JOURNAL of PENSION BENEFITS

Issues in Administration, Design, Funding, and Compliance
Volume 29 • Number 4 • Summer 2022

Keeping the Legacy Going: Maintaining an Independent TPA Firm

By Julie A. Altig

In the first of our two juxtaposed articles about the pros and cons of TPA business acquisitions and consolidations, Julie Altig examines the mindset of someone who seeks business continuity, rather than consolidation, both in her purchase of her practice, and in her planning for her own exit strategy. To prevent your independent firm from taking a direction other than the one you envisioned, it is necessary to have an exit strategy integrated into your vision, goals, and planning.

Choosing to sell your practice to a larger firm is such a personal and subjective decision. In no way do I want to sound judgmental of those that do sell but is it something my business partner and I have made a commitment to not do.

Why would I take such an extreme stance knowing that we could be missing out on a potentially large payday?

One reason is that we are beneficiaries of prior owners who believed their legacy should continue. They

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worked for decades to build, not only their book of business, but the firm's excellent reputation. They did this as two women starting with one plan in a male-dominated field. Not only did they create a book of business, but they also created a work environment employees love; their motto was "work to live rather than live to work." Was selling to us the best financial decision for them? Probably not. Theoretically, they could have received a few more zeros on their checks. Instead, they chose to try to preserve their legacy by keeping the business model intact. Their goal was to keep customer service to the level and overall quality model they worked so hard to create.

Another reason for being reluctant to sell to a third-party administrator (TPA) aggregator is that I spent the first decade of my career with a firm that grew substantially by purchasing other books of business. The purchased company would be gutted; we would onboard the plans into our system and many of the employees of the purchased company would be let go. At most, one or two key individuals continued to work but often didn't last long in the new environment. As an employee myself (rather than a business owner) for the better part of 20 years, I dislike employees being treated as expendable. In this new era of acquisitions, I hear promises that the business will run the same; no one will be let go, nothing will change. These promises may very well be heart-felt and intended to be honored. The employees may be kept on and the high standards you developed for your clients honored. But, there is no guarantee. By the time you find out what the true course of the business is, you are not in a position to object.

Your clients may be moved to a work center in a part of the country with a lower cost of living or possibly even moved offshore. Having been raised by a father with strong midwestern values, my goal is to keep jobs local. One could argue that, with the changes COVID 19 has wrought on our society, "local" no longer has the same meaning. Our employees are now spread across four states and work remotely. But, to me, "local" now means our work supports the families of our employees, we see the kids of our employees being born, playing little league, selling girl scout cookies. These are the people I feel the need to support.

Having an undergraduate degree in International Relations, I do know that the US economy is global and one could argue my belief is xenophobic. Perhaps my attitude is a bit, but I sleep better at night knowing I am supporting the people I can.

When asked to write this view on the subject, I interviewed Shannon Edwards of TriStar Pension Consulting out of Oklahoma. Shannon is also a TPA owner that started her business from scratch and now employs half a dozen people. Like our firm, Shannon is frequently approached by entities offering to buy her firm. From previous conversations we have had, I knew she is of like mind about selling.

After years of self-reflection, Shannon says she knows herself well enough to know that she can't work for someone else and that she wouldn't work well with a large corporate environment. Having at least 15 years left in her career, any offer to buy her firm would not be enough to allow her to retire. The thought of being an employee versus the business owner is not in her "wheelhouse."

Similarly, Shannon prides herself on customer service for her clients. Working one-on-one with clients is what makes her happy. She treats her clients like family, not a number assigned in a system. She, too, is afraid that the culture she has carefully crafted would not be sustainable if sold to a "conglomerate." As we all know, service levels tend to fall as "efficiencies" rise in businesses. We have all seen the level of service drop over the past decade with our vendors that have been forced to cut costs due to fee competition. They all deny their service has changed, but we face longer wait times on hold and less experienced customer service agents that often can't answer questions.

Shannon also feels, like we do, that her team is an extension of her family. Selling their jobs from underneath them would feel like a betrayal.

So, what is the end game for business owners like Shannon and me? Ideally, I would like to give interested employees the same opportunity I was given. However, there's more to it than just finding the right successor. You also have to have the time and the ability to groom that person to take over for you. This is more challenging than just teaching technical expertise, and even more complex than teaching management technique. You need to give your chosen replacement the space to develop an instinct and a vision of his or her own, as well as the freedom to maintain your dream while approaching it in a different way. This takes a lot of self-discovery and ego strength.

In the 15 years or so I have left of my career, I hope to develop a few employees that are as passionate as I am about running this firm. Someone that wants to continue providing the same level of service and expertise we are known for. But what if that is not possible?

Shannon also is concerned about finding the person with the technical skills, knowledge, and entrepreneurial spirit needed to take on a business. We are both discovering how difficult it is to find someone who has that passion and *wants* to take the responsibility of owning a business. Shannon has considered that, in the event no particular employee presents themselves as a viable replacement, she will try to find another business owner in the industry who runs his or her crew in a similar way, with a compatible business culture. Shannon suggested getting that succession plan in place is key to the longevity of the business she has created, especially if something happens to her unexpectedly. Shannon has put in place a consulting team to help if something was to happen to her. As having a formal buy-sell agreement with another firm or business owner could create a related entity issue for retirement plan purposes, it can be difficult for a TPA business owner without partners to have a formal succession plan in the absence of an employee who wants to buy the firm. Therefore, an industry friend suggested to Shannon that she explore putting into place a consulting team to assist in the sale of her company if something unexpected were to happen. She is exploring this possibility.

In summary, a lot can happen over the course of your career in your business. To prevent your firm from taking a direction other than the one you envisioned all along, you should have an exit strategy integrated into your vision, goals and planning for the firm. That strategy may change and evolve over time, which is fine if you don't have to execute it in the near future. Some firm owners use their exit strategy three, five, even 20 years later. As the owner, you determine the expected outcome, parameters, and results before you exercise the strategy. ■

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