

What Type of Professional Retirement Plan Advisor is Right for my Plan?

Retirement 
Advisor Council



Study Sponsors



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-Pam, not-for-profit employer, California, 1,000+ employees

Introduction

The benefits of partnering with a Professional Retirement Plan Advisor are clear¹. Most plan sponsors who partner with a specialized Advisor follow a deliberate selection process before hiring their Advisor. This report offers guidance for plan sponsors interested in hiring a specialized Advisor, and helps them understand the different types of Plan Advisors. Findings are based on focus group discussions with plan sponsors who partner with a Professional Retirement Plan Advisor of some kind.

The RFP Process

*“From my perspective you **HAVE** to use an RFP to have a fair process. The more thought you put into the RFP, the better process you’ll have.”*

-Pam, not-for-profit employer, California, 1,000+ employees

Of the 14 sponsors attending our discussion groups, four reported having conducted an Advisor Request for Proposal (RFP) search within the last 2 years. Six, or 43%, have conducted an RFP search between two and

five years ago. Use of a formal RFP process is becoming the standard method for selecting the right Professional Retirement Plan Advisor. Formal, deliberate Advisor search RFPs have become de rigueur among plan sponsors West of the Mississippi. East of the Mississippi sponsors have been slower to adopt the approach, preferring less time-consuming referrals, recommendations, and HR networking to find suitable Advisor candidates.

The benefits of conducting a formal RFP search include:

- The opportunity to align goals with the advisory services and business models available;
- Fiduciary risk mitigation (because the search demonstrates the application of a deliberate process);
- Better understanding of fees for services;
- Detection of trends;
- Benchmarking information;
- Inherent fairness of process.

¹EACH Enterprise, LLC: The Value of a Professional Retirement Plan Advisor: A survey sponsored by Transamerica Retirement Solutions, Franklin Templeton Investments, John Hancock Mutual Funds, MFS Investment Management, and MassMutual Financial Group © 2011 EACH Enterprise, LLC. The study demonstrates that Plan sponsors who partner with Professional Retirement Plan Advisors enjoy superior retirement outcomes for their participants, superior understanding of fiduciary issues, better plan designs, better investment arrays, better overall asset allocation among plan participants, more reasonable fees, and greater confidence in plan compliance and investment options.

“[We were looking for] someone who could educate us without coming across [as] arrogant.”

-Elaine, privately-held employer,
Texas, 100-999 employees

Once they narrow the field of Advisor candidates, plan sponsors typically invite two or more firms to make finalist presentations before the plan’s investment committee. Finalist presentations normally run 60 to 90 minutes in length and allow time for questions. Plan sponsor comments about the number of finalists and the time allotted for presentations is instructive:

“We had three [and] it really came down to style and investment approach.”

-Megan, privately-held employer,
California, 100-999 employees

“We narrowed it down to two, and had the committee interview both.”

-Elaine, privately-held employer,
Texas, 100-999 employees

“We used 1.5 hours too....One hour present, 30 minutes question.”

-Pam, not-for-profit employer,
California, 1,000+ employees

In the finalist stage, plan committees prefer Advisors with demonstrated expertise, experience advising organizations similar to theirs, and who provide custom

responses to the RFP questionnaire, showing a sincere interest in winning the account. All other things being equal, committees favor finalists whose presentations are brief and concise, with the most appealing style and investment approach. Cost is a factor, but not a primary driver. Asked to describe what creates good chemistry between them and their Advisor, plan sponsors regularly cite qualities like responsiveness, courteousness, humility, patience, and firmness when necessary.

“No ‘yes men.’ I needed some real education on our frozen DB plan and they stuck with me until I ‘got it.’ ...They anticipate our needs and are very responsive to our requests.”

-Pam, not-for-profit employer,
California, 1,000+ employees

“They are very courteous, yet strong when they feel their opinion really needs to be heard, which is exactly what we like.”

-Andrew, privately-held employer,
California, 100-999 employees

“[We were looking for] someone who could educate us without coming across [as] arrogant.”

-Elaine, privately-held employer,
Texas, 100-999 employees

Advisor Business Models

Not all Professional Retirement Plan Advisor practices are the same. Practices differ in terms of:

- Participant education, communication and counseling services
- Scope of fiduciary services
- Approach to Qualified Default Investment Alternatives in the investment policy
- Compensation mix / mode
- Business affiliation



Some Advisors take a lead role in participant education, communication and counseling; others coordinate and facilitate the provision of these services from the plan provider, and leverage best practices across the Advisor's book of business. If it is important that your participants have access to an Advisor with whom to meet in groups or one-on-one to discuss investments and retirement savings goals, you will want to direct your search to Advisors who deliver these services.

Advisors also differ in the scope and nature of their fiduciary support services. The Advisor's function here may range from assisting in designing and implementing the ERISA fiduciary process, to serving as an ERISA plan fiduciary across all plan functions.

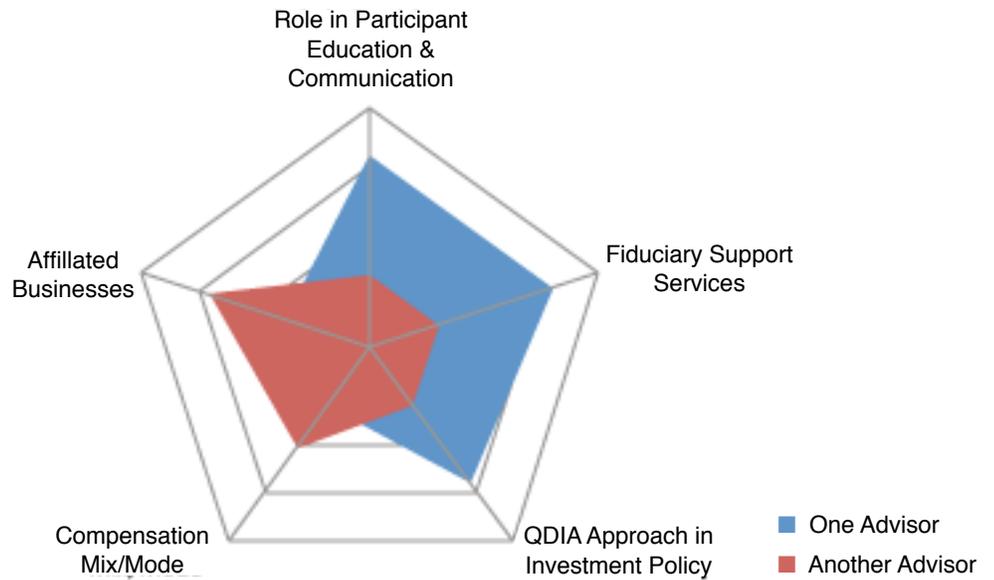
Their standard investment policy and specifically the approach to Qualified Default Investment

Alternatives (QDIA) in the investment policy is another area where Professional Retirement Plan Advisors differ. For instance, some advocate the use of custom asset allocation models, while others prefer to select a target-date-fund family first, and then to select the best service provider given the target-date fund family.

Compensation mix and mode is another factor differentiating Advisor practices. How do you prefer to compensate your Advisor? What is the right mix of the following: annual retainer paid by the sponsor, percent of plan assets, flat dollar amount paid by each participant and project fee? What balance do you want to strike between Advisor compensation supported by plan assets, and Advisor compensation born by the plan sponsor?

Are you looking for a specialized Plan Advisor with a firm that also has a wealth management affiliate? Are you looking for a specialized Plan Advisor with a firm that also has a health and welfare benefits affiliate? Do you prefer a stand-alone Plan Advisor with no affiliate of any sort? Do you require a specialist who can provide Defined Benefit and Non-Qualified Deferred Compensation services? Your preference for one or the other business model depends on the facts and circumstances of your plan.

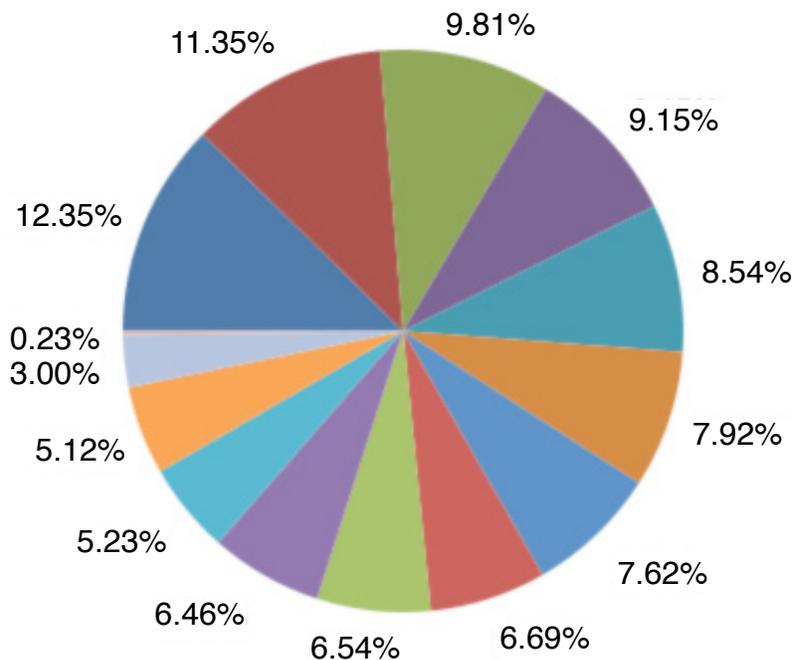
In focus group discussions with 14 plan sponsors, 50% selected their Professional Retirement Plan Advisor primarily on the first of the five factors mentioned above: the role of the Advisor in participant education, communication and counseling. This is not to say all plan sponsors have the same preference in this one area: some plan sponsors are looking for more support than others. The other 50% of plan sponsors based their decision primarily on one of the other four factors differentiating Advisor business models examined in our study.



Placing a Value on Advisor Services

In discussion groups, plan sponsors allocated \$100 of the compensation they pay to their own Retirement Plan Advisor across 14 Advisor services in proportion to the value they receive for the service provided. Plan sponsors allocated the greatest portion to (1) the review of investment options and (2) verifying their plan is administered according to rules and regulations.

(As a Percent of Total Advisor Compensation)



- Review investment options with you periodically
- Examine if your plan is administered according to applicable laws, regulations, and stated policies
- Assist you with the implementation of fiduciary process
- Help you understand the fees providers charge for their services
- Ensures that your participants have access to education, communication, services and asset allocation counseling they need to make informed decisions
- Support you with investment provider due diligence
- Learn the circumstances and benefits philosophy of your organization
- Meet with employees one-on-one to provide retirement plan education
- Monitor the fulfillment of service by your retirement plan service provider
- Meet with employees in groups to provide retirement plan education
- Support you with service provider due diligence
- Help you formulate an Investment Policy Statement
- Provide technical help with transitions such as mergers and acquisitions, spin-offs, divestitures, plant closures
- Other

Major differences exist among plan sponsors on the relative value of these services. Estimating the value of each service to your organization will help you decide what type of Professional Retirement Plan Advisor is best suited to service your plan.

Additional Help

The Retirement Advisor Council makes available on its website an Advisor Search Protocol and a customizable template Advisor Search RFP free of charge or copyrights. Access these documents at www.retirementadvisor.us.

About the Research

Research firm EACH Enterprise LLC, in conjunction with the Retirement Advisor Council, recently conducted focus group discussions with 14 plan sponsors from around the country who partner with a Professional Retirement Plan Advisor. The 14 plan sponsors were divided into two geographically split groups of seven members each, with Group 1 consisting of plan sponsors from East of the Mississippi, and Group 2 consisting of plan sponsors from West of the Mississippi.

About the Retirement Advisor Council

The Council advocates for successful qualified plan and participant retirement outcomes through the collaborative efforts of experienced, qualified Retirement Plan Advisors, investment firms and asset managers, and defined contribution plan service providers. The Council accomplishes this mission by its focus on:

- Identification of duties, responsibilities and attributes of the Professional Retirement Plan Advisor
- Sharing our professional standards with plan sponsors who are responsible for the success of their plans
- Providing collective thought capital to decision makers, product providers, legislators and the public
- Giving voice to the Retirement Plan Advisor community
- Tools to evaluate Advisors, ensuring the quality of services needed for successful retirement outcomes.



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