms (approximately \$1.7 million vs. \$1.5 million) but significantly higher advisory and brokerage service revenue (approximately \$750,000 vs. \$150,000). Firms with 250 401(k) plans or more have about three times the TPA revenue of firms with 100 or fewer plans (approximately \$2.5 million vs. \$800,000).

Administrative and compliance work at 56% constitutes the lion's share of the revenue dollar followed by recordkeeping (11%), documents (11%) and revenue sharing from providers (six percent).



Producing TPAs derive proportionally less revenue from administrative and compliance work (42% vs. 56%) but more from investment services (21% vs. 5%).

Billed service fees are by far the largest source of 401(k) revenue to these firms (59% of firm revenue) followed distantly by revenue sharing or service reimbursement allowances from providers (seven percent) or commissions or fees for the placement or retention of business with an investment provider (three percent).

Producing TPAs derive proportionally more revenue from revenue sharing and commissions and fees for placement or retention of business with an investment provider and less from billed service fees.

In 2009, personnel costs represented 65% of the expense dollar for TPA firms followed by technology (12%), rent and utilities (11%), sales and marketing apart from sales personnel (five percent) and other expenses of eight percent.

Including owners' base compensation as an expense, these firms report a 12% operating profit in 2009 on an EBITDA basis (they were targeting 14%). They expect to achieve this same level of profitability in 2010.

Operating margins are slightly higher for producing TPAs and larger firms than for service-only or smaller firms (15% vs. 12%; 13% vs. 10%).

## VI. **Business Development**

In 2009, start-up plans constituted 35% of the new plans written by all firms but a much larger share of the new plans written by the smallest firms (46%).

The most important source of new business for these firms overall is a referral from an uncompensated third party such as an accountant or attorney (responsible for 31% of new plans last year).

Compensated advisors (apart from RIAs) affiliated with a broker-dealer delivered about a quarter of new cases (24%) and RIAs are responsible for 12%.

Referrals from investment providers brought in 17% of new cases and referrals from existing plan sponsor clients delivered nine percent.

In-house sales staff calling directly on plan sponsors generated six percent of the plans sold last year (but 20% of new business for producing TPAs).

Smaller firms are much more dependent on referrals from uncompensated third parties and existing plan sponsor clients for new business; they derive much less new business through investment providers or advisors affiliated with a broker-dealer.

Larger firms flip this formula, deriving a disproportionately large share of their new plans from investment providers and RIAs and much less from uncompensated referrals.

On average, TPA firms have about one full-time sales person; firms work with an average of about 17 compensated advisors to develop business.



## VII. Education, Training and Succession Planning

ASPPA is by far the organization on which these firms rely most for education and training.

The QPA (41%), QKA (37%) and CPC (23%) designations are the credentials most frequently held by business owners. The QPA and QKA are also the most frequently held designations by other professional employees of these firms.

Owners anticipate growth in the proportion of their employees holding QKA, QPA and CPC designations over the next three years; many firms, in fact, require these designations for advancement.

About half (48%) of the employees of these firms who complete Retirement Plan Fundamentals training go on to obtain an ASPPA designation; most firms (88%) reimburse employees for these expenses while nearly half offer a bonus or promotion on completion.

While most firms say they are placing about the same emphasis on employee credentialing today as they did five years ago, nearly four in ten (39%) say credentialing today is receiving more emphasis. Service-only firms are much likelier than producing TPAs to be increasing emphasis on training.

Owners are about evenly divided on their preferred exit strategy; 35% consider a merger with or sale to another TPA firm to be the most likely transition plan while 33% would look to a sale to key employees instead. Fewer owners are focused on transferring control to a family member (15%), selling to a regional roll-up (nine percent) or selling to a provider (four percent).

Smaller firms are likelier to think in terms of a sale to or merger with another TPA firm; larger firms are likelier to think in terms of selling to key employees or to a regional roll-up or provider.

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**About ASPPA:** *The American Society of Pension Professionals & Actuaries (ASPPA) is a national organization of more than 7,400 retirement plan and benefits professionals that serves as the educator, voice, and advocate for the employer-based retirement system. ASPPA members are administrators, actuaries, advisors, attorneys, accountants, and other financial services professionals who provide consulting and administrative services for qualified retirement plans. [www.asppa.org](http://www.asppa.org)*

**About Brightwork Partners LLC:** *We are a research-based consultancy focusing on product, service and distribution issues in retail and institutional financial services. Best known for our work among advisors, we support clients who distribute retail investment and retirement services products through non-proprietary advisor channels. Our research is based on work among business owners; high net worth individuals; retail advisors; participants and former participants in qualified plans; plan sponsors; advisors who sell retirement services; and TPAs who administer retirement plans. Our clients include most of the leading mutual fund companies, insurance companies and broker/dealers active in these product areas. Brightwork Partners LLC was founded in 1999 and is in Stamford, Connecticut. [www.brightworkpartners.com](http://www.brightworkpartners.com)*