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a changing workforce*

Changing Pension Service Administration: When It Makes Sense and How to Get Started



Making a Change

The decision to outsource or change pension benefits administration providers is not reached on a whim. Most organizations that self-administer or already outsource their defined benefit plans rightly take the view that “if it ain’t broke, don’t fix it.” But maybe it is broken and time to consider your options.

In my experience, organizations tend to take a new “fork in the road” for any one of three major reasons: loss of talent, desire to increase customer service and risk mitigation.

The first factor is easily understood. If your pension administration team changes, that knowledge walks out the door.

Improving customer service is always a strong business case for change. In the instance of defined benefit plans, employees want access to their pension information on their own timetable in order to maintain control of their retirement planning.

One of the biggest tipping points, however, is the complexity of administering a plan. It’s extremely easy to make mistakes – errors that could cost you and your company a ton of money. And that’s why plan sponsors need to think carefully about outsourcing to mitigate risk and then conduct meticulous research when selecting an outside pension provider.

Do the Research

While choosing to outsource pension services or change providers may seem like a daunting task, it doesn’t have to be, as long as a company does its homework before and during the search. This process is important both from a practical standpoint – you want to choose the best option – and from a legal standpoint. Remember that handing over the pension administration reins does not negate your fiduciary responsibility. If you choose an inept pension provider, you could be held liable for major losses.

Proper due diligence starts with a cost-benefit analysis and consideration of the following questions:

- Can the service level to plan participants be improved?
- Can control over my compliance risk and calculation error risk be improved?
- Am I getting real value out of my current administration relationship?

Once you decide that subcontracting administrative services is the best option, the search for a firm gets underway – typically with the help of investment and search consultants who will look for providers to include in the request-for-proposal process.

There currently are two types of organizations that provide B2B pension administration services. The first group includes large investment firms that are looking for pension plan assets to invest in their proprietary financial products. When hiring one of these large firms, expect discussions around 401(k) plans, as these companies may require bundling additional investment products around your pension plan.

The second choice involves independent consulting firms that are strictly fee for service for handling defined benefit plan administration. Typically, these independent firms will have no ties to any particular products, allowing for objective advice that is not linked to product commissions.

Choosing a Pension Service Provider

When the time comes to meet with potential pension service providers, there are several factors you should consider. Start by asking about the firm's technology platform. How old is the technology? When was it developed or updated? Firms that use current technology can provide more efficient services that can ultimately translate into lower fees.

For example, Findley Davies' pension administration platform was recently developed. That allows us to implement plans much faster and with a smaller team of people. Many providers still use administration platforms developed 20 years ago to run pension services.

Customer service and communication are other important considerations for plan sponsors. Ultimately, you want to provide an excellent experience for participants while managing risk and legal exposure. Ask about the timing of benefit statements, access to a secure website for both plan sponsors and participants, and whether the company provides a call center that ensures timely, high-quality customer service. Be sure to ask for statistics regarding answered calls, including first call resolutions and cases completed. Don't settle for less than an 85 to 90 percent response and first call resolution rate.

Once service delivery and associated fees are negotiated, the final decision often comes down to the connection made with the team you'll work with on a regular basis. This opportunity comes during the finals presentation. Make sure all proposed team members participate during the finals presentation so you can assess their passion and commitment to serving your employees.

When it's time to negotiate a contract, be sure to identify all fees and what the contract covers. We recommend having a fixed fee over a set period of time. Be sure that all out-of-scope costs are spelled out.

Preparing for Outsource

Once you decide on an outsource provider, the real work begins. There are three key tasks a company needs to complete during the implementation process. First, someone will need to collect, organize and send all historical data to the selected benefit administration firm. This will include all of the historic pension-related data for all current and former employees. Here's a tip: Ask the potential provider to include data cleanup for free.

Second, hand over all the plan's legal documents so the provider understands everything the pension plan offers. This allows the provider to understand the plan's legal commitment and to program its systems to calculate benefits.

Finally, schedule significant time to provide documentation, as well as for review and signoff on the administrative manual. This ensures that the documented processes and procedures meet an organization's fiduciary requirements.

Ultimately, choosing to make a major adjustment, whether that's outsourcing or choosing a new provider, in your defined benefit recordkeeping and administrative services comes down to what is best for both you and your plan participants. Employees need access to their pension information when they need it so they can be in control of their retirement planning. You need a pension administration strategy that is cost-effective, minimizes your time commitment, and controls your error and compliance risk. This will allow you to spend more time focusing on HR strategies and meeting other company goals.

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