

# Observations & Opinions

CALLAN  
DEFINED  
CONTRIBUTION  
INVESTMENTS  
INSTITUTE

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*This edition of Observations & Opinions focuses specifically on defined contribution provider organizations. Either in connection with a provider search or as part of their normal due diligence process, Callan's plan sponsor clients want to know how their firms measure up. For example, how does the plan sponsor's service provider fit within the marketplace? Are there other firms better suited to handle the plan's particular circumstances? The quick answer to this last query is a qualified "yes." At any given point, there likely are other providers that have surpassed the incumbent in some aspect of service delivery, technology-based solutions, or quality service enhancements.*

It is important to remember that record keeping and participant touch points aren't simply commodities. A provider organization can be written-off if it is sloppy in managing a conversion project, fails to accurately process transactions, or handles participants poorly. Fortunately, due to today's highly competitive environment, most reputable firms have all the bases covered. So we turn our attention to those areas that reflect the primary differentiators at a very basic but critical level: the organization and cultural characteristics that fit with a plan sponsor's objectives for their retirement program(s).

### Organizational Culture and Heritage

In earlier editions of *Observations & Opinions*, we briefly addressed the evolution of the defined contribution outsourcing landscape. Today, plan sponsors have choices among fully bundled to unbundled service platforms, with a myriad of quasi-bundled arrangements in between.

There are many plan sponsors who are drawn towards bundled service models whereby a single entity provides administration, record keeping, participant services, trust and custody, and investment management. Some of the marketed benefits of bundling often include:

- Low-to-no explicit fees;
- Risk transference to the provider in terms of future plan cost increases;
- Reliance on the investment brand of the provider organization to instill credibility among participants; and
- Single point-of-contact for the plan sponsor.

Plan sponsors who value these aspects of bundled solutions are aligned with provider organizations that have a business culture and heritage of one-stop shopping.

Relatively speaking, unbundling makes sense for plan sponsors who want to:

- Maintain a strong, customized plan identity that often is consistent with their broader benefits programs;
- Rely less on the provider's investment brand for promoting the savings program to employees; and
- Separate investment decisions completely from administrative considerations and fees.

Unbundled or quasi-bundled business models support these objectives better than bundled models.

Therefore, when clients ask Callan to assess "fit," we discuss providers':

- Experience as asset gatherers or independent administrators;
- Orientation towards relationships (e.g., with participants as retail buyers or with plan sponsors as institutional buyers);
- Normal business models and how these match a client's overall service objectives;
- Self-assessment, per se, in terms of their organization, culture, and heritage; and

*continued on reverse*



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- Quality and type (mutual, commingled trust, separate account) of investment products offered by the provider.

### Investment Flexibility

In an ideal world, every defined contribution plan sponsor would have the flexibility to make decisions on the plan's investments that are completely separate from administration and the way in which plan costs are paid. This is Callan's basic definition of "unbundled." Clearly we have a preference for unbundled platforms *when our clients seek this degree of separation.*

As we have pointed out in earlier editions of *Observations & Opinions*, plans of all sizes are seeking independence from the ties of asset-based revenue that is prevalent in the pricing mechanisms of bundled programs. Plan sponsors and consultants in general will continue to challenge bundled providers for even greater investment flexibility so that plan fiduciaries can/will select investment choices most suitable for their plan participants. The same plan sponsors are open to alternative ways to pay for administration and services.

### Pricing, Pricing Risk, and Transparency

The day of *institutionalization* in the defined contribution industry has arrived! Without question, plan sponsors and consultants will more favorably view providers who fully disclose costs and revenues over providers who do not. Plan sponsors' sensitivity to fiduciary risk applies not only to investment flexibility, but also to ensuring that participants' fees are reasonable for services received. The provider community can expect more scrutiny (from all parties) on revenue sharing for external and internally managed mutual funds.

### Upcoming Defined Contribution Investments Institute Events

#### Second Annual Conference

April 26 – 28, 2004

Four Seasons Hotel

San Francisco

#### Luncheon Workshop

October 20, 2004

New York

To register, please visit [www.callan.com](http://www.callan.com)  
or email [dc@callan.com](mailto:dc@callan.com).

## The Callan Defined Contribution Investments Institute Second Annual Conference Agenda

### Monday, April 26

5:30 p.m. – 8:30 p.m. Welcoming Hospitality Reception

### Tuesday, April 27

7:30 a.m. – 8:15 a.m. Registration and Continental Breakfast

8:15 a.m. – 8:30 a.m. Welcome and Introduction

8:30 a.m. – 10:00 a.m. Economics 101

10:00 a.m. – 10:15 a.m. Break

10:15 a.m. – 11:45 a.m. The Mutual Fund Industry

11:45 a.m. – 12:45 p.m. Lunch

12:45 p.m. – 2:15 p.m. New Landscape for Defined Contribution Fiduciaries

2:15 p.m. – 3:15 p.m. Defined Contribution Providers: Services and the Competition

3:15 p.m. – 3:30 p.m. Break

3:30 p.m. – 4:45 p.m. Participant-Level Advice: What's Selling and Who's Buying

4:45 p.m. Sessions Adjourn

6:00 p.m. Cocktail Reception and Dinner

### Wednesday, April 28

8:00 a.m. – 8:45 a.m. Continental Breakfast

8:45 a.m. – 10:00 a.m. The Future of Outsourcing – An Industry Leader's Perspective

10:00 a.m. – 10:15 a.m. Break

10:15 a.m. – 11:30 a.m. Defined Contribution Investment Issues

11:30 a.m. – 11:45 a.m. Summary and Conclusion

11:45 a.m. Conference Adjourns

12:00 p.m. Buffet Luncheon

For questions regarding the Callan Defined Contribution Investments Institute, please contact Deanne Christopoulos at 415.974.5060 or email [dc@callan.com](mailto:dc@callan.com).