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Fiduciary Supply Chain Management is not a Piece of Cake: It Requires a Qualified Specialist

The fiduciary duty of ERISA qualified plan sponsors is being enforced as if the management of vendors is the most important thing. The new pension regulation 408(b)(2) is an innovation that equips the Department of Labor and the courts with a powerful tool to enforce it.

Suddenly, managing vendors that provide investment and administration services is as critical to legal compliance as it always has been to financial returns. It is forcing a radical change in the way sponsors think and act.

Decisions made by executives that oversee the hiring and replacement of service providers are dominated today by the vendors. The Department of Labor warns plan sponsors that this situation allows vendors to "*distort market outcomes in their own favor*" and seriously threatens the safety of workers' retirement and welfare benefit accounts.

Knowledge superiority over vendors is a well accepted need for sustaining profitability at the corporate level. Purchasing executives call it supply chain management. In the employee benefit committee room, it is even more essential because it is overlaid with the legal burden of fiduciary duty. Yet the vast majority of executives who bear that duty are overmatched by vendors.

The first step to upgrading your fiduciary supply chain is pretty simple; find out what is working then uncover what is not. The immediate goal is to find the improvements that can make a measurable difference in plan performance. (Uncovering the excessive fees present in many plans is a good place to start.)

Supply Chain Management is Important for Two Reasons

The services that are acquired by ERISA qualified plans are the backbone of the welfare benefit and retirement plan communities. Two key reasons for managing effectively the vendors of those services are ***cost*** and ***opportunity***.

The qualified benefit plan supply chain is a complex beast. The vendors it takes to perform the needed investment and administrative services operate in a technical world of their own.

Fiduciary support vendors are prone to talking in jargon that bears little resemblance to the language of the business executives that hire them. Sensing this as an advantage, many vendors use terms like "co-fiduciary" in a way that suggests selecting them relieves a plan sponsor of its ERISA fiduciary responsibilities, which, of course, it does not.

The jargon of vendors creates a definable information gap that is hard for plan sponsors to bridge by themselves.

The information gap results in two major consequences, both bad:

- costs charged to participants' accounts, and to sponsors when they decide to fund support services, are unreasonable; and
- workers lose the opportunity to build the best possible retirement nest eggs.

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The Assessment Specialist

The best way to unearth the vital facts is to ask for a *vendor management assessment*. Many consulting firms that serve employee benefit plans claim competency on nearly any subject. Any firm that consults on investments, plan design, or retirement planning has a hidden agenda, though, when it promotes its “vendor search” services.

The right choice is a firm whose only services are centered on fiduciary supply chain management. A consultant like that is the best hope for an impartial, effective, streamlined system that hires best-in-class vendors, while ensuring that vendors only get paid what they are worth. After all, that’s what the new federal pension regulation requires.

Qualifications of a Fiduciary Supply Chain Consultant

Only a specialist that operates in the trenches, doing supply chain work will have the needed skills, training, and practical know-how to see the obvious, as well as the hidden supply chain issues.

- Use a consultant that has a solid base of experience in the regulated ERISA world. Avoid using a consultant with only a theoretical background acquired in the academic community or refuses to acknowledge its role as an ERISA fiduciary for the work it performs.
- The consultant should have hands-on experience auditing fiduciary vendors onsite. A good example is a firm that conducts assessments in the vendor world for recognized certification agencies.
- Avoid using consultants that sell investments, recordkeeping, or custodian services either directly or through affiliates. Supply chain management is a fiduciary act. ERISA demands total independence.

What to Expect

Fiduciary supply chain management, when done well, has an enormous positive impact on retirement plans, welfare benefit programs, and corporate expenses; done poorly, it can be no more than a vehicle for the transfer of wealth from a sponsor’s workers to the vendors.

Roland|Criss uses an assessment methodology that has been refined through years of robust use. It consistently reveals excessive fee arrangements and streamlines benefit plan operations.

Since neither Roland|Criss, nor any affiliate, sells any services or products that appear in fiduciary supply chains, we are impeccably impartial. We strengthen more of our clients’ incumbent vendor relationships than we unseat.

Roland|Criss’ assessments produce these results:

- Review of a qualified plan’s design and analysis of the services needed to support it;
- Vendor Value Index™ which analyzes vendors’ fees to the level of services received;
- Workflow study of the fiduciary process;
- A detailed map of the current supply chain;
- A map of the desired supply chain;
- Fiduciary process change recommendations;
- Specific plan to improve the supply chain;
- Vendor management certification; and
- Opinion of compliance with ERISA 408(b)(2).

Roland|Criss was built to be a fiduciary supply chain manager from the start. One clear example is our selection by CEFEX and ASPPA to conduct hundreds of their vendor certification audits.

Ask us how we can improve your 401(k), 403(b), defined benefit, or VEBA plan.

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