



Conducting a Vendor Search

Benefits & Best Practices

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Agenda

- Benefits of Conducting a Vendor Search
 - Execute Fiduciary Duties
 - Improve Services and Products
- Frequency and Timing of Vendor Searches
- Vendor Search Assessment Criteria
- Vendor Search Best Practices
 - 12 Search Process Steps
 - Sample Search Schedule
 - New Vendor Conversion Tips
 - Common Pitfalls to Avoid
- Case Studies

The Benefits of a Vendor Search

Conducting a vendor search helps satisfy certain fiduciary responsibilities, as follows:

- Monitor and evaluate service provider performance on an ongoing basis.
- Ensure fee reasonableness in light of the services being performed.
 - Ensuring fee reasonableness requires a comprehensive understanding of all plan fees and the services to which they are attributable.
- Provide appropriate levels of participant information and education to assist participants in making informed choices.
- Delegate certain fiduciary responsibilities to the vendor.
 - Outsourcing certain HR functions may reduce the plan sponsor's administrative burden.
 - Due to marketplace competition among vendors, vendors are increasingly willing to do more on behalf of plan sponsors.
 - Some recordkeeping vendors will accept varying degrees of fiduciary responsibility.

The Benefits of a Vendor Search

Conducting a vendor search may improve plan service levels, leading to increased plan benefit, plan utilization and employee satisfaction.

- Regardless of whether the plan sponsor decides to transition to a new service provider, the vendor search process could result in:
 - Better plan sponsor and participant technology;
 - Better participant savings analysis tools;
 - Better participant education;
 - Better products and investment options;
 - Better all-around service; and,
 - Lower fees and/or increased value.

Vendor Search Frequency & Timing

- No bright line “requirement” for vendor search frequency, but plan fiduciaries have an ongoing responsibility to monitor and evaluate quality of services and fee reasonableness.
 - Industry sourced recommendations are anywhere between every 2-5 years, depending on circumstances.
 - If the current service provider is not servicing the plan well, more immediate action to replace the current service provider may be advisable.
- Coordinate vendor search and new vendor implementation with other plan activities such as open enrollment, ongoing entry dates, plan year end, plan document design review and restatement, etc.
 - Mid-plan year transitions may increase preparation time needed for census data reports, audit kits and Form 5500 Series production.
 - Focus on the first day of a calendar quarter.
- Allow at least 6 months for the vendor search and new vendor conversion processes.
 - Example: If the goal is to implement a new service provider by January 1, 2012, begin the search process no later than July 1, 2011.

Vendor Search Criteria

Vendor evaluation criteria may include:

- Reputation in the marketplace;
- Experience;
- Current and former client satisfaction levels;
- Service model;
- Participant education and enrollment support;
- Quality of collateral, including annual plan review;
- Web and other client and participant support tools;
- Service standards and/or guarantees;
- Conversion process and timeline;
- All-in plan fees;
- Fee disclosure philosophy;
- Revenue sharing philosophy; and,
- Investment restrictions and limitations.

Vendor Search Best Practices

1. Form a vendor search committee and define scope of search and objectives.
 - Narrow the scope as much as possible to allow for maximum efficiency.
 - Align objectives to past experiences, current participant plan utilization, plan needs and goals and marketplace trends.
 - Form participant focus groups.
2. Develop and manage a search schedule.
 - Set a deadline for the completion of each step in the search process.
 - Allow at least 6 months.
3. Develop clear, well written RFP questions.
 - Ensure that questions are specific to plan needs and goals, and require vendors to describe solutions with detail.
 - Include questions related to vendor qualifications, service standards and product/investment offering.
 - Model questions are available.

Vendor Search Best Practices

4. Request proposals from the pre-qualified vendor universe and thoroughly analyze responses.
 - Define vendor assessment methodology and create a scorecard.
 - Analyze scorecard results.
5. Choose and notify finalists.
6. Coordinate finalist presentations and/or site visits.
 - Ask questions.
7. Develop proposed investment menus in alignment with investment policy statement.
 - Vendors may be constrained by proprietary funds and/or platform limitations.
 - Investment lineup may impact overall plan fees depending upon revenue sharing and other factors.
8. Request and review sample service agreements, sample plan document, sample participant notices and enrollment campaign material and sample annual plan review.
9. Check vendor references thoroughly.
 - Prepare a list of questions and make contact with current and former clients.

Vendor Search Best Practices

10. Negotiate preliminary fees and service standards with all finalists.
 - Ensure fee reasonableness in light of services being provided.
11. Choose and notify selected vendor; notify proposing vendors that were not selected.
12. If a new vendor is selected, establish and manage a new vendor conversion timeline.
 - This timeline will include items such as finalizing designated available investments, executing service agreements, restating plan documents, educating and notifying participants, scheduling enrollment meetings, training the plan sponsor on new websites and systems, and preparing for liquidation and first contributions.

Vendor Search Best Practices

Along the way...

- Document all vendor search process steps, including reasons for decisions and actions taken.
 - Documentation helps to limit potential fiduciary or other legal liability.
- Review plan design in preparation for plan document restatement.
- Consider conducting a comprehensive fiduciary assessment.
- Consider engaging a consultant to assist in managing the process.

Sample Vendor Search Schedule

July 1: Establish a vendor review committee.

- Include representatives from HR, payroll, finance, etc.
- Notify committee members.

July 8: Define search scope and objectives.

- Consider plan needs.
- Pre-qualify vendors.

July 15: Develop RFP questions.

- Ask specific, clear questions.

July 22: Request proposals.

- Allow 3 weeks for responses.

Aug 1: Develop vendor scorecard.

- Use well defined metrics.

Aug 15: Analyze RFP responses.

- Discuss responses with committee.
- Obtain committee consensus.

Sample Vendor Search Schedule

Sept 1: Choose and notify finalists.

- Coordinate site visits and/or finalist presentations.

Sept 8: Begin conducting finalist presentations.

- Allow 2 weeks.
- Request fee schedule and fund lineup.

Sept 22: Evaluate finalist presentations/visits.

- Check references.

Sept 30: Select and notify vendor.

- If same vendor, decide whether to notify participants about the decision to stay.

Oct 1: Begin working with new vendor.

- Set conversion schedule and begin holding weekly meetings.
- Manage to the conversion schedule.

Oct 15: Consider a full fiduciary assessment and plan design analysis.

Jan 1: Go live with new vendor!

New Vendor Conversion Tips

- Conversion processes and timelines vary from service provider to service provider.
 - Typical recordkeeper conversion timelines allow first cash to be deposited with the new vendor between 15-90 days from the award notification date.
 - If re-enrollment is required, the process may take longer than mapping investments.
- Ensure prompt notification to prior vendor—prior vendor cooperation is essential.
 - Check contract termination notice requirements.
- During conversion, request weekly timelines from the new vendor and monitor progress to ensure that all items are executed on schedule.
 - Ensure that the participant communication and education campaign is clear, thorough and well executed. Obtain employee feedback and request adjustments from the vendor as needed.
 - Ensure timeliness of blackout notification delivery.
 - Coordinate with payroll vendors and other service providers as needed.
- Design an effective vendor conversion communication campaign for participants.
 - Inspire confidence in the decision by explaining reasons for the change and setting expectations.

New Vendor Conversion Tips

- Coordinate internal controls with any new operational requirements.
- Obtain website/systems education and training for designated staff.
- Set participation goals and ensure potency of enrollment and education campaigns/meetings.
 - Establish a participant focus group and request its feedback frequently.
- Ensure clarity of roles and responsibilities during and after the conversion process and memorialize them in the service agreements.
 - Set clear expectations for annual scheduled work.
 - If possible, negotiate service guarantees for transactional and scheduled work.
 - Outsource as much as possible to the vendor.

Avoid Potential Pitfalls

- Do not invite an unqualified universe of vendors to the table.
 - Search schedule will be significantly lengthened without added value.
- Do not lose track of plan objectives.
 - Stay focused on plan needs.
- Do not assume that services are included in a vendor's offering.
 - Ask questions = no surprises!
- Do not assess vendors on subjective criteria.
 - Use scorecard with predetermined metrics.
- Do not base vendor decision on a fund lineup.
 - Fund managers and/or fund performance can change.
 - Instead, focus on flexibility of the fund lineup solution.
- Do not overlook prior vendor investment liquidity restrictions.
- Do not delay in notifying the prior vendor.
- Do not keep participants in the dark.
 - Preparing participants for the change and getting their input will increase the chances of a successful conversion.
- Do not veer from conversion schedule if a new vendor is selected.

Case Study: Private University

Private university: over 2,500 participants with accounts and \$140 M in plan assets with 3 different vendors.

5 objectives:

- Manage recent 403(b) regulation requirements.
- Consolidate vendors.
- Improve plan operation and cost structure.
- Create minimal operational disruption.
- Provide full transparency to participants.

Process:

- Define objectives for vendor search.
- Follow vendor search process.
- Create participant focus group and collect feedback.

Case Study: Private University

Result:

- Consolidated services to an existing single vendor, including 5500, testing, document support and investment platform.
- Expanded participant education services, including 1200% increase in on-campus education and customized materials.
- Expanded investment universe to include non-proprietary funds.
- Single vendor paid surrender fees on individual contracts.
- Individual contracts transferred to group contract.
- Created full fee transparency.
- Negotiated fee caps and service guarantees.

Case Study: Bio-Tech Company

Bio-tech company: 3200 participants with accounts and \$400M in plan assets.

4 objectives:

- Improve participant experience.
- Improve plan operation and cost structure.
- Create minimal operational disruption.
- Provide full transparency to participants.

Process:

- Define objectives for vendor search.
- Follow vendor search process.

Case Study: Bio-Tech Company

Result:

- Selected new vendor.
- Recordkeeping fees decreased by approximately \$700,000 in year one.
- Expanded investment universe to include non-proprietary funds in less expensive share classes.
- Created full fee transparency.
- Improved plan sponsor services.
- Secured a more robust participant experience.

Case Study: Global Travel Management Services Company

Global travel management services company: 879 participants with accounts and \$30 M in plan assets.

5 objectives:

- Improve plan operation and cost structure.
- Improve local branch participant education support.
- Improve investment structure.
- Create minimal operational disruption.
- Provide full transparency to participants.

Process:

- Define objectives for vendor search.
- Follow vendor search process.

Case Study: Global Travel Management Services Company

Result:

- New vendor selected.
- Recordkeeping, administration and broker fees went from 0.47% to 0.28%.
- Expanded investment universe to include non-proprietary funds and flexible stable value choices.
- Increased education commitments, including local branch support.
- Added language translation services for employee communications.
- Improved plan sponsor services.
- Negotiated transparent revenue model.

Questions / Resources

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White Paper:

[Conducting a Vendor Search: Benefits & Best Practices](#)

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