



# Efficiencies of Unbundling a Larger Plan

## Advantages of Unbundled Arrangement



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# Efficiencies of Unbundling a Larger Plan

## Advantages of Unbundled Arrangement for Large Plans

Prepared by Paul Carlson of Plan Design Consultants, Inc.

- I. An “Unbundled Arrangement” means “Administration Services” are provided by a professional TPA firm instead of the recordkeeping vendor. Administration Services cover the following areas:**
  - A. Initial and on-going consulting
  - B. Drafting and maintenance of the plan documents as the law or regulations change
  - C. Discrimination testing (the ADP test) and dealing with failed tests
  - D. Calculation of and monitoring of matching contributions
  - E. Coordinating with and assisting the CPA firm in the annual audit
  - F. Keeping the Plan Sponsor advised of the latest trends such as automatic enrollment with automatic increases and available Safe Harbor approaches
  - G. Assisting the Plan Sponsor in planning for acquisitions and in dealing with the retirement plans of the acquired companies.
  
- II. These technical administrative services are best provided by a TPA as opposed to a vendor’s home office staff.**
  - A. Initial and on-going consulting**
    1. A quality, local TPA firm with extremely experienced principals can add a lot of value in the planning area as opposed to a vendor wholesaler. One makes a profession out of doing plan administration correctly and the other is in the role of just selling plans.
    2. Paul Carlson, founder of Plan Design Consultants, Inc. would be involved in larger plans as a proactive consultant and he has over 37+ years of experience in the industry.
    3. A TPA’s consulting services are usually more robust dealing with areas where the normal bundled provider might simply refer you to an ERISA attorney. For examples, when divorces take place for participants, a good TPA will assist with coordinating with the attorneys of both sides in getting a proper QDRO (Qualified Domestic Relations Order) drafted and approved by the court. In a bundled environment, the Plan Sponsor is left on their



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own to deal with such areas and they generally do not have the expertise to properly do so.

### **B. Drafting and maintenance of the plan documents as the law or regulations change**

1. TPA's generally utilize much more sophisticated documents (volume submitter plans) which are more flexible and powerful than the prototype plans offered by bundled providers.
2. It is much more likely that the kinds of document provisions that the Plan Sponsor might want will be able to be accomplished within the plan documents provided by a quality TPA.

### **C. Discrimination testing (the ADP test).**

1. TPA's generally have a more experienced and trained staff who are more accomplished at finding alternative ways of doing the ADP test to minimize failures and also have more expertise in dealing with failed test corrections on a timely basis.
2. Since we are located in the San Francisco Bay, we can be more participatory in face-to-face meetings with the client regarding planning for improving participation through education and selection of vendor tools designed to improve the plan's attractiveness to employees.

### **D. Calculation of and monitoring of matching contributions**

1. Most large plans offer either a matching contribution subject to vesting or a Safe Harbor Matching contribution
2. TPA's are normally involved in quality control checking of the employer's calculations and/or involved in helping to do an "annual true-up" to reconcile accuracy of contributions made.
3. With a bundled vendor, the client is pretty much on their own regarding the accuracy of their calculations and completeness of their deposits.
4. TPA's are stronger regarding the interpretation of the precise regulations relating to Safe Harbor contributions and do a better job of discussing alternatives such as the new QACA (Qualified Automatic Contribution Arrangement).

### **E. Coordinating with and assisting the CPA firm in the annual audit**

1. Much of the CPA audit of a large retirement plan can best be accomplished at the offices of the TPA because of access to vendor computer systems via the TPA web access to the plan.
2. The data collected and transaction records for loans, payouts, etc. are generally more organized and readily available to the CPA audit firm at the TPA's offices.
3. Auditors are often not as knowledgeable about 401(k) plan rules and regulations as a TPA firm is, so having much of the audit at the TPA office



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is helpful to the auditor because he or she can get the immediate technical help they need as issues come up.

### **F. Keeping the Plan Sponsor advised of the latest trends such as automatic enrollment with automatic increases and Safe Harbor approaches**

1. In the 401(k) area, things are constantly changing. Congress gives us new rules and regulations to comply with and the industry develops new approaches to problems such as a lack of participation.
2. TPA's, being local to the Plan Sponsor, can do a better job of actually explaining the changing trends and new approaches by having face-to-face meetings with the plan committee.
3. Some of the latest trends are automatic enrollment with automatic increases, the use of Target Date funds as the QDIA (Qualified Default Investment Alternative) and the availability of proactive Managed Account Services which can be chosen by some participants. Also, the new QACA Safe Harbor is something that a good TPA can help a Plan Sponsor evaluate to replace the old Safe Harbor Matching contribution arrangement.

### **G. Assisting the Plan Sponsor in planning for acquisitions and in dealing with the retirement plans of the acquired companies.**

1. Larger Plan Sponsors in the high tech industry tend to be involved in more corporate transactions of acquiring other companies as either an asset purchase or a stock acquisition. Also, it is more likely that a division or group of employees will be sold off to another company.
2. It is very important that a local TPA be available to be part of the planning process to make sure that the right things are done in the planning and execution of an acquisition relative to the retirement plan or plans of the company being acquired. This is best dealt with in the planning process and not after the acquisition has already been made.

## **III. Summary**

- A. The unbundled model definitely results in a better arrangement. You are inserting a retirement plan expert between you and the vendor to make sure that the plan is run well.
- B. The cost of a TPA can be absorbed by the vendor in most cases if the assets are substantial.
- C. Plan Sponsors will achieve the highest level of compliance with regulations and will have the expert partner they need to make the plan as successful as possible. This is not always true for a bundled arrangement.