
Looking for a New Pension or Benefits Consultant?

What are the most important traits you need in a pension advisor? How can you pick out the best advisor for your pension or benefits plan? This is the first part of four in a series of articles in which I will provide some insights that I have gained over my 35 years working as a consultant. While my primary area of work is pensions, almost all of these thoughts apply equally well for employee benefits.

No consultant will be the best fit for every situation. The most important traits for you and your plans may be very different from those required by your peers at other employers. Some of the ideas I present will resonate with you and some will be largely irrelevant. I suggest that in putting together your request for proposal (RFP) or finalist interview questions that you include only the questions that are important to you. If you ask all of these questions, then not only do the bidders waste time answering irrelevant questions, but you also waste time reading the responses.

For each of these areas, I provide some sample questions that you could ask potential consultants to address as part of their proposal and/or during the finalist interviews. There are 84 sample questions in all.

This series of articles does not cover everything that should be included in an RFP. The comments and questions focus on items that are rarely addressed in RFPs. They are intended to help you improve the quality of information you receive from potential consultants so that you can make a better-informed decision.

Expertise and Areas of Specialty

Most pension and benefit firms have people with the expertise to handle most common situations. Unless you are a mega size plan or have some very specific requirements, you are probably kidding yourself if you believe that you need to use one of the big 3 consulting firms. But that said, you should identify the areas of expertise you typically need as well as those areas of specialization that you may need infrequently.

For the expertise that you typically need, make sure that the consultants you consider possess the skills:

1. For each of these areas of expertise, how many of your current clients made use of that expertise during each of the past 3 years? (You should clearly identify whether you want the “your” in that question to refer to the individual consultant or the firm as a whole).

If any of those typical needs are especially important to you, consider asking either of the following about one or two such areas:

2. Please provide a brief case study of your approach to <area of expertise> during the past three years for a client of similar size to us.
3. What is your typical approach to providing <area of expertise> to your clients?

For specialized expertise that you only require infrequently, is it important to you to have that available from your primary consultant, or are you willing to use another firm? Advantages of using a different firm include a fresh perspective on your plan; access to the best consultants by each area of expertise; an eagerness to impress in the hopes of getting additional work; and likely lower fees from your primary consultant who does not have to maintain expensive specialists on staff. The disadvantages include having to bring the new consultant up to speed about your plan, corporate culture and history; in their eagerness to upstage your primary consultant, an increased likelihood of overstepping their bounds and/or making outright errors; and potential lack of cooperation between the two consultants.

4. For each of these areas of specialty, during the past 3 years, how many of your current clients made use of that specialty
 - a. Through your firm?
 - b. Through another firm?
5. Please provide a brief case study of your approach to <area of specialty> during the past year for a client of similar size to us.

Quality of Service

From my perspective, quality of service involves accuracy, completeness and providing understandable results. The right level of quality can be somewhat subjective. Whether a consultant delivers that, may only be determined after using their services for some time. However, the following can help you select someone likely to be close to your desired level of quality.

There is no one correct answer to these questions about quality. For example, there are situations where use of a standard report template is preferable (lower cost and less likely to omit something important) and others where a custom report would better meet your needs.

Most firms have a system for internal peer review. Even the self-employed consultants often have access to a peer review process. Not all peer reviews are equal. They can vary from a quick read to catch obvious errors to a more detailed review to include some checking of numbers and facts. If the degree of peer review is important to you, this is an area you should consider investigating at the finalist interviews.

6. How do you ensure accuracy in the results that you provide in:
 - a. letters of advice?
 - b. reports?
 - c. email advice?
 - d. telephone and in-person discussions?

7. For each of the areas of expertise and specialization identified above, do you utilize checklists throughout the performance of your work and if so, how detailed are they?
8. For each of the areas of expertise and specialization identified above, do you utilize a standard report template?
9. Please provide a sample of a typical report for <area of expertise>.
10. If we have a compliment or complaint with your services, whom should we call?

Accuracy

While accuracy is a part of quality service, it does deserve a special section with some detailed questions.

Even though most firms will focus efforts at reducing the number and dollar value of errors, it is not economically feasible to ensure that errors are completely eliminated. The best efforts will greatly reduce the error rate, but unfortunately, errors will happen. Both the consultant and the client hope that there will be no errors, but it is best to recognize up front that you may need to deal with this issue at some time.

You should seek to determine the frequency of errors and the consultant's attitude towards reporting and correcting an error. Remember that a large consulting firm that reports 10 errors may actually have a lower incidence of errors than a small firm reporting 1 or 2 errors.

The nature of the error can also be an important consideration. For many organizations, an error in a pension calculation is major even though the dollar impact is minor (from the organization's perspective). It undermines at least one employee's confidence in your services and can cause you, as the employer, significant time to address. This is particularly an issue if the error resulted in an overpayment and you are advising the employee of a reduction in future pension payments and/or requesting a refund.

Other types of errors may involve larger dollars, but may not be as serious to your operations. For example, if the consultant advises you to contribute \$25,000 more to your plan than was required, that may not be a hardship (depending on your company size) since you can correct it in subsequent contributions.

Also, be aware that errors are something that some firms may not typically track – especially if they are minor and were easily rectified. Depending on the answers you receive, you may need to ask for additional information to better understand and evaluate this area, particularly if this issue becomes a determining factor in your decision.

Make it clear for these questions whether you are asking about the entire firm, the local office or the lead consultant and the proposed service team.

11. How many errors have been identified in your services in the past year?
12. How many of those relate to pension (or benefits) administration?

13. If you discover that you have made an error, what is your process to correct it?
14. What is your process to address and apportion liability for an error?
15. Please briefly describe how you handled a recent error that you discovered in your work.

Of course, any consultant who wants to work with you will try to put the best light on their answers to these questions. Part of the reason for asking, is to get written responses that can be used to set a reasonable expectation for the future. Basic human nature is to try and avoid having to accept responsibility and deal with an error. If a consultant thinks that there is little or no chance of a client ever discovering it, will the error get disclosed?

It's not easy to step forward and confess to an error, even if the error was clearly committed by someone else in the firm. Getting the above questions answered will not necessarily guarantee reporting of any error, but it will probably increase the likelihood of such reporting and should strengthen your position should you ever suspect a "cover up".

This is part 1 of a series about selecting a new consultant. The parts are:

Part 1

- *Expertise & areas of service*
- *Quality of service*
- *Accuracy*

Part 2

- *Responsiveness & timeliness*
- *Ethics & reputation*
- *Client turnover & depth*
- *Staff turnover & depth*

Part 3

- *Financial strength & limitation of liability*
- *Cost & billing practices*

Part 4

- *Your firm*
- *References*
- *Consulting advice*