



MULTNOMAH GROUP

New Year, New Vendor?

Conducting a Vendor Search: Benefits and Best Practices

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Prior to founding Multnomah Group, Scott was an investment consultant with a national retirement services firm.

Scott is a member of the CFA Institute, the CFA Society of Portland, the Investment Management Consultants Association, and the Portland Chapter of the Western Pension & Benefits Council.

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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, including requirements to:

- 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 to assist participants in making informed choices.

A vendor search may also result in the plan sponsor being able to delegate certain responsibilities (including fiduciary responsibilities) to the vendor.

- Due to marketplace competition, vendors are increasingly willing to do more on behalf of plan sponsors.
- Outsourcing certain HR functions may reduce the plan sponsor's administrative burden.
- Some recordkeeping vendors will accept varying degrees of fiduciary responsibility (e.g. loan and hardship administration).

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 and 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 3-5 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 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, 2017, begin the search process no later than July 1, 2016.

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 Steps

1. Form a vendor search committee.
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. Define the scope of the 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.
4. Pre-qualify vendors to solicit for proposals.
5. 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 Steps (Cont...)

6. Request proposals from the pre-qualified vendor universe and thoroughly analyze responses.
 - Define vendor assessment methodology.
 - Analyze proposals for services and fees.
7. Choose and notify finalists.
8. Coordinate finalist presentations and/or site visits.
9. Request and review sample service agreements, sample plan document, sample participant notices and enrollment campaign material and sample annual plan review.
10. Check vendor references.
 - Prepare a list of questions and make contact with current and former clients.
11. Negotiate preliminary fees and service standards with all finalists.
12. Choose and notify selected vendor; notify proposing vendors that were not selected.
13. If a new vendor is selected, establish and manage a new vendor conversion timeline.

Vendor Search Best Practices

Along the way...

- Document all vendor search process steps, including reasons for decisions and actions taken.
 - Documentation may help 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.

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 60-90 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.
- 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 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 million in plan assets with 3 different vendors.

5 objectives:

- Manage 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.
- Facilitated the transition of individual contracts transferred to group contract.
- Generated fee transparency.
- Negotiated fee caps and service guarantees.

Case Study: Bio-tech Company

Bio-tech company: 3,200 participants with accounts and \$400 million 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.
- Generated fee transparency.
- Improved plan sponsor services.
- Secured a more robust participant experience.

Case Study: Healthcare Service Provider

Regional healthcare service provider: 1,000 participants with accounts and \$140 million in plan assets.

5 objectives:

- Accurate adherence to the plan document;
- Outsourced administrative services including the calculation of quarterly match contributions and annual profit sharing contributions
- A dedicated service team that provides daily administrative service, relationship management, and a periodic presence at Committee meetings
- Robust and easy-to-use participant website, including state-of-the-art education tools and calculators for participants;
- An effective employee communication and education program that delivers customized, tailored communications to participants based on their demographics and level of sophistication.

Process:

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

Case Study: Healthcare Service Provider

Result:

- New vendor selected.
- Maintained existing investment menu, including model portfolios and self-directed brokerage accounts.
- New vendor provided a dedicated, multi-person service team, including technical compliance services for the client.
- Worked with new vendor to streamline plan operations, automating the interface between payroll and the recordkeeping system.

Questions/Resources

Contact:

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White Paper:

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

Disclosures

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