

## Four Steps To A 401k Provider Review

By Robert C. Lawton, AIF, CRPS, President, [Lawton Retirement Plan Consultants, LLC](#)

Every three to five years the Department of Labor (DOL) would like you, as the plan sponsor, to review the providers that work with your retirement plan. As a fiduciary to your plan, you have an obligation to ensure that the providers you are working with are appropriate and that the fees that are paid for their services are reasonable. It is not required that you make any provider changes, however, the retirement plan marketplace is very dynamic and it is likely that when you conduct a provider review you will discover some surprises. Following are some suggestions for managing a provider review process.

### Step 1: Start with the investment advisor

A good investment advisor can add genuine value to the operation of your plan. What you are looking for is an investment advisor who:

- Is paid a consulting fee in “hard dollars” in accordance with a contractual agreement where you receive an invoice containing an actual bill for services outlined in a contract, rather than “soft dollars” (compensation that you do not see which flows from the mutual funds).
- Works for an organization that is willing to acknowledge its fiduciary responsibilities and is large enough to act as a fiduciary to the plan. Many independent advisors will offer to sign on to your plan as a fiduciary, however, that has very little meaning since their organizations are not large enough to compensate your plan in the event of a significant fiduciary breach (unless they have purchased fiduciary liability insurance).
- Works predominately with retirement plans. Hiring a personal investment advisor to help manage the company’s retirement plan may not be a good idea. The retirement plan business has become incredibly complex and requires a specialist.
- Is capable of managing the provider review process for you, saving you a lot of work. Remember, you need to review your recordkeeper, trustee and custodian as well.

In order to generate a list of investment advisors to contact, survey your peers. Also, take a look at the larger banks and brokerage firms operating in your area and add them to your list. Ask for proposals from five of the best and bring three in for presentations.

## **Step 2: The RFP**

As noted previously, a good investment advisor can manage the remainder of the provider review process for you. He/she should be able to supply you with a draft Request for Proposal (RFP) document that you can email out to a number of recordkeepers. Since the recordkeeping business has consolidated significantly, you can comfortably consider around five recordkeeping firms (remember to include your existing provider as well).

It is reasonable to ask your investment advisor to receive and summarize all of the RFP responses. A typical output from this process is a spreadsheet that compares the attributes of all of the candidates. Generally, it makes sense to bring in three recordkeepers for presentations.

## **Step 3: Evaluation**

As you review the summarized RFP responses, keep in mind the following as you evaluate your options:

- The recordkeeping business is highly technology driven. Ensure that the recordkeeper you select has a commitment to technology improvement in the future.
- Visit the websites. Your participant's experience will be significantly enhanced by an intuitive and friendly web site.
- Review sample participant statements. This is one document every participant looks at. Make sure that it is easy to understand or you will get a lot of phone calls.
- Consider hiring a corporate trustee. Believe it or not, I still talk to large companies who have individuals (corporate executives no less) serving as trustees of their retirement plans. Given how litigious our society has become, this doesn't seem to be a risk that is necessary for corporate executives to bear, especially since the cost of a corporate trustee is only around \$1,000 per year.
- Consider the market segment you represent. If you have hired a good investment advisor, he/she has brought you a set of recordkeepers that make sense for the size plan you have. Make sure you feel that way as well. A good way to check this is by the types of references the recordkeeper will give you, but it doesn't hurt to ask what their average client size is and where their clients tend to be located.

Up to this point I haven't shared much information about costs. That is because costs in this marketplace for each of the providers you might hire (investment advisor, recordkeeper, trustee and custodian) tends to be a non-issue. The retirement plan marketplace is super competitive. There are a lot of qualified providers who are good at what they do. In my opinion, if you receive a quote that is quite a bit different from the others (it is either significantly higher or lower) then it is fair to assume that provider does not work a lot with the size plan that you have and would not be a good fit.

Since the retirement plan marketplace is so competitive, price can be an area of negotiation. This is not something that I see plan sponsors take advantage of enough. If you like a particular organization, feel they would be a good fit, but they are priced just a little higher than a competitor, go back to them and ask them to match the competitor's price. I have not heard of an instance recently where a provider was unwilling to make a price adjustment if they thought they were going to get the business.

#### **Step 4: Conversion**

Normally, 90% of all provider searches conclude in September or October. That is because the vast majority of retirement plans have December 31 year-ends and most plan sponsors like to convert over to new providers effective with the new plan year that begins on January 1. If you have a December 31 plan year end, there are some good reasons not to run with the crowd:

- Your conversion may flow much more smoothly if you choose a conversion date other than January 1 (it might also make sense to stay away from February 1). Plan providers are exceedingly busy with January 1 conversions. You have better odds of receiving much better service, and someone at the recordkeepers office might actually return your phone calls, if you choose another conversion date.
- You wanted to take time off for the holidays and not answer retirement plan questions, right? Those last minute, critical decisions that need to be made in order to keep your conversion on track, they are out there waiting to ruin your holiday cheer.
- Where are all your employees and why is no one attending your employee education sessions? Aren't they as excited about the new plan as you are? Not if you are scheduling employee education sessions between Thanksgiving and New Year's. If you think that scheduling employee education sessions in early November is a better idea, it isn't because everyone will forget about all the new, neat features of the plan by the time your plan emerges from conversion.

So what is the solution here? Scheduling a conversion for any date other than January 1 or February 1 will be much easier on you, be welcomed by your recordkeeper and will make better sense to your employees. If you decide to do this your new recordkeeper may even give you a reduction on your conversion costs! According to the Department of Labor, reviewing your providers every three to five years is your fiduciary responsibility. Even if you don't make a provider change, file the proposal summary in your plan file. It is great documentation of your due diligence.

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#### **[About the Author](#)**

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### **About Lawton Retirement Plan Consultants, LLC**

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