Step by Step Process to Improve Your Practice Retirement Plan

[Editor’s Note: This is a guest post from Mark Zoril, a financial advisor at Plan Vision. This firm specializes in setting up retirement plans for small and medium size firms. This post is an excerpt from their free ebook (Improve Your Employer’s 401k Plan) offered at his site, with some minor editing. Although this post is lengthy, it is an excellent step by step guide with lots of helpful links to assist you in choosing an initial retirement plan vendor, or changing to a better vendor. The prescribed process is a fair amount of work, but I have no doubt that if you follow it you will end up with an excellent retirement plan. The fees saved over the next few decades will more than make up for your time I am sure. We have no financial relationship at the time I edited this post, although PlanVision certainly falls into the category of prospective future advertiser.]

Want to improve your employer based retirement plan? This process will help you save time and the thousands of dollars you might spend for a consultant or advisor. We have provided all the instruction and tools you need to get the job done. Since you don’t have the resources of a larger organization to devote to projects such as this, it has to be straightforward and simple! We know it might not be easy (which is different than simple), but it doesn’t have to be so difficult that you don’t get it done. The following process is very doable but thorough enough to satisfy the concerns of any governing body or board at your business that will ultimately need to approve the change.

Many plans for small to mid-sized employers of all types are
loaded with unnecessary fees. Since many physicians work for smaller employer groups, they could very well have plans that have unnecessary fees.

**Getting Started**

It’s best if three people are involved in the process. You should divide up the activities and share your progress. Two people can do most of the research and the third person can attend the presentations and evaluation discussions. However, your approach will ultimately be determined by your organizational dynamics. We provide an estimate of how long each step will take from beginning to end.

As your group convenes, it is likely that your primary objective is to reduce plan costs. However, this is not the case for every employer. Some initiate a plan review to “fix” another perceived problem with their plan. These issues could include poor administration, concerns that employees don’t understand the plan or options, bad service and follow-up from current providers, investment lineup issues, etc. During the course of the review, they realize they are overpaying for services and can save their plan and employees a lot of money by finding more competitive vendors.

Another important objective will be to identify a business partner that shares the same or similar values when it comes to employee service, guidance and overall philosophy on investments and fees. We help you explore how each vendor will work with you and your staff so you can determine if they are the best overall choice for your plan – not just the lowest cost option.

**Step 1 Assess Your Plan Fees on One Page**  
Estimated Time = 3 Weeks

It must be on one page. We mean it! Easy enough, right?
However, many employers, large and small, find this to be difficult. Here is the one page fee sheet you will use. You will refer back to it during your analysis.

There are two key cost metrics for your plan. These will be important targets. The first is the total costs paid. This is an annualized number. For example, your total plan costs might be $15,000.

The second is total costs as a percentage of plan assets. If your total costs are $15,000 and your plan assets are $1 million then your cost as a percentage of assets is 1.5%. You also want to know whether or not the fees are paid by the participants or by the employer. Some plans bundle the fees together and the fees are paid for by the employees out of their accounts. Unless well disclosed, bundling can make it more difficult to figure out your fees.

Amazon.com Widgets
You start by getting the total plan assets at a moment in time. For example, what were plan assets as of December 31, 2014, or maybe as of June 30, 2014? Your most current year-end plan balance is available on the Form 5500. This will not reveal any personal participant information. You can also ask your service provider for a report on your plan’s assets. This may have information about each participant and his or her account balance. You will need this for your proposal. Prospective vendors will likely want to know the total number of current and former participants.

Determining your plan fees can get difficult. You can start by reviewing the fee disclosure. This is a document that you should request from your employer or service provider. It is probably available on the website where you access your account. However, many of these are virtually impossible to figure out and may simply give examples of generic costs that are not specific to your plan. If you cannot determine your costs from the fee disclosure, your next step is to talk to
the person running your current plan. Explain that you are using a one-page sheet to figure out your plan’s total costs. If they refer you back to the Fee Disclosure say, “No, I want some personal help. We are your client and you should be able to help us get to the bottom of this, right?” If they won’t help, then call someone else. Try to call 4 different contacts. Start a log and note the time of each call, with whom you spoke and their response (do not record the calls).

If you are getting the runaround this should tell you something about your providers. It is fair for them to be reasonably compensated for their work, but you should not have any difficulty determining their fees. By the way, don’t include any small, ongoing miscellaneous fees, such as the cost of a loan or plan distribution. More often than not, these costs are relatively trivial for most plans.

**AN IMPORTANT POINT** There are two types of plans in which it may be difficult to reduce the fees. Not necessarily impossible, but difficult. The first are plans with multiple vendors. If for some reason all of your plan’s assets will not transfer to your new vendor – for example if you use an insurance contract with transfer limitations – this will complicate your situation. Your new plan will have to administer assets at two custodians. Second, plans that have many participants and low balance accounts could find it difficult to reduce fees.

With your completed fee sheet, you now know how much you are paying and how much each provider is compensated for their work.

**Step 2  Determine Your Goals** Estimated Time = 1 Week

What do you want in your new plan? How will you improve it? This could be a difficult task for a group that may not have a sense of the available options. We have provided you with
categories to identify the general areas of plan management. Your committee should meet for 1 to 2 hours to determine your goals for each category. You will discuss and consider what you want in your plan. It should be easier since you have done some work and have a sense of your fees. An important question you should be asking during this discussion is, “Are we getting what we pay for?”

The categories are broad but your goals are specific. Below are recommended goals you should use for each category. Ultimately, you will determine how well each vendor will meet your goals by their answers to the questions in each category.

**Costs**

We will only pay for services on a flat fee basis. All plan providers will be paid directly for their services to the plan. We will not support revenue sharing among service providers. All plan fees will be paid by the plan participants except for advisory charges – the employer will pay those.

**Fiduciary Support***

We want an advisory firm that will be both a 3(21) co-fiduciary and a 3(38) investment manager. We want a short, simple Investment Policy Statement. Our Investment Committee only needs to meet once a year and our advisory firm will run this process.

**Employee Guidance**

Staff should receive personal assistance when they set-up their account. In addition, we will offer our employees personal, retirement and financial planning. However, we do not want our employees to be sold any other investment products.

**Record Keeping**

We want our record keeper to be a separate firm from our
investment options and our advisor. We want their fee to be presented in an easy to understand format.

**Investments**

Our line-up will use almost exclusively low-cost index funds. We will offer Target Date Funds and Lifestrategy Funds from Vanguard. Our lineup will be a range of investment options that will include most conventional asset classes with value and growth options in each asset class and a stable value fund.

**Conversion**

We would like either brief group or Webinar presentations to staff and personal enrollment meetings for the new plan. We would anticipate this would be done 2 to 3 weeks prior to the conversion.

**Overall**

Reduce our plan costs and hopefully get them below 0.50% for each employee. If this is not possible, we want them as low as reasonably possibly. In general, fees are too high in the industry, so we do not want our fees to be average. We also want full fee transparency and all fees will be easily justified. At a minimum we would like our employees to receive periodic personal guidance on their plan. We would like to be able to easily explain to our employees why we have structured our plan the way we have and why it is good for them.

* Here is a sample Investment Policy Statement (IPS) and sample Investment Committee Documents: Acknowledgement Letter, Meeting Checklist, Meeting Notes, and Total Cost Sheet. You want to make sure that the language matches how your plan will operate and that it is consistent with your goals (it is not a requirement to use an IPS but it is a good idea for most firms).
If you use our recommendations we think you will have an excellent plan. But this is your plan, and we don’t know what you want! Here is an expanded list of goals. Keep in mind that since you have selected goals before you have received any proposals, it is likely you will need to be flexible with your expectations. Hopefully the proposals will align with your goals, but you may have to compromise on some plan services or features.

In addition, we offer an inventory of 25 questions for your Request For Proposal (RFP) broken down by category. You can obviously develop your own categories, goals, and questions that we have not presented. Your Master Comparison Worksheet is where this all comes together (our sample uses 12 questions). It includes your goals and questions for each category. This will become your RFP. You can use this document throughout the process for a complete record of your analysis.

Step 1 and 2 are the most important to improving your plan. Figuring out your costs and deciding what you want are crucial. If this isn’t working, we would not recommend moving forward. If you don’t know what you currently pay and what you want, what is the point of going through with this? Sure, you might get lucky and improve your plan, but investing time on the front-end with these steps will help you prepare for the process. Employers that don’t lay good groundwork will likely stumble in executing a successful plan analysis. But with these two steps behind you, you can move forward with a solid foundation to improve your plan.

**Step 3 Contact Your Current Provider** Estimated Time = 10 Days

Before proceeding, you need to find out if there are any issues related to changing your plan. You can call your current provider and give them a heads up if you like, but you will want to send this letter. They should not be surprised by
this if you recently asked them about the fees in your plan. Be prepared for them to contact you and ask for a meeting to talk you out of bidding your plan. You should turn this down and move forward with your process. Alternatively, we would suggest a 20 minute phone discussion. Require your provider to email you a list of their questions prior to this conversation. Depending upon how you feel about your current provider, you could certainly provide them an opportunity to respond to your proposal.

(You could complete step 3 before steps 1 and 2; however, most plans will not have issues that will prevent a conversion.)

**Step 4 Solicit Bids** Estimated Time = 45 Days

Assuming you have no conversion issues, you can now use your list of goals and questions as your RFP. You’re ready to go! THIS IS YOUR MASTER WORKSHEET FROM ABOVE. You will send each vendor a separate worksheet with just one column of responses. You will ultimately combine all responses onto your Master Version.

You now need to identify vendors for your RFP. This could be the most difficult part of the process! You could send it to: registered investment advisors; record keeping firms; banks; insurance companies; broker/dealers; or any other firm you come across or are referred to. You can use these resources as well: [www.plansponsor.com](http://www.plansponsor.com) has a number of listings of plan providers, but they tend to be for large employers; [www.401khelpcenter.com](http://www.401khelpcenter.com) has information and lists geared towards smaller firms; and [http://investmentadvisorsearch.com/](http://investmentadvisorsearch.com/) is a database with listings of advisory firms that you can sort by state and size.

Before sending the bid, call each firm and explain what you are doing and ask if they want to respond. Use this script. Be clear about what you are doing and your process. They may or may not be interested in responding – some may refuse. If they
want to respond, in addition to the RFP, provide them this cover letter and this information on your plan. This information will save you time since each respondent should have less follow-up questions.

An important point: You will notice that your RFP is short with straightforward questions. We do not recommend using a large RFP!! It is not that details don’t matter – they do. However, you have to make trade-offs as a smaller firm doing this on your own. A 50 page RFP with 200 questions that goes into excruciating detail about specific aspects of processing is not going to work. You don’t want to get buried in an avalanche of information. A shorter RFP will help you focus on the key issues in finding a vendor that best fits your needs.

Next, send your RFP to 4 firms, in addition to your current provider (a total of 5). Give them 30 days to respond (for the most part, they will probably just cut, paste and edit answers from other proposals). Each vendor should return in the same format. This will be much easier for you to work with instead of manually reviewing the information.

Insert the responses from each vendor into your master worksheet. You now have one document with the goals for your plan and the answers provided by each vendor. You can easily update and share with the committee members, however make sure that you maintain one master copy.

We have provided instructions on how to use the worksheet so you can add and delete questions and take full advantage of the document. It should be simple to use.

**Step 5   Review the Bids   Estimated Time = 3 Days**

After getting the responses, plan for your committee to meet for 1 to 2 hours to review the results. However, be sure to review each response individually first. These individual reviews have a different dynamic than the upcoming group
review and could produce questions or conclusions that may not come up in the group setting. Your individual review should only take 20 to 25 minutes. Hold your group meeting immediately after you review them individually.

Compare each provider’s spreadsheet response to the others and talk through the information. Did they answer your questions? How do they match up to your current plan structure? Do they promise a lot? Was there a lot of sales nonsense in the bids? Are the total fees hard to figure out? Does one vendor cost more but appear to offer more value or service to your organization? Based upon the responses and your goals, you should have enough information to select 2 or 3 preferred vendors.

**Step 6   Contact your 2 or 3 Preferred Vendors for a 25 Minute Q&A over the Phone**

Estimated Time = 2 Weeks

This is an important screening step! You will get a sense of each provider’s philosophy and approach. This is your agenda. Prepare 3 questions based upon each provider’s response to your RFP and, if you like, forward the questions to them prior to the interview. Here is a list of 9 sample questions. You can obviously come up with your own. They should answer each question in 5 minutes. Then give them another 10 minutes to answer the following question: “Overall, why is your offering a good solution for our organization?”

The reason for this question is because up to this point you have not provided the vendors an opportunity to sell you on their service. Give them a shot now. You may be surprised and learn something that had not come up. You can also get a sense of the professional style and approach of the people or organization you could be working with so you can evaluate the chemistry with your firm. At the end of the call, ask them to provide references to you within 3 business days.
Step 7  Contact References Estimated Time = 1 Week

Do this before the presentation. If anything unusual comes up on these calls, you can address them at the presentation! Call two of their clients. Have 3 specific questions so you control the time. Each call should take 20 minutes. Don’t ask vague questions such as, “What do you think of your current vendor?” Your questions should be thought provoking for their clients. Here is a list of 9 recommended questions. You will want to confirm what you have learned so far but you are also looking for information, good or bad, that has not come up yet. It might come out on these calls.

Step 8  Bring in 2 or 3 Providers for a Presentation Estimated Time = 1 Month

Keep each presentation to 55 minutes. Let the presenters know your time frame and what you want to cover. We see no reason to be secretive about your goals for your plan. Have an open mind during the presentation and look for new ideas. This is another opportunity for a vendor to sell you on their approach so be open to their message. That is why you are doing these. A presenter could make a positive impression or take a step back as well. This is a matter of style but we encourage you to ask questions during the presentation. If there is something you want to know, get it out there.

VERY IMPORTANT STEP If any firm offers to work with your employees on a one-on-one basis, ask them in the last 10 minutes of the presentation to provide brief demos of how they will actually interact with staff. We would suggest two common situations. First, how would they describe the investments to an employee during an enrollment and what kind of recommendations might they make? Second, if an employee was interested in retirement planning, ask the provider how they would describe their process to the employee and what might be the result of the planning experience.
Be clear about a critical feature of your advisor’s role! The advisor who works with your employees could have a huge influence on your staffs’ long-term financial success. It is likely the advisor may end up discussing other financial issues and ideas with your employees. For example, your advisor could advocate insurance-based investment products for other savings or encourage your employees to shuffle their investments periodically to improve performance. Does this type of guidance make sense to you? Would it be good for your employees? Be sure to understand and support your advisor’s philosophy and guidance. Misleading investment advice is everywhere. Make sure your staff doesn’t receive it through your plan.

**A UNIQUE IDEA** You might consider inviting the vendors to answer questions in a debate style format. This is an altogether different approach than individual presentations. It has some advantages and potential pitfalls. An obvious benefit is that it would likely provide better clarity on differences between the vendors. You may find that each approach you are considering can seem valid on its own merits and separate presentations can create confusion or uncertainty about the relative benefits of each offering. However, it will be easier to identify the differences between the vendors with this debate style presentation.

If you take this approach, we would suggest you have five prepared questions to share with the vendors prior to the presentation and then two more that they would not receive beforehand. Provide about 3 minutes for each response and then a 1 minute summary for each question if a presenter would like to give a follow-up comment. You will want to rotate the order of responses by provider for each question. You will need to have a confident and strong personality that would be willing to moderate the presentations. Be sure to let each presenter know that you would expect nothing less than a professional, civil discussion. You should plan for a 90 minute time
commitment.

By the way, this could be a challenge for some presenters. They cannot rely on traditional props, such as PowerPoint. Also, they will need to have good awareness of other industry products and services to respond to ideas raised by other vendors. From our viewpoint as a prospective vendor, we would enthusiastically endorse this approach. While we cannot speak from experience since we have never been invited to participate in this format, it has outstanding potential.

**Step 9   Evaluate and Decide** Estimated Time = 1 Week

Try to meet immediately after the presentations or within 48 hours with your committee. Review the responses to the questions and the notes you have taken from the presentation. Discuss how the vendors compare. You should be able to understand the fees for each vendor, how they offer investments and services, and how they match up with your plan goals. You may have some service features or new ideas that you did not anticipate. This could affect your evaluation.

You will notice that we do not recommend a numeric rating system to weigh your evaluation criteria. It is not necessary in this case. Your information is limited and your decision-making group is relatively small. You don’t need a grading process to determine the best provider. Just talk it through and select the vendor and option that works best for your company.

It’s possible you have some follow-up questions for your preferred choice, so make your final decision contingent upon their answers. Get back to your vendor immediately with your questions so you can wrap this up.

You have a Comments area at the bottom of your spreadsheet. This is where you should indicate the reasons for your change.
We would suggest just 2 to 3 paragraphs explaining how you have improved your plan and why the new company is a better choice for your organization. Your whole process is fully documented.

WHAT IF?

While unlikely, it’s possible that after all this you could stay with your current vendor. This may not be the outcome you anticipated, but don’t change providers for the sake of it or because you did all this work. If you were able to confirm that your current provider is still the best choice for your company, now you know why! You also may end up not selecting the lowest cost vendor for your plan. You could find a company that charges more but provides a service or approach that you value.

[Update prior to publication: PlanVision has just rolled out this week an on-line RFP process that employers can use at no charge. It is a simple and entirely self-directed process that is more efficient than the Word Document referenced in the blog. You can learn more about it and access it here.]

What do you think? How did you decide on a retirement plan vendor? Would you like your employer to go through this process? What do you dislike about your retirement plan? Comment below!