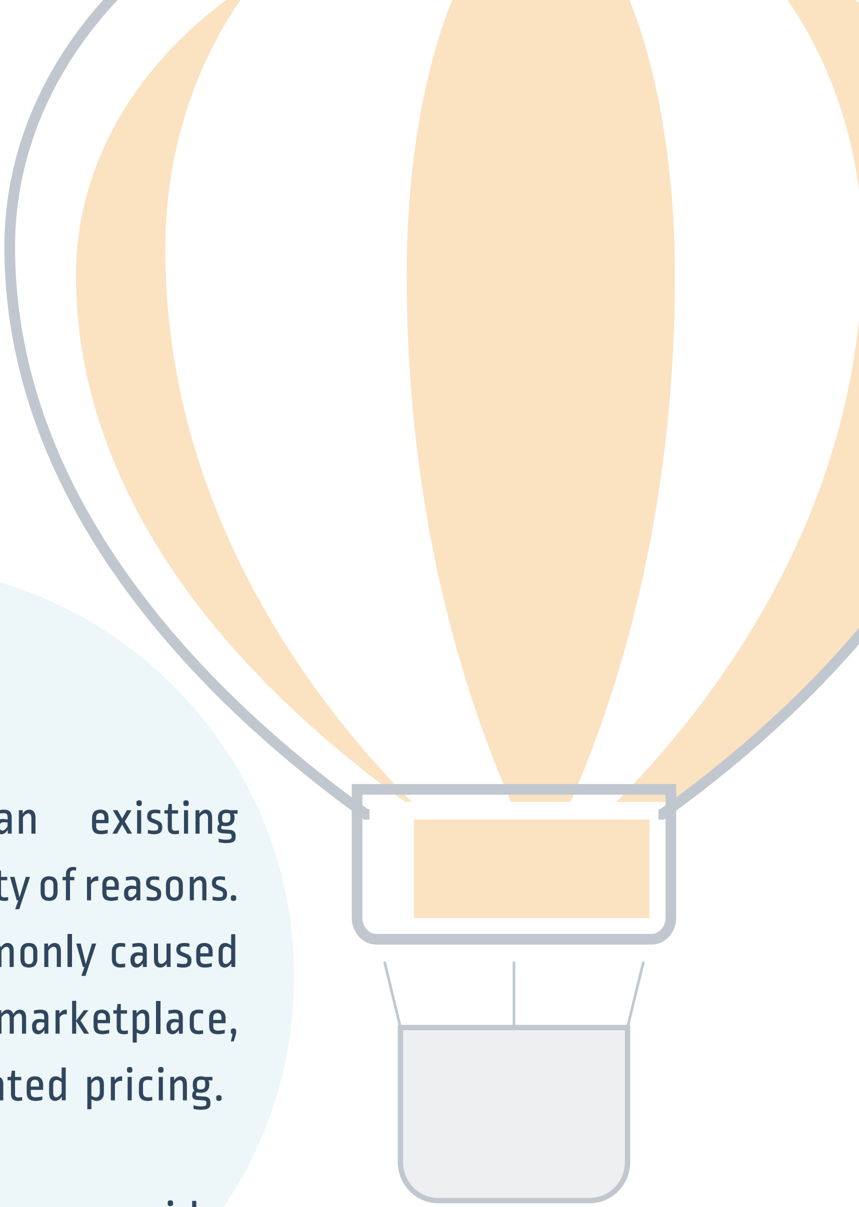
Finding the Right Retirement Plan Provider

A Guide for Employers and Retirement Plan Fiduciaries

By Paula Friedman, CFP®, AIF®, CPFA



Introduction

Employers delay replacing an existing retirement plan vendor for a variety of reasons. In our experience, inertia is commonly caused by a lack of understanding of the marketplace, provider capabilities, and associated pricing.

Embarking on a search for a new provider can quickly become overwhelming for an employer given the abundance of available options and lack of time to conduct a proper search.

A Cheat Sheet for Finding the Perfect Service Provider

An employer can quickly become overwhelmed as they embark on a search for a new provider. To prevent information overload, it is helpful to determine your specific requirements before seeking out a new service provider. It is also wise to work through the vendor search process with an expert—such as a retirement plan advisor or independent consultant—given the technical and intricate nature of employer-sponsored retirement plans.

As you determine your search criteria, it is helpful to understand what to look for in a vendor relationship.

Recordkeeper

Your primary interaction with the recordkeeper is through the plan's website. You want an intuitive site that is easy for employees to use as they manage their accounts and for you to use as you handle plan administration.

Test-drive the recordkeeper's website and the online reporting options before signing paperwork. Many recordkeepers use old technology platforms that don't provide reporting flexibility or relevant data. As a result, you might struggle to get information about the plan. Check for customizable date ranges for reporting, online statement access for participants (some providers will mail them directly to participants) and embedded retirement planning features such as future income projections based on current account balances. Also figure out if the fees for reporting and statement services are charged in addition to the plan's contracted fee schedule.

Ensure you have a dedicated point-of-contact or a service team.

Nobody likes having to deal with a middleman or automated voice prompt when they call a service provider for help. Make sure you have easy, direct access to your provider so you're not playing "Telephone" with them when you need assistance.

Understand recordkeeper fees.

Many recordkeepers charge an asset-based fee that increases as your plan assets grow. While this may be cost-effective for plans that are starting out, it can quickly become expensive once the plan assets have grown over time.

Be sure to determine how each prospective provider is compensated and if the total fee is reasonable based on the services provided. Keep in mind that a recordkeeper's workload increases as the number of accounts (employee balances) it handles increases, since their primary function is to keep track of the plan records and activity. A reasonable fee is more likely going to be a flat dollar amount based on the number of account balances/participants in your plan, not the size of plan assets.

Third Party Administrator (TPA)

Make sure the TPA is professionally credentialed.

The TPA handles the plan design and regulatory compliance aspects of the plan. Given this important function, you need a provider that is up-to-date on regulations. Look for the following designations:

- Qualified Pension Administrator (QPA)
- Qualified 401(k) Administrator (QKA)
- Accredited Pension Administrator (APA)
- Certified Pension Consultant (CPC)
- Enrolled Retirement Plan Agent (ERPA)

Look for a proactive provider.

A good TPA will help you design a plan that meets your needs while staying compliant with regulatory requirements. You need a TPA that is consultative and will explain how certain design options can benefit and/or hinder a plan.

Understand TPA fees.

TPAs typically charge an annual base fee plus a per-participant fee. As mentioned above, be cautious of a TPA that charges asset-based fees since their workload increases with the number of eligible employees, not the size of the plan's asset balance.

TPAs often double as a recordkeeper. If that's the case, be sure to break out the fees charged for compliance work. Most hybrid providers charge fees that have both fixed and asset-based components.

Custodian

Weigh the extra costs of custodian fees.

A custodian holds plan assets and processes deposits and distributions on top of executing trades sent by the recordkeeper. Most custodians offer trustee services as well.

If you use the trustee services offered by a custodian, be sure to understand whether they are directed or discretionary. Directed services often don't offer much additional liability protection and are usually not worth the extra cost. Discretionary services may provide more liability protection and be worth the additional fees, but they can also limit the role of the employer. If you choose to pay more for trustee services, be sure to document the reasons why the added costs are justified.

Understand custodian fees

Fees for custody services are typically asset-based. As your plan assets grow past a certain breakpoint (e.g. $10 million), your custodian will likely reduce the asset-based fee. For example, some custodians offer a discounted fee structure if certain investments are used (e.g., a money market fund or a stable value fund). It is common for custodians to have a minimum annual fee as well.

Retirement Plan Advisor

Find a retirement plan advisor who doesn't just talk about investments

The role of the advisor has evolved. In addition to working with plan investments, a retirement plan advisor tackles the following:

- Taking on a fiduciary role
- Working with employees beyond the initial enrollment meeting to help with ongoing retirement planning
- Assisting with compliance and plan design issues
- Providing guidance and education regarding fiduciary issues, best practices and plan operations
- Ongoing monitoring of the plan investments and fees and providing the associated documentation

Make sure your advisor is current on all regulatory and marketplace changes

Many advisors split their time between individual wealth management clients and retirement plan clients.

This can make it difficult for them to stay up-to-date with regulatory and marketplace changes that may impact your plan. Make sure you find an advisor who is dedicated to the retirement plan market that can help you navigate the complex landscape and stay current.

Make sure your advisor offers meeting times to plan participants

Many advisors have trouble fitting in face time with retirement plan participants because they are tied up meeting with individual wealth management clients or only offer to meet with the plan fiduciaries. You want a proactive advisor who will dedicate time to meeting with your employees to help them understand how to best use the retirement plan beyond the initial enrollment process.

Advisors that work exclusively with retirement plan clients are more likely to act as a plan fiduciary, provide individual meetings, fiduciary guidance, and other participant services.

Studies have shown that plans with a true retirement plan advisor have better participant outcomes. Participants show a better understanding of savings rates, plan features, and investment allocations.

Confirm your advisor's fiduciary status

Not all advisors are created equal. Depending on how they are structured, advisors assume varying levels of fiduciary liability. Be sure to read your advisor's engagement letter or service agreement to understand if they have "skin in the game" or if you will be left alone to defend investment decisions for the plan.

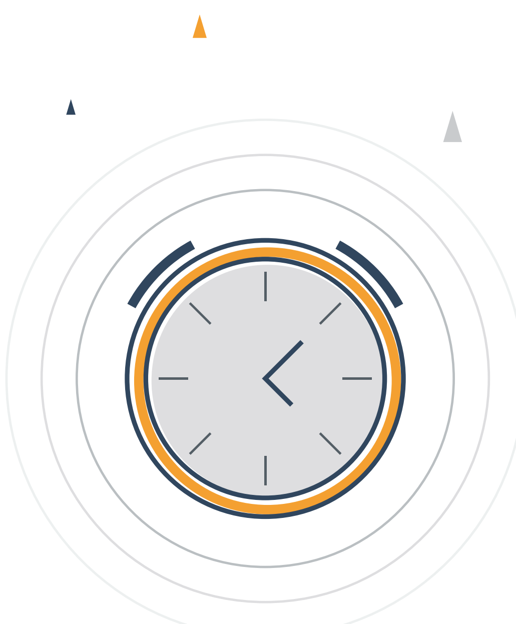
Registered Representative / Broker
DOES NOT take on fiduciary liability. Employer and plan fiduciaries still assume ultimate liability for decisions regarding plan investments.

3(21) "Co-Fiduciary" Advisor
SHARES in liability for plan investments with employer. Employer and plan fiduciaries still assume ultimate liability for decisions regarding plan investments.

3(38) Designated Investment Manager
TAKES liability for investments. Advisor handles investment decisions and assumes the related liability.

While there are quite a few professional designations for advisors (sometimes it can seem like alphabet soup), look for those specific to the retirement plan industry. While this is not an exhaustive list, here are a few examples:

- Certified Financial Planner (CFP®)
- Accredited Investment Fiduciary (AIF®)
- Certified Investment Management Analyst (CIMA®)
- Qualified Plan Financial Consultant (QPFC)
- Accredited Pension Representative (APR)
- Chartered Retirement Planning Counselor (CRPC)
- Certified Retirement Plans Specialist (CRPS)
- Certified Plan Fiduciary Advisor (CPFA)



How to Avoid Paying Too Much in Service Provider Fees

Fees are a hot topic in the retirement plan marketplace due to their potential negative effect on long-term account growth.

In 2012, the Department of Labor (DOL) passed fee disclosure regulations. The regulations were designed to help employers and plan fiduciaries understand the true cost of their plan (many believe their plan is free since they don't receive an invoice or see transactions on their statements) to help them determine if the fees charged are reasonable for the services provided.

The DOL's intention was not to promote the lowest cost plan. It was to create awareness and transparency for plan fees and, thereby,

REASONABLE FEES
are not necessarily
the lowest fees

ensure reasonable fees for various plan services. They focused on fees charged to plan assets, but even if you pay fees outside of the plan, you should know how you compare to your peers.

Be sure that
you are comparing
APPLES TO APPLES

How to Determine if a Quoted Fee Is Reasonable

In order to evaluate the reasonableness of the provider proposals you receive, it is helpful to get an idea of what fees a plan your size should expect to pay. While benchmarking software is available, it should not be the sole source of comparison. To get a proper benchmark for your quoted fees, find out what other providers would charge for your plan's demographics. Get proposals to see how they price comparable services. If the quoted fees are out of the range, ask your prospective provider to explain what value is being exchanged for the higher fees. If the answer is not acceptable, ask them to adjust the proposed pricing to make it reasonable.

If they can't or won't adjust the pricing, this may not be the provider for you. Remember, reasonable doesn't mean "cheapest," it just means they're not overcharging you. It is also important to be sure that you are comparing apples to apples. If a provider offers lower costs but doesn't offer all the services you need, they shouldn't enter the comparison.

Protecting Employer Liability

As employers search for new providers, it is imperative to document the process followed and retain written records for why decisions were made. Recording your rationale for decisions made cannot be emphasized enough to protect an employer's personal and professional liability as a plan fiduciary. If it isn't written down, it is like it never happened.

Conclusion

Finding a new vendor for your retirement plan doesn't have to be overwhelming. Understanding the role each provider plays, how fees are charged for services, and how to determine the reasonableness of the quoted fee makes it easier to find a reasonably priced provider for your plan. Documenting the search and subsequent actions, such as hiring a new provider is key in protecting employer liability and showing a prudent process was followed.

WHAT'S NEXT?

Are you looking for a new retirement plan provider and don't want to handle it on your own or deal with a time-consuming RFP? McLean's team of retirement plan experts can help you identify providers that align with your needs. Contact us today to learn more about how we help you find the right providers without a huge time commitment.

Schedule a Consultation

Contact McLean Online

About Paula Friedman, CFP®, AIF®, CPFA

As McLean's Managing Director of Employer Retirement Plans, Paula helps employers and employees make the most of their corporate retirement plans. In 2015 she was featured in Washington Post Magazine as a Five-Star Wealth Manager, as well as being named a Top Financial Professional in 2014 and 2015 by Northern Virginia Magazine. Paula is a member of the McLean Investment Committee.

About McLean Asset Management Corporation

Celebrating over 30 years, McLean Asset Management Corporation provides comprehensive retirement planning services that encompass corporate retirement plans, retirement income planning, and distribution. Employers working with McLean benefit from specialized retirement plan expertise, allowing them to offer robust retirement benefits to their biggest asset: their employees.

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