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## *Selection of an Employee Benefit Consulting Firm*

by Jere L. Cowden, CLU, CEBS



*Here is a capsule guide for approaching one of the most important decisions for an employee benefit plan.*

## **Selection of an Employee Benefit Consulting Firm**

**by Jere L. Cowden, CLU, CEBS**

The selection of an employee benefit consulting firm will, over time, have a larger impact on the shape, structure and perception of an employee benefit program than will any single individual within the corporation.

Selection of outside professionals is a very difficult task; one which, if made by key executives, is often based on passing social or business contacts or, if made by a personnel or financial specialist, is often based on an incomplete understanding of the overall compensation and employee benefits objectives of the organization.

No matter who ends up making the final decision, the process should be designed to select the consultant and firm that will, in the long run, best serve a particular organization.

Following is a listing and brief discussion of some of the factors that should be considered in the selection of a consulting firm.

As with selection of most professional services, this process will be part art form and, in part, the gathering of factual information. The satisfaction of existing clients of the consultant under consideration should play a major role in the process. Additionally, other key advisers—such as attorneys, accountants and investment contacts—can assess the reputation of the consulting firm itself and of its personnel.

This input can also help in the process of narrowing the list down to those firms that will be invited for further discus-

sions and asked to submit proposals.

A rule of thumb is that you will always pay for good advice or service. Often the cheapest price or estimate will result in the highest overall cost in total fees and certainly in overall cost of a program. Poor advice can be extremely expensive. Outlined below are several key factors to consider in the selection of an employee benefit consultant.

### **Expertise of the Firm and the Team Members**

1. Technical expertise (actuarial and recordkeeping)
2. Experience with the firm's type of plan and general circumstances
3. Expertise and experience in related areas, e.g., related employee benefits and benefit communication.

Verification of expertise and experience is very important; background inflation in proposals is similar to title and experience inflation in personal résumés. To verify, check with clients and meet with individuals who will be keys in successfully concluding an assignment.

### **Client Satisfaction**

A list of several client references should be requested, and followup is a must. In discussions with references, be prepared to ask specific questions such as:

1. Were you satisfied with the work completed? On a scale of 1 to 10, how would you rate your overall satisfaction?
2. Were time and budget commitments met?
3. Were reports and presentations easy to understand? Rate from 1 to 10.

4. Whom did you work with (specific individuals)?

### **Innovation**

Often innovative solutions or creative communication will result in substantial savings and/or improved employee perceptions. For best results, creative ideas must be coupled with a good grasp of the intricacies of the field.

Caution: Frequently we buy because of the impressions of one dynamic individual; make sure that individual has administrative backup.

### **Judgment**

Determining the appropriate response form and choosing the individuals to be involved in a project are intangibles that have tremendous impact on:

1. Timeliness of response
2. Quality of response
3. The dollar level of fees.

Often, an individual with broad experience can complete a project in a much shorter time frame or provide an estimation that is adequate for preliminary decision making purposes. In either situation, response time and fees charged are substantially reduced and the advice is often superior to that available from a "cheaper," less expensive individual who may spend much more time and produce inferior results.

### **Diversity of Background**

A broad combination of experience within a firm indicates an increased exposure base to draw upon; there is always a danger of limited exposures re-

*(Continued on page 10)*

## Consulting Firm (Continued from page 8)

sulting in a narrow viewpoint particular to one firm or geographic region.

On the other hand, any organization, no matter how large, may have canned solutions that are applied inappropriately; make sure the consultant fully appreciates your uniqueness.

### Availability and Location

Availability of and access to key individuals (those who make things happen for you) are a must, especially in crucial situations such as acquisitions, union negotiations and other crises of the moment.

Availability of adequate time for personal meetings, telephone conversations and specific project supervision is a must.

### Commitment to Current Knowledge

In today's rapidly changing economic and legislative arenas, it is crucial that the consultant be up to date; otherwise, yesterday's well-thought-out solutions are erroneously applied to a world that has changed dramatically. Commitments to current knowledge may be manifested by:

1. Requirements for formal contin-

- uing education
2. Commitment to attend special and annual professional conferences.

### Administrative Capabilities

The ability to assist in annual, ongoing administrative aspects and specialized needs that may occur includes:

1. Maintaining histories of salaries, claims, contributions, etc.
2. Storing or calculating numerous minimum or alternative benefit formulas or levels
3. Calculating or certifying benefit levels on a timely basis.

### Independence

Ideally, a consultant should have no vested interest in selling products, including investment management services, insurance or other products generating commissions.

### Stability of Organization

Will the organization exist in the future to serve your needs?

The years of experience of principals, existence of business contingency plans and financial stability are crucial components; it is important that the consultant provide continuity of service over

an extended period of time.

### Fees

Fees should be reasonable, based on the level of expertise involved; caution should be taken to assure that work performed is done at the lowest reasonable level and that billing for travel time, research and development, etc., is handled equitably.

Alternatively, beware of those quoting unrealistically low fees; generally, it may be assumed that service will suffer or that excessive "special" consulting invoices will follow.

### Communication

Communication is important to the operation of a program, and especially so to the successful implementation of changes. Ideas are only as effective as their communication; a mediocre idea well communicated is more effective than a great idea poorly communicated. Great ideas well communicated are dynamic and have tremendous impact.

The consultant should be able to communicate:

1. With the staff
2. With other related professionals.

Additionally, any expertise required for communicating with employees should be available. Possibilities include:

1. Employee meetings
2. Annual retirement or total benefit statements
3. Plan summaries
4. Summaries of benefit changes.

The availability of slides, forms, generic brochures, written communications and the availability of experienced communicators for participation in employee meetings may be very helpful.



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