THE EXCELLENT FIDUCIARY

Wouldn't It Be Nice to Know? A Case Study of How One CEO Worked with His Team to Accomplish a Complete Fiduciary Strategy Overhaul

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The executive team at Delta Regional Medical Center plowed difficult ground in an effort to fulfill its fiduciary responsibility to select and monitor prudently its retirement plan service providers. This leadership team discovered the true information gap that providers hold over plan sponsors, and the skill required to safely close this gap and act in the best interests of their employees. The interview presented below tells the story of an increasingly pervasive fiduciary experience—an abrupt recognition that certain policies, vendors and expectations that have been the status quo are no longer in line with current fiduciary standards—and the subsequent renovation of fiduciary processes in order to fulfill a new age of stewardship and fiduciary responsibilities.

INTERVIEW WITH J. STANSEL HARVEY, CEO OF DELTA REGIONAL MEDICAL CENTER

It is our privilege today to visit with J. Stansel Harvey, CEO of Delta Regional Medical Center (DRMC), and a 325-bed hospital located in Greenville, MS. Mr. Harvey boasts over 28 years of hospital leadership experience, including ten years as president of a 229-bed hospital in Fort Worth, Texas, and ten years at a 168 bed hospital in Benton, Arkansas. Additionally, Mr. Harvey served as the Chief Operating Officer of Columbia / HCA's Midwestern Division based in Denver, Colorado. He earned a Master of Health Services Administration from the University of Arkansas at Little Rock, and is originally from Ruleville, MS. Herein, Mr. Harvey will share the story of why and how he and his team at DRMC initiated a complete transformation of their fiduciary strategy and approach to managing retirement plan vendor relationships.

Question #1:

Stansel, what caused your uneasiness with your current

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retirement plan provider arrangements?

Answer #1:

When I began reviewing our hospital's 403(b) and defined benefits plans, I had never dealt with the types of annuity insurance products that were part of DRMC's plan. My previous experience in not for profit, for profit and governmental hospitals had never exposed me to an annuity product used in the retirement plan.

It was when I started having conversations with our CFO and Director of Benefits that I began realizing that variable annuities may not be the best approach for our plan participants. As I started researching to learn more about these types of products, I found an article in *Forbes* that really struck me. The article criticized variable annuities and outlined an argument about why they don't belong in retirement plans. Meanwhile, I was looking at our 403(b) plan with a variable annuity playing a front-and-center role. We scheduled a meeting with our fiduciary consulting firm, and I asked them for their thoughts regarding variable annuities. When they confirmed my fears about the risks involved with this type of product, I asked them point-blank: What can we do about getting this out of our existing plan?

That's really what started the firestorm of activity when we determined we must change and improve our fiduciary processes. We knew we wanted to adhere to industry best practices, and be responsible stewards of our participants' assets—we just, to date, hadn't been given a roadmap on exactly how to accomplish that.

Question #2:

What issues did you set out to fix immediately, and how did you go about fixing them?

Answer #2:

Initially, we focused mainly on the service provider fees for the plan. Because variable annuities have fee structures that pay for insurance benefits that participants rarely use, it's money out the door that negatively impacts the return on investment. It's not like investing in mutual funds, for which you're just paying fund management fees.

We also sought greater transparency—both in allowing participants to understand where their investments were being made, and provide a mechanism to track and change their personal investments online at their discretion. We additionally discovered that our defined benefit plan was being managed by a bank in separate accounts, which created the same transparency problem as the variable annuity—there were pricing structures and fees that weren't easy to see or monitor.

We also needed to break free from a single provider model that had one vendor responsible for all of these service categories—fiduciary, administrative and investment. We wanted to become an independent entity with clarity around the specific advisors from whom we were enlisting help and expertise. We realized that we needed true experts operating in their respective areas of plan advisement—not one provider who claims they can handle all of these different responsibilities and tasks. Our fiduciary consultant advised us that this is the way ERISA intended for us to work with outside experts—not in a bundled service capacity, but in a clear, straightforward partnership where their job really is to work in the best interest of our plan participants.

In order to actually address all of these areas, we worked with our fiduciary consultant to update our service model. They started with detailed due diligence to understand all that was included under our current contracts, and then they ran an RFP process that garnered proposals only from providers that met their independent quality standards. That was really helpful. I think many executives

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tend to trust name brands, or people that peers have recommended. We have to focus on running our business, and trust that others will excel in their respective areas of expertise. The problem with fiduciary responsibility is that many of our investment advisors whom we trust (and perhaps have trusted for years) are not acting in our best interest. Plain and simple, many businesses are paying the price for not having a deeper understanding (or hiring a fiduciary consultant who can have a deeper understanding) of what's happening with their plans and the related fees.

Back to the story—our fiduciary consultant managed the RFP process, provided recommendations on new providers (which were independent recommendations, meaning the consultant did not receive a fee based on whom they recommended), and arranged a completely new fiduciary structure for managing our 403(b) and defined benefits plans. The new service provider arrangement featured no bundled service categories, and was designed to meet the specific needs of both our plan participant and employer communities.

Question #3:

What challenges did you run into along the way?

Answer #3:

Due to our longstanding provider relationships, we had contracts that had been in place for years. Some of the most enlightening (and alarming) information we gathered through this process was related to contractual restrictions and caveats that really interfered with creating a best practice fiduciary approach. Our "trusted advisors" who had been serving us for years actually challenged our authority to act in the best interest of our plan participants. This was an unbelievable revelation, and one that highly motivated us to move forward with vigor to gain new advisors and structure a completely new fiduciary model.

Question #4:

In spite of these challenges, what successes did DRMC achieve for its employees?

Answer #4:

In spite of the obstacles we faced throughout the process, our fiduciary consultant was able to elevate our approach above the convoluted service provider arrangements, and create a clear-cut fiduciary system that safeguarded our practices and ensured we were doing what was best for our employees. Specifically, we were able to achieve a better pricing structure with our outside providers, a higher level of service (through better reporting mechanisms and tools for monitoring providers and progress), an independent fiduciary process (that was not swayed by ill-intentioned advisors seeking a higher commission), and, perhaps most importantly, a partnership with our fiduciary consultant that allows us peace of mind regarding our fiduciary responsibility and decisions. Our consultant leads our investment committee in understanding how to make decisions that will comply with industry best practices and trust laws. I can finally say that we feel confident and secure in our new plan approach.

Question #5:

What guidance or insight would you share with other hospital executives relative to their fiduciary processes and decisions?

Answer #5:

If I were able to advise myself at the beginning of this process, I probably would have told myself something along the lines of the following:

- Don't implicitly trust that your fiduciary responsibility is being upheld because nothing bad has happened (yet).
- Question old processes and providers—not just

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because it's a healthy exercise for the organization, but because new fiduciary law requires that of you.

- Enlist the help of an independent fiduciary consultant—they can change the way you view fiduciary responsibility—and relieve you of the burden of liability!
- Don't underestimate the power of stewardship. Doing the right thing by your employees will be one of the most rewarding things you can do for your corporation and yourself.
- It is ok to trust, but you must verify and ask the hard questions of even your most long term service providers.

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