

# THE ASPPA Journal

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## TPA Partnerships—Consider the Opportunities

by Sarah Simoneaux, CPC

When some out of town friends invited us to take a vacation and stay with them in their home, I told my husband that I was worried we would be considered “parasites.” My scientific-minded husband smiled and replied, “I promise you that we would not be parasites. That would mean we would benefit totally at their expense, and we would give nothing back in return. At the very least, we would be commensals – hopefully, we would be mutualists.” My reply: “What? Commensals? Mutualists? Please explain.”

**A**nd of course, he did. “A barnacle is an example of a commensal. It attaches itself to a scallop because it needs a place to live, but the scallop is not affected negatively by the fact that the barnacle is attached. When we visit, we pay our own way, buy food for everyone and help cook and clean, so they are not negatively affected. An example of a mutualist is the fish that hangs out around sharks and keeps the sharks’ scales free of parasites. The shark stays clean and the fish gets protection from its predators by hanging out around the shark—a ‘mutually beneficial’ arrangement. I’d like to think of our visits as ‘mutualistic’ in nature. Both sides benefit.” While “mutualistic” is my husband’s scientific word for it, I like to think of a mutually beneficial relationship as a partnership. TPAs, in fact, make excellent partners in many situations and TPAs should look for opportunities to partner with other TPAs.

### Background

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



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providers. Many defined contribution TPAs partner with 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 do daily valuation recordkeeping in-house. Focusing on the specifics of what the 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.

TPA partnerships can allow firms operating in the same geographic market to work together strategically instead of competing with one another. Partnering firms can offer a broader range of services without the need for additional resources. Partnerships also allow firms to focus on what they do best while making administrators more client-focused and consultative in their specific areas of expertise and promoting ASPPA credentials for all client-facing staff to ensure quality performance. TPAs sometimes partner for reasons other than providing services to each other—perhaps for volume purchasing power, employee training or peer study groups. TPA partnerships can also play an important role in succession planning.

There are five essential considerations for TPA partnerships:

### 1. The plan should not be all in your head.

Both firms should be able to clearly articulate how the partnership will help their individual businesses. Each partner firm's business plan should state how the partnership fits into the firm's goals and strategies. The plan must be "out of the owners' heads," committed to writing and understood by each TPA's management team and staff. Not having clearly defined vision, goals and objectives for both firms can doom the relationship before it begins.

Example: A TPA partner that also performs open architecture recordkeeping services has "cutting edge technology" as a corporate value, along with a goal to "evaluate batch processing routines at least semi-annually." If the TPA/recordkeeper is currently partnering with one or more other TPAs, or intends to make partnerships part of its business model, the strategy and goals should not be a mystery to the staff. The employees are the engines of the TPA business, and their understanding of the business plan is essential to partnership success. How will batch processes need to change to accommodate the additional outside TPA business? Is additional technology needed to support the new arrangement?

### 2. Set goals and objectives and monitor progress.

Both partners should establish the goals of the partnership before they enter into the arrangement. If one firm is looking to grow and the other is looking for a succession plan, the agreement can

be structured to have the growth firm ultimately purchase or merge with its TPA partner (or at least to have a right of first refusal in a sale). The partnership allows the two TPA's staffs to work together and retain advisor and client relationships that can be lost in an abrupt sale. The normal rules of succession planning still apply, however: both firms should have a clear understanding of the sale price and timing, method of payment and the roles and responsibilities of the selling TPA's owner post-sale.

If both firms have a growth model, the owners should discuss up front what each TPA brings to the table, what the growth expectations are for each partner and where the opportunities for partnering exist.

Example: TPA #1 works primarily with platform plans and is currently partnering with a high-volume national open architecture recordkeeping firm for their straightforward daily valuation plans. This firm is looking for a TPA recordkeeping partner that will handle more complex open architecture plans. TPA #2 is a daily valuation recordkeeping TPA that administers both open architecture and platform plans. If these two TPAs consider partnering, there are many questions that should be evaluated. Does TPA #2 realize the complexity of the plans they will be recordkeeping for TPA #1? Would TPA #2 be willing to move some of its platform plans to TPA #1 (perhaps a more "mutualistic" arrangement)? Do the system security and data transmission processes meet the requirements of both firms? Which firm will be responsible for compliance? Do both firms have measurable, realistic growth goals over a specific timeframe, taking into account expectations of the partnership? Etc., etc.

### 3. Personality matters more than process.

The traditional cliché about relationships that "opposites attract" does not hold true for TPA firm partnerships. As the retirement plan administration business has matured, there are many high quality TPAs who are experienced at partnering with other firms. One key to a successful partnership is to partner with a firm that shares similar corporate values and exhibits a similar firm "personality."

Example: A producing TPA wanted to offload its administration business so that it could focus solely on its investment and advisory business. The decision was made to partner with a non-producing TPA in order to phase out of the administration business. After undergoing an RFP search and diligently reviewing several potential partners, the producing TPA selected a boutique administration firm due to its similar "personality," its focus on customer service and

its willingness to work with and train the producing TPA's employees. "We would have been a small part of a large cost-effective and efficient company," explained one of the producing TPA owners, referring to a larger high-volume firm that was initially considered. "Although it would have probably worked out, it just didn't feel right to us. [The boutique firm] saw right away that we were about customer service, and they will be able to support our growth without sacrificing our hallmark of consultative service."

#### 4. The devil is (still) in the details.

Successful partnership models have clearly delineated agreements for both the primary firm and the partner firm, especially around the specifics of client contact, conflicts of interest with advisors and plan sponsors, pricing, technology requirements, trading platforms, service standards, management, personnel and training.

The best structures also anticipate that the arrangement may not be permanent and negotiate up-front the process of dissolution (e.g., data transfer and confidentiality, employment and non-compete agreements, length and renewability of contracted services and technology licenses).


#### 5. Geography matters, but not as much you think.

The concern most commonly expressed by TPAs considering the partnership option is that if the two firms are located geographically close to one another, they will be cannibalizing each other's clients and advisors. The TPA partners we interviewed said a good reputation is paramount to their business model, and going after a partner's clients, referral sources or employees would put them out of business in short order. In fact, TPAs in the same geographic market can use a partnership to reverse the "race to the bottom" on administration fees as commoditization of TPA services continues to plague the industry. TPAs who agree to partner in their areas of specialty can work with the same referral sources to service different types of plans. They can work together with the referral source to clearly delineate services provided by each TPA. For example, when daily valuation services are needed, the TPA open architecture partner can perform recordkeeping services while the non-daily TPA partner can do the client contact work and compliance. Another example is when one partner has a low-cost "401(k) in a box" model and the other firm specializes in offering high-touch services to more complex plans. In each example, the TPAs can work together without infringing on the other's market.

Alternatively, in today's virtual world with state-of-the-art technology at our disposal, it is certainly not a requirement that TPA

partners are in close proximity of each other. Highly successful partnership models can be supported from opposite ends of the country or any combination of regions. In most of these cases when TPAs in different geographic regions partner together, competing for the same business no longer becomes an issue. Other partnership strategies can also be pursued. For example, consider a Florida TPA partnering with a Kansas TPA. Florida is known for its hurricanes and Kansas is known for its tornadoes. These two firms could enter into a partnership arrangement where each partner could operate as a "satellite" office for the other in the case of a disaster if one partner was temporarily unable to run its business due to physical damage, lack of power, etc. This type of arrangement is especially efficient where both partners utilize the same software solutions. Data can be loaded onto the partner's system, plans could be administered remotely or employees could actually relocate temporarily and operate from the partner's firm.

#### Conclusion

TPA partnerships take advantage of firms' specializations and allow 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." This saying has proven true in many TPA partnerships. Consider the opportunities! 



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