Managing a Plan Vendor Change

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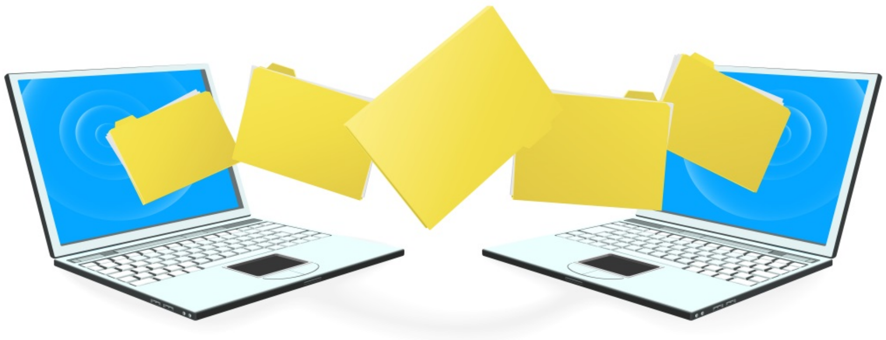
This is Part II in a series on changing plan vendors and what to expect during the conversion…

Whatever the reason to consider a change, once the decision is made to move the plan to a new recordkeeper, the plan sponsor must understand the process for implementing and managing the transfer and the timing requirements for the various notices that are used to communicate the change to the plan participants.

What Will Happen Once I Hire the New Recordkeeper?

The new vendor will assign an ***Implementation Manager*** to your account. That person will be your main contact during the transition. You will need to send a letter to the current vendor to inform them of the upcoming plan transfer. Normally, the Implementation Manager at the new vendor will provide a template that you can use for this notification that will include instructions to the current vendor on how to wire the funds and transmit the electronic participant records to the new vendor. Make sure that you prepare and forward this transfer letter promptly, as the timing of the transfer will start when the current vendor gets this notification. The current vendor and the new vendor will work together to determine the exact timing of the future transfer of plan assets and participant records.



Blackout Notice

Once the asset transfer dates are determined, the Implementation Manager will prepare a Blackout Notice for your plan participants. The Blackout Notice advises the participants of exactly when on-line access to accounts at the current vendor will cease; when the assets will be liquidated and transferred; and a projected date on when the entire transfer will be completed and on-line participant account access granted at the new vendor. The Notice will also provide details on exactly how the assets will be transferred from the current investment options into the new investment options. This is often done by a "mapping" strategy where all of the money from Fund A at the current vendor is transferred to Fund B at the new vendor, etc. *or* through reenrollment of all participants into an approved Qualified Default Investment Alternative (QDIA), like a Target Date Series. This entire time period is referred to as the "blackout period". The Blackout Notice must be given to participants AT LEAST 30 days prior to the time that participant access to the current vendor is terminated. During the blackout period, no distributions or loans may be processed. The new vendor will normally tell the plan sponsor to hold any participant contribution files during this period, as well, until the vendor has the participant records loaded onto their system and can then process the contribution files according to the new participant investment elections.

Employee Education Meetings

Prior to or during the blackout period, the plan sponsor will want to schedule meetings with the employees to make them aware of the upcoming transfer. Usually, a representative from the new recordkeeper as well as the plan's financial advisor will conduct these meetings and will explain the changes to the employees and also provide them with the paperwork needed to enroll in the investment selections that are available at the new vendor.

Other Required Notices

The new recordkeeper will prepare a Participant Fee Disclosure Notice, which explains the investments available in the plan and the expense ratios for the investments, as well any transactional fees that the participants may be charged. The recordkeeper or financial advisor will also prepare a Qualified Default Investment Alternative (QDIA) Notice that describes where the participant's money will be invested in the absence of an affirmative election. These Notices need to be provided to the plan participants as soon as possible.

Setting up the Plan at the New Recordkeeper

If there is an outside Third Party Administrator (TPA) for the plan, the TPA will be instrumental in assisting the new recordkeeper in setting up the plan parameters on the recordkeeping system. The new recordkeeper will give the TPA a written or on-line form to complete that describes the important provisions of the retirement plan – eligibility requirements, contribution options, vesting schedules, distribution rules, etc. The TPA will discuss the plan provisions with the plan sponsor to see if any changes to the plan are desired, and then will communicate the final plan design to the new recordkeeper.

The new recordkeeper may ask the plan sponsor for a file of participant census information. This file, along with the completed participant investment forms, will be used to create the participant accounts on the recordkeeping system so that when the first contribution file is uploaded by the plan sponsor, the accounts are open and ready to receive and invest the money.

Account Reconciliation

Once the plan assets and participant records are transferred to the new recordkeeper, the process of reconciling all of the plan information begins. The plan sponsor should go on-line to the previous vendor's website and download a year-to-date trust report, which will show the participant account balances at the beginning of the plan year, all activity during the year (contributions, distributions, loan payments, interest, etc.) and the transfer out, with a final ending balance of "zero". *This report should be given as soon as possible to the TPA.* The TPA will use this report to compare the balances immediately <u>prior to</u> the transfer to the balances that are reflected on the new recordkeeping system immediately <u>after</u> the transfer, to make sure all money is accounted for and in the correct participant accounts. The TPA will work with the new recordkeeper to ensure that the correct vesting information has been set up on the recordkeeping system, that any loans have been set up correctly, and that any historical plan information – for hardship available withdrawals; Roth contribution basis; etc – has been loaded correctly into the new system. Contribution files will be loaded for any contributions that were being held during the blackout period. Once the TPA, plan sponsor and recordkeeper are sure that the plan is set up properly and all money has been reconciled and accounted for, the plan will be taken out of blackout and participants will be given access to their accounts. Participants will be able to start requesting loans and distributions. The entire blackout period timing will vary, depending on the vendors involved and how quickly files and assets can be transferred, but typically a blackout period lasts 2-3 weeks.

In Summary

Changing a plan provider can be a stressful and time consuming process. Due diligence must be exercised when considering replacing a plan provider, and once the decision is made to implement a change, the plan sponsor must commit to being 100% engaged in the transition. All parties involved in the plan administration must be onboard with the changes that are being made. Many times, the owner of the company or a high level executive will make the decision to change a recordkeeper, and will not include the actual day-to-day plan administrator at the company in the decision. Then when that day-to-day plan contact starts receiving requests for information, they are overwhelmed by what is happening (and occasionally uncooperative as a result) and upset that their input was never considered. The timing of the decision to change recordkeepers is very important. If the company has a particular time of year when key plan decision makers are more busy, it is NOT a good idea to schedule a plan transfer during that time period.

Don't misunderstand when plan recordkeepers tell you that the plan transfer will be "seamless". This is often misinterpreted by the plan sponsor as "you don't need to do anything, it will all just magically happen". That is never the case. The plan sponsor must stay engaged during the entire transfer process with the new recordkeeper and the outside TPA. This means completing requested paperwork, being committed to attending weekly conference calls during the transition and providing needed plan reports, census information, etc. in a timely manner when asked.

Administering a company retirement plan is an important responsibility. Plan sponsors must carefully review the plan providers and must always make decisions that are in the best interest of the plan participants. If it is determined that a change in the plan recordkeeper is prudent, careful planning prior to the plan transfer and diligent monitoring during the transfer process can result in a much smoother transition. Having an outside TPA assist with overseeing the process, answer questions and provide guidance throughout the transition can ease the burden for the plan sponsor and help to ensure timely and accurate completion of the transfer.