**Recommendations to the Division of Retirement and Benefits (DRB)**

**for the Recordkeeping Contract RFP**

1. **Adopt a Per-Participant Fee Model**: Transition from an asset-based fee structure to a hard-dollar, per-participant fee model. Recordkeeping costs are driven by participant activity, such as call center usage or e-statements, not by the size of plan assets. Moving to a per-participant fee structure ensures fees are more accurately aligned with services provided and prevents overpayment as assets grow. For instance, when Managed Accounts began in 2007, fees were 50 basis points (bp) when there were no assets, and even after assets grew to over $1.5 billion, the fee reduction was minimal, lowering only to 45 bp. A well-negotiated contract would have secured a more significant fee reduction. This underscores the need to shift away from asset-based fee models that do not reflect the cost structure appropriately.

2. **Monitor and Adjust Asset-Based Fees if Maintained**: If DRB retains any asset-based fee structure, it is crucial to include provisions for regular fee adjustments. As assets grow with market performance, asset-based fees will naturally increase, despite the cost of servicing participants remaining flat or decreasing. Without these adjustments, DRB risks overpaying, particularly when compared to other plans that have transitioned to more transparent per-participant fee structures.

3. **Do Not Include Managed Accounts in the RFP**: Managed Accounts should not be included in the new RFP, as per the recommendation of the ARM Board, and the Department of Administration is already in the process of closing these accounts. Managed Accounts have historically represented a significant source of revenue for recordkeepers, and the exclusion of these services must be clearly stated in the RFP. Emphasizing that Managed Accounts are no longer part of the recordkeeping contract is essential to ensure accurate pricing and avoid unnecessary costs. The absence of Managed Accounts in the new contract will prevent the recordkeeper from relying on this revenue source, which may influence overall pricing and fee structures for other services.

4. **Define Clear Staffing and Education Commitments**: The RFP should clearly define the recordkeeper's staffing commitments and the number of in-person education days provided, particularly given the logistical challenges in Alaska. With higher travel costs and complexities, DRB must ensure the recordkeeper delivers sufficient participant education and services. These commitments should be clearly measurable to ensure accountability and high-quality service to plan participants.

5. **Benchmark Fees Against Similar Plans**: DRB's fees currently appear higher than those of similar-sized statewide plans. Fees for plans of comparable size typically range between $30 and $40 per unique Social Security Number (SSN), regardless of the number of plans held by each participant. DRB should benchmark its fees to ensure competitiveness. Some comparable plans, especially those with lower usage of additional services, have been priced closer to $20 per unique SSN, which provides a potential savings target for DRB.

6. **Incorporate a Data Security and Cybersecurity Addendum**: The RFP should include a comprehensive data security addendum that outlines the recordkeeper's commitments to cybersecurity, identity management, and the protection of participant data. Given the rising importance of cybersecurity in today's environment, these provisions are now standard and essential to protecting the plan and its participants from growing threats. Ensuring these safeguards are built into the contract is critical.

7. **Set Performance Standards with Financial Penalties**: The RFP should establish clear performance standards, with at-risk fees or financial penalties for the recordkeeper if service levels are not met. These metrics should include key performance indicators like call center hold times, transaction accuracy, and overall responsiveness. Importantly, these metrics must be measured at the plan level, specific to DRB's needs, rather than at the enterprise level of the recordkeeper, ensuring DRB receives the highest level of service.

8. **Clarify Additional Service Fees, Loan Availability, and Recordkeeping Products**: The RFP must require full transparency regarding any additional service fees, such as those for participant transactions like loans, distributions, and check writing. Loans are not permitted for Defined Contribution (DC) accounts or Supplemental Benefits System (SBS) accounts, though they are allowed for Deferred Compensation Plan (DCP) accounts. The RFP should also request detailed descriptions of any recordkeeping products, such as annuities, that may be offered. It is critical that fees for these products are disclosed and negotiated to ensure plan participants receive institutional-level pricing, avoiding high retail fees that could erode participants' retirement savings. The requirement for full fee disclosure must be clearly stated in the RFP to enable DRB to accurately assess all service costs and avoid hidden charges.

9. **Clarify Custody Services and Structure**: Custody services, including the distinction between securities custody and cash custody, should be clearly defined in the contract. Empower Trust Company (ETC) often acts as the payment agent and cash custodian due to the structure of their recordkeeping system, but they can also collaborate with external custodians for asset servicing. DRB should ensure that the custody arrangements are clearly understood, including how these roles affect the recordkeeper's revenue model, especially if custodians rely on check writing and payment services as part of their revenue.

By addressing these key areas, DRB can ensure a more competitive, transparent, and effective recordkeeping contract that aligns with industry best practices and provides maximum value to plan participants.