The Disadvantages of Multiple Retirement-Plan Vendors

By Wendy J. Dominguez

IRC section 403(b) plans—retirement plans that can be sponsored by state and local governments for public school and other government employees, as well as by organizations exempt from income taxation under IRC section 501(c)(3)—seem to be the last area in which multiple retirement-plan vendors are prevalent. Many entities sponsoring section 403(b) plans have taken a hands-off approach, allowing almost any vendor that offers 403(b) plans to offer products to their employees. As a result of this lack of control and coordination, plan participants have received substandard services and high-cost products, and the entity has often been left coordinating payroll deductions to 15, 20, 30, or even as many as 60 different 403(b) vendors. In addition, most employers would have difficulty arguing that they are fulfilling their fiduciary duty.

This environment is certainly not good for employees. In a multiple-vendor environment, participants lose all of the economies of scale that come with a consolidated plan–level account. Retirement plans with several millions of dollars are more visible to the institutional marketplace. With this visibility come increased services and reduced costs. Participants can easily save 1% per year in fees by moving from a high-cost "retail" solution to an institutional solution. For just one participant saving $5,000 per year for 25 years, a 1% fee savings equals nearly $60,000.

Services to employees can also be improved by a single-vendor environment. Meetings with employees become less focused on which company is better (or has a better salesperson or has the better food at their meetings), and become more focused on educating employees about which investment vehicles will meet their goals. This change in focus is significant. The rumors and casual conversations about which vendor is cheapest, which has the best investment products, and which has the best information will become a thing of the past. They are replaced with an environment where employees feel comfortable that they are getting great service and great pricing, and where they can focus on achieving their retirement goals.

The benefits to the employer of using a single provider are also significant, the most important being increased fiduciary protection. Many entities mistakenly believe that applying a hands-off approach absolves them of any fiduciary liability. Benefits attorney Fred Reish and Bruce Ashton, writing in "Fiduciary Rules Applicable to '(b)' Plans," in the *Journal of Pension Benefits* (January 2005), disagree:

> Exempt 403(b) plans and government 457(b) and 403(b) plans are also subject to legal requirements, just not ERISA's. Instead, they are subject to the laws of the states in which the plans are established. Many of the state fiduciary laws are based on principles similar to those underlying ERISA, such as modern portfolio theory, the prudent man rule, and the use of generally accepted investment principles, and a number of state statutes use language that is virtually identical to the provisions of ERISA.

The Uniform Prudent Investor Act, enacted in the vast majority of states, spells out sponsoring entities' fiduciary duty to select, monitor, and prudently review the performance of plan vendors and service providers. Using multiple vendors introduces issues surrounding costs and fees that make fulfilling this duty nearly impossible. ❑

***Wendy J. Dominguez, MBA,** is a principal at Innovest Portfolio Solutions LLC, Denver, Colo.*