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Systemization and Automation What came first, the chicken or the egg?

by Renee J. Conner, QPA

Although I loathe admitting it, I come from the timeframe where we learned to use computers at work! No fancy iPads or iPhones, no Internet access on airplanes. I remember booting up computers with two 8-inch floppy disks and signing up for computer time on the one computer we all shared in the office! Gen X and Yers are reading this thinking, “Wow, how old is she?” or “What’s a f-l-o-p-p-y disk?”

While our automation has come a long way, for many TPAs, the systemization of our internal processes looks eerily familiar (*i.e.*, it hasn’t changed since the mid 80s!). Many TPAs think the purchase of software will solve their operational issues internally, and, to some extent they are correct. But, let’s try not to confuse the two things—systemization and automation. Systemization is what you do to prepare your processes for automation. Computer programs, for the most part, don’t systemize anything—they simply automate what already exists. They can capture dates and times, store client data and run compliance programs. But systemization or *process standardization* is what happens inside your office, outside your automated programs. It involves your clients and your staff—whether administrators, billing clerks, sales representatives or the receptionist who opens your mail.

Process standardization sounds like a fairly boring topic—so, why bother? As a former TPA, I was committed to the establishment of process standardization within our office. It not only ensured service quality and mitigated business liability, but also relieved stress levels for our employees and, you guessed it, dramatically



increased our profitability! It created service delivery consistency even if there were temporary or permanent personnel changes. With documented processes, work flows through your office more quickly, tasks don’t fall through the cracks and billings for non-standard services are very easily identifiable. You might ask, “Doesn’t this standardization take away employee creativity in their work?” That is a very valid point when discussing plan design, a very creative process done by very educated people. However, the administration of the plan that has left the design phase should be a very predictable, repeatable and explainable process. Administrators should perform the same steps, verify plan compliance in the same way and document those steps consistently. Imagine bringing a new employee into your firm who has

both the technical knowledge to administer a plan and familiarity with your firm's chosen compliance software. A good "standard operating procedure" (SOP) would allow that individual to become immediately productive without needing to learn all the information that is just "known" in your office but not documented. For most TPAs, new employees have to be "assimilated" (yes, like the BORG!) in order to find their way around the office.

An SOP is a written set of instructions that documents a routine or repetitive activity that is followed by an organization. The development and use of SOPs are an integral part of a successful quality system as it provides individuals with the information to perform a job properly and facilitates consistency in the quality or integrity of the work. SOPs are intended to be very specific to your organization as they should detail both your firm's commitment to quality assurance and customer service. Process documentation isn't anywhere near as difficult or as boring as you might think. It is an excellent exercise for the staff and gives the opportunity to not just document the process but streamline it as well. (Note that the term "streamline" is synonymous with increased "profitability!") Your staff will also tell you the sore points of your current processes so that you can improve their work environment along the way. SOPs are excellent team building tools. All you need is a white board, some colorful markers and a facilitator—and your staff will do the rest to create an effective SOP.

The logical next step to improving your profitability is to automate your SOPs. However, software isn't a magic wand! It is better to first have processes that are documented and tracked manually than to invest in software prematurely and be unsuccessful in its implementation due to a lack of SOPs. The process makes the most sense and the best use of your capital if done in the right order—systemization first, automation second, and yes, then the Holy Grail, *integration*.

What SOPs should a TPA business have?

That depends on the business model of the firm. If we look at a TPA model that does not offer investment services, the following list would reflect some basic SOPs the firm should establish (basically a list of all the things we do on a daily basis).

- Annual 401(k) Administration
- Annual Profit Sharing Administration
- Annual Money Purchase Administration
- Interim Valuations (Quarterly or Semi Annual)

- Annual Defined Benefit Administration
- Annual Cash Balance Administration
- AFTAP Certification
- Trust Accounting
- Participant Loans
- Distributions—Participant Instigated (separation from service, in-service withdrawals, hardships, etc.)
- Distributions—Plan Required (RMDs, mandatory cash outs, plan terminations, etc.)
- Plan Notices
- Plan Restatements
- Amendments
- New Client Establishment—Start Up Plan
- New Client Establishment—Takeover Plan (Probably the scariest process we have as TPAs!)
- Vendor Conversion
- Annual Billing Review (Don't forget this one!)
- De-conversion of an Existing Client
- Plan Termination

And the list goes on and on. Some processes touch several departments in your office (e.g., New Client Establishment with a takeover plan). This one very broad process touches every department from billing to sales, and documents to compliance. Wouldn't it be wonderful if these processes could flow through your office, being handed off to all appropriate personnel like a well run relay race?

Let's talk about the basics of developing an SOP.

An SOP should be written in a very understandable format, that is, a format understandable by a new employee. It is also intended to be a step-by-step explanation of the subject. For example, if a step in your annual administration process is to run the reports that will ultimately comprise your annual report product, don't just say "Run Reports." A better way, much more helpful to a new employee, would be, "Run X, Y and Z reports to a .pdf file and save in the client folder \annual report\batch reports.pdf" (or whatever your naming convention may be). In the latter example, an employee doesn't have to be assimilated (remember the BORG) to understand what to do.

Don't make things overly complicated.

If your steps can't be flowcharted without looking like the graphic below, your process is too complicated. It may be that you are trying to combine too many SOPs into one. For example, many people develop "DC Plan Administration" SOPs. Though similar

in many respects, the “Contribution Calculation” portion is very different, both in the compliance issues and the amount of client preference that goes into the contribution decision. So, instead of having complicated answers for every possible option, you can ask only the questions that apply. The same is true for new clients. A start up and a takeover are very different; combining the two makes for a complicated SOP.


Reference good checklists.

If you have already developed excellent checklists that help administrators navigate the minefield or regulatory checkpoints, reference them or incorporate them into your SOPs. You need not discard good tools that have helped your staff in the past. In the absence of these tools, ask questions that help your staff to remember all the various steps that ensure quality in your product. For example, “Verify Compliance with IRC Section 416” is necessary, but breaking it into steps makes it easier to not make an error and far easier to review.

- Is this plan aggregated or disaggregated with another plan for top heavy purposes? No.
- Enter the top heavy percentage for the current year: 63%.
- Enter the amount of all key employee distributions in the five previous plan years: \$120,000.
- Does the plan utilize different eligibility requirements for different contribution sources? Yes.
- Verify that top heavy minimums were allocated to all participants eligible for the most liberal contribution source.

Obviously these steps were developed from items that may have slipped through the cracks in the past. A completed SOP is also easily reviewed by a peer and/or a manager.

You won't be perfect the first time.

Don't worry about perfection. Depending upon the stage of development of your firm, your SOPs could be ready for automation (the ultimate goal!) or still in their infancy. As you complete an SOP, work towards computer automation of that SOP. Just start somewhere and commit to the review of your SOPs on an annual basis. They will get better and better over time and will be revised whenever anything “slips through the cracks” (not that anything like that ever happened in my firm!). 



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