

HICKS NOTES

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THE ARGUMENT FOR USING AN UNBUNDLED APPROACH TO 401(k) ADMINISTRATION

A primary decision an employer must make when setting up a new 401(k) plan is to use a bundled or unbundled approach. In a bundled approach, the administration and investments are provided by one company, usually a payroll or human resource company. These plans are sold on simplicity because it is all done “under one roof”. They claim there is an easy integration between the payroll and 401(k) administration; and because it is all handled by one company, it can be done more efficiently and at a lower cost. This argument couldn’t be further from the truth.

In an unbundled approach, experts are hired for each function. There is generally a TPA/Compliance firm, an investment advisor and an investment company. For an article on the various roles of advisors, [click here](#).

ACCOUNTABILITY: By hiring and paying for each advisor, you get the required expertise needed to design and properly administer a plan. This leads to better accountability because you know exactly who does what and how much they are being paid for their work.

In a bundled approach, the payroll expert knows very little about the ins-and-outs of plan design and administration. Clients may be referred to an in-house TPA who is unseen and hidden behind an 800 number. Passing the buck and not getting accurate answers is the hallmark of many of these bundled providers. In addition, the fees are hidden in the investment returns, so a client is never sure of who exactly is getting paid for what work.

PLAN DESIGN: Too often, when a proposal is prepared for a bundled provider, they fail to give an advantageous plan design that could help the employer get better benefits. The payroll sales person doesn’t understand how using safe harbor and class allocation formulas clearly can help an older owner. Their proposals are fee-based quotes and nothing else. By using a good TPA, a client will get a proper plan design that will serve the employer much better than an off the shelf plan. All proposals are not the same. [Click here](#) to see what should be included in a proper proposal.

BETTER INVESTMENT CHOICES: In a bundled product, the investments are pre-chosen and the menu is from the company the payroll provider has teamed up with to handle the money. There is often a fixed menu with only one class of funds and providers. These funds can be more expensive because they are paying commissions to subsidize the “lower fees” the payroll provider is offering. In an unbundled approach, a financial advisor can shop and negotiate with [numerous investment companies](#) to make sure the client is getting a good mix of funds and options.

In addition, because the financial advisor is being paid, they have an incentive to enroll and educate participants to the plan’s benefits. Outcomes are better in unbundled plans because of this “hands on” approach by the experts involved.

COMPLIANCE AND EXPERTISE: When utilizing an unbundled approach, many firms have attorneys or professional designations for their employees. This expertise is invaluable when a plan is under examination by a government agency or when complex operational issues arise.

Too often, when a client receives an [IRS](#) or [DOL](#) audit letter, the bundled payroll provider leaves the client on their own to find an attorney to help with the audit. In some cases, the client is responsible for inputting the data, running tests, and completing their own 5500 reporting forms. By having a professional who only does this work, the examination and administration is done accurately and timely and, if a problem arises, a good TPA will defend their work against outside agencies.

In addition, by using independent organizations, you have an extra set of eyes on the various functions involved. This ability to audit and wash the data means errors are more likely to be found instead of compounded when a bundled approach is used.

BOTTOM LINE: While a bundled approach may seem like a good solution, in operation they tend to fail miserably with regard to the issues outlined above. What seems like a good deal can turn into an administrative nightmare. If you have clients who are unhappy with their current bundled providers, contact us today for various solutions.