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## 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 third 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.*

*I provide some sample questions that you could ask potential consultants to address as part of their proposal and/or during the finalist interviews. 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.*

### Financial Strength & Limitation of Liability

As mentioned before, consultants do make errors on occasion. Fortunately, errors are generally not frequent and are usually caught before they have a financial impact. Before engaging a consultant, it is wise to consider what recourse you may have if your organization suffers financially because of an error.

In the previous discussion of accuracy, we looked at the non-financial side of errors. In this section, we consider what restitution a consultant may be able to provide if they have accepted liability (or been found through legal proceedings to be liable).

Over the past decade, pressure from insurance companies and good risk management practices has led consultants to add limitation of liability clauses to their contracts. These clauses could limit liability to a stated dollar amount or to actual fees paid, such as one times fees paid during the prior twelve months.

Generally, the limitation of liability amount is open for negotiation, but it is rare that you will be able to obtain an unlimited liability. If you are not prepared to engage a consultant with a liability limitation under any circumstances, you should clearly make that point up front in the RFP. If you do, be prepared for the possibility of receiving few, if any, proposals.

Whatever liability limitation you are able to negotiate, it is only as good as the consultant's financial strength and insurance coverage.

It seems very strange to me, but there are consultants who do not have errors and omissions insurance! That can be a very hard pill to swallow if you only discover there is no insurance after a large error has been made.

40. Do you limit your liability and if so, to how much?

41. If you limit liability, how and why is the limitation amount you set beneficial for us?

42. Please provide a copy (or a link to an online copy) of your most recent financial report. (Note: this will probably only work with a public company. Non-public companies generally do not like to share this information; so do not be surprised if they refuse).
43. What is your insurance coverage for errors and omissions for a single event and for all events in a year?
44. Will you provide us annually with a current certificate of errors and omissions insurance coverage together with a certification of coverage limits?
45. If your firm or any of its employees are involved in any litigation or other legal or regulatory proceedings, provide a summary and indicate the current status.

### **Cost and Billing Practices**

I believe that most consultants are straightforward and honest in their billing practices. But that does not mean you should ignore the possibility of hidden or devious practices. These can occur as part of the proposal or as part of regular billing.

Some organizations hire primarily based on price. There is the old adage that you get what you pay for. With consultants, that is sometimes the case, but not always. If you first focus on assessing quality and expertise of the bidders and relate that to price, you may find that there is a low cost consultant that delivers sufficiently good value for you. This approach also lets you weed out the low cost consultants who provide low value services.

Submitting a proposal with the lowest price is a good way for a consultant to enhance the chances of winning your business. It is not always clear whether the bidders have all submitted proposals for the same work – or even if they have priced the work as you intended. If you do discover differences in what is included, it may not have been intentional. Sometimes there are misinterpretations or maybe just simply a different way of doing business.

For example, for a mandate that involves preparing a report, one consultant might include two or three discussion meetings while another includes none. When you require a meeting to discuss the report, the second consultant will bill you extra for out-of scope work. That difference may not be obvious from the proposals, even if you are looking for it.

When pricing pension administration services, one consultant might assume that the number of benefit calculations required in a year will be consistent with average terminations, retirements and deaths, whereas another consultant might use half or a third of the average. The lower price consultant will expect to bill you for the excess calculations as they arise.

You can avoid these practices by setting out in your RFP specifics of what you require – for example,

- tell the bidders to indicate what their price would be based on a specific number of retirement calculations, termination calculations, marriage breakdown and death calculations. (You could also ask for pricing under two or three scenarios for number of calculations).
- specify what you expect as deliverables for each type of mandate.

In case you miss something, ask them to disclose any and all assumptions.

Chances are that even if you specify your detailed expectations, there will be differences in the pricing. That may be due to an attempt to gain an advantage, but it more likely will be due to a difference of interpretation. If you discover that, you should go back to the bidders, provide the additional details and request updated pricing.

In addition to thinking about out-of-scope work, you should also consider add-on work. When a mandate has been completed, is there likely to be follow-up work that should be done? Sometimes, such follow-up work will not be known until the project is nearing completion – such as a governance review project that finds committee terms of references are badly out of date. Often, potential follow-up work will be obvious in advance – such as an investment review project where the follow-up might involve implementing an asset rebalancing or an investment manager search.

**Commissions:** Commissions may cover some services you need (especially group insurance consulting) – so you will not have to pay directly. Of course, you do pay for them as part of the premiums. You have a right to know what your consultant receives as compensation for the work done for you. Total compensation disclosure should be made as part of good governance.

Commissions (including bonuses, overrides, “free” services, etc.) could be provided for any of pension, benefits and asset consulting. I advise you to ask about this regardless of the type of project you are considering.

**Meals & Entertainment:** In case your consultant invites you for a meal or entertainment, it would be wise to determine in advance whether you will be billed for any of the cost or for the time of the consultant. In my opinion, if your consultant picks up the bill for a meal or offers you tickets to an event, you should be able to trust that the cost will not make its way onto your invoice.

I also consider billing for a business discussion during a meal or social event to be inappropriate. The one exception would be if the majority of the time was spent discussing business. In that case, if I felt that it was appropriate to charge for my time, I would limit any charges to about 50% of the actual time.

There are many ways that consultants would handle the situations addressed here.

With some exceptions, there are no right or wrong answers, as long as you are comfortable with the approach and are aware in advance of the consultant’s practices. What you should avoid is expecting one practice and receiving a different one.

46. What will your fees be for the following tasks (list all assumptions you make)?

- a. <list the services required>
- b. Transfer of the listed services to your firm, including, if applicable, reconciling your actuarial results with the results of the previous actuary.

47. Are you willing to provide services on a fixed-cost basis? Please provide details.

48. To what extent will your fee schedule be guaranteed?

49. Do you have a minimum amount of time that is billed?

- a. For example, how would you bill for a 3-minute phone call?

- b. How would you bill for a 5-minute phone call on Monday, 2 minutes on Thursday and 9 minutes on Friday?
50. Do any of your staff charge for work done by another staff member?
51. How do you bill for travel time:
- a. during normal working hours?
  - b. outside normal working hours?
52. What is your policy for charging for the following?
- a. Minor disbursements such as courier, long distance telephone and printing costs?
  - b. Out of pocket expenses incurred directly by you on our behalf?
  - c. The bill for a meal when you pay?
  - d. The cost of any entertainment that you invite us to attend?
  - e. Your time spent having a meal with us if any business discussions total 15 minutes?
  - f. Your time spent having a meal with us if the majority of the time involves a business discussion?
  - g. Your time spent attending an entertainment event with us?
53. Will you accept compensation out of brokerage commissions (e.g. soft dollars) for the work that you do for us?
54. Will you disclose to us at least annually any and all revenue sources and amounts (e.g. commissions, overrides, rebates etc.) that you have received either directly or indirectly as a result of services you have provided to us, and products you have sold to us?
55. Will you disclose any and all potential sources and amounts of revenue that you may receive directly or indirectly as a result of your advice or recommendations and when will you make that disclosure?
56. Will you report to us at least annually the time spent providing services to us together with the cost of those services and all revenue, whether direct or indirect, you have received for those services?
57. What are the services that you will provide and for which you will be compensated only by commissions and other income from a third party provider?
58. What services do you provide that are not covered by commissions or other income from a third party and how will you be compensated for them? [This question is primarily aimed at services covered by commissions.]
59. What are the items that are out of scope and/or might be required and for which there would be extra charges? [This question is primarily aimed at fee for service mandates – either with an estimate of total cost or a fixed fee.]

60. What add-on or subsequent work might be required or is expected to occur as a result of this mandate?
61. For a project of this type, what percentage of the time do you encounter a situation generating:
- a. out-of-scope work?
  - b. add-on or subsequent work?
62. What are your standard terms and conditions?

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*This is part 3 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*