

OUTSOURCING VS. IN Resou



SOURCING: IT'S REALLY

Insourcing

Every facet of retirement plan administration, from recordkeeping to trust services to individual employee counseling, requires a different expertise. Companies sometimes find the necessary staffing and technology internally; sometimes they draw on external sources. Whether completely 'insourcing,' completely outsourcing, or relying on a combination of the two, 401(k) plan sponsors should regularly review the elements of their plans' administration and reassess the tools available to service them.

The plan sponsor making these assessments is not so much judging the merits of outsourcing or insourcing as looking for the best resources to provide needed services. Here, as everywhere, beauty is in the eye of the beholder.

COMPONENTS OF PLAN ADMINISTRATION

What services constitute the administrative support a retirement savings program, such as a 401(k) plan, needs to function effectively? Consider these distinct areas:

■ **Recordkeeping.** Any plan with continually changing individual account balances must establish and maintain an accurate data base linked with each of the other administrative functions discussed below. The process by which this data base is kept current and the manner in which plan participants can access and act upon the updated information determine the plan's day-to-day effectiveness.

And behind every recordkeeping process is a benefits administrator. Stud-

ies have shown that roughly 30 percent of their time is spent responding to employees' questions on plan provisions and related financial issues. Roughly another 15 percent goes toward the review of complex transactions such as rollovers, loans and hardship withdrawals.

■ **Employee communications.** All employees, not just plan participants, need to be regularly reminded of the plan's existence, its provisions, its investment opportunities and, for active participants, how their account balances have progressed. Descriptive and numerical information can be made available over the phone through live and/or automated services, as well as through statements confirming individual transactions or summarizing account activity.

Demographic factors often shape the style and substance of communications to plan participants. For example, a plan designed for a centralized work force may have very different communications needs than one for a decentralized work force, particularly one without local benefits staff. And consider the impact of the ERISA section 404(c) regulations that address plan sponsors' fiduciary liability. Although their adoption is optional, these regulations have encouraged many plan sponsors to rethink their position on investment education

THERE MIGHT BE A DIFFERENCE BETWEEN WHAT ELEMENTS OF YOUR 401(k) PLAN CAN BE OUTSOURCED AND WHAT SHOULD BE.

for their employees.

Some interesting intangibles can also influence communication strategy and the decisions about which resources are needed to support it. These intangibles can include the personalities of benefits and human resources managers, their opportunity (or desire) to focus on internal communications, corporate management's philosophy, its commit-

ment to the benefits program, its communication style, and even the decisions and philosophical biases of internal and external legal counsel.

■ **Compliance monitoring.** Each plan must be supported by systems and procedures that can adapt to an ever-changing legislative and regulatory environment, but a company developing its own systems and procedures for this purpose may be financially impractical. Even when a company does maintain such systems for its own plan, it is often difficult to develop and maintain sufficiently experienced internal staff. For instance, the nuances of nondiscrimination projections and year-end testing require expertise to identify alternatives when initial results are unfavorable.

■ **Investment-related service.** Each plan's assets must be carefully managed and extensively documented. After making the fundamental decisions about which investments the plan will offer, a company's financial executives must decide who will

fulfill the plan's trustee, portfolio management and, for many plans, stock transfer requirements, and how they will do so.

There are numerous organizations that either directly or indirectly (through alliances) 'bundle' these investment-related services with their other administrative service offerings (e.g., recordkeeping, communications, etc.). Services described as 'semi-bundled' and 'unbundled'—most often referring to the separation of investment and recordkeeping services—are also components of outsourcing.

■ **Quality control and long-term planning.** In addition to ensuring day-to-day accuracy and timeliness of the plan's administrative process, plan sponsors need to have a long-term impartial eye looking out for everything from "it would be nice" enhancements to critical payroll or recordkeeping system modifications. Dealing in an efficient and proactive manner with regulatory, technological and even demographic change comes more naturally to organizations with longer-term commitments to systems development.

IDENTIFYING QUALITY RESOURCES

As plan sponsors seek to cover each administrative function with available resources, the most relevant questions are usually the most difficult to answer objectively. For instance, does the necessary expertise for this function exist internally? Should it? Should it be provided by an individual or organization already familiar with the program, or is it more effective and more objective to invite a 'fresh look'?

Answers will certainly vary from plan to plan, even from function to function, and can differ between plans within the same organization. The right answers are often based, at least in part, on an objective evaluation or 'audit' of how conventional the plan is. This audit itself can be outsourced if internal resources do not offer the depth and variety of experience with other plans required to make meaningful comparisons. The less turn-key the plan, or the less homogeneous the organization it is trying to serve, the less effective pre-packaged communications, recordkeeping and/or trust services can be.

BUILDING THE IDEAL SERVICE TEAM

Successful 401(k) plan administration requires teamwork between the plan sponsor—the benefits or human resource director—and his or her team of resource providers. As the coach of the team, the plan sponsor decides who makes (and stays on) the team.

There is no absolute formula for building successful plan administration,

no single characteristic that guarantees selection for any particular position on a 401(k) service team. However, as plan sponsors listen to prospective service providers' answers to the questions posed below, something will jump out at them, representing the quality or capability he or she feels their plan should not be without.

■ **Cost-effectiveness.** Will the provider's services save the plan sponsor hard and soft dollar costs? Can outsourcing, and the reduction in internal staffing budgets that can result, be leveraged to fund and administer other components of their plan and other facets of their benefits program?

Likewise, what are the costs associated with a plan sponsor's fiduciary exposure? Providing certain services internally, such as trustee and money management, may introduce new financial and communication responsibilities. Also, plan sponsors should evaluate whether their ability to charge plan expenses against trust assets would increase in an outsourcing environment. The issue, for interpretation by the plan sponsor's legal counsel, is whether these expenses are more quantifiable through vendors' itemized invoices than against internal, often unallocated personnel and systems costs.

■ **"What business are we in, anyway?"** Is maintaining a full managerial, technical and systems staff to support some or all of the administrative components of a 401(k) program consistent with senior management's commitment to shareholders? Can they meet the plan's technological and regulatory needs, now and in the future? If not, plan sponsors will be more receptive to outsourcing, especially when it meets the other criteria highlighted throughout this article.

Conversely, is a company's history of providing full service to its employees a dissenting vote against outsourcing? Collective bargaining constraints (i.e. whether the latitude exists to increase administrative costs without enhancing the benefits themselves) might further sway the pendulum away from outsourcing.

■ **Efficiency.** Is minimizing redundancies (i.e., coordinating with the administration of other company-sponsored benefits programs) a priority?

It is not uncommon for plan sponsors to ask potential service providers to meet specific service standards throughout their relationship, and to make fee levels contingent upon their doing so.

Also, employees' access to information about the plan and their accounts should be as unimpeded as benefits management deems necessary (the classic daily vs. monthly valuation debate), and management's access to plan information should be as timely as possible. All of this is fueled directly by the capabilities of the plan's administrative service providers and the standards and goals set for their services.

■ **Satisfied customers.** Is the plan sponsor comfortable presenting outside vendors to employees as their 'customer service representatives,' ready to assist in times of need? Is it important to benefits management that 'live' help to employees, not just a prerecorded voice, is always there? Do the plan sponsors ask themselves, "can any outside vendor possibly care more about my employees (or get them their payments and their statements faster) than my staff does?"

These issues should be evaluated in light of available internal staff and their capacity to absorb the necessary benefits and service-oriented training. If talented internal staff are overburdened with clerical and administrative work, 'reengineering' the process toward allowing internal resources to focus on higher level tasks can steer plan sponsors toward outsourcing. In fact, one of the more fundamental decisions in this process can be to decide where customer service fits in the decision-making process: is it one of several equally weighted factors, or does it rank ahead of each of the other factors described above, even 'cost-effectiveness'?

WHAT'S THE RIGHT ANSWER?

In weighing all of these factors, benefits management needs to recognize the difference between what can be outsourced and, for them, what should be outsourced. Whatever degree of pragmatism goes into the decision-making process, there's inevitably an element of instinct. There's no universal answer to the question, "what's right for our culture and our plan?"

As someone used to say, that's why there's chocolate and vanilla. When it comes to 401(k) plan administration, there's total outsourcing, complete insourcing, and lots of flavors in between. ◀

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WHO WILL FULFILL THE PLAN'S TRUSTEE, PORTFOLIO MANAGEMENT AND STOCK TRANSFER REQUIREMENTS?