Changing DC Plan Recordkeepers Can Be Complex

Steps for a Smooth and Successful Transition

Segal Segal Marco Advisors

The process of procuring defined contribution (DC) plan services is a significant undertaking that may result in a plan sponsor selecting a new recordkeeper as a means to improving service, cost-effectiveness or both. Although DC plan services have become more standardized over the years, the process of moving from one recordkeeper to another is complex. Risks associated with a conversion include the potential for unexpected disruption to participant accounts, lengthy blackout periods, lost data, costly reconciliations and misunderstood communications.

Consequently, the transition needs to be carefully managed. Risks associated with the conversion can be effectively managed under a well-developed transition plan as part of a plan's overall approach to managing operational risk. An additional benefit of the transition process is that it presents an opportunity to review plan operations and processes with an eye toward improvement.

The Big Picture

Risks associated with transitioning to a DC plan recordkeeper, also known as vendor management risk, are a type of operational risk. Plan sponsors can manage vendor risk through the steps and tools outlined in this article.

Source: Segal, 2021

Steps for successful implementation and management of risks

In Segal's experience, it is important to consider the key areas that will drive success before undertaking a service transition:

- **Sponsor Involvement and Commitment** — The DC plan sponsor should have a clearly articulated vision for the transition. Knowledgeable and experienced staff should be part of the transition team.
- **"Meeting of the Minds"** — A service transition is, in its simplest terms, an exchange of information and data with the newly selected recordkeeper. As part of this process, care must be taken to ensure that the parties are "speaking the same language." Because terminology is unlikely to be uniform and the individuals representing the new and former recordkeepers will have different points of reference, it is critical to have thorough conversations, define concepts and ask clarifying questions.
- **Reasonable Timeline with Critical Milestones** — A transition period that is too short increases the likelihood of errors as the parties will be rushed to meet unrealistic deadlines. For large DC plans, a typical timeline may span from six to nine months. This allows for a deliberate process. Timelines in that range have room to deal with both complexity and slippage in deadlines. Allowing for even more time may be helpful if plan changes are being made, such as introducing auto-enrollment, adding new services (like managed accounts) or instituting a highly customized communications campaign. The timeline should have critical milestones, responsible parties assigned to the specific tasks and progress dates to ensure the parties meet each requirement by its deadline.
- **Participant Communications** — Most service providers have conducted hundreds, if not thousands, of transitions and have a general process and timeline for communicating with plan participants. That said, your input is critical in developing a communication plan that will work best for your participants. As the plan sponsor, you play a pivotal role in identifying key audiences, messages and communication channels. You also need to ensure that all key stakeholders are aware of and understand the transition process as it will be communicated to participants.
- **The Blackout Period** — Given today's expectation of instant information, the blackout period that will occur in any transition period can be unsettling for participants. Nonetheless, selecting a blackout period that ensures adequate transition time is better than being too aggressive. If the transition work is completed faster than expected, the plan can go live early. That is infinitely better than not taking enough time and missing the go-live date communicated to participants. For large plans, a three or four-day blackout is typical. It can usually be arranged over a weekend to minimize the impact on participants' ability to change their investments.

Major Transition Action Items

Data conversion:

- Create a conversion guide for "mapping" data from the outgoing recordkeeper's system to the incoming recordkeeper's system.
- Ensure security for all data transmissions.
- Determine investment mapping and account transfer or retitling (if applicable).
- Perform a test conversion.

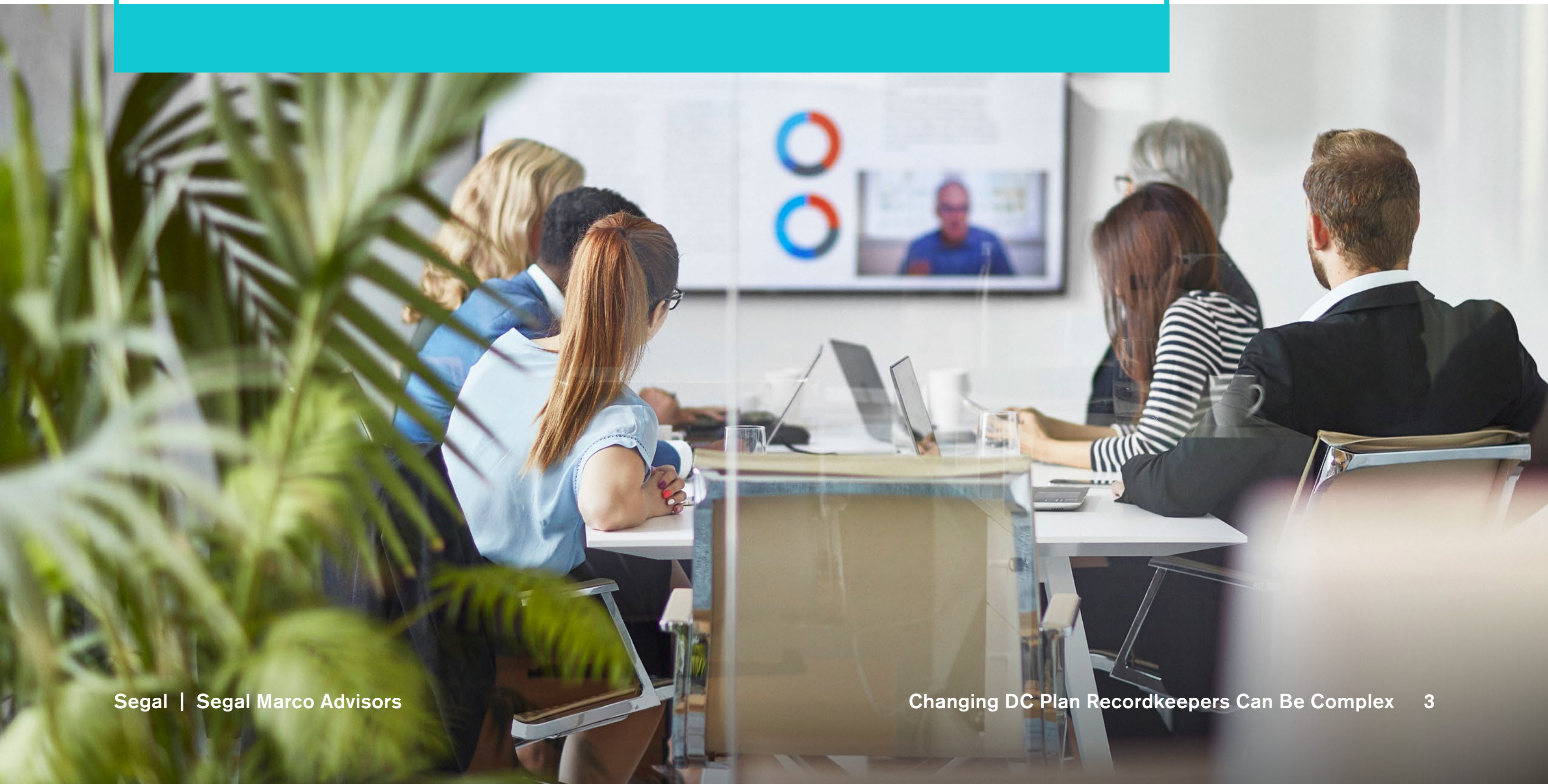
Plan administration:

- Reach agreement on services, such as handling Qualified Domestic Relations Orders (QDROs).
- Create a new (or transfer an existing) website address.
- Establish processes for various participant transactions, such as contribution elections, investment designations, loans, withdrawals and beneficiary changes.

Participant communications:

- Announce the coming recordkeeper change, any plan design changes, the rationale for the changes and how participants will be affected (including the blackout period).
- Promote the changes by explaining how they will enhance the participant experience.
- Market the plan to non-participants by explaining the enhancements.
- Include a variety of communications vehicles, such as direct mail, electronic communications, video, onsite and online (webinar) educational sessions and a dedicated phone line.

Source: Segal, 2021



Three critical components of painless recordkeeper transition

Every recordkeeper transition must have a project plan, an experienced team and a participant communications campaign. These core components are described briefly below.

Transition plan: typically, the new recordkeeper takes the lead

As alluded to above, the transition plan is critically important. Generally, the incoming service provider, in consultation with the plan sponsor, prepares the transition plan. A thorough transition plan will:

- Outline the roles and responsibilities of the various parties involved. These include the plan sponsor staff (including human resources, benefits administration and payroll) and its consultant, as well as representatives from the outgoing and incoming recordkeeper. As one would expect the outgoing "de-conversion" team is significantly smaller, but no less important, than the incoming service provider's local and home office teams.
- Define the many tasks that are involved and assign responsibilities for each task along with targeted time frames for completing each task.
- Set the schedule for meetings and calls, including the kick-off meeting. A typical schedule will involve an ongoing weekly conference call of all parties to ensure the plan transition remains on track. Although weekly conference calls are important to keeping the process moving, periodic face-to-face meetings can add greatly to the future success of the client/service provider relationship.

Starting Off on the Right Foot: What to Cover in the Kick-Off Meeting

Segal recommends an in-person kick-off meeting that covers the following:

- Review the plan documents and guidelines.
- Review the proposed transition plan.
- Confirm custom processes.
- Identify issues any of the parties have.
- Ensure complete buy-in from all of the internal parties involved.
- Agree on how much time and what resources are needed for testing.

Source: Segal, 2021

The transition team: expect a deep bench from the new recordkeeper; be prepared to provide administrative support; and include a de-conversion specialist

Because the incoming service provider is the primary driver for the transition process, at a minimum its team should include:

- A primary plan contact or client relationship manager,
- A conversion specialist and various IT personnel,
- A communications manager, including a website specialist, and
- A field services manager.

For a large plan's transition, these core team members will lead various sub-teams. The DC plan sponsor should expect to meet, either in person or via conference calls, all of the team leaders and many members of the full team.

The DC plan sponsor needs to appoint at least one day-to-day administrative contact who will be designated as the plan's "go-to" person. The responsibilities of that person or people are noted in the sidebar.

As the implementation process nears completion, the plan sponsor can expect to see new additions to the team. For example, field services may be covered initially by a home office or regional person. Later, that person might be supplemented by a local representative.

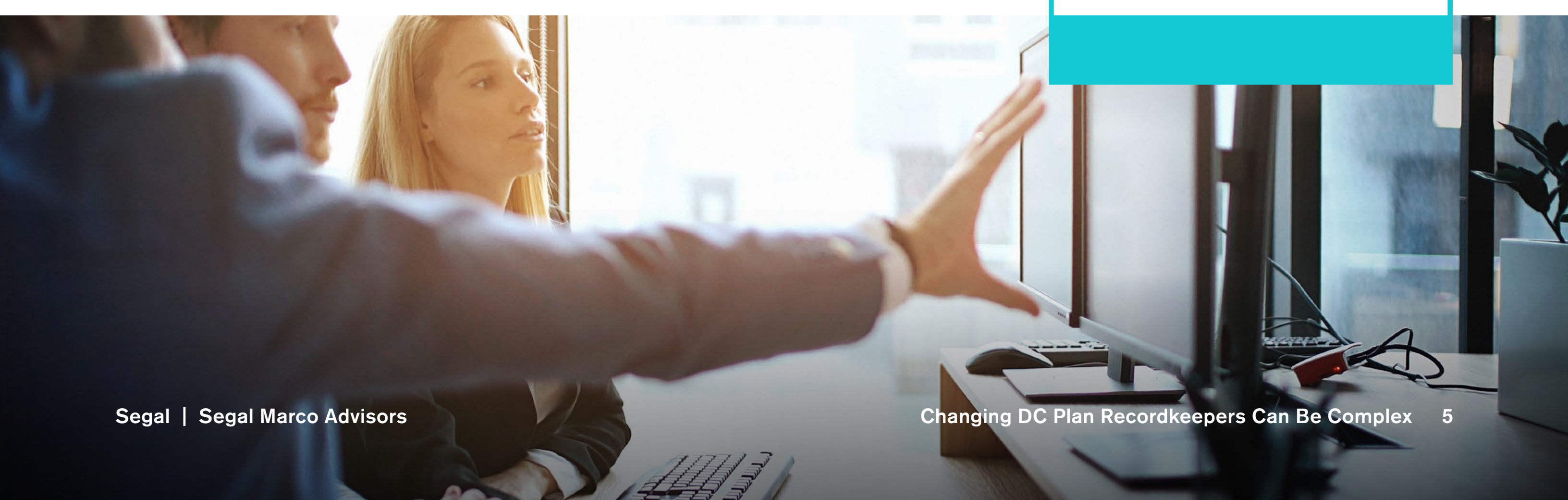
A DC plan recordkeeper transition requires a total team effort. The team must be flexible and fluid enough to address unexpected obstacles.

The outgoing service provider should provide a de-conversion specialist to aid in the successful transition. Typically, a de-conversion specialist focuses on "transitions out" and provides the central source of contact for all of the data, test files and plan documentation that the new recordkeeper will need. As you might expect, the outgoing recordkeeper will not be happy about losing your plan to a competitor. Do not expect them to drop everything to respond to "rush" requests for data files and other reports or information. This is why Segal recommends the use of the timeline and ongoing calls with all parties.

Responsibilities of the Day-to-Day Contact or Team

- Provide transition oversight.
- Represent the plan sponsor in all planning calls.
- Review all planned participant communications.
- Assist in scheduling on-site transition meetings.
- Coordinate with payroll personnel and IT staff.

Source: Segal, 2021



Content Checklist for a Plan Transition Communications Campaign

- ☐ Introduce the incoming recordkeeper.
- ☐ Highlight the plan changes and service enhancements.
- ☐ Explain the reasons for the changes.
- ☐ Promote the plan's advantages.
- ☐ Review the new investment lineup and explain any fund mapping that will take place.
- ☐ Provide a timeline of critical events, including the blackout period, that lets participants know they generally do not need to take any specific action.
- ☐ Summarize the on-site educational transition seminar schedule, including availability for individual appointments with local service staff and informational videos or webinars.

Source: Segal, 2021

Participant communications campaign: one message and one medium are not enough

Changing to a new service provider provides an opportunity not only to convey needed information to participants. It also can promote the plan and build participation. Be sure to take advantage of this chance to invigorate your communications and convey your plan's advantages.

Successful communications should deliver a clear, consistent message. No two participants learn the same way. Be sure to use multiple channels to ensure you reach all participants. Work with the incoming service provider to develop a communications strategy that will resonate with each audience (stakeholders, participants, and retirees) and drive desired behaviors.

Common transition challenges

When considering a recordkeeper transition, every DC plan sponsor faces unique challenges. Nonetheless, it is not unusual for sponsors of DC plans to have to deal with issues like:

- Payroll complexities, such as auto-enrollment and/or escalation, loans, Roth contributions and multiple locations
- Data limitations, highly customized service requirements, beneficiary designations, and required minimum distributions
- Custom investment funds, managed accounts and brokerage windows

Smooth and successful transition is possible

DC plan recordkeeper transitions require care, commitment, cooperation among the parties and clear communications. With thorough advance planning, diligent follow-through and quick action to correct course, as needed, a transition can be smooth and successful.

Questions? Contact us.

For more information about changing DC plan recordkeepers, or other aspects of managing operational risk and other risks DC plans face, contact your Segal benefits consultant and your Segal Marco Advisors investment consultant or the following subject matter experts:

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- Participant communications
- Compliance consulting
- Vendor searches for TPAs and other service providers
- Administration and technology consulting

Our insurance brokers help plan sponsors obtain a wide range of coverage, including fiduciary liability, cyber liability insurance and crime insurance.

Segal Marco Advisors provides the following investment solutions for DC plan sponsors:

- Fiduciary oversight and training
- Creation and ongoing review of investment policy statements
- Ongoing monitoring and performance analysis
- Investment menu design and evaluation
- Selection of best-in-class investment managers, custodians and options
- Oversight and monitoring of recordkeepers
- Benchmarking services (including fees and administrative services)

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