Rocket Fueled Plans:

Clear and Definite Results When Conducting a Provider RFP

A Whitepaper by Innovest

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In 1914, American physicist and inventor Robert Hutchings Goddard was granted two U.S. patents, both related to his "rocket fuel idea" of using liquid fuel to propel objects higher than any other methods then known. His writing from the time mentioned the goal of reaching unimagined altitudes, "even the moon," more than 50 years prior to the successful landing and the Space Age that it ushered in. We owe much in our daily lives – the internet, cell phones, GPS, among an endless list – to what came of Mr. Goddard's foundational theories.

Though he died in 1945, Goddard's idea – and the decades of investment, refinement, and testing that followed – would go on to be a foundational component of the American space program and enable the knowledge necessary to reach the moon and beyond. Though perhaps not as historically significant, we can view the evolution within our work with employee retirement plans as sharing similar stages of idea, enhancement, and optimization. We can draw from decades of experiences and outcomes to form a next-level working model that drives retirement plans to be more cost effective and educational and – to further extend the analogy – carries them to higher altitudes than ever before.

Don't Just Check the Box

When was the last time your organization spent valuable time and resources on a project without a 'clear and definite goal'? Have you ever had to explain a business decision, potentially even a contentious one, to senior leadership based on subjective or qualitative-only information? Organizations often search the marketplace with only a vague understanding of the products and services in play, so we should not be surprised that the frequent result is several proposals provided back that all appear nearly identical. Retirement plan sponsors commonly face similar questions when making decisions around services needed to operate their plans. Lack of clear direction and purpose can leave them paralyzed in their decision-making process.

When plan sponsors issue a Request for Proposal (RFP) to search for a retirement plan recordkeeper without that 'clear and definite goal' in mind, it becomes much like checking the box on a 'To-Do' list. Just checking the box can be costly (though not cost-*effective)* not only for the plan sponsor, but for the responding recordkeepers, as well, as they also spend valuable time and resources responding to an RFP with no objective purpose or set of goals.

Innovest has conducted RFP's on behalf of plan sponsor clients for nearly three decades, and we have learned and adapted much as the market has evolved. This paper is intended to summarize key best practices in crafting effective RFP's, establishing clear and definite goals, enhancing retirement plan outcomes, and how we can build on the "rocket fuel" foundation of RFP's to take employee retirement plans to greater heights.

Thoughtful Approach to RFP Questions

Recordkeepers often have large marketing teams that spend a significant amount of time crafting the "perfect" way to sell their services. While that may serve the recordkeeper's needs, that marketing language engenders confusion on the plan sponsor's part as they try to decipher and compare the services between competing proposals. To combat that lack of clarity, we highly recommend intentional framing of each question so that it is sufficiently clear whether the recordkeeper provides a certain service.

As one example, a plan sponsor exploring recordkeepers' capabilities regarding student loans might think to pose a question like this: "Please describe your Student Loan services." Unfortunately, this often elicits wide-ranging responses that may require further effort just to reasonably understand each provider's actual services. Follow ups frequently delay the process and may need further back-and-forth to get to clarity. This kind of "clarification loop" can be a significant drain on the resources needed to conduct the RFP.

Consider, instead, a series of questions like this: "Do you offer student loan refinancing? (Yes/No); Do you offer student loan consolidation options? (Yes/ No); Do you offer student loan education articles? (Yes/No)". While the number of questions may increase, the resultant responses will carry objective answers that are 'clear and definite responses' to match the 'clear and definite goals' we wrote of above.

Enhanced Recordkeeping Services

After thoughtful review of the plan, 'clear and definite goals' could involve enhancing certain parts of their plan. That could be upgrading the technology, like payroll and contribution efficiency or the plan sponsor and participant websites. It could be enhanced recordkeeping pricing or the fees for ancillary services like loans, qualified domestic relations orders, etc. Or it could be to strengthen the customer service experience. The next passages examine how an RFP could enhance various parts of the retirement plan.

Enhanced Technology

A plan sponsor client of ours felt strongly that they might find better plan services in the marketplace and asked Innovest to run an RFP for recordkeeping. Their current provider's participant website was not user friendly, did not offer any form of in-person participant education, and did not have any integrated solution to finding lost or missing participants, as required. Their retirement plan had been with this recordkeeper since plan inception, and the client believed they had outgrown the provider. Further, the plan sponsor was willing to pay *more* for administration of their retirement plan because they believed that the added services would be worth the additional cost. In other words, this client had a 'clear and definite goal' for their RFP.

We developed a customized RFP with direct, tailored questions that addressed this plan sponsor's specific pain points and operational goals. Drawing on deep familiarity with the marketplace, we then sent the RFP to a targeted subset of recordkeepers that we knew could provide competitive solutions. Responses were then further reviewed and honed by Innovest and the plan sponsor, and three were selected for finalist presentations.

Notably, all three of the chosen finalists appeared to be similar in the RFP – all promised commensurate services and tools for approximately the same price, though in each case marginally higher than the plan sponsor was currently paying. But that was by design -- the intentionality of posing clear, specific questions allowed the sponsor to home in on those respondents that best matched the goal(s) of the search, saving significant time to focus on the more nuanced differentiators.

Through finalist presentations, the plan sponsor was able to see the website their participants would use, as well as test the tools, calculators, and other services offered. They were also able to meet and interact with each finalist's service team, which is important. A successful recordkeeper is equal parts retirement plan administration and customer service.

The plan sponsor was pleased with all three providers' presentations and believed each would provide exceptional service. The margin of difference among the finalists was narrow, which served – by design – to focus the decision metrics on the most vital factors. After a significant amount of time reviewing each proposal and related fees, they ultimately selected the recordkeeper with the most intuitive website and easy to use online tools.

Enhanced Pricing

"Numbers don't lie," the saying goes, but they often confuse, at least in RFPs. Enhanced pricing is almost always one of the 'clear and definite goals' we hear from plan sponsors, and rightfully so. No one should pay more for a service than is reasonable and ensuring that reasonableness is one of the key obligations for plan fiduciaries. However, depending upon the complexity and overall relationship between the plan sponsor and the incumbent recordkeeper, this can become as convoluted as other parts of the RFP. We caution plan sponsors not to let pricing be the only consideration and remind them that they are not obligated to select the lowest price. Value often supersedes cost as a more relevant metric.

Innovest recently worked with another plan sponsor that was in a unique situation. They were using their recordkeeper's annuity platform, meaning that their available investment options were not mutual funds, but rather were annuities that tracked with the performance of certain indexes or mutual funds. They also had a capital preservation product that had a withdrawal provision of either a 5-year payout or a market value adjustment of $400,000. Approximately 15% of this client's retirement plan assets were in the capital preservation product. Additionally, the guaranteed minimum annual yield on the capital preservation account was 3.50%. Accordingly, the plan sponsor's 'clear and definite goal' was to switch to a mutual fund platform and evaluate capital preservation account alternatives within the broader structure of how the plan services would be priced.

The price received in the RFP from the incumbent was competitive, and lower than what they were currently charging. The price from every other recordkeeper was substantially higher than the incumbent's new price, attributable to the stringent withdrawal provisions. The yields on all the other capital preservation products were significantly lower than the 3.50% guaranteed minimum rate with the incumbent.

This prompted a deep discussion with the plan sponsor as to how to properly frame and, ultimately, make their decision. Was it better to select a different recordkeeper that charges a higher fee and lower guaranteed minimum yield? The client was happy with the incumbent recordkeeper from a product and services perspective, so there was no strong appetite to change, most other factors being equal. What about keeping the capital preservation product? We conducted a thorough, robust comparison of this capital preservation product to other non-proprietary alternatives and determined that staying with the incumbent's product was the prudent decision; switching to a product with a lower yield would hurt the 15% of the plan invested in the product.

In this instance, the client ended up staying with the incumbent recordkeeper and keeping the same capital preservation product despite the onerous withdrawal provisions. But in the process, they also changed from the annuity platform to an open-architecture mutual fund platform, saving them approximately $100,000 per year in investment costs. Here again, the clear and definite focus of the RFP allowed the plan sponsor to narrow the factors down by eliminating where each provider was objectively equal. What was left gave them a markedly easier decision without neglecting any of the defined goals.

Ancillary Services & Fees

When a participant engages the plan recordkeeper to take a withdrawal, initiate a loan, or file a domestic relations order, among other individual services, there is often a fee levied. Plan sponsors may pay fees for Form 5500 preparation, fund changes, or ad hoc administrative reports, to name a few. Executing these services generates a cost to the recordkeeper, but the general philosophy for most is to pass the costs on (or back) to the sponsor or participant. These ancillary fees are often a relative after-thought, but they can be surprisingly misunderstood if they are not 'clear and definite'. Coupled with additional, opt-in services like managed accounts or investment allocation assistance, ancillary fees and services are a critical component of evaluating the overall expenses associated with any retirement plan.

Most recordkeepers generate a "Fee Schedule" or "Fee Quote" that lists all their fees, including the ancillary ones. We have found, however, that they may not be comprehensive or include all details necessary to evaluate and compare. At other times, the fees described may be confusing or misleading. There is a famous quote that says, "The big print giveth and the small print taketh away," and that can unfortunately apply to "Fee Schedules" in abundance. Acknowledging that challenge, we help plan sponsors by explicitly asking for *every* type of plan and participant fee that may be incurred as part of the contract in a 'clear and definite' manner.

We conducted an RFP for still another plan sponsor recently, and they decided to make a change because of the search. In reporting our analysis, we included a chart in the fee section that required each recordkeeper to state their fee for every listed ancillary service. The instructions for the chart read:

> "*Please describe all other fees below. Only the fees clearly disclosed in the chart below (as well as the asset based and per capita recordkeeping fees above) will be allowed in the final recordkeeping contract. Do not refer to any outside attachments for any fee. Additionally, referring to any other portion outside of this chart to describe any fee will be grounds for disqualification*."

Using this high degree of specificity prevented recordkeepers from including any obfuscating "Fee Schedules" in their RFP responses. That enabled us to accurately compare fees. At the bottom of the chart, we also asked each recordkeeper to list all other fees not described in the chart. When we helped the plan sponsor review their new contract, we noticed that the recordkeeper had added fees for services that were not disclosed in the earlier RFP chart. We brought this to the recordkeeper's attention, and they ended up striking the language and waiving those fees. The attention to detail ended up saving their participants thousands of dollars in expense over the course of the contract.

Enhanced Customer Services

Suppose an employer were hiring a customer-facing employee for the organization and chose to only review their resume and cover letter as the sole basis to hire, conducting no further or face-to-face due diligence. The resulting hire would be a gamble and might have severe costs or other implications if the delivery failed to match the claims made on paper.

The same idea applies to a recordkeeper's service team. A common goal for RFPs is to enhance customer service for not only the plan sponsor, but also the participants. Unfortunately, this is can be difficult to suitably measure in the written stages of an RFP alone. Providers deploy those large marketing departments noted above specifically to help tout their experience and customer service delivered to plan sponsors and participants as "Best-in-Class."

A way to evaluate which customer service approach is best for your plan is to directly interact with each respondent's service team. This is often done at finalist presentations. Rather than allow this to be a sales presentation, we use it as an opportunity to interview the team in the room. Think of it parallel to the way the hiring employer above would interview a potential employee. The RFP is the resume, the finals interaction the interview. This helps ensure, first-hand, that the service team can effectively and amicably deliver customer service that is right for your plan and participants.

Another way to address this would be through Service Level Agreements (SLA's). Our SLA's are generally crafted with sets of three primary components: a Service, a Measurable Standard, and a Penalty. Each compliments the other in a direct, measurable way.

From a practical standpoint, the best way to devise these components is to develop a chart with the Services and let each recordkeeper develop their own corresponding Measurable Standard and Penalty. The idea is not to set standards that cannot be met nor to generate a stream of revenue from them, but rather to holds the recordkeeper accountable for their promised delivery. If posed in the RFP appropriately, it will allow the requesting plan sponsor to compare SLA's and determine what best achieves their goals. This may not be appropriate for all plan sponsors but can be significantly more powerful than reading marketing copy on how a recordkeeper's customer service is promoted.

Proprietary Investments

Recordkeepers typically only earn revenue – from plan sponsors, at least – in three forms: base recordkeeping fees, managed account fees, and proprietary investments. Proprietary investments include mutual funds, target date funds, or capital preservation investments. As an example, when the plan sponsor allows the recordkeeper to add their proprietary target date fund series to the investment menu, there should be an appropriately adjusted (lower) recordkeeping fee. This “discount” on recordkeeping prices vary between recordkeepers, but also for the type of product utilized.

Mutual funds and target date funds generally offer less of a discount on recordkeeping fees, while capital preservation investments such as stable value and general account products offer a greater discount. There are several reasons capital preservation investments offer greater recordkeeping discounts, but one of the more notable ones is the “stickiness” of these investments. Put another way, a proprietary capital preservation fund can make it harder for the plan sponsor to extract assets as part of a move to a new provider.

Let us examine a fictional situation where a recordkeeper’s proprietary mutual fund or target date series underperforms the stated benchmark or peer group. Our imaginary plan sponsor can typically remove the underperforming mutual fund or target date series within 30-90 days, depending upon the recordkeeper’s procedures and participant notice requirements. Now assume that a proprietary capital preservation product similarly underperforms its stated benchmark or peer group. If this happens and the plan wants to remove the product for a better performing product, there might be a wait anywhere from one to five years or more to receive the money invested or, alternatively, the plan may have to pay a market value adjustment if the market value of the product is less than the book value. These types of contractually mandated withdrawal provisions are in place to smooth cash flows over time, which keeps the yield on the product steady over time, but the related effect is that plan assets are tied up.

The implications of that timing can put extra strain on the fiduciary decisions faced by plan sponsors. They also can complicate pricing in an RFP if the incumbent recordkeeper’s capital preservation product has a five-year payout or market value adjustment. Every other potential recordkeeper will likely be more expensive than the incumbent; they will either not be able to charge their fee on the encumbered capital preservation assets (since those will not be held on their recordkeeping platform) or they would need to amortize a market value adjustment over the term of the contract to receive 100% of the assets.

At Innovest, we help plan sponsors understand the pricing discount by asking for fees in the RFP separately, both with and without any proprietary product. This way our clients can objectively examine how much of a discount each recordkeeper provides to use their products.

Conclusion

An RFP process can consume monetary and staff resources, often for months. It can sometimes result in short-term pain, but ultimately lead to long-term gain. To maximize the utility of each search, emphasis should be placed on defining clear and definite goals. In the last three years, Innovest has conducted nearly 100 RFP’s, as well as related price-checking exercises called Requests for Information (RFI’s). We have, on average, lowered the recordkeeping fees for these clients by approximately 20%. Every client is different, and each retirement plan has its own challenges, but the through-line remains that within every RFP process there can be something to gain. Building on that foundational “rocket fuel idea” and decades of extensive experience, we can craft a clear and definitive RFP process for each plan we serve that will help its participants to better retirement.