Finding a New Point of Equilibrium

Plan sponsors' definition of "value" from their retirement plans and providers is changing

Plan sponsors are seeking ways to find the right balance between driving participant outcomes, reducing fiduciary liability and meeting company and plan needs—all at a price they can afford and are willing to pay. Barbara March, President of BridgePoint Group, questions the long-term viability of the current value model between plan sponsors and recordkeepers. March spoke with Alison Cooke Mintzer, editor-in-chief of PLANSPONSOR, about how plan sponsors and providers can work toward a shared goal of finding the right balance between cost, service and outcomes—what March considers a new point of equilibrium.

PS: What do you see as out of equilibrium in the retirement plan industry?
March: Plan sponsors see their recordkeeping relationship as worth "x" number of dollars—there's a price that they put on the value of recordkeeping services. The challenge is that the vast majority of recordkeepers now price deals for less than it costs them to service participants, and that's not a sustainable model. The good news is that there are a lot of services being provided that the plan sponsor really doesn't need. So, it's a problem that can be solved, but people need to understand that the problem exists.

PS: "Scale" is something we commonly hear with recordkeepers; what does scale mean for the average retirement plan sponsor?
March: Scale is often implicit when a recordkeeper services a large number of plans. With scale, a plan sponsor thinks he's buying a reduced fiduciary burden, lower cost and the ability to focus on his or her core business.

The challenge with that, and why scale matters, is a lot of plan sponsors request services outside the norms of how a recordkeeper operates. Those plan sponsors are hurting themselves, because they are reducing the control environment and increasing cost to serve, and there are more chances that something can go wrong with servicing the participants. Even though scale is a recordkeeping issue, I think that when plan sponsors buy a recordkeeping service, there's an implication that they're buying scale. However, post-sale, the plan sponsors tend to ask for individual services, and the recordkeepers aren't proactively offering alternatives that take better advantage of the core services they deliver.

To avoid adding unnecessary cost and risk, plan sponsors should listen to the suggestions of the recordkeeper on *how* to get things done and not ask for variations to standard processes. That will make the sponsors' lives much easier, because the sponsor pays for the variations and a lot of these actually create problems that end up back on the sponsor's desk.

PS: What typically gets in the way of finding such equilibrium?
March: Equilibrium can be achieved when the provider says, "For the menu of services you have chosen and the cost you're willing to pay, this is a business proposition that wins for both of us."

For many years, recordkeepers said "yes" to everything without understanding the impact on delivering to thousands of clients at a time. This has created demand from the plan sponsors for custom services—many of which do nothing to drive participant outcomes or reduce fiduciary liability. There is still irrational pricing in the market, and recordkeepers are struggling to present this challenge to plan sponsors as a reasonable point of discussion.

The key message here is that the business relationship between a plan sponsor and a recordkeeper is out of sync. The cost is higher than the value, and variation is a key component of that equation.

PS: How do we improve this?
March: Much can be solved through transparency. Recordkeepers have done a lot of work to understand what drives non-value-added activity, so it's really incumbent upon them to be more consultative with their clients. They need to be an expert on how plans work best in their environment and say, "You hired us because you expect certain things, you expect a fair price; let me help you understand the best way to utilize us and our services to meet your goals." Then we need sponsors willing to have the discussion. Those conversations are just starting to happen in the industry.

PS: From a plan sponsor perspective, how do you decide what's really important, and how do you start that conversation with your recordkeeper?
March: Ask yourself, what is it that you're trying to do with your plan? Why do you have a plan, and how does it strengthen your business? What is the stance you as a plan sponsor take around your desire to help your participants retire?

Consider what services and features participants really value, and what services matter most to you as a plan sponsor. Then, ask your recordkeeper what other services it performs for you that do not fit into those categories—the goal being to minimize those services that add little value. There's actually quite a bit in that "everything else" bucket, and that's the place to start the discussion with your recordkeeper.

PS: What are some examples of things that don't help the plan but drive cost?
March: The number one biggest issue is data: the variation in what data is provided, how it comes in and the cleanliness. This is a transparency issue, because it comes from the payroll provider to the recordkeeping provider, and most of the time the sponsor doesn't even know how bad it is, how much variation there is or how much is lacking. Sometimes, sponsors believe they have "outsourced" their data challenges, but it is impossible for a recordkeeper to "derive" a termination code. There is only one source of that information—the sponsor. By not providing it consistently, the sponsor is creating work for himself and a bad service experience for his employees.

One might also look at the legacy of paper services and the customization that has been built up over the years. You have to produce one statement each year by law, but for the amount of time and effort that's spent on custom designs, it probably has less value than it did five years ago because of the Internet. Go to the standard format, and put that cost and energy and the resource the provider is expending to something you value more.

It's about correlating resource—whether that's people or dollars or time—to highest value. And I think things that used to have a lot of value may have less value today, and it's a good time to stop and do some spring cleaning. ■

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