MEETING FIDUCIARY OBLIGATIONS THROUGH A VENDOR SEARCH

CASE STUDY

CHALLENGE

The client, a private university, was increasingly burdened by their fiduciary responsibilities to monitor a complex, four vendor 403(b) plan arrangement. The University's retirement plan committee (the "Committee") asked the Multnomah Group to assist them with a recordkeeping vendor search project, to streamline services and ensure the reasonableness of plan expenses. The University identified the following search objectives:

1. An enhanced participant experience, including web-based savings analysis tools, a potent education strategy that is regularly measured and more effective communications;
2. Availability of a best-in-class fund lineup;
3. A decrease in fees;
4. A single vendor who demonstrates a strong understanding of the culture of higher education institutions, and an ability to support the University with new regulations.

PROCESS

Based on objectives developed by the University's Committee, the Multnomah Group drafted a formal Request for Proposal focused on the University's specific needs. Responses were solicited from seven vendors, including the two largest incumbent vendors by plan assets. Each vendor submitted proposals, which the Multnomah Group analyzed according to our proprietary evaluation methodology. The Multnomah Group then prepared a comparative analysis for the Committee illustrating how each vendor scored on each evaluation metric, and in relationship to one another, and recommended four vendors as finalists. The finalist vendors participated in interviews with the Committee, during which they were asked to respond to a specific set of questions that were provided in advance.

RESULT

Significant Reduction in Plan Expenses

- The University selected one of the incumbent vendors to be the exclusive vendor moving forward. While the vendor selected was an incumbent, the search process resulted in a reduction of their asset-based fee from 22 basis points to 13, a 9 basis point reduction. And while the selected vendor would typically apply a new fee structure only prospectively, in this case, the Multnomah Group successfully negotiated the application of this fee reduction to existing assets. In addition, the Multnomah Group negotiated with the vendor to place excess fund revenue in an expense reimbursement account to pay eligible plan expenses. Under the existing investment array, the expense reimbursement account would fund approximately $250,000 per year. The University will have the flexibility in the new vendor environment to identify lower cost investment products to populate the array and further reduce the expenses borne by participants. In aggregate, the negotiated fee reductions are estimated to save $359,000 annually.

Compliance with Regulations & Meeting Fiduciary Responsibilities

- The University previously offered four investment platforms to participants. As a result of the 2009 403(b) regulatory overhaul, 403(b) plan sponsors are flocking to a consolidated vendor environment in order to ensure compliance with applicable regulations and decrease administrative burdens. From a fiduciary perspective, selecting a single vendor allows the University to oversee the activity of one rather than four vendors to the plan. The selection of a single vendor will also help the University's Committee meet other fiduciary responsibilities more readily.

Improved Investment Choices & Contract Structure

- The prior four vendor plan structure included proprietary fund lineups with each vendor. By consolidating with a single vendor, fund selection decisions will be simpler for participants. The University's Committee, with the help of the Multnomah Group, created an improved, comprehensive fund lineup that considers participant investment time horizons and risk tolerance levels. Because the Multnomah Group negotiated an open architecture investment platform, the Committee is now able to select funds from multiple investment managers (including the prior vendors).

  The prior service and investment contract structure mandated that participants direct the movement of assets within the contract. Under the new consolidated arrangement, the investment contract control will shift to the University. Should a future vendor change be warranted, the University will be able to direct the movement of assets held in the new contract structure to other vendors.

Operational Continuity & Service Enhancements

- The single vendor selected was an incumbent vendor, with a long-standing relationship to the University. Consolidating to this single vendor allowed for operational continuity and participant comfort. In addition, the vendor will provide enhanced employee education strategies and services, improved website resources and tools, better plan level reporting solutions, additional plan sponsor services that will alleviate the plan sponsor's administrative burden, and consolidated compliance services and support.

To find out how the Multnomah Group can help your organization achieve its goals please feel free to contact one of our consultants.

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