Taking Your 401(k) Plan Out to Bid: How to Attract and Select the Right Vendors Through a Well-Developed Request for Proposal (RFP)

Every 401(k) plan should be reviewed at least every five to seven years, as part of necessary due diligence to ensure that your 401(k) plan has grown and changed along with your company. A review should be done even more frequently when:

- Services and/or investment performance are in question
- Any non-predisclosed fees have been charged
- The vendor eliminates proprietary funds

Since a comprehensive plan review may seem overwhelming, large organizations often seek outside help when putting their plan out to bid. An investment consultant can facilitate the entire vendor selection process and continue to provide help throughout the plan’s life.

By hiring an outside investment consulting firm, a 401(k) plan sponsor receives the objective expertise of an independent reviewer and helps eliminate any strain on potentially less-qualified, internal staff.

Further, your investment consultant is compensated only by you, the plan sponsor, thus ensuring that your interests are incoruptibly aligned and that all portfolio recommendations and decisions are based on the best, long-term interests of the plan participants. Your investment consultant will help prioritize salient issues, develop effective RFPs, distill appropriate fund options, detail true plan costs and choose vendors. And, once an investment is made, your consultant will monitor the vendor’s reliability and performance for you.

It used to be that many investment funds focused largely on gathering plan assets from employers, but put little energy into serving the sponsors’ needs once an investment was made. That, however, has changed for the better. Developments in the 401(k) vendor business have led to many mutual fund and insurance companies offering more comprehensive service. They are now able to more effectively administer plans, communicate with sponsors, comply
with legal requirements, educate plan participants and diversify available investment options. More recently, many funds have acquired third-party administrator (TPA) and legal compliance firms, further enhancing their servicing ability, particularly with respect to managing complex plans.

Six factors should be considered and incorporated into the RFP preparation and used during the vendor selection process.

**The Firm**

Plan sponsors must learn about each vendor’s professional reputation, past experience in the 401(k) business, commitment to the future, prior or pending legal judgments, mergers and acquisitions, to name a few. Truly understanding a vendor’s general business ethics, practices, growth strategies and vulnerabilities can have positive, enduring results. Verifying each vendor’s long-term commitment to the business helps eliminate unnecessary and costly changes, such as unexpected replacements.

**Compliance**

Compliance capability is important for any plan. Vendors should be able to readily demonstrate a commitment to hiring and maintaining the necessary legal and administrative staff. Staff members should be qualified to

- Keep plans in compliance and
- Provide appropriate consulting services to plans undergoing changes, mergers, etc.

For larger and more complex 401(k) plans, you must ensure that the staff can always accommodate requests for unusual services in a timely manner. Compliance capability may be an additional priority for plan sponsors who want customized services rather than a generic-type plan.

**Administration and Record Keeping**

Record keeping is a crucial and potentially laborious part of 401(k) plan servicing. It must be performed accurately, in a timely manner, and in compliance with both internal policies and governmental regulations. Fortunately, reliable electronic record-keeping products have become available, which help reduce process costs and errors. In fact, many of the largest vendors use the same, third party electronic record keeping systems. Each system is typically customized to conform to the individual sponsor’s needs and vendor’s strengths, generally being differentiated by methods of information storage, access, retrieval and use. (However, there are only a few record-keeping products on the market to select from.)

Understanding the fundamental differences and similarities among the various systems can help you select the vendor system that best meets your needs as the plan sponsor. Some vendors haven’t invested in an electronic record keeping system, so it’s important for you to find out early in the selection process how each vendor performs record keeping and administrative services.

**Employee Communications**

A company’s culture often dictates how communications concerning benefits are distributed to employees. For instance, some sponsors provide paid time for employees to educate themselves about plan availability and characteristics. Others provide free computer terminals that employees can use to manage their plan participation.
Still others prefer to provide 401(k) plan communication almost exclusively via a web-based platform. This approach can be cost effective for the right group of employees. But it can cause problems for companies containing high numbers of less-than-computer-literate employees, or in circumstances where face-to-face counseling is preferable. In these cases, a vendor’s ability to deliver communications diversely (printed newsletters, electronic formats, group meetings, etc.) can be critical to plan enrollment and ongoing participation.

In fact, a vendor’s non-technical strengths may be more important than their technical ones in some instances. If a plan sponsor wants to increase participation through an employee education initiative, then, a vendor’s implementation ability may outweigh its technical capabilities.

The bottom line is that you want a vendor that can deliver employee communications according to the needs of you and your plan participants. Do your due diligence prior to conducting your search and become familiar with each vendor’s strengths and communication plan budget to facilitate the RFP process.

**Investments—Open vs. Closed Architecture**

Although plan sponsors increasingly demand “open architecture” or a “non-proprietary” arrangement for investment funds selection, many of the major mutual funds, insurance companies and brokerage firms still limit investment to a small group of pre-selected funds. The problem with this is that the small group often is comprised only of the firm’s own proprietary funds, in addition to only those third-party funds willing to pay fees, which may not be disclosed to you. In the case of insurance companies, investment selections may include Guaranteed Insurance Contract (GIC) products overtly required by the insurance company. Some larger plans may be able to negotiate additional fund options. Smaller plans, however, are most often stuck with these potentially less-attractive products when investing directly through a financial firm instead of a third-party administrator.

Even within fund families, some funds may exhibit stellar past performance while others don’t. Consequently, objective evaluation is necessary. Also, turnover of key investment personnel must be looked at, to ensure that the managers who achieved superior past performance stay on board for the continued benefit of the fund.

**Fees**

Since plan sponsors manage all fees associated with a 401(k) plan, they must ensure that all of them are fully disclosed in each proposal. Further, fees must match the market rate for each service performed. Proposals may include fees for record keeping, trustee oversight, communications, enrollment kits and, when applicable, fund-specific fees.

The plan sponsor also should know whether and at what point the plan might become eligible in the future for reduced fees. Any fee-sharing revenue needs to be disclosed in the RFP, too.

As a completely independent, non-affiliated consultant, Bidart & Ross has assisted many companies through the RFP process and throughout the life of their plan. For more information please call (775) 826-6400 or visit www.Bidart-Ross.com.