Quest for the Best—Changing 401(k) Providers

BY AL OTTO

Every year from September through December is the "selling season" in the 401(k) business. Providers roll out their newest and latest offerings. One recent e-mail I received said, "Make this your best selling season ever! We have new investments and many new features."

When I read things like that it makes me wonder what happened to the old investments. Were they lousy choices? If so, what is going to make the new ones any better? Investment selection should come from a thorough, prudent process that builds lasting, high-quality portfolios.

There are two key things to remember when you are responsible for a 401(k) Plan:

1. The key to a well-run plan is an excellent recordkeeping and administration package coupled with a strong investment line-up and a dedicated team of support from the provider.
2. Changing providers is a fiduciary act and should be done with care, documentation and focus on the benefit of the participants.

How do you avoid the hype and choose the best 401(k) provider?

Check out three basics before you make a decision…

CORE MARKET:

Make sure your plan is in the provider's core market (the area in which their largest number of clients reside).

A plan with $15 million in plan assets and 350 participants should find a provider with the majority of their clients in that size segment. You wouldn't want a provider with 90 percent of their clients in the micro market (< $1 million in plan assets) because it is likely their account management staff is not as experienced with plans like yours.

In addition total assets and/or total number of plan participants are important. It takes scale to be successful.

PROVIDER QUALITY:

According to Fred Barstein (president, 401(k) Exchange), you want to ensure that your new provider ranks high in the following areas:

- A leader in the retirement plan industry
- A company with integrity and documented financial strength
- A technology leader
- High-touch—relationship managers/customer service focused
- An innovator

Compare your current provider to the industry and include following:

What is their client loyalty (measured by an independent third party like Boston Research Group or Dalbar within the last year)?

What are their attrition rates for each of the last three years?

Investments—open-fund platforms (choose from any fund family) provide the most flexibility. Are there proprietary fund requirements? If yes, then make sure the fund family is a high quality one. Fund family rankings can be obtained free from Fiduciary Analytics online at www.fi360.com.

DEMAND COST TRANSPARENCY (FROM EVERYONE):

It costs between $60 and $200 per participant/year for recordkeeping, administration, Internet access and voice response systems. Many providers propose "free" plans or a minimal cost of $5 to $25 per person plus a small flat fee. This is "iceberg pricing," and the total cost is simply not disclosed. In order to compare the true cost between providers, you need to understand where all of their compensation is coming from. Only transparent, fully disclosed pricing can do that for you. See the three-part series on 401(k) fees in the November 2004, January 2005 and March 2005 issues of *Benefits & Compensation Solutions.*

Get a detailed analysis of fees on your current plan and compare them with industry averages (if you can't get that information in writing from your provider, then it is time to go.) to see if your fees are in line with industry standards.

PARTING THOUGHTS:

Sometimes the problem is your account manager and not the provider. Dissatisfaction with administration is, by far, the largest reason sponsors change providers. If you have done your comparison work and the data tells you that your current provider is pretty good, but your experience is that the provider is really bad, it may be your account manager. It's much easier to replace an account manager than it is to change providers, so consider this.

If you choose to use an advisor to help you decide whether or not to change providers, make sure this is their core business (at least 75 percent of their income comes from advising on 401(k) plans). Demand to know exactly what they will do for you and exactly how much money they will make on the deal. Avoid advisors who get paid only when you make a change. The SEC has recently come out with 10 questions to ask your advisor. They are excellent and can be found at: http://www.sec.gov/investor/pubs/sponsortips.htm.

Changing 401(k) Providers is a big step. Keep checking providers until you find the right match. You want a provider whose core strengths match your true needs. If you do your homework, it will be worth the time. B&CS

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