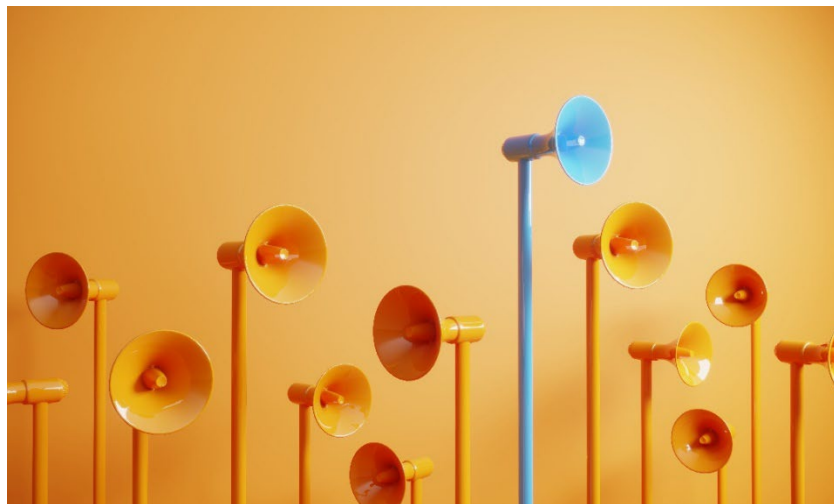


The Retirement Times

Managed Accounts Offer a More Personalized Approach



Target-date funds have long played a vital role in giving American workers access to professional help when establishing and maintaining a diversified investment portfolio. However, the glide paths — the balance of stocks, bonds, and cash — that serve as the foundation for these platforms have not traditionally been based on a single consideration: the participant's projected date of retirement.

To be fair, target-date funds have played an important role in helping millions of novice (and even expert, but busy) retirement plan savers invest in broadly diversified portfolios overseen and rebalanced on a regular basis by professional investment managers. But the allocation of those investments between investment classes — the glide path — is still often based on that one demographic factor. Still, it's no more precise than a broad five- or 10-year time frame that approximates a traditional retirement age — which may, or may not, apply.

That means, of course, that those investment allocations can be oblivious to key demographic considerations like gender (women tend to live longer), marital status (ditto married individuals), race, and health, as well as investment risk appetite and other means of retirement income support. In short, they can overlook the kind of things that would be considered if there were an opportunity to sit down in a one-on-one conversation with a financial advisor.

Enter managed accounts — a solution that considers an expanded array of personal considerations like those noted above. These accounts craft a more relevant, personalized portfolio based on individual variables that can have a huge impact on how a retirement investment portfolio is designed. Traditionally, this was done via a one-on-one interview with an individual. But these days, much of this data can be found in payroll systems and/or may already be maintained in recordkeeping platforms — or fields present in standard wealth management programs.

The Potential Impact

A Morningstar study found that after using managed accounts, 72% of participants who were off-track in saving for retirement increased their savings rates. At median, this represents a 33% jump from what they were contributing previously, or about 2% of their salaries on average. Additionally, a larger number of off-track participants (12%) started contributing enough to receive the full employer match.

The study also found that after using managed accounts, participants' assets were placed into portfolios that were more risk-appropriate. Moreover, the researchers noted "improved expected annual returns both in nominal and risk-adjusted terms."

The Bottom Line

Managed accounts can provide retirement savers with a more personalized asset allocation — but not every managed account platform provides the same depth and level of customization. Additionally, that level of personalization comes at a price. Plan fiduciaries should carefully consider the cost, quality, and composition of those designs. They should also document how and why services were evaluated, selected, deemed necessary — as well as compensated — when adding a managed account option to their lineup.

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Don't Take Forfeitures for Granted!



Retirement plans have long subjected employer contributions to vesting schedules, rewarding tenure by increasing the participant's ownership in those contributions in proportion to their years of service.

However, several law firms have recently challenged this long-standing and common practice, arguing that using forfeitures to offset employer contributions is not in the

best interests of participants or beneficiaries, as ERISA requires.

What Are Forfeitures?

"Vesting" in a retirement plan means ownership, according to the IRS. More specifically, this means that workers vest, or own, a certain percentage of their account in the plan each year, depending on a timeline established by the plan. Amounts that are not vested — earned, by virtue of their hours or service — may be forfeited by employees

when they are paid their account balance. Vanguard reports that more than half of the plans it administers impose vesting requirements on employer contributions.

Now, when a worker leaves prior to becoming 100% vested in those contributions, those “forfeited” account balances may, according to established regulatory guidance, be either (1) used to offset employer contributions, (2) applied to reduce plan expenses, or (3) reallocated to the remaining participants in the plan.

Committee Considerations

The litigation filed thus far has alleged that the decision on how to reallocate plan forfeitures by the plan fiduciaries was a fiduciary decision and not in the best interests of participants — even though the IRS allows plans to make this decision. In fact, this practice has been common among retirement plans for decades.

While these cases are still working their way through the courts, in view of how many plan committees routinely make decisions on the disposition of forfeitures, careful consideration of those determinations going forward would be prudent. As a result, retirement plan fiduciaries may want to consider the following:

1. Review the plan document to confirm how/if it says forfeitures are to be reallocated (some of the suits have alleged that plan committees have not followed the terms of the plan document).
2. If the plan document leaves the decision to the plan committee, in consultation with an ERISA attorney, consider amending the document to remove that decision from plan fiduciaries — either by spelling out a specific order of reallocation, or by leaving that decision to those not affiliated with the plan (say, the board, as a plan design decision).
3. Consider immediate vesting for eligible participants. Note that this has cost and communication implications. Recent research by Vanguard finds that vesting does not provide a systematic retention benefit, though there is a 2.5% recovery of employer contributions for the average plan.

In short, don't take forfeitures for granted.

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Basic Fiduciary Obligations for New Plan Sponsors

Threats of financial penalties and legal liabilities heighten the need for proper compliance with the Employee Retirement Income Security Act of 1974 (ERISA). Let's go over the basics of what it means to be a fiduciary in an organization's retirement plan.

What is a Fiduciary?

In basic terms, a fiduciary is a person or group in a company that is responsible for the retirement plan and does what is best for the participants in the plan. There can be three different kinds of fiduciaries in a plan:



1. **Named Fiduciary:** This person or group is named specifically in the plan rulebook. There can be multiple people to handle different tasks, such as investments and reporting.
2. **Appointed Fiduciary:** A named fiduciary is allowed to assign fiduciary responsibilities to another person, such as an investment manager to handle monetary decisions.
3. **Functional Fiduciary:** This is someone that isn't appointed as a fiduciary on paper, but steps into the role. Even if they aren't officially listed on the plan rulebook, they legally become a fiduciary.

Fiduciary Obligations

According to ERISA, there are 4 main duties of a fiduciary:

1. Acting in the best interest of the retirement plan participants, not the fiduciary's or company's.
2. Making careful and knowledgeable decisions involving retirement plans.
3. Don't put your eggs in one basket. Spread out investments to reduce risks.
4. Follow the plan rulebook unless it goes against federal guidelines.

In addition to these main duties, there are additional tasks assigned to plan fiduciaries. Reporting, keeping records, and handling claims are large responsibilities that can result in major penalties if not completed correctly. To begin, fiduciaries need to annually file a Form 5500 with the government to be transparent with plan performance. Failing to do this can include up to \$2,670 per day from the Department of Labor as well as IRS penalties. Keeping records related to the plan as well as sharing these records with participants will be important for any potential legal disputes that arise. Any claims made by participants about their retirement plans must also be handled by the plan fiduciary.

Plan fiduciaries carry a big responsibility, and it's important to operate fairly for the sake of the plan participants, as well as to know the regulations to mitigate any future liability issues.

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