

CEFEX Certification: The ‘Gold Standard’ in TPA Validation

CEFEX Certification is one of the cornerstone attributes of an ‘alpha’ TPA.

BY JASON BROWN

Advisors and plan sponsors benchmark plan fees, investments and other services that can be provided by a record keeping platform, but rarely have I encountered a full and proper due diligence review process of a third-party administration (TPA) firm.

In many circumstances, the TPA selection is based less on quality, credentials and certification than on a basic comparison of cost for administration services. When considering the significance of the risk mitigation and operational compliance oversight needed to support plan fiduciaries, this seems like a severely flawed strategy for selecting a TPA.

Over the years, I have concluded that there are two primary drivers of this state of affairs:

1. There really is no easy-to-use due diligence tool for validating the depth and scope of a TPA.
2. Advisors and recordkeepers have not been properly educated on how to vet the quality and capabilities of a TPA, so the perception is: “They all do compliance testing, prepare 5500s and provide a plan document, so they are all pretty much the same, right?”

I find the second item particularly frustrating from a TPA’s perspective, because not “all TPAs” are the same, just as not “all retirement plan advisors” are the same. It also reminds me of an Ary Rosenbaum article from a few years back in which he observed that, “You need a license to practice law to be an ERISA attorney; you

need to be a CPA to be a retirement plan auditor; you need a securities license to be a financial advisor; but anyone can put out a shingle and call themselves a TPA.”

That comment may be a little sarcastic and tongue-in-cheek in nature, but it is not really that far off base. This is why basing the engagement of a TPA primarily on price is a serious disservice and potentially a disastrous decision for plan sponsors, especially without knowing what you are really buying.

Better-informed decisions on TPA selection and engagement could be made if there were some type of *Consumer Reports*-style “Best Buy” rating for TPAs, or a *Good Housekeeping* “Seal of Approval” to help confirm a TPA’s “Alpha status” over its competitors... essentially indicating to advisors and plan sponsors, “Yes, this TPA is a prudent choice.”

Well, the good news is that there is an independent “Seal of Approval” for TPAs — it’s called CEFEX Certification.

WHAT IS CEFEX CERTIFICATION?

The ASPPA Certification for Service Provider Excellence was developed to recognize firms providing administration services to retirement plans that adhere to a standard of excellence and a dedication to best practices. The program incorporates annual certification renewal audits conducted by independent expert analysts to continually verify adherence to applicable standards developed under the CEFEX Certification program.

The Certification process is comprised of 15 “Practices for TPAs,” which are intended to provide the foundation and framework for a disciplined administration process. The Practices are organized under a Four-Step Management Process, which is used in the Global Fiduciary Standard of Excellence for Investment Fiduciaries:

- Organize
- Formalize
- Documentation
- Monitor

The steps are analogous to the global ISO 9000 Quality Management Standard, which emphasizes continual improvement to a decision-making process.

WHAT DO THE 15 TPA PRACTICES COVER?

As noted above, the 15 Practices evaluated for a TPA to obtain the CEFEX Certification fall within the Four-Part Quality Management System. They are continually subject to audit review for annual certification renewal. Note that the numbered Practices listed below contain many additional subsets where further due diligence is performed.

Organize

1. Senior management demonstrates expertise in its field, and there is a clear succession plan in place.
2. There are clear lines of authority, and the mission, operations and resources operate in a coherent manner.
3. The organization has the capacity to service its client base.
4. Information systems and technology have a strong infrastructure, staff support and are adequately secured.
5. The organization has developed programs to attract, retain, train and motivate employees.
6. There is a formal structure supporting effective procedural and operational

oversight.

7. There is an effective risk-management process to manage the organization’s business risk.

Formalize

8. The organization provides disclosures which demonstrate that there are adequate resources to sustain operations.
9. The organization maintains defined business strategies which support its competitive positioning.
10. There is an effective process for allocating and managing both internal and external resources and vendors.
11. There is adequate and appropriate disclosure and delineation of the cost of services provided to each client serviced.
12. The organization has responsible and ethical reporting, marketing and sales practices.
13. Recordkeeping and administrative information is readily available, disclosed and accessible to authorized parties for prudent selection and monitoring of the service provider.

Documentation

14. Administration activities are performed in a timely and accurate manner.

Monitor

15. There is a process to periodically review the organization’s effectiveness in meeting its client responsibilities.

One of the Practices in particular reviews an often overlooked but growing concern in the industry today: cybersecurity and the protection of participant data. In most circumstances a TPA is only asked for proof of E&O (Errors & Omissions) coverage, but seldom are

they asked about the technology and systems they have in place for data security. Part of the CEFEX review process evaluates a TPA’s data security measures and confirms that their system and staff are formidable and operating at the highest standards.

THE GOLD STANDARD FOR ALPHA TPAs

The evaluation process for a TPA to become CEFEX Certified is very extensive, covering every major facet of a firm’s organization, systems, processes and services. It requires continual improvement for TPAs to meet all of the required metrics. Going through the process is voluntary, which is a strong indicator of a TPA firm’s commitment to deliver the strongest administration and compliance services possible. CEFEX Certification is huge differentiator when comparing TPA firms, as only 50 firms nationally have achieved this certification. Thus, CEFEX Certification is one of the cornerstone attributes of an “alpha TPA” — the “gold standard” in TPA validation.

At the end of the day, plan sponsors and advisors want assurance that the TPA they engage has the ability to perform all the necessary functions at the highest level for a retirement plan to run smoothly and be operationally compliant. CEFEX Certification is great way to validate that a TPA has the infrastructure and processes in place to achieve those goals. **PC**



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