A Plan Sponsor Guide to Advisor Selection

Why go it alone?

By Trisha Brambley

Three out of four 401(k) plans use the services of a plan advisory firm to help them evaluate the plan's investment line up. We are seeing an increase in companies wanting to hire an investment advisor if they do not already have one. We have also noticed an uptick in companies who want to replace an existing advisor if they are looking for services beyond what the existing advisor can provide.

Plans Without An Advisor

There are an estimated 700,000 defined contribution plans and of these about 175,000 do not currently use an advisory firm.[1] It is not just small plans that are going it alone. Approximately 17% of plans with assets over $50 million don't have an advisory firm in place yet.[2] As these companies become aware that their plan vendor is not their co-fiduciary, this will trigger a search for an advisor that will fulfill that role.

As the complexity of fiduciary responsibility grows, reliance on an *advisor as co-fiduciary* becomes an increasingly desirable objective.

You can go it alone, but who wants to?

Plan fees can also become quite complex. Companies may seek the help of an independent expert advisor that is not beholden to the plan provider to demystify these fees.

Employers using an advisory firm typically report a better understanding of plan fees, lower plan costs, and better fund diversification.

Plans With An Advisor

Companies that have an advisor will periodically initiate a search too. The reasons for a search include: due-diligence, fee and service validation, or simply a desire to discover what other advisory firms can offer.

Is the search process all about the advisor's fees and a desire to get the least expensive advisory firm? In our experience, this is not the driver for change, but can be a revelation. We recently helped a company who sponsors a large 401k plan with a search for an advisory firm. The bids ranged from $50,000 to $120,000 per year for fiduciary support services. A detailed analysis revealed the differences between each bid, and a close inspection uncovered value added services were just right for that plan sponsor. Fees alone do not tell the whole story. Although survey data can give you an idea of what advisory firms might charge for your plan, only a true Request for Proposal process will determine what advisory firms would charge for your specific plan and needs.

Value-Added Services

Some plan advisory firms offer extensive additional resources for plan committees. Here are a few examples:

1. **Assistance in lowering plan costs**
   A skilled advisory firm uses their plan expertise to negotiate the most competitive plan fees on your behalf.
2. **Access to the Best Practices of similar-size plans or similar industries or both**
   Advisors with the experience you need can leverage their knowledge to enhance your plan.
3. **Assistance with plan rollovers and roll-ins**
   More plan sponsors are looking to help participants roll money into the plan or roll it over.
4. **Diversification of funds and holdings**
   Some advisors will do a closer analysis of the holdings in your line up to determine if there is enough diversification. An in-depth review will uncover redundancies, of which you may not have been aware.

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[1] The 2012 Fidelity Plan Sponsor Attitudes Survey Results: Third Edition

[2] Fidelity Investments Survey of Plan Sponsor Attitudes

5. **Analysis of Target Date Funds**
   We are seeing more advisors take a deep dive into the components and structure of these funds. They will suggest alternative TDFs for their clients that may be better suited for them.
6. **Participant Support**
   We are seeing many different approaches from advisors on this aspect of plan oversight. Some advisors will audit the vendor's suite of tools and advise you on which tools to use for your plan, and others have developed an extensive array of their own participant tools.
7. **Retirement Income Solutions**
   More advisors are acknowledging they need to help plan sponsors select the strategy that works best for their employees. They will assess different kinds of retirement income options, and will help sort through the pros and cons of all the alternatives.

Where to Begin

Before opening your search, your investment committee should meet and list the services, features, and experience it requires from an advisory firm. Some questions they will want to explore include:

1. Are committee members open to change? Some plan committees may wish to simply benchmark the services and fees of several advisory firms, while others are open to change and want to do a thorough review.
2. Are the reasons for hiring an advisor in the past still valid or have they changed in any way? Growing companies can outgrow incumbent advisors, so it's wise to consider what your plan and its participants need now in order to establish the search criteria.
3. What advisory firm services are most important to your plan? Which services are must-have and which ones are nice to have? Weight them to help you make an appropriate choice.
4. Does your plan require an advisor with national reach and is a local presence a necessity?
5. In what space is your advisor comfortable? Some firms may not have experience with plans of your size or in your industry. Larger firms may have broader experience, but will the professionals assigned to your plan have the same knowledge? You will want to check out the team members assigned to your plan and determine which credentials you would like them to have.
6. What attributes and experience fits your plan? Do you require a firm providing primarily investment advice or is an advisor with consulting experience preferable? Many plan committees tell us that they would like their advisor to be able to offer them consulting services in addition to investment reviews.
7. What is your budget? You need to ask that question whether you have an under-performing advisory firm, you adore your advisor, or you don't use one at all. The reason is simple: to make sure fees are not only reasonable — as required by law — but also competitive.

Co-fiduciary responsibility will likely be among your top reasons for considering an advisor. Your plan vendor can't act as an investment fiduciary and not all investment advisors are fiduciaries. Ask all candidates to provide their co-fiduciary status in writing.

RFP and Interview

Once your investment committee decides upon the list of objectives, the next step is to prepare a Request for Proposal. In general, you will want each respondent to document its staff size and experience, fiduciary status, amount of fiduciary insurance it carries, and business focus. For example, its business focus could be wealth management, individual retail clients, benefits practice or retirement benefits. It's important to ask so you can determine what their primary interests are.

If you are looking for added value, include questions about how the advisory firm can help your investment committee rework or create an investment policy statement or how they might assist with changes in vendors and how often they conduct plan reviews. If you have other specific needs or concerns, prepare questions to discover their capabilities in those areas. It's also a good practice to ask for the biographies of the team.

Include questions about the candidates' experienced with plans your size and industry. Require a listing of professional credentials for each firm. Also, ask for a 12-month timeline of what each advisory firm plans to do for your plan and the reasons why. The latter exercise can help you gauge a firm's ability to communicate in your language. *(A free sample RFP is available through: www.rplaybook.com)*

Once you receive your RFPs, select the top your candidates you would like to interview.

During these interviews, ask what plan recommendations have they made to clients during the past two years and why. Ask them what they believe are the most pressing issues facing plan sponsors and participants and what they do to deal with these issues. Ask them their opinions about target date funds and justification for their views. Also, inquire about their knowledge of and recommendations for retirement income options, which are changing the landscape of retirement plans.

Other areas to explore include their knowledge of new regulations, new rules (if any) they expect in the next 12 to 18 months and how they communicate changes on this front to clients.

Time to Choose

Once your plan committee has taken all the steps in the search process, it's time to call references, create and compare the important components and review the contracts of your finalists.

Then you are ready for one final task: make your choice, based on all the facts and how those facts align with your objectives.

Whether your plan never had a retirement plan advisory firm or you have one, but want to ensure the best representation, retirement plans have never been more complicated. The need and the urgency to enlist the services of a qualified professional firm who can protect you as plan fiduciaries and address your plans needs as they evolve has never been so apparent.

Consider the reasons why you offer employees a qualified retirement plan. Think about how your defined contribution plan benefits not only your employees, but your company's bottom line as well. Then use these reasons as your backdrop as you sort through what the market has to offer. The right choice can prove cost-efficient, and can help make your plan an even better benefit.

Members of the plan committee typically have full time jobs and can only spend a limited amount of time on the retirement plan. A structured and robust process of selection will result in identifying a qualified retirement plan advisory firm that will help shoulder the responsibility of the plan. In addition, the right partner for your plan can save you time and improve the retirement outcomes of all of the employees. It's an opportunity you shouldn't miss.

Trisha Brambley is President of Retirement Playbook, Inc., a consulting firm that provides plan advisor searches, plan fee benchmarking, retirement provider searches, plan committee classes and participant financial wellness. Email her at trisha@rplaybook.com for a free sample RFP for plan advisors search, or for information about a DIY Plan Advisor Search Kit or the complete search process.