

An Effective RFP Process For Nonqualified Benefit Plans

EXECUTIVE SUMMARY

Finding the right executive benefits firm to design and administer your nonqualified plan is important for its long-term success. An effective Request for Proposal (RFP) process can help you accomplish this and ensure compliance with corporate governance standards such as Sarbanes-Oxley. While companies putting their first nonqualified deferred compensation plan in place should absolutely issue an RFP, this process can also benefit those that are reevaluating a current plan or looking for a new provider.

Your RFP committee should consist of 4-6 executive decision makers and additional support personnel, and be led by one individual who can dedicate sufficient time and expertise to the effort. The committee should be multidisciplinary — as this team will be responsible for defining the key objectives of the plan — and you may elect to have functional experts draft questions for their specific area.

The first step in the RFP process is to develop an outline that will guide question development. The outline will then be populated with specific questions for each topic area. It is important to build your RFP from the ground up, as the complexity of nonqualified benefit programs merits a thorough development process. Plan to allow 2-3 weeks for vendors to respond to your RFP and always include an explanation of how and when the final decision will be made. Senior management and the Compensation Committee to the Board of Directors should be kept apprised throughout the effort.

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that ensures vendor selection was made on the merits of a firm's capabilities, not the undue influence of charismatic salespeople.

INTRODUCTION

Nonqualified deferred compensation plans are an important benefit for your company's most highly valued and compensated executives. Finding the right executive benefits firm to design and administer your plan is critical to its continued success. A Request for Proposal (RFP) can help you find the best vendor for your specific situation. The effectiveness of your RFP development and proposal review process has a direct impact on the level of service you will ultimately receive. Investing the time upfront to create an effective RFP for your company's needs is far less costly than hiring the wrong firm.

WHY CREATE AN RFP?

The RFP process can help you meet specific objectives that directly influence the success of your program:

- Efficiently investigate a select number of eligible executive benefit providers
- Document what your company needs from the provider
- Standardize proposal format and allow objective comparison
- Reduce the potential for misunderstanding between your company and your provider

An RFP is part of the due diligence process that ensures vendor selection was made on the merits of a firm's capabilities, not the undue influence of charismatic salespeople. You may choose to invite competing companies to present their proposals in person or only meet with select finalists. Regardless, the objectivity of the RFP process can help you choose the right service provider for your needs and demonstrate compliance with 409A rules and corporate governance standards such as the Sarbanes-Oxley Act of 2002.

WHEN TO ISSUE AN RFP

If you are considering offering a nonqualified deferred compensation plan for the first time, absolutely issue an RFP. These plans are extremely flexible in design, funding mechanisms, and the approach to communications and administration. This flexibility requires thorough investigation and research of all the options to find the right fit for your situation.

If your company already has a nonqualified deferred compensation program in place, there may be several reasons for issuing an RFP:

- You are unhappy with your current plan administrator.
- You reassess your plan annually or at predetermined intervals (e.g., every three years) as part of a due diligence exercise and to avoid complacency.
- You have not reviewed executive

benefits providers for more than three years. In today's rapidly changing business environment, vendors are constantly updating their offerings to stay competitive and keep up with the latest technologies.

- Your company's financial objectives have changed over time. Perhaps your original plan was structured to optimize recruiting effectiveness. Today, you may be looking to expand what it does to include a "golden handcuffs" provision for retention. Or, perhaps your company's tax position has shifted, or the number of participants in your plan has increased or decreased significantly. Any of these types of changes warrants reviewing and updating how you informally fund your plan.
- Recently heightened standards and scrutiny of corporate governance necessitate assurance to your shareholders and Board that you have eliminated perceived conflicts and deployed the most cost-effective informal funding solution available today.

Whatever your specific reason for an RFP, and even if the process reveals that your incumbent provider is still the best choice, the confidence that you gain from conducting a thorough review is still worth your time and effort.

OPTIMIZING YOUR QUESTIONNAIRE AND REVIEW PROCESS

Your RFP committee should consist of executive decision makers and additional support personnel. Together, these individuals will develop the RFP and review the submitted proposals. The process usually takes 2-4 months, and one person should be elected to lead the development of the RFP document. That individual should have:

- Sufficient knowledge of the nonqualified deferred compensation benefit program and its objectives
- Strong communication skills and the ability to gather input from multiple departments – finance (usually the

CFO, VP Finance or even the external auditors), payroll, information technology, human resources, and legal – as well as the executives eligible to participate in the plan.

- Adequate time to devote to the process. Though not a full-time job, the RFP process should be a high priority. As a rule of thumb, expect the process leader to spend 20-30 hours a week managing RFP development.

Once you have selected the RFP development process leader, you will need to create a small, 4-6 person committee made up of various functional experts to support the process. For example, a committee member from the IT department is best suited to draft the questions pertaining to the technological aspects of effective plan administration. You will want to include people from the following areas:

- Finance and Accounting
- Human Resources/Executive Compensation
- Corporate/Legal Counsel/Member of Compensation Committee
- Corporate Communications

Once in place, this team will define the company's specific objectives for the plan. Being exempt from most ERISA regulations, these plans are very flexible in structure. In the absence of a clear roadmap of corporate objectives guiding the process, there are simply too many design paths to explore. A successful plan aligns with corporate objectives and individual participant goals. In clarifying these objectives, the committee may explore issues such as:

- Is the plan being used primarily to enhance recruiting effectiveness or provide a "golden handcuffs" for retention?
- Is the plan being offered simply to make up for the limitations imposed under the company's 401(k) retirement savings plan, or does the company want to provide executives with a vehicle that allows for wealth accumulation and retirement security?

- If there is an existing plan, what areas work well and what areas need improvement?
- Is participation in the plan over 50%, or is increasing participation a goal?

In parallel with these discussions, the committee should develop an outline for the RFP to ensure that the process effectively focuses on the company's critical objectives. The major areas might include:

- Company background
 - Description of your company's existing qualified and nonqualified plans
 - Objectives for the plan
- RFP specifics
 - Proposal formats and important dates
 - Service provider requirements
- Proposed plan design
- Plan administration details
- Approach to informal funding analysis
- Communications and enrollment support
- References

- Estimate of costs and fees

Once the committee has reached consensus on the outline, it can start filling in specific topic area content. For example, under "Plan Administration," you may want to ask about:

- Technological capabilities
- System security
- Online access by participants
- Reporting requirements
- 409A compliance
- Asset/liability matching procedure and timing

Communication topics may include:

- Enrollment materials creation
- Open enrollment meetings
- Ongoing support programs and advice
- Web-based tools
- Call center capabilities

After expanding your outline, you can develop the specific questions for prospective vendors within each section. One approach for developing an effective first draft is to assign the department

representative to be the "writer" of questions pertaining to that functional expertise, and then assign a different committee member to be the "reader" for editing those questions. For example, the tech savvy member of the team would draft questions about the vendor's technological capabilities and someone in HR or Finance would be the "reader" to review and edit those questions. Once the "writer" and "reader" are satisfied with their work, the questions are provided to the committee's leader for approval and integration into the final questionnaire.

This approach produces a solid and comprehensive draft because it efficiently uses individual time and expertise. The iterative approach also forces progress, as the author can't hold onto the questions until they are perfect. And, because the "reader" and "writer" possess different skill sets, the questions will have been vetted from more than one perspective.

Another approach is to assign only one or two "writers" to draft the entire RFP questionnaire and use the rest of the committee as "readers." This approach can be effective depending on the committee members, as some people work better in groups than others.

WARNING: Do not allow the committee to modify an existing RFP document to develop the new RFP. Nonqualified deferred compensation is a highly specialized program. While it is perfectly acceptable for the committee leader to refer to past RFP questionnaires, the committee should not be allowed to short-cut an organic, thoughtful development process by editing an old RFP document. Thoughtful question development will foster thoughtful responses from candidates. Though it appears to speed up the development process, in the final analysis, editing an old RFP almost never results in the kind of robust effort that will help maximize your success.

While the RFP is being developed, compile your list of eligible prospective vendors, and identify each vendor's point person to receive the RFP. Contact those individuals in advance to let them know when they can expect to receive the questionnaire.

Once the RFP is drafted, you will want to give vendor candidates 2-3 weeks to respond to the questionnaire. You want them to have plenty of time to put together a thoughtful response. Remember, you are looking for proposals that best represent the candidate. You should also consider allowing candidates to submit questions regarding the RFP document by a certain date. If you elect to do this, you should share your answers to each vendor's questions with all of the prospective firms participating in the process to create a level playing field.

Always include in the RFP document an explanation of how and when the final decision will be made. For example, if you do not plan to engage any firm for six months, let the candidates know of your timing.

A FEW OTHER THINGS TO CONSIDER...

- Before launching the development process, the RFP committee leader should brief the senior management team on process structure, committee members and development timeline. If the CEO or other corporate officers want to review the final RFP prior to its release, be sure to inform the committee and allow for extra time in the schedule.
- The company's Compensation Committee to the Board of Directors should be brought in early to contribute to the development and proposal review process.
- Timeframes must be reasonably set, respected and enforced for the process to work for everyone involved.
- Engage your constituent employee base throughout the development process. If a plan is currently in place, spend time talking to plan participants. If you will be offering a plan for the first time, talk to those who would be eligible.
- Keep senior management, especially the CFO, informed throughout the RFP process. Communicate progress, invite feedback, and involve those necessary in key decision making.

IN CONCLUSION

Having the discipline to run an effective RFP process is critical to finding the right partners and maintaining good vendor relationships. Prepare your RFP carefully, purposely and professionally. Read all proposals submitted in response thoroughly. Thank all the participating vendors. Responding to your questionnaire is a lot of work and you never know when you might need the firm that came in second. Engage the firm that best demonstrates they can meet your stated needs. With an effective RFP process in place, you can be confident you have done the due diligence necessary to make the right decision for your company.

Sample RFP Questionnaire

ORGANIZATION

1. Provide the name, title, address, telephone and fax numbers, and e-mail address for the person(s) submitting this proposal.
2. Briefly describe your organization. Include all parent company, subsidiary, and affiliate relationships. Is the firm publicly or privately owned?
3. Provide an overview of your company's size and office locations. Include the number of professionals dedicated to nonqualified plan sales vs. administration. Please provide their educational background and experience.
4. Describe the structure of your sales team dedicated to nonqualified deferred compensation plans. Does your company utilize internal and external wholesalers?
5. Briefly describe the services your firm can provide COMPANY.
6. How long has your firm been designing, implementing and administering deferred compensation plans?
7. What assurances does COMPANY have of your continued financial strength and commitment to your nonqualified executive benefit business?
8. Please provide information about any litigation which has occurred in the last 5 years that resulted in a settlement or judgment, or is presently pending which may be relevant to COMPANY'S evaluation of your services.
9. Discuss your current client base in terms of number, total nonqualified plans, size of assets, etc.
 - a. Excluding 401(k) mirror and related excess plans, as well as insurance-only arrangements (COLI, BOLI, split-dollar, disability, executive life, etc.), how many nonqualified deferred compensation plans do you administer?
 - b. What is the total dollar value of nonqualified deferred compensation plan assets managed by your firm? What percentage is informally funded with COLI?
10. How many new clients has your firm taken on in the past three years and what was the cash value associated with these accounts?
11. Please provide three current client references.
12. Please describe the expertise and qualities that your company possesses that distinguish your company from its peers.
13. What services do you offer that sets you apart from your competition?
14. How has your firm demonstrated thought leadership and innovation in the nonqualified executive benefits marketplace over the past ten years?
15. What is your strategic vision for future changes and innovation in the nonqualified executive benefits arena?

SYSTEM ADMINISTRATION

1. Discuss your system capabilities, including a description of your firm's hardware and software, and any limitations.
2. Was your system developed in-house or purchased? Discuss why you chose to develop your own system or utilize an outside vendor.
3. How do you control program design enhancements and changes to the recordkeeping database system? Do you retain ownership of the application source code or outsource applications development projects to an outside firm? Who do we contract with if changes are required to meet our functionality needs?
4. Are changes to keep your systems and processes compliant included in your fee quote?
5. What do you feel distinguishes your recordkeeping system from others in the market?
6. Does your system allow individual client customization? If so, discuss these capabilities in detail.
7. Does your database support all mutual fund families and publicly traded stocks?
8. Describe your capabilities of separate maintenance and administration of pre-2005 and post-2004 accounts, each with separate rules and provisions, while administered and presented to participants in one plan.
9. Discuss recent and proposed system enhancements/innovations.
10. Please describe your standard data retention procedures, including your data archiving process, application and data storage facilities and location, and retrieval time for archived data.
11. Describe your disaster recovery plan, procedures and location. How often do you test your plan?
12. Describe your risk control, auditing and reconciling procedures.
13. Provide a description of your firm's security systems.
14. Describe your data transmission process between your firm and the client and/or trustee.
15. What file formats do you require for data transfer?
16. Do you have audit trail capability for all customer-initiated actions?
17. Do you have a current SSAE 16 determination? If so, was it satisfactory? If exceptions were noted, how have they been addressed?
18. Describe any relationships with third-party vendors required to support administration.
19. Describe the deferred compensation administration process.
20. Are you able to interface employee files on a daily basis?
21. What elections and election changes can be completed online vs. what requires paper forms (enrollment, insurance consents, beneficiary election/change, investment election/change, distribution election/change, etc.)?
22. Provide an overview of the payroll processes, deduction and distributions.
23. Do you support single sign-on/authentication approaches from qualified plan provider portals to your website and to external third parties from your website? Please describe your experience with single sign-on and how you handle authentication.

PARTICIPANT / PLAN SPONSOR SERVICES

1. Discuss the role you believe COMPANY should be prepared to fill during and after implementation.
2. Describe the services and information provided on your participant web site. Do you have a demo site that COMPANY can access?
3. Please describe the content of participant benefit statements and/or provide a sample statement which highlights your organization's ability to capture and report in clearly understandable format key account information. Do you provide personal investment return information on statements? How can statements be customized to provide additional information?
4. Describe the services, information and reporting capabilities provided to plan sponsors on your web site. Do you have a demo site that COMPANY can access?
5. What standard reports do you provide plan sponsors? What reports are elective? Describe any ad hoc report capabilities.
6. Do you have a shared, secured site for receiving and distributing reports?
7. Describe the security procedures in place for accessing information through a telephone representative and/or accessing your web site.
8. Describe your approach to communication and participant education for deferred compensation plans. What enrollment and other materials do you provide? Can they be customized?

INVESTMENT MENU DEVELOPMENT

1. Do you offer investment advisory and consulting services to Plan Sponsors in selecting appropriate asset classes and investment options?
 - a. If yes, describe your experience in investment evaluation and strategic consulting for nonqualified deferred compensation plans. Include your experience with investment options such as mutual funds and COLI products.
 - b. Describe the evaluation process you use to analyze various investments and the types of investment options offered in a nonqualified deferred compensation plan. Does a team, committee or individual perform your analysis?
 - c. Do you have an investment committee? If so, please describe its functions and duties. How often does the committee meet?
 - d. Are there any circumstances under which your investment advisory division, or any individual in your investment advisory division, receives compensation, finder's fees, soft dollars, or any other benefit from investment managers or third parties? If yes, please describe in detail.
2. Do you provide ongoing monitoring and advice regarding the investment options selected by the Committee?
 - a. Describe your reporting features and process in detail. Does your report provide an executive summary that makes specific recommendations and calls to the client's attention any issues that need to be investigated or discussed?
 - b. How often are reports provided?
3. Will you acknowledge in writing that you have a fiduciary obligation as an investment adviser to the plan while providing the consulting services?
 - a. Are there any limitations to your fiduciary obligation? If so, please explain.

ADVISORY SERVICES FOR PARTICIPANTS

1. Do you provide any tools or services to participants to assist in investment selection and monitoring?
 - a. If so, what tools are available online?
 - b. If so, are participants allowed to speak with an investment specialist regarding their investments in the plan?
2. What additional services (if any) do you provide for enhancing plan participation and helping individuals with financial planning and investments?
 - a. Please describe service offerings in detail.
 - b. Please describe the background and experience of the individuals who would be providing this service.
 - i. Do they operate independently or are they affiliated with a financial services company?
 - ii. Are they salaried employees or compensated through product sales commissions (or both)?
3. Do you also provide financial planning and advisory services?
 - a. For executives? Please describe in detail any available services.
 - b. For non-executives? Please describe in detail any available services.

CLIENT RELATIONS

1. Discuss in detail your firm's philosophy regarding customer service.
2. How is the customer service area structured to serve your clients? Provide the names and qualifications of the staff that would manage COMPANY'S account during the implementation and on an ongoing basis. Please include the following information for each individual. Where would they be located? Who would have overall responsibility for our service? (Provide a brief summary of this individual's qualifications including time with your company and time in the current role; indicate what expertise he/she has that is specifically applicable to administering nonqualified deferred compensation plans.)
3. During what hours of the day is the customer service area open to serve clients and participants?
4. What training is provided to customer service representatives?
5. How are problems, requests and other issues resolved?
6. What are your sources of information concerning upcoming legislative and tax changes? What information do you typically provide with respect to the potential impact on COMPANY'S administrative operations?
7. Do you have a formalized client and participant satisfaction measurement process? If so, please provide results for the last three years.

FUNDING ALTERNATIVES

(SEE END OF DOCUMENT FOR ADDITIONAL QUESTIONS ON COLI)

1. Describe funding alternatives available on your platform.
2. Describe pros, cons and cost of each.

3. How can you assist the client in matching plan assets to plan liabilities if plan assets are mutual funds? Do you have arrangements with mutual fund companies or trust companies to make trades on the same day as plan participants?
4. How can you assist the client in matching plan assets to plan liabilities if assets are corporate-owned life insurance policies? Please explain your organizations ability to reconcile assets daily, weekly or monthly, which COLI issuers you work with and their ability to provide daily data feeds.

INVESTMENT ALTERNATIVES

1. Describe the investment alternatives available to the plan sponsor.
2. Describe any limitations or restrictions on the use of funds in general.
3. Do you offer model and/or managed portfolio options?
4. Do you offer an in-plan, guaranteed income investment option? If yes, please provide a detailed description of the offering.

TRANSITION

1. Describe the transition and implementation process, including the responsibilities of the transition team. What do you need from the current vendor to ensure a successful transition and ongoing administration?
2. Are there specific transition issues that impact fees?
3. Please provide an implementation timeline.

PRICING PROPOSAL

1. Please provide a fee schedule of the proposed services and explain what is included in your fee structure.
2. Do fees differ if insurance or other funding methods are used?
3. Please provide a sample administrative services agreement.

INFORMAL FUNDING QUESTIONS

1. Describe your approach to recommending an investment and/or informal funding strategy for nonqualified benefit plans. Please include your process and procedures in selecting the appropriate insurance products as a funding vehicle for nonqualified benefit plans (if applicable).
2. Describe your capabilities to advise COMPANY with regard to development of an investment model to ensure that the informal funding investments satisfy or exceed COMPANY's liabilities under the Plan.
3. What processes and procedures are in place to monitor trust assets and plan liabilities (participant account balances) to assure adequate governance and financial reporting?
4. Explain how often you evaluate funding options with your clients.
5. Describe your process for selecting funds, monitoring performance and managing risk.
6. Please furnish a detailed description of your pre-purchase evaluation of COLI, and implementation process for a new COLI program. Please explain how you compare competitive offerings from carriers for financial factors, reps and warranties and other factors.

7. Please provide an explanation of possible pitfalls and/or hidden costs that should be considered when comparing insurance policies.
8. Describe how you evaluate the funds and report on their performance to your clients.
9. When a fund is underperforming, describe how and when you make the decision to eliminate and/or replace the fund.
10. Describe the roles and backgrounds of the specific individuals assigned to COMPANY that are responsible to provide asset management services.
11. How many years has your company been involved in brokering COLI?
12. As it relates to the informal funding of Deferred Compensation Plans, how many COLI customers/dollars of insurance in force have been brokered through your firm?
13. How many employees are dedicated to the COLI product (outside of servicing/administration)?
14. Describe the unique experiences or qualifications of your organization and/or your staff that differentiates your service offering in the marketplace.
15. Please describe any direct relationship (ownership, joint venture, etc.) with insurance carriers for which you broker products, if any?
16. If there is direct relationship, describe any unique compensation or pricing impacts related to this relationship.
17. Describe any relationship with carrier that would provide you or your firm with compensation outside of broker commissions.
18. Please provide list of insurance carriers and associated investment fund managers you have existing relationship with or for whose products you broker.
19. Provide the number of employees devoted to, number of clients supported, technical capabilities, and experience your organization has in administering COLI products.
20. Describe the typical initial, annual and other periodic services you provide for COLI plans.
21. Describe the process you use to determine whether or not the COLI is meeting the original goals and financial projections. How often is this service provided? Are there additional fees for this service?
22. Have you ever sold off the servicing obligations or liability for any block of business sold by your firm or by yourself? Please describe those situations.
23. Describe how your firm is compensated for COLI product?
24. Who pays your compensation and what is it based on?
25. Are you willing to work with us on ensuring that the carriers quote the absolutely lowest costs of insurance competitive in the current market place?