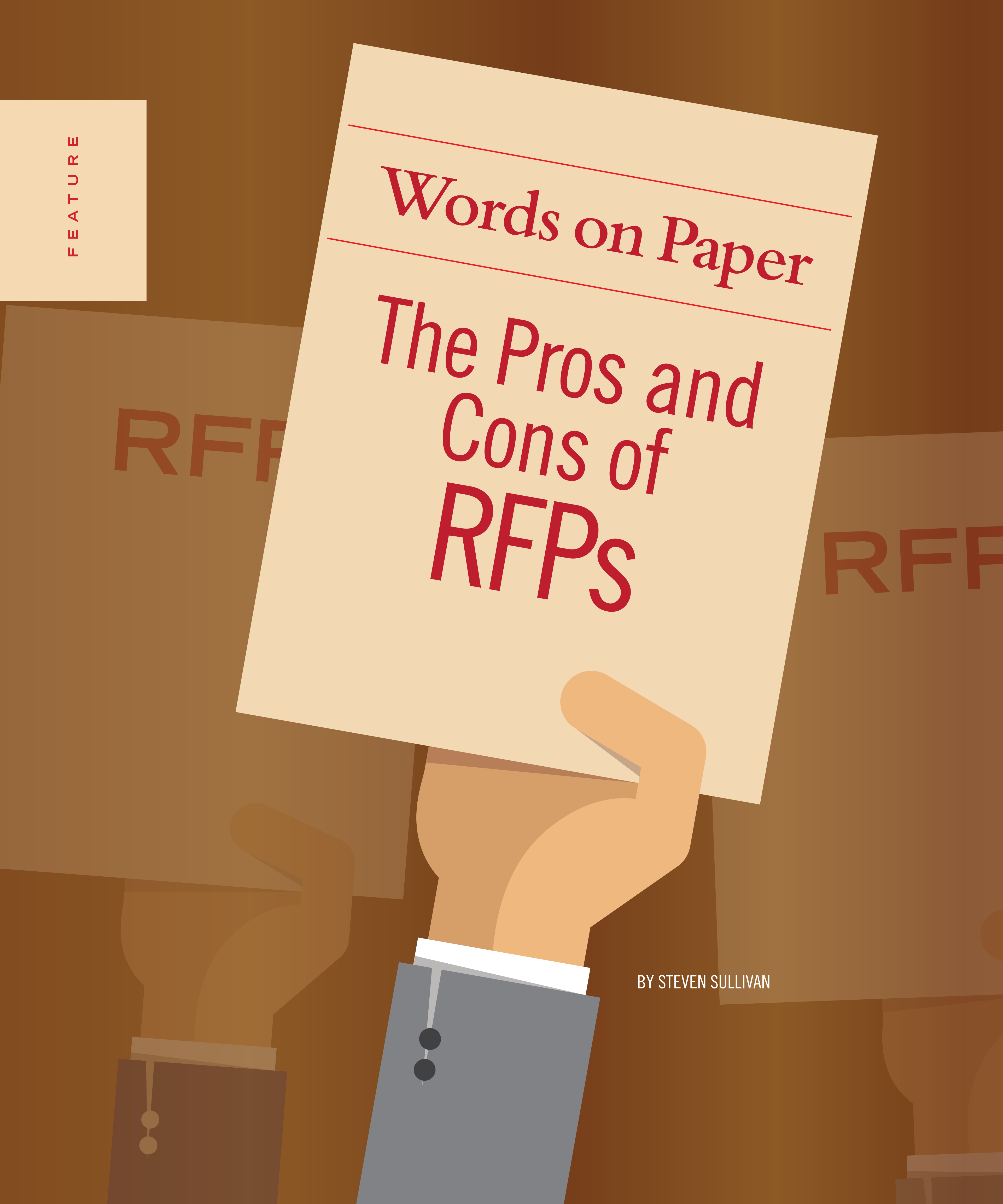
FEATURE



Words on Paper

The Pros and Cons of RFPs

BY STEVEN SULLIVAN

t's no secret that plan sponsors are under increasing pressure to take their fiduciary duty seriously, particularly when selecting a plan advisor. Some of the pressure urges them to go with the lowest bidder; low fees are always in the best interest of their participants, they're told. Others tell them it's more complicated than that; safety and security do have a cost, even though that cost can also be fair and reasonable.

But what does "reasonable" mean? What's reasonable when it comes to fees and expenses in a 401(k) plan? If an advisor claims to add value, exactly what value is that and is it worth the cost? Does the advisor have a track record or does she just talk a good game? Does she really have the expertise she claims to have?

These aren't easy questions for sponsors to answer, particularly when it's not their full-time job to answer them. So it's not really so surprising that plan sponsors are turning to a tried and true technique that's been used for ages in other parts of the business world: the request for proposal (RFP) — with mixed results.

"The transition is from relationship business to not-completely-spreadsheet but a combination of the two," says Fred Barstein, founder of The Retirement Advisor University (TRAU) and industry columnist for *NAPA Net the Magazine.* "It's happening because it makes business sense and because fiduciary responsibility means you have to justify how you picked your advisor. 'I met him on the golf course,' or 'he seemed really nice, I liked him, he has a lot of plans' doesn't cut it anymore. Sponsors actually have to go out and conduct due diligence. It all makes sense but it's just starting to hit home, and it's starting to come down market."

For advisors at the higher end of the market, responding to RFPs is nothing new; they've been doing it for years. "It's part of our daily lives," says Chad Wilson, director of investment consulting at PSA Financial Services in Baltimore. But it's not necessarily second nature for advisors at the mid-to-lower levels of the market.

Most advisors at that level are professional consultants rather than product pushers, but they still develop their business in the traditional way — personal contacts, referrals, centers of influence. More and more RFPs are starting to show up in their mailboxes, but they still constitute a relatively small portion of their business — anywhere from 10% to 20%.

"Three years ago we responded to six RFPs; last year we responded to 12; and so far this year (July 2014) we've responded to 12," says Daniel Bryant, managing partner of Sheridan Road Financial in Chicago. "We'll probably respond to a couple dozen this year. We view it as the way business is going. Regardless of size, companies are feeling compelled, either by their attorneys or their committees, to go out and benchmark and use RFPs to find advisors. We welcome it 100% because we're confident in what we do. We feel that if we have a meeting, our value proposition differentiation factors play well."

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But then there are the blind squirrels, the advisors who earn their nickname from the adage, "even a blind squirrel can find a nut once in a while."

"They have a relationship or they have a license but they're not experts," says Brett Shofner, senior vice president at American Portfolios in Delray Beach, Fla. "Working on a retirement plan might be 2% of their business. They happen to know a CEO or a CFO as golf buddies. They typically charge huge fees but they're not doing much. So it's not a bad thing to do an RFP for an advisor. If most wire house reps walk into one of my clients and says they could be their advisor, the client assumes they're doing the same kind of thing that I am. And that's not true; they're likely not an RIA and most can't be a co-fiduciary to the plan."

"In the large market, the answers to the RFP are all going to be the same: We're big, we're great, we have a lot of resources. Just pick who you like because we're all competent," says Marc Zimmerman, an advisor with The Centurion Group in Ft. Lauderdale, Fla. "It's so much more important in the small market because it's the broker dealers and so-called wealth managers controlling that marketplace who have no clue what they're doing when it comes to employee benefits. And they're hurting plan sponsors more than helping. They turn the business over to collect commissions, they charge high fees, they offer no fiduciary support."

The learning curve can be steep. Many advisors aren't prepared for the kind of questions they have to answer. And it's time-consuming. If you're a small operation serving the clients you have and struggling to grow your business, how are you going to find the time to answer all these questions?

"At our firm we have an RFP team whose job it is to fill them out," Zimmerman says. "We have a certain scope to our business so none of our answers are embarrassing anymore. We're proud of the answers. But if a $2 million car dealership is talking to a Morgan Stanley or Merrill Lynch broker, or an ERISA fiduciary advisor whose sole practice is 401(k), he's going to see a huge difference in those three lines of that spreadsheet."

So once you get over the shock of having to respond to RFPs, and work out a reliable system for doing the paperwork, the question then becomes: How do you embrace the concept and create the opportunity for responding to more of them? How do you get on the radar of plan sponsors who are looking for professional advisors?

"We're receiving RFPs in what I call geographically agnostic locations," says Sheridan Road's Bryant. "Places where we do not have offices but we're still finding ourselves on these lists and we're getting opportunities for plans that a year or two ago we never would have been aware of. We're not sure how we get on their radar but there are a couple ways we've heard. One is our

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reputation as we've grown. We have 260 clients in 23 states. We're seen as thought leaders in the industry so we speak at a lot of conferences. Some of it's word of mouth, some of it's centers of influence — law firms, accounting firms, record keepers. Companies go to a lot of different sources to find out who to talk to for RFPs. I think we have enough tentacles out there now where we're touching quite a few of these."

Garbage Out, Garbage In

It wasn't receiving his first RFP seven years ago that shocked Bret Shofner, it was the low quality of the RFP. Sponsors have been accustomed to shopping for record keepers with RFPs for years, so it's not surprising that they sometimes pull one of those off the shelf and use it to shop for an advisor. It's a practice that results in unclear goals, irrelevant and disorganized questions, and all-around confusion. If sponsors are sending nothing but garbage out, it may be unrealistic to expect anything but garbage in from advisors. And that's not the way professional advisors want to operate.

"And I'm not talking about small plans," he says. "These were publicly traded companies. At that level I expected better. They're making decisions that affect thousands of people and they're not even asking the right questions. But of course I can't tell them that, I have to try and answer their questions."

Things have improved considerably at the higher end of the market since then, but small-plan sponsors still don't seem to understand their own retirement plans well enough to be able to ask the right questions — even when they bother to ask the questions at all.

"The RFP is one of the only solutions we have in the industry to actually compare service models," says Marc Zimmerman. "In the smaller market, plan sponsors aren't using them. They have no concept of what they *have* from their advisors versus what they *can have* because they're not doing any analytical work in the selection process. In order for the industry to improve holistically, the small market has to start thinking of their retirement programs like large-market plan sponsors do and analyze not just the vendors but the advisors as well. If we can get the small to mid-market sponsors to analyze their advisors, then all their plans will improve."

"I'm not saying RFPs are a bad thing," Shofner says. "If they're done properly, it helps the good advisor. And the more good advisors we have, that improves the business. If there was a place I could point them to show them how to do it correctly, I'm all for it. What's more likely to happen is they'll end up with some random, irrelevant RFP structure that's not helpful for anybody."

It Pays to Educate the Sponsors

Fortunately, he's in luck. It turns out there are a number of resources for plan sponsors who want to know how to craft a well-tempered RFP that asks all the right questions, in the right language, and in an order that makes sense.

Trisha Brambley is founder and president of Retirement Playbook, a consulting firm offering a full suite of services and tools to help plan sponsors select the best provider and advisory firm for their 401(k) plans. She got her bona fides by serving for 15 years as a plan advisor, so she has a pretty good idea of what sponsors need to know.

"A lot of plan sponsors don't understand what's involved in selecting a quality advisor," says Brambley. "Left on their own they often select only on fees, and that's not good. An advisor has a serious role to play, one that will protect the sponsor from lawsuits and penalties and not having their employees be ready for retirement."

Retirement Playbook provides basically three levels of service. One is a full search, an in-depth review that starts with educating the investment committee about the kinds of advisors out there, all the way through to a short list of who will receive an RFP. Then they customize the RFP for the client, and help them sort through the responses and decide who to interview. Retirement Playbook will help prepare questions and evaluate the answers, but the client makes the decision.

They also offer a modified process that involves more vetting at the beginning. The sponsor will pick three or four advisors from a preferred list to include in their review. They'll all get an RFP and they'll all come in for an interview. It's abbreviated but still in-depth.

And for the sponsors who think they can do it all themselves, Playbook offers an RFP template on its website. Sponsors can get a half-hour free consultation with Brambley, and pay for as little or as much help as they need throughout the process.

InHub, a consulting service founded by Kent Costello and Ariana Amplo, claims to use advanced technology to revolutionize and streamline the RFP process.

"To this day, RFPs in the institutional space are still in the Stone Age," Costello wrote in *The Wall Street Journal,* "and lead to sky-high opportunity costs for the institution and participating financial advisers, shockingly high consulting fees, and a timeline of six months to one year."

For a modest fee, InHub will prepare an "eRFP," invite candidates, conduct an e-meeting with the investment committee to evaluate responses, and help the committee decide which is the best fit. It also provides a report that documents the due diligence process.

The Retirement Plan Advisory Group provides extensive consulting services for benchmarking and new-advisor RFPs. The Retirement Advisor Council also provides an online RFP template and a search protocol for sponsors.

Dos and Don'ts

If there are any resources to help advisors respond to RFPs — books, consultants, websites — none of the people interviewed for this article were aware of them. But that doesn't mean they don't have their own advice for advisors.

Obviously, getting the written answers right is crucial. After all, that's the first impression. Chad Wilson advises that even though sponsors seldom use the same set of criteria or questions, his firm maintains all the RFPs it's ever responded to in a database. "The idea is if we write a really good detailed response to a question, we can cut and paste when it comes up again. That database is getting bigger and bigger but we're not getting a lot of opportunities to cut and paste. Even though most clients will ask about your methodology for selecting investments, they'll always ask it with a different slant. So cutting and pasting isn't necessarily going to work."

"We make sure we define whatever technical language we use in layman's terms," says Daniel Bryant, "so the CFO and the head of HR and whoever else is on the committee knows not only what the industry gobbledygook means but what it means to them specifically."

"We don't get RFPs that often but our batting average is pretty good; I'd say we're at the 50% range," says Marc Zimmerman. "One thing I learned is to qualify the opportunity up front. If someone's giving me a 20-page RFP and they don't agree to meet with us, or at least do a conference call, most likely we won't fill it out. I don't want total anonymity; I don't want to not know what I'm dealing with. I want to know why they're sending out an RFP — something other than what's written there. I want to talk to a human being before we put in 20 hours of work. If you're blindly filling out RFPs, forget that 50% batting average. You're probably down to 5 or 10%."

One would think that most advisors would be naturals at the personal interaction, but Trisha Brambley says that's not always the case. She strongly suggests that advisors need to hone their presentation skills. Just going through a pitch book page by page won't cut it. Clients want interaction and connection.

"Even if you have all the tools to fill out the RFP, there has to be a little more attention paid to how you present and connect with the needs of the committee members," she says. "It can't be over their heads but it can't be condescending, either. Clients don't expect a performance, but they expect a professional interaction that gives them a feel for what it'll be like to work with an advisor on a long-term basis."

It should be fairly obvious at this point that many plan sponsors are expecting more from the advisors they'll be working with on a long-term basis. But it cuts both ways;

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advisors also expect sponsors to be more knowledgeable about and involved with their retirement plans. And one of the most promising tools for achieving those expectations will be the RFP.

"The number of RFPs we're being exposed to has been dramatically increasing each year across all market segments," says Jim O'Shaughnessy, managing partner of Sheridan Road Financial. "We see the institutionalization of the small- to mid-market segments through advisory RFP searches as a major challenge for the majority of advisory practices that don't have the internal staffing to create a professional response, and therefore an opportunity for the firms that have scaled their practices accordingly."

Marc Zimmerman adds: "RFPs aren't just for the $20 million, $50 million, $100 million, $200 million plan, they're for every plan sponsor. People need to realize this will be coming down the pike soon in all market segments."

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