



Analyzing 403(b) Vendors

August 19, 2008 (PLANSPONSOR (b)lines) – With the new Internal Revenue Service 403(b) regulations comes a key shift from the 403(b) industry being participant-driven to being plan sponsor-driven. Vendors must adapt and evolve or face extinction.

This was a key point of a presentation by Andy Adams, Principal, Strategic Benefit Advisors, at The SPARK Institute's 403(b) Plans Issues & Answers Forum in Austin, Texas. Adams says some vendors will not get this message until they lose substantial assets and this distinction between proactive vendors and those that are not will lead to market consolidation.

Vendors who get the message will bring new products and services to the market. According to Adams, the IRS may have started the change, but market competition will accelerate the change.

Adams says characteristics of a good vendor partner include:

- Sound recordkeeping capabilities,
- Strong participant servicing,
- Acceptance of responsibility for regulatory compliance, and
- Investment flexibility (the allowance of non-proprietary investment vehicles).

Consultants Can Help

The new rules are a significant change for many plans sponsors and compliance will require a number of tasks. Adams notes that an independent consultant or plan adviser can help plan sponsors conduct vendor searches, design the plan and get together a plan document, understand fees, and establish plan sponsor branding for the plan and participant communication materials.

A true independent adviser is completely unbiased with no ties to or compensation from any vendors and can objectively analyze vendor capabilities and fees, Adams says.

He advises consultants to realize that plan sponsors will take their responsibilities seriously and will:

- Be more proactive about screening vendors,
- Demand strong vendor performance,
- Demand stronger core services and participant servicing,
- Scrutinize fees, and
- Demand better services for themselves.

Consultants should help plan sponsor clients in these areas as well as help sponsors execute information sharing agreements with vendors and communicate thoroughly with plan participants.