

# Conducting a Retirement Plan Recordkeeping Vendor Search: Benefits and Best Practices



Conducting a vendor search can be a detail-laden, time-intensive process that takes up to six months to complete. If the vendor search results in the selection of a new vendor, the conversion can disrupt the norm and create anxiety. Why would a plan sponsor volunteer to do this?

Aside from the fact that conducting a vendor search helps a plan sponsor fulfill a portion of their fiduciary responsibility under the Employee Retirement Income Security Act of 1974 (ERISA), a properly guided vendor search should result in some or all of the following:

### Increased Services



- Better plan sponsor and participant technology
- Better participant savings analysis tools
- Better participant education
- Better products and investment options
- Better all-around service

### Lower Fees



The benefits of conducting a vendor search substantially outweigh the potential short-term inconveniences. Applying some battle-tested best practices along the way will not only help mitigate those inconveniences but also ultimately result in selecting the most suitable vendor for the plan.

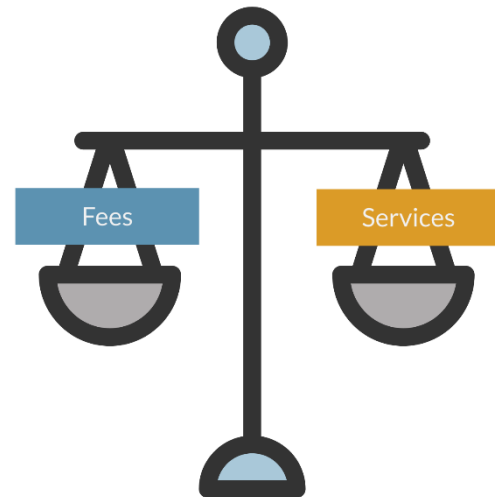
This paper begins with a look at why conducting a vendor search may be necessary to satisfy several of a plan sponsor's fiduciary duties under ERISA, followed by a discussion of the numerous practical benefits that result from a thorough vendor search. The second half of this paper will focus on twelve best practices that, if followed, will substantially alleviate the perceived burdens of conducting a vendor search and help guide the plan sponsor to a perfect-fit vendor.

## Benefits of Conducting a Vendor Search

### Fulfillment of Certain Fiduciary Duties

ERISA governs most conventional retirement plans and mandates that plan sponsors accept and fulfill a relatively high degree of fiduciary responsibility with regard to the plan and its participants. Among the litany of its rules, ERISA either directly or indirectly requires a plan sponsor to perform multiple tasks with regard to the plan's vendors.

Perhaps the headliner among these vendor-related ERISA requirements is the duty to determine if the compensation paid to a "party-in-interest" is reasonable in light of the services being rendered. (ERISA defines parties-in-interest to include the plan's service providers.) This means that plan sponsors must ensure the reasonableness of any fees charged to the plan considering the services that it receives from its vendors. There is no requirement to select the lowest cost provider, only to document the prudent process used to evaluate the fees in tandem with the services rendered.



By its definition, a determination of reasonableness implies some level of comparative study. In the context of retirement plan vendor fees, determinations of fee reasonableness are often informed by marketplace comparative fee analysis. Retirement plan fee benchmarking studies most typically take one of three paths:

1. **Basic fee benchmarking study**
2. **Request for bid**
3. **Comprehensive request for proposal**

These three paths differ both on the time and effort required to complete as well as the specificity and breadth of the results.

#### Basic Fee Benchmarking Study

The most basic type of fee benchmarking study looks at general industry data to approximate a fee range that the plan could expect if it solicited bids from vendors at large. The data used to inform such a study is often gathered from industry research institutions to which vendors and other professionals report fee information. Consulting firms that assist plan sponsors with fee benchmarking studies may also keep a database of proprietary information regarding vendor pricing ranges and trends. This very basic benchmarking study does not consider the specific objectives and service requirements of a particular plan.

#### Request for Bid

Issuing a request for bid to a population of prequalified vendors injects an element of plan specificity and uniqueness to the fee reasonableness determination. The request for bid process incorporates certain plan specific information such

as the number of participants, plan asset levels, and plan design information. In summary, the request for bid process entails issuing a request for bid to a defined population of vendors, receiving and analyzing the bid specifications received from vendors in response to the bid request, and comparing the bids received to the current fee structure. In addition to helping them make fee reasonableness determinations, plan sponsors often use the request for bid request-for-bid process to negotiate lower fees with their current vendors.

### Request for Proposal

The ERISA-mandated determination of fee reasonableness must also consider the services that are being rendered by the vendor to the plan. Fee benchmarking studies and requests for bids are not designed to probe vendors about how they would address the plan's specific servicing requirements. Therefore, plan sponsors often decide to engage in a more comprehensive vendor search process that is custom tailored to the circumstances, objectives and service needs of the particular plan. By undertaking a full-blown vendor search, plan sponsors are able to assess the reasonableness of fees, and consider the reasonableness of fees in light of the plan's particular objectives and needs.

The request for proposal process typically involves three phases:



During the **preparation phase**, the plan sponsor typically starts the vendor search process by determining its objectives in conducting the search. Sometimes plan sponsors organize participant focus groups to solicit feedback about current and desired plan services from the participant's perspective. This feedback is then used to help shape the search objectives.

Example search objectives include:

- Increasing plan participation through well-strategized participant outreach;
- Offering an improved array of high-quality investment products to participants;
- Making more robust technology and tools available to plan sponsor and participants;
- Delegating certain administrative and compliance functions to the plan's vendor; and,
- Decreasing plan costs.

Once the search objectives are established, the plan sponsor prequalifies the vendors who will be invited to propose. A thorough vendor prequalification entails a preliminary evaluation of the entire marketplace to arrive at a list of vendors that have the basic capabilities required by the specific plan. This baseline step is important because most vendors have defined their business and service models to suit the needs of certain types and sizes of retirement plans with certain features. For example, a 401(k)-only service provider would not make a good selection for a 403(b) plan sponsor's prequalified vendors list. Other factors, such as the plan sponsor's current relationship with the vendor (if

any), the vendor's reputation in the marketplace, the vendor's asset transfer requirements, and the plan sponsor's search objectives, tend to influence the plan sponsor's prequalification decisions. Prequalified vendor lists usually include the current vendor and run six to ten vendors deep.

The following additional tasks are completed during the preparation phase of a vendor search:

- ✓ Creating a project timeline;
- ✓ Collecting plan and participant level data and investment information;
- ✓ Reviewing certain elements of the plan's design; and,
- ✓ Drafting a customized request for proposal and sending it to pre-qualified vendors.

The customized request for proposal includes a questionnaire covering all desired service components and capabilities. It also reports meaningful demographic, design, investment, and asset data to assist prequalified vendors in proposing exactly how and at what cost it would deliver its service offering to the plan.

During the **analysis phase** of a vendor search, prequalified vendors draft their proposals, which are then carefully reviewed and analyzed with the plan sponsor's search objectives in clear focus. The capabilities and solutions proposed by each vendor are compared head-to-tail across the board. Determining the proposal evaluation criteria and creating a comparative vendor scorecard can help ensure a comprehensive apples-to-apples comparison of the vendors' offerings. Once the proposals are reviewed and compared, the plan sponsor typically selects two to four finalists from among the candidate pool. The finalists represent the proposals that best address the plan's unique objectives and overall circumstances. Finalists are typically given another opportunity to present the highlights of their offering directly to the committee with the committee able to interact directly with each vendor and to ask specific questions about their proposal. The analysis phase concludes with the selection of the plan's vendor.

The final phase of the vendor search is the **conversion phase**, which often requires up to three months to complete. During this phase, the plan's investment options lineup is selected, service agreements are negotiated, plan assets and data are transferred to the new vendor, and the plan sponsor's fiduciary duty to determine if the compensation paid to a service provider is reasonable in light of the services being rendered is fulfilled.

Other fiduciary responsibilities and tasks that may be fulfilled as a result of a request for proposal project include:



## Other Benefits

Conducting a vendor search comes with a multitude of benefits beyond the satisfaction of certain fiduciary responsibilities. Several of these additional benefits are highlighted below:

### Service and Resource Enhancements

Plan sponsors trust their vendors to perform a myriad of delegated tasks, but often wish that the list of delegated tasks could be even longer. The competition created by the vendor search should drive vendors to offer to do more for plan sponsors. Delegating more responsibility to the plan's vendor can substantially relieve the plan sponsor of its administrative burden. Conducting a vendor search also provides plan sponsors with the opportunity to assess and buy newly available products, services, tools, and technology. Plan sponsors that rely on multiple vendors to provide investments and services may find that consolidating to a single vendor results in significant operational efficiency.

### Improved Participant Communications and Education

Plan sponsors must operate the plan for the exclusive benefit of participants. Plan sponsors must also ensure that the participants receive the information necessary for them to make informed choices regarding their participation in the plan. Participant education is one of the most important objectives of most plan sponsors because they understand that a well-educated participant is more likely to take the steps necessary to be ready for retirement. New industry studies are constantly reshaping how participant education is strategized, and vendors are adding more participant-centric services to their offerings.

### Improved Investment Alternatives

Plan sponsors are required to diversify the investment alternatives available to participants under the plan. Investment products have evolved with the marketplace, and access to open architecture platforms has become more desirable. As a result, new and better investment products and platforms are being offered.

### Increased Participation

Usually fed by an improved education program and resources, many plan sponsors find that a vendor search results in a sharply defined education plan. The education plan is designed to increase participation such that more employees decide to enroll, and current participants start contributing more money to the plan.

### Decreased Cost

While ERISA does not require plan sponsors to choose the vendor with the lowest price, plan sponsors and participants often enjoy lower fees as a result of the search process, regardless of whether a new vendor is hired. The vendor search process sparks a level of competition that should result in an improved service package at a lower overall cost.

### Increased Employee Satisfaction

When taken together, the aforementioned benefits conspire to create yet another benefit: increased employee satisfaction. Employers often cite employee satisfaction as one of their primary objectives in sponsoring a retirement

plan. The vendor search process provides the employer with an opportunity to ensure that participants are receiving allows the employer to ensure that participants receive the best available retirement plan products, services, and resources.

## Vendor Search Best Practices

The 12 best practices listed below have helped plan sponsors minimize the inconveniences and potential disruption that are sometimes associated with conducting a vendor search.

### 1. Determine Search Objectives

Align the search objectives to plan needs, budget constraints, past vendor experiences, current plan participation rates, participant feedback, and marketplace trends. Insist that proposing vendors demonstrate an understanding of and focus on these objectives throughout the process.

### 2. Prequalify Vendors

Prequalifying vendors will create efficiencies during the vendor search process because only vendors known to successfully deliver services to similarly situated plans will be invited to propose.

### 3. Develop a Search Schedule

A well thought-out project timeline will keep the vendor search project on schedule to achieve the desired new vendor conversion date. Allow six months to complete the vendor search and coordinate it with other activities such as open enrollment periods, benefits fairs, ongoing plan entry dates, or plan year end.

### 4. Draft a Thorough RFP

Ensure that the request for proposal questionnaire is specific to the plan's needs and goals. Use the RFP to provide vendors with the information necessary for them to propose services that are custom-tailored to suit the needs of your unique plan.

### 5. Develop Comprehensive Evaluation Criteria

When evaluating a population of potential retirement plan service vendors, using a comprehensive set of evaluation criteria is very important. Of course, aligning the evaluation criteria to the specific objectives of the plan sponsor is also essential. Evaluation criteria include vendor experience, service team and model, service commitments, administrative capabilities, investment platform, and capability to perform all of the services required by the plan.

### 6. Freely Request Desired Follow-up Information

Sometimes a review of a vendor's proposal can spring other questions to mind. Freely request any desirable supplemental information. For example, vendor candidates should be willing to demonstrate plan sponsor and participant websites and answer all of the plan sponsor's questions along the way.



**7. Develop Investment Menu Consistent with IPS**

Consult the plan's investment policy statement for guidance when selecting the new fund lineup. The lineup may include a qualified default investment alternative to help further mitigate the plan sponsor's fiduciary liability.

**8. Request and Review Sample Materials**

Sample service agreements, plan documents, and participant enrollment materials can help bring the vendor's proposed service package to life. Requesting a comprehensive array of materials is also a good way to assess the quality you can expect from the vendor.

**9. Check References**

Before selecting a vendor, check at least three references. Ask the reference specific questions about their experiences with the vendor and take detailed notes.

**10. Negotiate Service Guarantees**

Vendors should be willing to put fees at risk if they do not achieve certain service levels. These service guarantees can be incorporated into the service agreement with the vendor. Require that the successful vendor be willing to do this.

**11. Inform Participants Carefully**

Participants do not always appreciate vendor changes. However, when they are able to understand and see the benefits of the change to them, they are likely to feel reassured that the change was not just some top-down mandate. Strategize the rollout of information to participants throughout the process accordingly. In some cases, it may be important to include rank and file employees in the vendor search process to help ensure acceptance by the overall participant population.

**12. Establish a Conversion Timeline**

If a new vendor is selected as a result of the search process, establish a conversion project timeline. Include items such as selecting the fund lineup, executing service agreements, restating the plan document, educating participants, scheduling enrollment meetings, and otherwise preparing for the vendor change.

## Conclusion

ERISA clearly imposes a fiduciary duty on plan sponsors to prudently select and monitor the plan's vendor and ensure that the fees charged to the plan in connection with the vendor's services are reasonable. This fiduciary duty is continuous. Competition between recordkeepers has led to constant innovation, updates to services, and, often, fee compression. Conducting a vendor search approximately every five to seven years



**TIP:** Some plan sponsor contracting and purchasing standards require vendor searches on a specified timeframe.



helps the plan sponsor satisfy these ongoing responsibilities. While the vendor search process may initially seem burdensome, following a few best practices can mitigate the inconveniences, and the benefits quickly overwhelm the burdens.

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