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The Right Way
to Invest

Selecting a Professional Retirement Plan Advisor

Report from the OppenheimerFunds Roundtable

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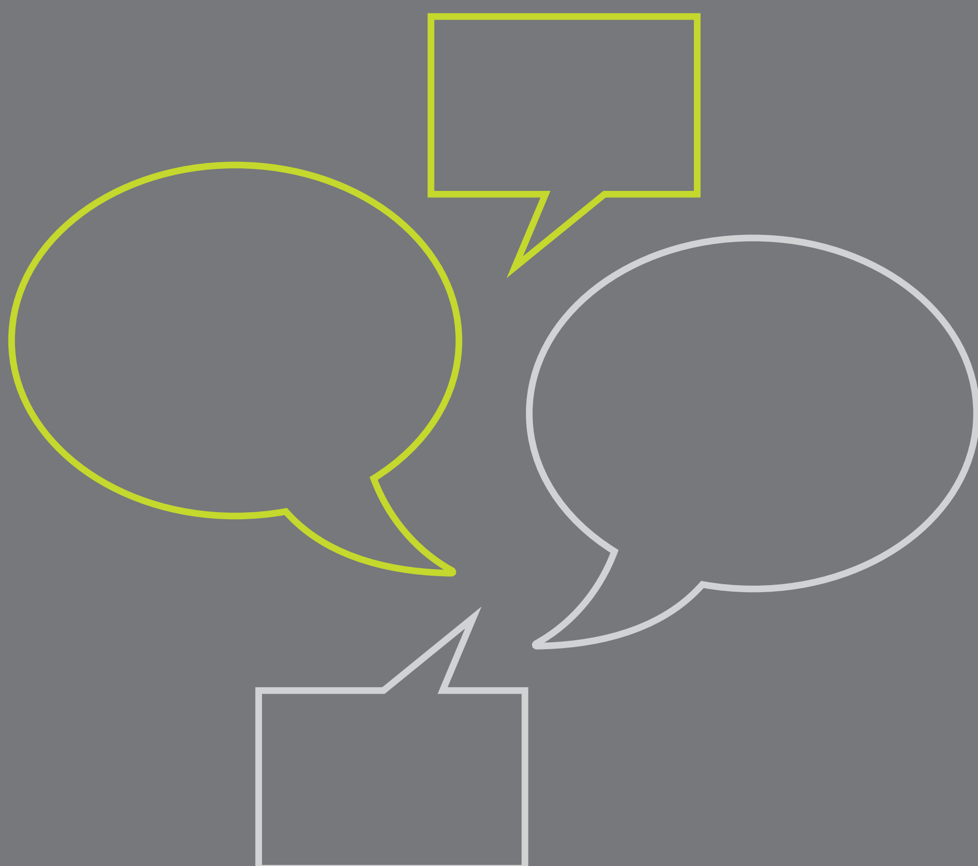

OppenheimerFunds Roundtable Participants

This content is based on roundtable discussions among retirement plan advisors that were organized by OppenheimerFunds and held in late 2012. The quotations were taken from the participants in those sessions. We thank the following 17 advisors for their intellectual contribution to the success of this initiative:

John B. Abeyta
CRPS®
The Abeyta Bueche & Sanders Group at Morgan Stanley

Gregg Andonian
AIF,® CFP,® CLU, ChFC
Baystate Fiduciary Advisors

Nick Backe
Backe Page Group
Wells Fargo Advisors

Kenneth M. Barkman
CRPC,® CRPS®
The Bird Barkman Group

Trent D. Bryson
CFP,® AIF®
Bryson Financial

J. Clarke Chase
Chase Dominion Advisors

Joe Connell
AIF,® CRPS,® RF™
Retirement Plan Partners, Inc.

Luke I. Costello
CRPS®
The Robertson Group at Morgan Stanley

Kristen Deevy
CoBiz Insurance

Gregory Fiore
Clearview Group

Ed Jaeger
PensionMark Retirement Group

Jim Sampson
AIF®
Cornerstone Retirement Advisors, LLC

Josh Selzer
Tax Favored Benefits, Inc.

Christopher George Venuti
CIMA®
UBS Financial Services, Inc.

Matthew Watson
AIF,® CRPS®
Wells Fargo Advisors

Charles Williams
AIF,® CRPS,® CRPC,®
AAMS,® CFP®
Sheridan Road Financial

T. Henry Yoshida
CIMA,® CFP,® CRPC,® CRPS®
The Maresh Yoshida 401k Group

The Need for Specialization

Due to changes in Department of Labor (DOL) rules for defined contribution plans, retirement plan sponsors face an increasingly stringent regulatory and fiduciary environment. As a result, many plans now enlist the services of advisors who specialize in retirement plans. These individuals and firms are engaged for their expertise and in-depth knowledge of ERISA processes and standards of conduct. “We’ve seen an increase in advisor RFPs with 408(b)(2) and heightened awareness of fiduciary responsibility. We feel that, compounded with the challenging investment markets, the realization that plan sponsors need to hire specialized, expert advisors is becoming quite clear.”*

OppenheimerFunds wants to help you ensure you are fulfilling your fiduciary responsibilities and providing your participants with the opportunity and resources needed to plan and save for retirement. In this light, we convened several roundtable discussions with some of the industry’s most experienced and highly regarded retirement plan advisors—individuals or firms with assets under management in qualified plans ranging to more than $5 billion. We learned from their expertise—and we believe you can benefit from their experience as well.

“We’ve seen an increase in advisor RFPs with 408(b)(2) and heightened awareness of fiduciary responsibility. We feel that, compounded with the challenging investment markets, the realization that plan sponsors need to hire specialized, expert advisors is becoming quite clear.”*

*Comments in bold are those expressed by the OppenheimerFunds roundtable participants.

I Have a Plan Advisor.
Why Do I Need a Specialist?

The nature of the advisory business has changed—along with what sponsors and advisors expect from each other. Until recently, most plan sponsors could identify few distinctions between a "generalist" financial advisor and a professional retirement plan advisor. That's no longer the case.

The catalyst for a due diligence review of an existing plan advisor—or the search for a new one—can be an audit, fee disclosure regulations, compliance review or the suggestion by a plan professional such as the plan recordkeeper or attorney who has spotted an inconsistency or anomaly in the plan:

- The perception that participants may not be on track for retirement.
- Exposure to fiduciary liability.
- A decline in existing advisory services.
- The desire to outsource certain functions.
- An investment menu that is not sufficiently diverse or otherwise of concern.

Increasingly, plan sponsors seek assistance from retirement plan specialists. According to advisors who took part in the roundtable discussions, the demand for specialists is especially strong among defined contribution plans with $5 million to $100 million in plan assets: ***"We have seen an uptick in new advisory business from clients who did not have an advisor in the past. Some service providers have encouraged their clients to seek the assistance of a plan advisor if they do not yet have one."***

A change in executive leadership at an organization is also a good opportunity to revisit current practices, conduct due diligence and initiate a search for a retirement plan specialist since the plan committee might be open to fresh approaches to plan management.

> **"Why would we do anything different from a diligent fiduciary process in a plan with less than $10 million in plan assets than we would do for a plan with more than $50 million? The fiduciary process is identical."**

Advantages of a Specialist

Consider the advantages of hiring a dedicated retirement plan advisor instead of a generalist financial advisor to oversee your plan. Some of the services you can expect include:

- Assistance interpreting and responding to ERISA Regulation 408(b)(2) disclosures.
- Guidance regarding challenging investment-market conditions.
- In-depth knowledge, skills and expertise of a retirement plan specialist who can present a comprehensive plan picture and exercise a more positive influence on plan outcomes.
- More guidance and assistance to help you fulfill your plan sponsor fiduciary responsibilities.

What Services Should a Plan Specialist Provide?

Choosing a retirement plan specialist is a good opportunity for plan sponsors to decide which administrative functions should be done internally and which should be outsourced to a specialist. Fiduciary services are one of many categories of services that an advisor may provide.

In addition to services, price (fees and compensation) should be part of the evaluation. The relationship between plan size and pricing level is not quite as linear as some might assume. Comments from specialist advisors suggest scant evidence of economies of scale for some functions. Depending on the scope of service provided, some advisors argue they will do substantially the same work for a small plan that they will for a large plan: ***"The assumption that larger plan sponsors are more involved or have more knowledge is not always correct. Our $100 million+ relationships need just as much training and education as our $500,000 clients."***

How Do I Find a Specialist Advisor?

We recommend that you start with a clear idea of the functions you want your plan advisor to perform—as opposed to those earmarked for your recordkeeper. Some of the functions performed by advisors and recordkeepers now overlap to some extent—such as employee communications/education, and plan and investment reviews—making it difficult to separate the search for an advisor from one for a recordkeeper.

Start with Due Diligence

Plan auditors, ERISA attorneys and recordkeeping service providers increasingly recommend that plan sponsors conduct a formal due diligence process with their existing advisors. Instead of waiting until a problem arises, some plan sponsors now conduct due diligence on their current advisor on a regular basis. ***"We encourage our clients to shop us out every three years automatically at the same time that we recommend we perform an RFP on the recordkeeper."***

The Search Process

To start the search process, ask your ERISA attorney and recordkeeper for a list of recommended advisors. To avoid potential conflicts of interest, however, the recordkeeper's role in the search process should be limited to providing a list of advisors. You can also ask other plan sponsors and business professionals for recommendations.

The use of a formal advisor search Request for Proposal (RFP) can efficiently narrow the field of respondents.

Does the Size of My Plan Change the Search Process?

There is no set size limit for conducting a formal advisor search. Advisors who participated in our roundtable noted that a formal search is necessary for plans with 100 or more employees and with assets of $5 million to $10 million. Sponsors of smaller plans are still required to exercise due diligence; however, as one advisor pointed out: ***"Employers are realizing they have fiduciary oversight of the plan whether they are a start-up or a large plan."***

The Importance of RFPs

To search for and select a professional retirement plan advisor, many plan sponsors with $10 million or more in plan assets choose to issue a formal RFP. Some argue that for plans with assets of $50 million or more, an RFP is essential, not an option.

Many plan sponsors conduct an advisor search and a recordkeeper search using concurrent RFPs. Some plan advisors initiate the process for their clients. In the public sector, many employers are required to use an RFP regardless of size, and to make the questionnaire public.

We recommend that plans with assets in the $5 million to $50 million range use standardized template questionnaires that require minimal customizing by advisors who respond to the RFP. You can access a free template on the Retirement Advisor Council website at http://retirementadvisor.us/advisor-top/template-advisor-search-rfp-request.

Action items

- Review and verify the credentials and experience of the current plan advisor.
- Document the functions you want your plan advisor to perform.
- Obtain advisor recommendations from peers or vendors.
- Send RFPs to selected plan advisors.
- Review RFPs and decide which advisors to invite for presentations.
- Conduct fundamental due diligence: Review the compensation contract and services agreement, conduct advisor interviews, perform reference checks.
- Share findings with the retirement plan committee and keep written records of the entire search and review process.

A template helps ensure questions are worded to help the search committee understand advisor capabilities. Because templates are less onerous for advisors, they allow sponsors of smaller plans to access in-demand advisors who might not take the time to respond to a fully customized questionnaire. Allowing advisors a reasonable amount of time to respond also increases the chances of receiving a bid from the more in-demand advisors. Most advisors view a two-to-four week turnaround time as reasonable.

Advisors need to be selective about responding to an RFP because it can take many hours of advisor and support staff time. Capacity is an issue: many practices are not able to accommodate more than one advisor search RFP per month. Larger advisor practices can support a maximum of 20 to 25 advisor search RFPs per year. ***"It takes a long time to respond correctly to an RFP if the questions are customized. I would say 20 to 30 hours for the whole package. This can be shortened if questions are similar to other RFPs."***

The questionnaire section of the RFP may not be the most important part for advisors. Advisors like to receive as much information as possible so they understand the scope of the assignment and the sponsor's expectations. As they review the RFP, advisors look for clues that the engagement will be long enough to amortize the bidding cost over a number of years.

Armed with this information, the better advisors expect to have the opportunity to ask questions so they fully understand the needs of the plan sponsor: ***"The advisor has the challenge to really understand what the employer's concerns are, and to communicate their value in such a way to win the business at the finals presentation. Asking a lot of questions is likely the key to understanding."***

Upon reviewing RFP responses, the committee typically narrows the field down to two or three finalists invited to make an in-person presentation. On rare occasions, as many as five finalists are invited. Only those practices clearly qualified to serve as advisors to the plan should be invited. Some sponsors choose to conduct finalist presentations in the form of structured interviews, and others request team presentations. ***"Typically the employer narrows the search after the RFP process and conducts two or three interviews with the top choices. I have seen this process for $100 million+ plans as well as $8 million plans."***

We also encourage plan sponsors to provide as much detail about the plan as possible, including:

- Participant count.
- Workforce locations.
- Participation rates.
- Nondiscrimination testing results.
- Loan utilization.
- Plan assets.
- Current fund menu.
- How expenses are paid.
- Information about other plans (nonqualified deferred compensation, defined benefit, etc.).

Next Steps

The Finalist Presentation

Short-listed plan advisors are typically given 10 days to 30 days to assemble their team and prepare their presentation. For advisors who use a team approach, it's ideal to have the presentation conducted by the actual team that would service the plan. Qualifications, deliverables and pricing structure being equal among the two or three finalists, plan sponsors are likely to make their decision based on what they feel would be the right "fit" or "chemistry." ***"The next step is usually to meet with selected finalists face-to-face to get a better understanding of the advisor's business model and to determine the fit between advisor/consultant and plan sponsor."***

The Onboarding Process

The selection of a retirement plan advisor is followed by the "onboarding" process. Advisor practices vary in size, and the advisor staff involved in the onboarding process is different for each firm. The advisor team may include a relationship manager, an education specialist, an ERISA compliance specialist, an investment analyst and other specialists. Steps vary from plan to plan based on facts and circumstances, and advisor opinions differ on the optimal order of steps. ***"The first step is to clean up and prepare the house to take to market. Not to say that you may actually sell the house and move, but you need to fix the plan with the current recordkeeper, if possible, to get the plan aligned to best practices, design, fund lineup, etc."***

Team conference calls during the onboarding process typically take place at least weekly with all parties to discuss progress, duties and responsibilities. The onboarding processing ends when the plan sponsor is satisfied that all necessary policies and procedures are in place, documented properly, and the plan is set up to operate accordingly.

Retirement Plan Committees

As an employer, no one person has to shoulder all the responsibilities. Plan sponsors frequently tap into the organization's internal resources and create a retirement plan committee to help administer the plan. Such a committee can be most helpful during the search for a dedicated plan advisor. Three to five members generally comprise a committee for a company (typically five to seven members for not-for-profit employers). Having an odd number of members helps to avoid decision-making deadlocks.

The makeup of a committee usually varies by plan size. For plans with $5 million to $10 million in assets, the committee often includes the chief financial officer (CFO), the human resources officer (HRO) and occasionally the chief executive officer (CEO). For larger plans, the HRO and CFO are often less involved personally. Instead, they may maintain oversight and delegate the operational functions to a benefits specialist and a controller. In larger organizations, the committee often includes a representative of the in-house legal department.

The following activities may take place during the onboarding process

• Complete and sign required paperwork (e.g., appointment letter, advisor of record change form).	• Review pricing and services.
• Create and populate a client log to support fiduciary process documentation.	• Sign service agreement or compensation contract.
• Draft action plan/timeline for the onboarding process.	• Review and restate fiduciary process.
• Schedule and hold weekly progress conference calls.	• Benchmark recordkeeper fees and services.
• Send letter to former advisor.	• Align plan with best-in-class practices.
• Send letter to recordkeeping service provider.	• Address shortcomings with current recordkeeping service provider (request repricing if needed).
• Request and gather plan documents and policies .	• Transition service provider account manager and relationship manager if warranted.
• Conduct discovery/fact-finding interviews with plan sponsor.	• Review and restate investment policy.
• Introduce advisor to vendors and partners.	• Review investment menu of funds to ensure there are adequate choices for plan participants.
• Conduct initial one-on-one in-depth assessment discussions with vendors and partners.	• Create statement of plan health/retirement readiness status and objectives.
• Facilitate a meeting with the plan service team and all vendors and partners to agree upon expectations, roles, responsibilities and operating procedures.	• Review and restate—or create—participant education policy.
• Develop service plan, including a schedule of deliverables (e.g., investment review meetings).	• Update action plan and timeline before each conference call.

Should the Current Advisor Play a Role in the Search Process?

There are several schools of thought regarding the involvement of the current advisor in the search for a new one. Purists argue the current advisor should recuse herself/himself from the process altogether. Others argue recusal shows poor service, as clients rely heavily on their plan advisor for important decisions: ***"Most smaller plans do not have the HR office or the expertise. That is why they hire an advisor to help with the search, because they are not sure what they are looking for to help them reach company goals."***

Some advisors encourage their clients to conduct an advisor search every three to five years. They support the process by providing a template RFP questionnaire and a comparison spreadsheet prepopulated with their own answers to facilitate comparisons. Others argue the best practice is to periodically deliver a report to each client, benchmarking the advisor's services and cost structure with that of comparable plans/advisor service models. Periodic advisor reviews help to prevent complacency and to demonstrate to auditors that the plan sponsor is exercising due diligence. ***"The process is to send a template grid to each advisor to complete (including ourselves) which contains all the basics of services covered and fees. This enables the sponsor to sort down to two or three to invite in for the committee dog-and-pony show."***

Avoiding Pitfalls in the Selection Process

Among the most common mistakes plan sponsors make in the selection of a plan advisor is to focus too much attention on price and not enough on the services to be provided and their fit with the plan's goals. Some services to consider:

- Formulation of an investment policy.
- Periodic investment review due diligence.
- Plan compliance review.
- Fee analysis.
- Fiduciary services.
- Service provider monitoring.
- Coordination and delivery of participant education.
- Additional consulting as required.

Other mistakes may involve a breach of fiduciary duty, such as not documenting the search process or inviting "buddies" or relatives of a committee member or corporate officer to bid for the assignment irrespective of credentials. Also, to avoid the appearance of undue influence or potential conflicts of interest, politically active or engaged individuals with fiduciary responsibilities would benefit from working with a professional retirement plan advisor.

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NEXT STEPS

How to Understand Your Role as a Fiduciary

Ask your advisor for a copy of "A Plan Sponsor's Guide to Understanding Fiduciary Responsibility" (RPL0000.072). OppenheimerFunds prepared this brochure to explain how the ERISA regulatory landscape has changed and how you can, with the help of a retirement plan specialist, navigate the complex retirement plan terrain.

The Right Way to Invest

We believe The Right Way to Invest is to make global connections, look to the long term, invest with proven teams, and take intelligent risks.

Our long-term investment focus aligns with the long-term goals of retirement plan participants. We work closely with plan sponsors, advisors, relationship managers and consultants for defined contribution plans. We share insights on how plan sponsors can manage plans more effectively and best serve the needs of plan participants. These include informed perspectives on plan design optimization and plan efficiency measurement, as well as education on fiduciary issues to better assess and manage risk.

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