



Advantages of Unbundled vs Bundled

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Available at www.401kacademy.com

I. 401(k) Plans Come With Unbundled or Bundled Services

- A. 401(k) Plan services consist of (1) investment services, (2) recordkeeping services and (3) administrative services.
 - 1. Investment Services: the provision of investment options such as a variety of mutual funds, stable value funds and education/support for participants. This area also includes fiduciary services relative to the selection and monitoring of the investment options. It is normally best to have an professional Financial Advisor involved in this process.
 - 2. Recordkeeping Services: the service of keeping track of individual participant investment accounts in subsets by source (salary deferrals, matching contributions, rollover contributions, profit sharing contributions, Safe Harbor contributions, Roth 401(k) salary deferrals, etc.). The recordkeeping service tracks contributions, investment asset allocation, transfers between funds, payouts, loans and any investment activity that affects participant accounts.
 - 3. Administrative Services: consists of initial and on-going consulting, administration and compliance testing. When we discuss the concept of "unbundled" vs. "bundled" this is really the only service affected. In an unbundled service, this ERISA compliance work is performed by a local, expert Third Party Administration ("TPA") firm as opposed to these services being provided by the recordkeeping entity. There is a real cost for this service area regardless of who performs these services, but with bundled arrangements, the cost for this may be hard to determine because it is part of the overall fee offering.
- B. The balance of this write-up concentrates on the Administrative Services area and the pros and cons of this part of the services being provided by an independent TPA ("Unbundled") vs the financial institution who is doing the Recordkeeping Services ("Bundled").

II. Pros and Cons of Unbundled vs. Bundled Administrative Services

- A. One of the perceived disadvantages of unbundled is that there will be too many parties involved in the process. This is true to the extent that a local TPA will be added to the mix. However, the additional technical benefits and service benefits of having a TPA involved outweighs any confusion of having one more entity involved. Even within the bundled offerings, there is generally a completely separate department of the financial institution involved, so there really is not a major difference between the two types of offerings. Also, most of the contact of the Plan Sponsor in an unbundled environment would be with the TPA and not the Recordkeeping entity, so you would have the simplicity of one firm to contact for almost everything of any importance. In all of these arrangements, the Plan Sponsor will be dealing directly with the financial institution to submit their data



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files, unless the Plan Sponsor wants the additional involvement of the TPA for this process, which has some advantages from a quality control point-of-view. It will be documented and clear from the outset as to which firm should be contacted for what, so very little real confusion will result in the unbundled arrangement.

- B. Another perceived disadvantage of the unbundled arrangement is that it is significantly more expensive because you are adding one more party to the mix who has to be compensated. In reality, the same services have to be performed whether the case is bundled or unbundled and these services require people and computers to get accomplished. In the bundled environment, the direct billable fee is often quoted as being lower than the unbundled provider's fee, but this is deceptive. In a bundled environment what generally happens is that the fee to cover the compliance work is buried in the overall fee which might be a combination of direct billable fees that look less expensive and some sort of asset based fee which might actually be raising the cost of the investment options. If the Plan Sponsor wants a lower direct billable fee from the unbundled TPA, that can easily be accomplished by shifting some costs of services to an asset based charge much like the bundled providers do. The difference is that in the unbundled arrangement, the Plan Sponsor has some flexibility in this regard. The unbundled offering is generally marginally more expensive than the bundled offering, but the benefit vs. cost trade-off is substantial as will be discussed more below.
- C. In the unbundled offering, if a quality TPA is involved, the Plan Sponsor and the participants will generally get the advantage of more comprehensive and technically more competent services. The professional staff of a good TPA firm will tend to have more average years of experience and more comprehensive technical training than the typical staff employee of a bundled provider. TPA firms are normally much, much smaller in the number of employees they must train and manage than the typical bundled provider's administration department and they are owned by on-site management who have a greater interest in their success than a paid manager of a big institution. As such, the quality of the services of the employees is at a higher overall level of competency.
- D. In a unbundled environment, if you do not like the services of the particular TPA, the Plan Sponsor can replace the TPA without having to change the overall program. In a bundled environment, if the quality of the compliance work or communication is lacking, you cannot make a change without getting rid of the whole program – which is very burdensome.
- E. In a bundled environment, the financial institution oftens organizes themselves into client service representatives who handle the communication with the Plan Sponsor but not the actual work and a back office compliance staff who do the real compliance work. Rather than being simpler, this actually makes the process more involved and introduces some inherent communications issues. In a typical TPA firm, the assigned administrator is both the client service representative and the one doing the actual compliance work. Some tasks such as payouts and loans may be done by a separate department, but the critical work is done by and communicated by a knowledgeable administrator resulting in a more immediate



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feedback process for Plan Sponsor questions. You also have the advantage that the person handling the client communications is in a better position to offer proactive ideas for actually improving the plan rather than just being charged with simply administering the plan as is.

- F. In an unbundled environment, the TPA is generally able to provide more sophisticated design and more sophisticated plan documents. Bundled providers normally must try to make sure that they have only round pegs to put into round holes and if the clients needs a square peg, that is outside of what they can do. For example, TPA's often provide documents using what are known as "Volume Submitter" documents as opposed to Standardized or Non-Standardized Prototypes. Most bundled providers often only use Standardized Prototypes which are very limited in what they can handle and are often a compromise of some sort.
- G. At Plan Design Consultants, Inc, we have found during our 37+ years in the business of taking over plans from a variety of providers, both bundled and unbundled, that the offerings from the bundled providers often involve basic technical mistakes and that takeovers from TPA's are usually more competently performed. It is pretty scary the types of mistakes that are involved in taking over from bundled providers. The bundled provider is usually protected against the mistakes because they simply indicate that they did their work based on the information the Plan Sponsor provided. "Garbage-in, garbage-out" is the approach. A good TPA refuses to accept garbage and stays on the client until clean data is received.
- H. A TPA generally is better at communicating with the Plan Sponsor about changes in the law and the real world applications of such changes. The bundled provider will produce some very attractive brochures and newsletters about the changes in laws and regulations, but the Plan Sponsor must actually figure out what they are going to do about the changes. The typical TPA leads their client through the analysis and the development of exactly what must be done because of the changes.

III. Summary

- A. Bundled arrangements will appear simpler and less expensive, but the "all in" cost comparison is generally not all that different between bundled and unbundled – just packaged differently and with less transparency.
- B. The best service model for proactive, technically competent and more communicative services is the unbundled model. The unbundled arrangement is advantageous for the Plan Sponsor and the Financial Advisor.
- C. TPA's can be terminated and new ones hired without cancelling the whole investment program that might be working perfectly well. If you are unhappy with the quality of the compliance administration in a bundled environment, your hands are tied – eliminate the entire program or live with the poor services.