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The Bottom Line: Which One Is Best?

Five ways to select the best service provider

For a plan sponsor, selecting or changing a service provider can be daunting and may very well be the most crucial choice made as a plan fiduciary. A good provider can help prepare participants for retirement by supplying quality tools, education and investment options. A bad provider, on the other hand, has the power to ruin a company's retirement plan. And, to make things more complicated, according to the Department of Labor (DOL), a plan sponsor has a fiduciary duty to "establish and follow a formal review process at reasonable intervals" to ensure the selected provider is appropriate for that company's retirement plan.

So where to begin? "The whole process has to start with figuring out and being very honest about the most important aspects of the plan—[and] what the most important aspects are to the client," says Stace Hilbrant, managing director of 401k Advisors LLC.

The decision, ultimately, is in the hands of the plan sponsor, but help exists—many plan sponsors call upon the plan's adviser or engage an outside consultant to help guide him through the process. The adviser or consultant can work with the sponsor to determine goals for selecting a provider or establish what does not work with the current one. The adviser must then determine which provider fits the sponsor's goals or resolves its current issues. For example, a sponsor might be most interested in low-cost investments or participant education. In one case, Hilbrant says, he performed a provider search for an employer with 100 locations and eliminated the vendors who could not adequately support them all.

In a nutshell, the adviser's job is to run the provider search, notify providers that do and do not make the cut, and lead the finalists' meetings, as well as answer any questions about the search, Hilbrant says.

Generally speaking, the process of selecting a new provider begins with the Request For Proposal (RFP), a series of questions posed by the plan sponsor to a service provider. The RFP should address the provider's services and level of commitment and experience, among other things. It can help the plan sponsor begin to sense how potential providers' capabilities match up with the company's needs.

An RFP is important in searching for a provider and is helpful in gauging cost, but Dan Hall, vice president of retirement plan sales at The Standard, cautions that it misses many nuances that plan sponsors should consider. "RFPs are great—we love them. But we're not crazy about decisions being made [solely] from an RFP," he says.

Therefore, after an RFP is conducted, plan sponsors usually bring in a sampling of vendors that have been determined to meet the company's needs, for a finalist presentation or in-person interview. Joel Mee, director of retirement plan sales operations at The Standard, says a plan sponsor cannot assess a provider's values and the type of relationship they would share without a face-to-face meeting. "To make a really good, solid choice, you need to go beyond the RFP and interview the provider [to] understand their culture and values and how they are going to be of service to you," he says.

A quality provider recognizes that retirement plans are voluntary and employees will only enroll if they find the plan attractive, Mee says. When researching providers, industry experts say it is important to keep the following qualities and features in mind.

Service-oriented attitude. A good attitude goes a long way for a service provider trying to stand out from their competition. “It starts with the vendor having a service-oriented attitude toward the client,” Hilbrant says. “You get hired for who you are and how you bond with folks.”
The provider should demonstrate high-quality services from the beginning by asking questions about what is important to the client, rather than acting as if the client were just another piece of business on the books, he says.

Another way providers can demonstrate their client-focused attitude is by being prepared, such as by bringing customized samples of educational materials and Web demonstrations. “It shows that you did your homework,” Hilbrant says.

Charlie Nelson, president of Great-West Retirement Services, says you can gauge a provider by its service model and materials. Sponsors should ask, “Will [it]provide information to my participants to help them improve retirement readiness? How can different types of employees activate that service?”

A good provider will make information accessible through multiple media channels, such as print and the Web, as well as through in-person meetings with their representatives. Good providers also make on-demand reporting available on their websites, Mee adds.

Financial stability. “In today’s world, with a number of things that have occurred since 2008, plan sponsors need to look at the financial strength [of a provider],” Nelson says. If the provider does not have solid financial footing, this can affect participant services, he notes. Whether a provider has a responsive call center, as well as various technologies and a decent website, also indicates financial well-being. Moreover, it is important to determine whether the provider has the financial strength to expand services in the future, to accommodate fallout from the new fee disclosure regulations, in particular, Nelson says.

Compliance expertise. In Nelson’s opinion, very few RFPs contain questions about 408(b)(2) and 404(a)(5) fee disclosure regulations. Under the DOL’s 408(b)(2) regulation, most service providers of retirement plans are required to disclose information about fees and services to plan sponsors by July 1; the 404(a)(5) regulation requires plan sponsors to provide fee information to participants by August 30.

According to Deloitte’s 2011 Annual 401(k) Benchmarking Survey, the majority of participating plan sponsors said that new compliance requirements related to fee disclosure will significantly affect the administration of their plans. Seventy-one percent of plan sponsors ranked fee disclosure regulations as “quite important” or “very important.”

Nelson says plan sponsors should be asking potential providers for specific examples of how they will help them meet compliance under the new regulations. Sponsors should also ask whether the providers have updated their service agreements, as well as request examples of what the participant will receive under the new 404(a)(5) regulation.

“Every year, it gets just a little more complicated,” Hall says, so providers must find the most effective ways to work with their clients and uphold compliance standards. A good provider should have technology, operations and legal support, he says.

A good provider will also take the time to explain compliance regulations and the ramifications of not following them, Mee says, and should present alternatives in the event that a compliance issue arises.

“When there are compliance issues, there are providers out there who don’t just send a report,” Mee says. “They take the time to make sure the plan sponsor is understanding what’s going on and offer alternative solutions to resolve the issue or change the plan design.”

Sponsors should ask provider candidates questions like, “If there is a compliance issue, how will you resolve it with me? Will you offer me alternatives if they exist? Will you consult me regarding the issue?”

Focus on education. Whether concerning retirement plan components or general financial wellness, plan sponsors should understand a provider’s approach to participant education. “What this whole industry is really about, or what it should be about, is preparing individuals for retirement,” Mee says. According to MetLife’s 10th Annual Study of Employee Benefits Trends, only 39% of employees were very confident in their ability to make the right financial decisions for themselves and their families and 72% expressed interest in having various financial education programs made available to them in the workplace. The study also found that attending these educational programs can make a difference—58% of people who did felt very confident in their decisionmaking, compared with 43% of people who had a program available to them but did not attend.

A good service provider candidate will offer a healthy repertoire of educational options, including retirement calculators, investment research, a quality website, multimedia materials and risk tolerance questionnaires.

But it seems that no matter how many tools participants are given, a significant number never use them. Although not everyone in the industry agrees, if a plan sponsor wants to offer face-to-face enrollment and educational meetings to help participants understand how much they should be saving for retirement, it is vital to ensure the provider can support that request, Mee says.

According to a recent study from Lincoln Financial Group (“2012 Lincoln Retirement Power Research Series: The Value of On-Site Participant Communication and Education”), participants continue to value one-on-one meetings with professionals—more than 71% said they favored those types of meetings over alternative formats. Surprisingly, despite the interest, only 19% of participants actually attended one-on-one meetings with a representative from their plan provider in the past year.

Effective education about retirement readiness balances on the fine line between worrying people and informing them. You don’t want to scare them, Hall says. You want to show them the benefits of being in the plan.

He cautions plan sponsors against being wowed by style over substance—flashy material has been ineffective for participants. “It looks very good, but it’s not the most effective method of communicating with participants,” Hall adds.

Instead, sponsors should find providers that have integrated research on behavioral finance. The materials should consider various adult learning methods that have been proven through academic research, he suggests. “Even how you phrase [concepts] and how you present the material [are] key.”

Retirement income options. Historically, the focus of 401(k) plans has been accumulation. Now, with the first wave of Baby Boomers retiring and a renewed emphasis on retirement income, this is an important feature to evaluate. “[Retirement income] products are often complex and require unique recordkeeping functionality. Whether your plan has retirement income products today, or may in the future, it is important to make sure when selecting a [provider] that they have the capability to handle [them],” Nelson says.
The Deloitte survey found that many plan sponsors (40%) were neutral about the importance of new retirement income options for participants. Seven percent ranked them “very important,” 26% “quite important,” 20% “somewhat important” and 7% “not at all important.”

Hall says, although he thinks retirement income options are significant, he still recommends a focus on saving, above all else.

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