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THE OFFICIAL MAGAZINE OF THE
NATIONAL ASSOCIATION OF PLAN ADVISORS

the magazine

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Trail Blazers



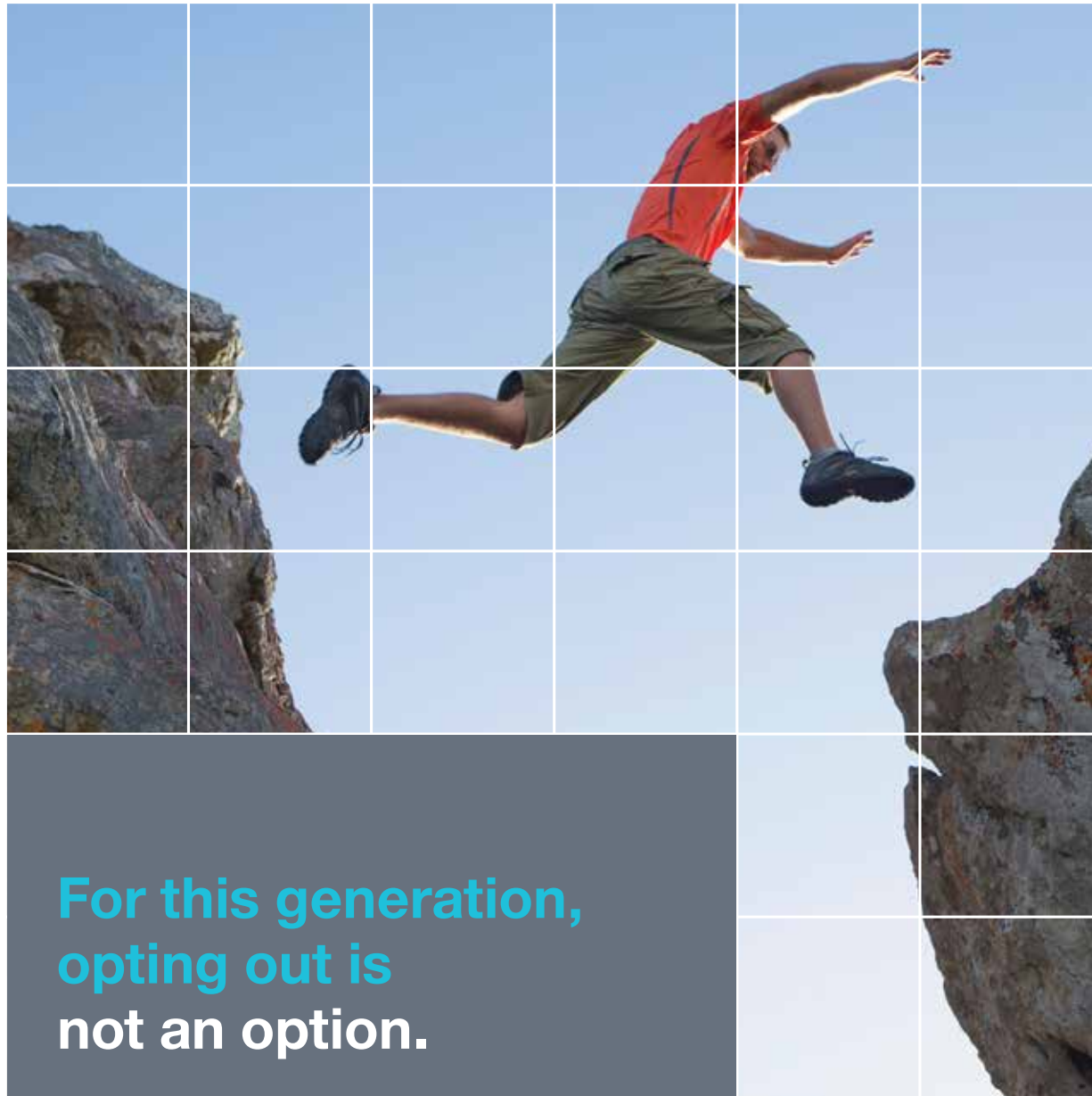
IN A
**LEAGUE
OF THEIR
OWN**

NAPA'S TOP WOMEN ADVISORS

2015

Succeeding in a
Male-Dominated Profession

- | NAPA's Inaugural List of Top Women Advisors
- | Managing Managed Accounts
- | The Client Firing "Experience"



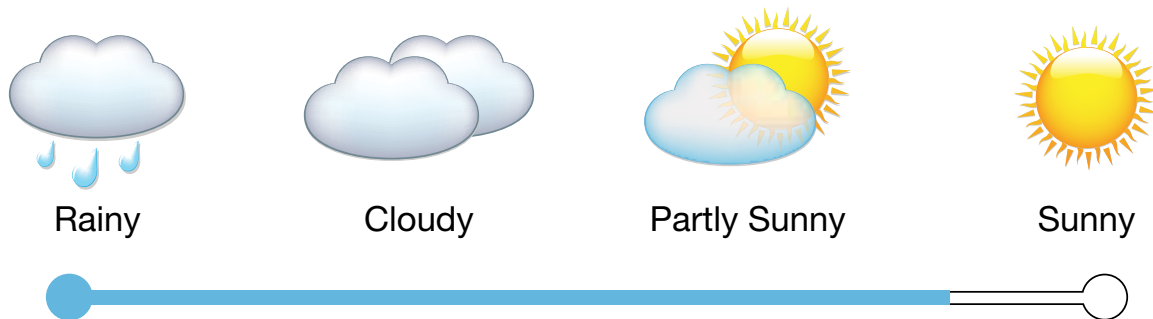
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« **MANAGING MANAGED ACCOUNTS**

by Judy Ward

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NEW COLUMN



« **'FIRING LINES'**

by Nevin E. Adams, JD

NAPA-Net readers weigh in on the client firing 'experience.'



Someday, he wants season tickets on the 50-yard line.

To make it happen, he's projecting his retirement income here, on the couch, watching the game.



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Standing Out in a Crowd

Blending in isn't what it's about for most women plan advisors.

A couple of years back, I took my “kids” (the youngest is now nearly 22) to see a concert. Now, as it turns out, this was a group that I had “discovered” and shared with them. And while I frequently find today’s music genres to be somewhat confusing, it’s fair to say that this group was fairly cast as “metal.”

As I made my preparations for the concert, I struggled a bit with what to wear. Because, while I love the music, it takes little more than a quick glance in the mirror to remind me that I was probably well outside the typical demographic of concert-goers for this particular band.

As we arrived at the venue and scanned the long line wrapping around the block, I drew some small comfort from a sense that I may not have been the oldest one there (though, honestly, I am pretty sure some who looked older had just had a “rougher” life than mine). Still, and while there were no comments made (in my earshot), I was happy to get inside the darkened venue where I felt that I could more readily blend in.


Blending in isn’t what it’s about for most women retirement plan advisors, who despite their majority gender status in the population, remain a distinct minority at most advisor industry events. But while the plan advisor arena remains a male-dominated field, a growing number of women have not only established their own successful practices, they are leaders in some of the largest advisory firms.

Women have always been an integral part of NAPA’s leadership and focus, from their active roles in establishing and running

the 401(k) SUMMIT in the years before there was a NAPA, to the selection of Marcy Supovitz as the organization’s first president and the representation of leaders like Jania Stout and Kathleen Kelly as winners of the NAPA 401(k) Advisor Leadership Award.

And so when, about this time a year ago, we decided to acknowledge this extraordinary group of contributors with a list of their own, it seemed a natural extension of our previous efforts to acknowledge the contributions of DC wholesalers and the top 50 advisors under 40. With the encouragement of a very special group of senior women in this field, we crafted a detailed nominee questionnaire, and with the support of NAPA Firm Partners and the nominees themselves, were able to acknowledge contributions in not one, but four distinct categories.

In the weeks since we launched this campaign, I’ve heard from many of the nominees, as well as those who are proud to support them. Without exception these are gifted individuals making extraordinary contributions. Many have earned well-deserved acknowledgement and accolades in other places and at different times. But for a striking number, this particular process has been unique — and for some just seeing the list of potential nominees organized together in a single place has been a revelation in and of itself.

It is a process of which I, and those of us at NAPA Net, have been proud to have played a small part. 

NEVIN E. ADAMS, JD » Editor-in-Chief
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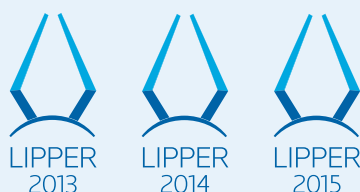
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Consider investment objectives, risks, charges and expenses carefully before investing. Go to tiaa-cref.org for product and fund prospectuses that contain this and other information. Read carefully before investing. TIAA-CREF funds are subject to market and other risk factors.



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BY JOSEPH F. DENOYIOR

Mission Accomplished

Recent successes have created a solid foundation for 2016 and beyond.

NAPA certainly had a busy summer. We had a phenomenally successful NAPA DC Fly-In Forum, with record-breaking attendance. Forum delegates heard from Speaker of the House John Boehner and Montana Sen. Jon Tester, among many other excellent speakers, and went to Capitol Hill to make their voices heard by members of Congress and staff.

NAPA, through the American Retirement Association, also submitted a detailed comment letter to the Department of Labor regarding the DOL's fiduciary rule re-proposal. The new proposed regulations, which can be made effective by the DOL without congressional approval, will be a real game-changer for any adviser who works with retirement plans, including IRA accounts, workplace plans and rollovers.

Although the NAPA/ARA comment letter made it clear that NAPA has long supported aligning the interests of retirement plan advisers with those of their clients through a best interest standard, we also made it clear that the rules as proposed would create a number of obstacles for advisers trying to serve their clients. Five key principles served as the foundation of our comment letter:

1. Plan advisers should be encouraged to help plan participants with rollovers, not penalized for providing advice to the plan.
2. Restrictions on investment education shouldn't make participant education harder to translate into practice, and thus less helpful to participants.
3. A best interest standard shouldn't discourage advisers from wanting to work

"NAPA's belief is that we need to continue to move forward as an industry."

with small businesses.

4. The platform marketing carve-out has to extend from the platform providers to TPAs and others that actually market the platforms or it won't work.
5. There must be a 2-year transition period after publication of the final rule to allow adequate time to transition existing relationships to the new requirements.

In addition to filing this comment letter, NAPA/ARA had multiple meetings with the DOL to work for what we feel are necessary improvements to the proposed regulations. Furthermore, Marcy Supovitz, NAPA's Founding President (and ARA's President-Elect), as well as many of our Firm Partners, served our organization well at the DOL hearings, advocating for our principles regarding the proposed regulations.

Now what? Do we sit and wait for the final regs or do we continue to move forward?

NAPA's belief is that we need to continue to move forward as an industry. We think that an important component of that process is education and credentialing. As a result, this summer we rolled out the Certified Plan Fiduciary Advisor credential, which we believe will become the premier designation for plan advisers.


The feedback from those who have completed the course and have taken the exam

has been wonderful. Some Firm Partners that have approved the program have already rolled it out to their members, and enrollment has been strong.

Our next move is to assist more Firm Partners with the adoption of the CPFA as one of their key training tools.

To further expand our educational opportunities, we have been hard at work rolling out a new conference for women advisers, working on next year's 401(k) SUMMIT in Nashville, and offering additional webcasts to our members.

In these times of uncertainty, let us remember three valuable benefits of being a member of NAPA: advocacy, business intelligence, and networking — all designed to help us succeed as plan advisers.

With that in mind, here are my calls to action for our members: support the NAPA PAC; ask your firm about the CPFA credential and enroll; save the dates of April 17-19, 2016 for the SUMMIT; and continue to do the great work you do each day helping America save for retirement. 

» Joseph F. DeNoyior, AIF, C(k)P, CRPS, is NAPA's President for 2015 and a founding member of NAPA's Leadership Council. He is the Managing Partner at Washington Financial Group and a member of Global Retirement Partners.

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BY BRIAN H. GRAFF

Death of a Salesman

Will the fiduciary rule make 'selling' impossible?

There were four days of hearings on the Department of Labor's proposed fiduciary rule and I kept on waiting... and watching... and waiting. But it never came up. And that surprised me.

You see, I was fully expecting someone to ask these two questions:

"What about individuals who actually want to be salespeople?" and "How are they supposed to function in a world where everyone is a fiduciary?"

Here's the problem. Under the proposed rule, if I make an individualized recommendation to an investor client with respect to an investment held in an IRA or 401(k) plan, that will be considered "investment advice" subjecting me to a fiduciary standard. There is no meaningful distinction between "selling" and "recommending." In other words, if I "suggest" or "sell" one of the products I represent, that will be considered a "recommendation" subjecting me to the rule.

But what if I only represent one investment product or one company's investment products? How is that going to work?

For example, assume you are a captive insurance agent. As such, your job is to "sell" the investments of the insurance company you represent. When people with money in an IRA come through your door, your job is to suggest that they purchase one of the annuities offered by the insurance company whose name is on your door.

Under the proposed rule, unless the agent takes the form of a potted plant, any suggestion regarding one of the insurance company's products will be considered a "recommendation," making the agent a fiduciary. According to the DOL, this means that the agent must "act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person would exercise based on the investment objec-

tives, risk tolerance, financial circumstances, and needs of the Retirement Investor, without regard to the financial or other interests of the Adviser [or] Financial Institution."

The fundamental question is: How is an agent supposed to satisfy that standard when the agent only represents one insurance company's products? Arguably, that is a theoretical impossibility. Practically speaking it is highly questionable how you could ever legally defend compliance with the standard as a captive insurance agent representing only proprietary products.

Ultimately, one can suspect that given the fear of potential liability, compliance departments and the companies they represent will move away from this distribution model, instead working through either an entirely independent distribution channel or perhaps by allowing captive agents to offer multiple insurance company products, with protections built in to protect the agent from potential conflicts.

By the way, this is not just an insurance agent/insurance company issue. Any investment manufacturer (*e.g.*, a mutual fund company) using their own employees to direct sell investments can face the same issue.

The implications for the IRA industry are enormous. While many IRA providers do make available other non-proprietary investments, does it mean that employees of the investment manufacturers will not be able to "recommend" proprietary products? (It is also relevant for SEP and SIMPLE plans, which are often direct sold with a menu of solely or substantially all proprietary investment products.)

Many of you (especially those who are not captive insurance agents) may simply ask, "So what? Aren't these the folks that DOL is going after in the first place? Wouldn't the investment world be better off without

salespeople anyway?" There are certainly many people in the government, and in the retirement plan industry as well, who think along these lines. However, I for one, do not subscribe to the view that all "salespeople" are bad actors. I believe salespeople serve an important role in the marketplace. That said, regardless of what your view is from a policy standpoint, I believe this issue is the single biggest threat to the viability of the proposed fiduciary rule going forward from a legal and political standpoint.

Unless the proposed rule is substantially changed to make it more practical for direct sellers, it is expected that lawsuits will be filed arguing that it represents an unreasonable restraint of trade. Many Americans still hold the perspective, both legally and politically, that in this country you should be able to sell your own stuff, whether it's cars or annuities.

Without seeing the final DOL rule and how it handles this issue, it is impossible at this point to predict the outcome of such a lawsuit. Furthermore, if the DOL does not provide some reasonable level of accommodation for direct sellers, it's also possible that Democrats in Congress feeling sufficient political heat will rebel against the final rule and respond legislatively.

So pay attention to this aspect of the fiduciary saga. Even if it's not currently getting as much media attention as other aspects of the rule, it is definitely a major issue. In the meantime, wither Willy Loman? 🍷

» Brian H. Graff, Esq., APM, is the Executive Director of NAPA.

Participant Outcomes Library

In July we added the new Participant Outcomes library to NAPA Net. Based on content published in the June special issue of the magazine, the library features industry thought leaders including Sheri Fitts, PAI's Michael Kiley, MFS Investments' Ryan Mullen, Fiduciary Benchmarks' Tom Kmak, Rocco DiBruno, BlackRock's Chip Castile, Retirement Resources' Jim Phillips and Patrick McGinn, Tom McKenna and Christopher Leone of Healthview Services, Richard Davies of AB Institutional Investments and execs from Newberger Nerman, American Funds, Pentegra and Transamerica. Click on "Industry Intel" in NAPA Net's nav bar and then on "Focus: Participant Outcomes."



WHAT ADVISORS ARE READING

Here's a rundown of the most-read posts on NAPA Net in July.

1. NAPA Announces 2015 Top Plan Advisors Under 40
2. President Calls on DOL to Empower States on Retirement Savings
3. 5 Things You Should Know About Target Date Funds
4. IRS Reins in Pension De-risking Options
5. 5 Little Things That Can Become Big 401(k) Problems
6. Fitch Cautions on Fiduciary Rule Impact on IRAs and Annuities
7. NAPA Net Updates DCIO List
8. Advisors Say Some Designations Matter, But Do Plan Sponsors Care?
9. NAPA Net Updates Broker Dealer List
10. Court Finds *Tibble* No Precedent for Stock Drop Case

Industry Voices

Our columnists include some of the best-known thought leaders in the industry. Here are samples of their recent commentary:



Fred Barstein

"So what's the real issue for the retirement industry? The interests of the various constituents are not aligned — and sometimes they are in direct conflict. The industry is under a microscope as it enters early adulthood, looking worse than it really is while giving critics or 'haters' plenty of opportunities to take potshots."



Nevin E. Adams, JD

"There's been a lot of focus on fees lately — but fiduciaries are charged with ensuring that the fees and services rendered are reasonable. And I've never understood how you can figure out if fees are 'reasonable' if you don't know what you are paying them for."



Andrew Remo

"Labor Secretary Thomas Perez has repeatedly promised to build a big table to inform the department's fiduciary rulemaking. But the format of the public hearing amounted to two small opposing tables from which witnesses fed continuous sound bites of disparate information to the DOL staffers who will be tasked with finalizing the proposed rule in the coming months."



Christopher Carosa

"Until artificial intelligence programming advances to the levels of what today is science fiction, robo-advisors can offer nothing more than garbage out from the 'garbage' in. They may be less expensive; but, then again, how many times have you heard that you get what you pay for?"

Engage!

NAPA Net readers engage with our content and each other, commenting on our news and commentary. Here's a sampling of recent comments.

RISK MATCHING IN TDFs: "TDFs have their strengths, such as diversification, the glide path mechanism and their fiduciary-friendly qualities in auto-enrollment programs. The biggest downside is the lack of risk matching to the participant's investor temperament ... We are big proponents of offering 'Conservative,' 'Moderate' and 'Aggressive' portfolios in plans, and promoting their use in conjunction with risk tolerance worksheets. Most platforms allow this now, and few charge extra for it. Outcomes are likely to be better, during the next downturn, for those in risk-appropriate allocations."

— *Jim Phillips*

ADVISOR RFPs: "Plan sponsors need to do a better job of defining the objectives of their search, not just learning as they go through the process. They also need to avoid changing the parameters of the search in the middle of it — i.e., adding plans that were not contemplated in the original RFP, changing services required, etc., which relates to the first point."

— *Don Stone*

ACADEMIC RESEARCHERS'

PERSPECTIVE: "It baffles me how, within the rarefied air of academia, rational minds can conclude a federal defined contribution plan is the solution to under-saving. Perhaps it's because of the success of the federal Social Security plan. What's next, health care? Oh, wait..."

— *Lisa Trivette*

DECUMULATION: "In the distribution phase, with its many diverse elements, together with its increasing longevity and immediate need for flexibility, personal choice is critical to diminish the greatest risk of all: decreased spending power. That's what counts in real people's lives."

— *Kris Coffey*



BY JERRY BRAMLETT

Revenue Sharing: What's All the Hullabaloo?

Why should a plan advisor have to question and compare in order to maximize the revenue that the plan and, ultimately, the participant, receives?

Should the simple process of carving out a retail fund's expense ratio — the part that is attributed to paying for shareholder services — and paying it to the DC record keeper create a stir? Apparently so — the amount of discussion (and controversy) circulating around the subject of revenue sharing is quite astonishing.

In the early 1990s, nearly 10 years after the first 401(k) plan had been approved, like many DC record keepers at the time, I began to question why retail mutual funds were not paying their fair share of shareholder services.

My own personal enlightenment came when I was being given a tour of a mid-size mutual fund manufacturer. My guide took me to the top floor — the 16th — of the firm's headquarters, a floor dedicated entirely to equity portfolio managers. The 15th floor housed all the bond managers.

I asked about the services provided by the staff residing on floors 1 through 14, and was told that many were involved in providing corporate administrative services and securities trading. However, most of the staff on the other 14 floors were described as providing "shareholder services." My response was to inquire as to how much of a fund's typical 100 basis point fund charge went to pay for shareholder services and was told, "around 35 or 40 bps."

This visit to the fund complex resulted in our firm, in 1991, executing one of the earliest (if not the first) DC revenue sharing contracts between a fund provider and record keeper. I have no way of knowing who else in the 401(k) space was reaching the same conclusion at that time and executing similar contracts (although, after a nearly a decade of not asking, there were certainly a lot of advisors and record keepers who were beginning to question where this money was going).

The logic is simple: Since the DC record keeper is performing (for all intents and purposes) all of the shareholder services, then these dollars should be used to offset the costs of DC record keeping — if for no other reason than the fact that under ERISA no plan is allowed to pay for services not being rendered. This is exactly what happens when a mutual fund firm retains that portion of the expense ratio which would otherwise be dedicated to service retail shareholders — services that, within DC plans, are performed by the plan's record keeper, not the mutual fund company.

It took roughly another 10 years (until 2003) for nearly all revenue sharing potential to be fully integrated into DC plan pricing models. Therefore, two decades passed in which many fund companies experienced a revenue windfall, mostly at the expense of plan participants who essentially were paying a fee for a service that was not being provided — at least not by the fund provider.

In addition to the issue of who should pay revenue sharing and how much, there is also the matter of fee inequity. The fact that some funds share revenue and some do not creates a situation in which DC investors (with the same account balance) often pay a varying net amount for record keeping services.

Making sure that revenue sharing is paid to the plan record keeper is a "plan level expense negotiation" issue; correcting the fee inequity issue is an "allocation of participant expense" issue. The latter can be easily fixed through the use of simple accounting and computer programming. Despite this, for whatever reason, fee inequity issues seem to continue to baffle many plan sponsors and their advisors, who have yet to rectify the fee inequity issue.

Conclusion

The most straightforward way to evaluate what a retail mutual fund provider should pay is to benchmark their level of revenue sharing against a broad universe of "like funds." In other words, is the fund truly a retail fund? Collective investment trusts may or may not have shareholder (participant) servicing expenses baked into a fund's expenses ratio, while institutional separate accounts rarely do. The point is that the plan advisor has to question and compare in order to maximize the revenue that the plan and, ultimately, the participant, receives.

As far as rectifying fee-inequity between participants goes, one way to resolve this issue is to clearly identify what the participant is paying in terms of money management and plan record keeping. In short: unbundle the two costs and make sure everyone is paying an equitable amount.

Perhaps those plan sponsors and advisors who just find revenue sharing to be too confusing and difficult to manage should consider eliminating all retail funds from their investment lineups. With DC providers increasingly offering non-revenue sharing fund lineups, this is becoming a viable option for many plan sponsors. There is little doubt that, if no funds in a lineup have built-in shareholder servicing revenue, everything becomes a lot easier for everyone. **T**

» Jerry Bramlett, founder, president and CEO of The 401(k) Company; CEO of BenefitStreet; and founder/CEO of NextStep, is currently engaged in industry consulting.



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BY LISA GREENWALD SCHNEIDER

Opportunity X

Gen Xers are about to get serious about retirement savings, and their go-to will be their employer's DC plan.

Birthdays can be important milestones for financial planning. This year, an entire generation reaches a critical one: the oldest of Generation X turns 50.

I believe Gen Xers represent a sizeable opportunity for those in the retirement plan business.

Gen Xers are not saving for retirement as much as they should, and they know it. In Greenwald's 2014 Gen XY Financial Maturity study, two-thirds said saving for retirement was an important financial goal, and half felt they were behind.

The reason Gen Xers aren't saving more? Competing financial priorities, especially debt. Many Gen Xers are paying down their own student loans while trying to save for their children's education. They are buying homes and taking on mortgages despite credit card debt, and trying to save for their own retirement, while increasingly taking on a caregiving role for their retired parents. The average family caregiver is 49 years old — a Gen Xer, not a Baby Boomer. Gen Xers are the true "sandwich" generation. Their financial goals are multifaceted, and their debt, we can all agree, has had a negative impact on their ability to save for retirement.

To their own detriment, it seems Gen Xers have focused on one goal at a time: debt first, then retirement savings. But this is where the opportunity lies. The debt is nearly gone, or at least is becoming manageable. And most say that paying off their debt will prompt them to save more for retirement, specifically within employer-sponsored retirement plans.

Gen Xers are about to get serious about retirement savings, and their go-to will be their employer's defined contribution plan. Following debt reduction, Gen

The reason Gen Xers aren't saving more? Competing financial priorities, especially debt."


Xers say that a change in their retirement plan benefits would prompt them to save more.

Gen Xers will contribute more to their retirement plan if there is more effective in-person education; in our 2014 survey, nearly half agreed. Very few have even attempted to calculate how much they need to save for retirement, and most of those who did used an online calculator. However, if an online calculator revealed they needed \$1 million to retire, half of Gen Xers say it would prompt them to speak with a financial advisor. Half would also seek a financial advisor if they wanted advice on how balance their debt and retirement savings. Yet few Gen Xers use a financial advisor, though many hope to in the future. For some middle income and mass affluent employees, working with a financial advisor in the workplace may be the most efficient way, if not the only way, to get personalized financial advice.

Accumulation is not the only thing on Gen Xers' minds. Education for members of Generation X should focus on savings sufficiency and retirement income as well. Nine in 10 Gen Xers say that being able to maintain their lifestyle in retirement is an important goal. Majorities indicate an

interest in financial products that create a "personal pension" or provide a regular stream of income in retirement, perhaps because many Gen Xers lament that they do not have the pensions of prior generations and they worry about the future of Social Security.

One thing Gen Xers may have learned from their Social Security statements, however, is to think of retirement income as monthly payments. Showing Gen X participants a projection of what their savings can generate in retirement income has a positive impact on their contributions. Last year, the Retirement Confidence Survey calculated and showed respondents a monthly income projection based on current assets and savings levels. Six in 10 Gen Xers said the monthly income amount shown was less than expected, and 4 in 10 said the information would lead them to increase their contributions. Importantly, Gen Xers are becoming eligible for catch-up contributions, so those willing have an additional way to increase savings.

Plan sponsors and advisors play a critical role in implementing plan designs and educational and advice programs to help Gen X catch up. There is now an emerging and important opportunity with Gen X if we stop thinking these "kids" are too young to care and recognize their complex financial situations. Happy birthday, Gen X. It's time to get to work. 

» Lisa Greenwald Schneider is an AVP at Greenwald & Associates, an independent research firm specializing in research for the retirement and financial services industries.



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WARREN CORMIER

Academic Contributions to Understanding the Mind of the Participant

A roundup of the latest thinking from academics on several of the features that may drive engagement up — or down.

Dr. James Choi of Yale recently issued a white paper (online at <http://www.nber.org/papers/w21467.pdf>) reviewing the latest academic thinking on drivers of participant behavior in many key areas. To start off the paper he provided a very interesting and illustrative historical data point on the origin of pension plans:

In 13 B.C., the Roman emperor Augustus — concerned that retired veterans would revolt if they were impoverished — established a retirement benefit for all Roman soldiers. After 16 years in a legion and four years in the military reserves, legionaries would receive a one-time payment fixed at 3,000 denarii (13 times their annual salary), while centurions would receive a higher one-time amount. For most of the twentieth century, the Augustan model of using a fixed formula to determine payments to retirees was dominant among retirement benefit plans.

It is interesting that participants' (*i.e.*, Roman soldiers) wants and needs drove Augustus to invent the defined benefit plan with no required decision-making or self-direction required. Comparatively we ask for a tremendous amount of engagement from our DC participants today.

So what is some of the latest thinking from academics on several of the features that may drive engagement up — or down?

Choice Architecture

Automatic Enrollment Versus Opt-in Enrollment

First, let's look at the effects of using different enrollment methods — that is, opt-in (you have to take an action to be enrolled) versus opt-out (if you take no action you will be enrolled). Let's also combine enrollment methods with the concept of defaults and inertia. In fact, all three have to be discussed together.

Choi points out correctly that inertia in favor of the status quo is a very powerful

force to be reckoned with in the participant's mind. One of the most striking characteristics of 401(k) contribution rates is their high level of inertia at the status quo. That is, they rarely change despite all the messaging they receive to increase their rate.

First let's consider the effects of defaults. Prof. John Beshears' research concluded that higher default deferral rates (*i.e.*, 3% versus 6%) did not decrease the participation rate. I often hear this as an objection to raising the savings rate bar on participants. Furthermore, research by Profs. Richard Thaler and Shlomo Benartzi concluded that participation rates in auto-escalation rise dramatically from 27% to 83% when auto-escalation becomes the default.

The question is, why do defaults work? First, they are very easy to select (*i.e.*, do nothing in many cases). Conversely, not selecting the default requires a lot more time and mental energy on behalf of the participant.

Secondly, and perhaps as (or more) powerfully, employees often tell us that they feel a default option is a subtle clue of what the

employer thinks is the correct decision. This effect is particularly enhanced in an environment where employers tell their employees (who are typically unskilled in investing) they cannot make decisions for them. Prof. Brigitte Madrian found that employees enrolled before automatic enrollment was implemented by their employer for new hires actually had a higher probability of investing money into the default investment option than did new hires after implementation of the default. This could mean that they were using the default as a subtle hint from their employer as to the right investment decision.

Prof. Brown did a study among workers at Illinois public universities where 20% of those who were auto-enrolled in the default DB plan said they accepted the default because they took it as a recommendation from their pension administrator.

Additionally, Drs. Kahneman and Tversky argued that due to loss aversion, people may want to stay at the status quo. A person who is loss-averse feels more pain from a loss compared to the joy of an equally sized gain. If opting in is seen as the status quo, and one isn't sure about the benefits of opting out, they simply opt in. That is, the default is likely considered the reference point from which to judge all future outcomes as good or bad.

In his paper, Choi writes: "In DC plans where employees can choose their own contribution rate and there is a default, contribution rates cluster at that default. This is undesirable if the population's optimal contribution rate distribution is not tightly centered around the default."

Active Choice Enrollment

The alternative to opt in and opt out is forcing an active choice to enroll or not enroll within a time-constrained period.

Prof. Carroll completed a study of a company that required employees to actively elect a deferral rate (which could be zero) within 30 days of their initial employment. Under this regime, 69% of employees were contributing to the 401(k) plan. Subsequently, the same company moved to opt-in enrollment and the participation rate decline to 41%. However, after 30 months, the opt-in group's participation (*i.e.*, having a non-zero deferral rate), was roughly equal to the active choice group's participation rate.

Why the difference? It may be concluded

Inertia in favor of the status quo is a very powerful force to be reckoned with in the participant's mind."

that in the absence of a deadline, many eligible employees procrastinate and simply don't get around to joining the plan.

Enhanced Active Choice

There is a fourth option that needs to be considered due to its striking results in real-world testing. Prof. Punam Keller's (Dean of Innovation, Tuck/Dartmouth) application of active choice still forces one to decide to enroll or not to enroll. The important difference is that each active choice is enhanced with the stated consequences of that decision. In our field tests of Enhanced Active Choice with Dr. Keller and National Association of Retirement Plan Participants' Laurie Rowley, we have seen some fascinating outcomes. The first finding comes from simply talking to plan sponsors engaged in the field tests. That is, in our discussions with plan sponsors, a common theme is the belief that employees rarely grasp the full consequences of the decision not to enroll, or to select a low deferral rate. These plan sponsors, interestingly, want the wording of the consequences to be more aggressively worded than we initially recommend.

The second finding in just one example test is that the number of new hires (year over year with a steady flow of new employees) enrolling in the DC plan rose by 28%. And thirdly, in the same test, the percentage of participants accepting (*i.e.*, not opting out) of automatic-deferral increase rose by 600%.

The results have come not only as a result of the describing the consequences of the choices, but also including motivation by describing possible positive outcomes, as well as setting out a clear action plan to enroll that takes less than five minutes. This strategy has been matched with intuitive design of the enrollment materials that focus on one decision at a time and brings employees from

their current knowledge level to the required knowledge level necessary to make a decision. Importantly, the materials used in this technique have passed multiple compliance tests by multiple ERISA attorneys.

Peer Effects

It has always been assumed that co-workers' behavior and advice are major forces in changing employees' decisions within a DC plan. However, little has been written on the validity of this assumption.

Research conducted by Profs. Duflo and Saez found that decisions to enroll by workers in a department directly affected the decisions of other workers in the same department. Their research calculated that a 10-percentage point increase in one's co-workers' participation rate increases one's own participation probability by 2 percentage points. And just as importantly, results showed this effect is primarily caused by co-workers who are demographically alike.

In their cleverly designed experiment, Duflo and Saez gave one group of workers not participating in the DC plan \$20 to go to an employee meeting on the plan. Not surprisingly, this group was much more likely to attend the meeting (23 percentage points higher) than those not receiving the \$20. But the interesting finding is that co-workers of the workers who received the \$20 were 10% more likely to attend the employee meeting than the group that did not receive the \$20 payment. They were also more likely to actually enroll.

Obviously there is much more work to be done to understand all there is to understand about what is going on inside the mind of the participant. Perhaps research will go on for as long as there is a DC system. Many thanks are extended to Prof. Choi for assembling this white paper and for the academics making these important contributions to the body of knowledge surrounding participants. 🍷

» Warren Cormier is the president and CEO of Boston Research Technologies and author of the DCP suite of satisfaction and loyalty studies. He also is cofounder of the Rand Behavioral Finance Forum, along with Dr. Shlomo Bernartzi.



BY JANIA STOUT

Millennial Mythbusting

If we can get Millennials on the right path at an early age, imagine how many lives we could change.

Now that most of the industry has embraced the need for financial wellness, can we start to focus on the best ways to communicate with, educate and inspire the largest group of working Americans?

Millennials — those born between 1980 and 2000 (also known as Generation Y) — now make up the largest group of workers in America. At about 37% of the workforce, they have surpassed the Baby Boomers by a few percentage points.

In May 2013, *Time* magazine's cover story about the Millennial generation was titled: "The ME ME ME Generation." The author of the controversial story wrote that many of that generation are narcissistic, lazy, overconfident and entitled. (To me, though, this is quite typical of what an older generation usually says about a younger one.)

Many employers feel the same way about Millennials, and this had a big impact on the way our education programs were designed. How many times have we heard one of our HR contacts say that "these kids would never show up for 401(k) meeting"? Often this is followed by, "Why bother? They won't come, and if they do, they will be distracted looking at their smartphones or laptops and not really paying attention to what we're trying to tell them."

As a plan advisor who has been conducting education sessions for group meetings and thousands of one-on-one meetings over the course of 20 years, I have realized that there is something quite amazing about this generation.

So in the context of retirement savings and financial wellness and based on my own experience, I would like to take some time to debunk the myths that Millennials are lazy and not engaged.

Myth #1: Millennials Are Lazy

Part of the reason why this generation is accused of laziness is that they want everything at their fingertips. But I believe this is more about how comfortable they feel with technology, and therefore use apps and tools to get things done. Is that really being lazy?

I am also finding that Millennials are becoming the highest percentage of attendees at our group sessions and one-on-one meetings. One may argue that of course they would, since they represent 37% of the workforce. However, I'm seeing them represent about 65% of our attendees, and most of the time these meetings are voluntary.

Showing up for a meeting may or may not have anything to do with being lazy. But if someone takes the initiative to show up to learn more about how to help himself or herself, that person can't really be described as "retirement planning lazy." I believe that Millennials will show up if offered the chance.

Myth #2: Millennials Are Not Engaged

The question is not really *whether* Millennials are engaged, but rather *how* they engage. They have grown up in an age in which information is readily available; they love technology and like to do their own research.

Millennials also have a different outlook on what they expect from their employers and how they want to participate. This applies to the retirement plan and how you conduct educational meetings. The 16th Annual Transamerica Retirement Survey released earlier this year found that over the last five years, the average age at which Millennials start to participate in their retirement plan was much earlier than the two generations before them. They are starting at an average age of 22, versus Generation X at 26 and Boomers at about 33 years of age.

The Transamerica study also shows that the average deferral rate for Millennials is 8% over the past two years, which is slightly higher than Gen X. One could argue that auto solutions and plan design have solved for this, but either way you slice it, they are participating in retirement plans at an earlier age and at a higher rate than the generations before them.

I don't believe that millennial participants are not engaged. They just need to be able to access information quickly, have online tools to do research and be able to do things quickly and easily.

In addition, the Transamerica study found that a higher percentage of Millennials use a financial advisor for help with retirement planning than Gen Xers do. The Baby Boomers still have the top slot in this category, with about 40% using an advisor. That makes sense: Since they are near retirement, one would expect them to have a heightened interest in working with an advisor. But I was amazed to see that 34% of Millennials, versus 30% of Gen Xers, were using a financial advisor. So which generation is not engaged?

Interestingly, I think millennials might be getting heat for something that Gen Xers should own.

An Education Strategy for Millennials

So knowing what we know, either from our own experiences or from the millions of studies that have been released in the industry about Millennials, how do we design an education strategy that fits into their world? Here are four suggestions.

1. Make it Easy

Starting with plan design and investment choices, we need to be thinking about how we can put this generation in the best possible position to retire with good outcomes. Automatic enrollment at a minimum of 6% with an auto escalation feature is critical for them — they expect the employer to do it for them as a starting point. But don't underestimate the power of an in-person meeting. They care about doing the right thing and want to learn how.

If you do in-person meetings, make sure that the sign-up process for these meetings is electronic. The old-fashioned sign-up sheet in the break room is just so 2008; if that is how you go about it, you will find low participation by this generation. Announce the meetings electronically and allow for a one-click process for signing up for a one-on-one.

2. Address the Topics They Care About

Younger Millennials are worried about paying off student loan debt and want to learn how they can best tackle that debt. They also are starting to plan for families and buying houses. The best way to engage them is to build your communications and education around these topics.

3. Have Fun

We have already realized that the old, stodgy presentations with charts and graphs delivered by people in business suits is probably the worst way to engage a group of Millennials. Make sure you're dressed appropriately for the culture. Ask your client how you should present yourself.

I have found that Millennials are highly competitive. So when the onsite meetings are announced, add some sort of competition to the mix. For example, we hand out a one-pager and ask employees to check the box on some key questions. They fill these out at the group and one-on-one sessions and turn them in to HR to be entered into a drawing. This accomplishes two things: It creates a competition with a prize and it gets them to think about a few key points (or at least tries to).

The checkboxes could be something like, "Did you know the company matches up to 6% of your pay?" or "Did you know that studies show you should be saving between 10-15% of your current pay to be saving appropriately?" If they check the boxes, at least it means they took a second to read it and maybe even

tuck the information away in their minds.

And in one-on-one sessions, build in the ability for them to go online and make changes right then and there.


4. Track Your Success

We all know that in-person meetings take an enormous amount of time and resources. Why not have a great story to share with your committee — or, even better, with the workforce. For example, track the percentage of employees who made a positive change, announce that metric at your committee meetings, and show how it ties back to the committee's goals.

When something positive happens, encourage your client to share the news with employees. This will accomplish several things. First, it will show employees that their employer cares about them. And second, any employees who didn't show up for the group meeting or their one-on-one will see that their peers did; next time, they will want to be part of this good thing. Remember, Millennials are competitive and don't like to think that their peers are doing something they aren't.

Conclusion

The bottom line: More so than with any other generation, we have a great opportunity to make a difference in the lives of Millennials. Let's not look at them as many others do. If we can get them to start saving at an average of 10% now while in their 20s, we won't be having the same conversations with them that we're now having with Baby Boomers — many of whom haven't saved enough because they didn't start early enough. I always end my one-on-one sessions with Millennials with this comment: "I want to be the lady you think about when you are in your 50s and about to retire, and you say, 'Thank goodness I listened to her.'"

This generation wants to do the right thing. If we can get them on the right path at an early age, we can make a difference. Imagine how many lives we could change if we start engaging this generation now. That's a success story just waiting to happen. 

» Jania Stout is the managing director and co-founder of Fiduciary Plan Advisors at HighTower. She received the NAPA 401(k) Advisor Leadership Award in 2013, and currently serves on NAPA's Leadership Council.

FEATURE

Managing Managed Accounts

They see more 401(k) take-up, but also face hurdles

BY JUDY WARD





WE MANAGE YOUR 401K FOR YOU. No more pie charts, line graphs or nausea.”

That’s not how 401(k) participants typically hear about the option to invest in a managed account. Bloom, Inc. — the nascent RIA firm with those words on the top of its website’s home page — does not want to do things typically as an

advisor managing the accounts of 401(k) and 403(b) participants. Its website doesn’t use the phrase “managed account,” for one thing.

“The communication our clients get is radically different than the typical financial experience that has turned so many people off,” says Chris Costello, the co-founder and CEO of the Overland Park, Kan.-based company, who previously spent nearly 20 years as a wealth-management RIA. “A lot of 401(k) interfaces are intimidating, they’re confusing,” he says. Bloom utilizes robo-advisor-style technology in asking a 401(k) participant to fill out a brief questionnaire (and provide the plan record keeper’s name and the participant’s login and password information to the plan website), from which an algorithm does an analysis. Then the system makes its recommended changes to that person’s 401(k) asset allocation, and subsequently monitors and rebalances each participant’s allocation quarterly for the participant.

Bloom’s approach to using managed accounts in the 401(k) space comes at a time when managed accounts have made some headway, but also face challenges to further adoption. Advisor Jason Dagley sees some growth potential for managed accounts, particularly for late-career employees.

A managed account “could be a great opportunity for assistance with people approaching retirement,” says Dagley, president, retirement plan consulting at Alpha Squared, LLC in Alpharetta, Ga. “There is some opportunity, especially as we see a swell of the population getting closer to retirement and needing help figuring out what to do with their money.”

The communication our clients get is radically different than the typical financial experience that has turned so many people off.”

— Chris Costello, bloom, Inc.

Personalization, at a Cost

Managed accounts have picked up some momentum among mega plan sponsors as a qualified default investment alternative (QDIA), researcher Cogent Reports finds. Plans with \$500 or more in assets increased their use of managed accounts as a default from 5% in 2014 to 18% in 2015, Cogent found in its annual “DC Investment Manager Brandscape” report issued in May.

“It ties into the desire of these large employers to offer a more personalized investment for their employees,” says Linda York, a vice president at Cambridge, Mass.-based Cogent. “Managed accounts aren’t necessarily cheaper, but what they do provide is a much more personalized solution for each individual.” She says she wouldn’t be surprised to see more downmarket growth in the use of managed accounts as a QDIA among plans that have \$100 million to \$500 million in assets, or even \$50 million in assets.

Managed accounts can serve as a powerful tool for participants if they incorporate participants’ complete financial information and charge a reasonable fee, according to “Are Managed Accounts a Better QDIA? Yes, but at What Cost?”, a paper released by consultant Towers Watson in June. “A participant can get an asset allocation more tailored to that individual participant’s circumstances and not just based on that participant’s age,” says David O’Meara, a New York-based senior investment consultant at Towers Watson and one of the paper’s authors. He says sponsors also like managed accounts’ broader services for participants nearing retirement, such as personalized drawdown-strategy models and individualized suggestions on how to maximize Social Security benefits.

Managed accounts “are able to integrate the retirement-planning element with the investment strategy, which we think ought to be more ‘joined at the hip,’” he says.

But as the paper’s title makes clear, those advantages come at a cost. “Of course, you have to justify the fee,” O’Meara says. Sponsors hesitate to use managed accounts as a default in part because they question whether all participants will benefit enough to justify the higher fee, he says. “If a managed account is a default for automatic enrollment, meaning that participants have not engaged with the plan to the extent that they want to choose their investments, then they’re far less likely to engage with the managed account program and do the essential planning that’s required,” he says. “A managed account where a participant did not engage with the service is not any better than a target date fund.”

And sponsors who take a closer look sometimes find that managed accounts aren’t as closely managed as the name implies, says Matthew O’Brien, a research analyst at Media, Penn.-based investment advisor O’Brien Greene & Co. Inc. “Fund companies, banks and brokers are looking for ways to replace 12b-1 fees and revenue sharing in a way that doesn’t raise fiduciary hackles, so sometimes they slap an algorithm on top of their funds and charge 50 basis points for it as a ‘managed account,’” he says. “I’ve seen some managed accounts that aren’t really ‘managed’ — it’s just a fixed asset allocation. That is very different from a customized separate account, where you have real asset managers crafting a portfolio. That’s an account that’s really managed, not just an algorithm that puts you in a mutual fund.”

With the encouragement of Bethesda, Md.-based advisory firm AFS 401(k) Retirement Services LLC, none of its plan clients currently have managed accounts on their investment menu, as a default or option. “We made that strategic decision a couple of years ago because we lost some confidence in managed account programs,” explains Daniel Haverkos, principal and lead advisor-retirement plans. “With most of our sponsors we took a pretty hard stance in the sand and said, ‘We don’t like the additional cost for

“An investment advisor would need to partner with a technology firm to make it work, and we see that as a model moving forward.”

— David O'Meara, Towers Watson

what we see as minimal services.' In a lot of ways, they're simply layering a cost onto a target date or risk-based portfolio.”

Instead, AFS 401(k) put together risk-based model portfolios for these plans that cover a spectrum of five risk categories and that do not have any additional charge on top of the expense ratios of the underlying funds, Haverkos says. The firm couples that with education, including one-on-one sessions, to help participants with a wide range of issues that includes retirement-income planning.

Add to that the monitoring challenges these complex products pose for sponsors, and all these factors explain sponsors' hesitation about managed accounts. “At the moment we think of it as a good option to provide, and not necessarily as a default,” O'Meara says. “To the degree that the pricing becomes adjusted going forward, we could see it as a default for all participants, or as a default for participants over a certain age threshold.”

Enter the Robo-advisors?

The downward fee pressure could come if robo-advisors enter the 401(k) space, in the wake of their growth spurt in the retail market.

Financial researcher Corporate Insight, Inc. found that as of December 2014, the 11 low-cost investment-advice startups it polled advised \$19 billion in assets: \$5.1 billion under discretionary control and \$13.9 billion classified as paid investment advice. That's a 65% increase from when Corporate Insight first collected the data in April 2014, says Sean McDermott, a New York-based analyst.

“In 2014, the robo firms had their big breakthrough,” McDermott says. “They went from being written off as a fringe

movement to being taken as a force to be reckoned with.”

Robo-advisors remain a tiny part of the total asset-management market, says Michael Kitces, a partner and director of planning research at Columbia, Md.-based Pinnacle Advisory Group, Inc. and publisher of the financial planning industry blog Nerd's Eye View. “But the technology robo use is of interest to everybody,” he says. “Many established companies are very jealous of the quality of technology robo-advisors have.”

The investment philosophies and algorithms used to make investment recommendations aren't what make robo-advisors distinctive, Kitces says. “The asset-allocation solutions aren't new in any way: Their portfolios aren't materially different than what any balanced mutual fund has done for a long time,” he says. “What's different is the interface and the user experience.” Robo-advisors' technology allows for more and simpler functionality on a computer and a smartphone, he says, and the interfaces have a modern design that looks clean and efficient. Contrast that to the 401(k) space, he says, where many participants get statements that are essentially a PDF of a 20-year-old, paper-based design.

Dagley says the user-friendly technology may appeal to 401(k) participants. “We're seeing Millennials who feel very comfortable using these online systems, and that could move over to the 401(k) market if that comfort level causes people to say, ‘I want to have that same experience in my 401(k),’” he says.

But robo-advisors would face some challenges entering the 401(k) market, says Kitces. Unlike longtime 401(k) providers, he says, robo-advisors generally all use the same Apex Clearing platform to build their infrastructure. By contrast, a robo-advisor coming into the 401(k) market would have to build more expensive technology that integrates with hundreds of legacy providers, he says. Also, the retail-oriented platforms of these newcomers are not built to handle all the extra layers of record keeping and compliance needs a 401(k) plan has, he says.

“Because the barriers to entry are higher in the 401(k) space, it is going to take longer for robo-advisors to enter it,”

Kitces says. “But sooner or later, somebody will do it.”

Bloom is just beginning to try to utilize robo-advisor technology to make an impact in the 401(k) market. “We are now managing just over \$100 million in assets for 401(k) and 403(b) participants,” Costello said in late July, adding that the company started collecting assets in October 2014. “Our average client age is about 38, and the average account balance is about \$115,000.” He expects the average age and balance to decrease as it signs up more customers.

The company intends to utilize a distribution strategy that combines signing up DC plan participants directly, working with plan sponsors — including trying to become a QDIA as a managed account — and co-branding with advisors. Bloom will not be a competitor to these advisors, Costello says, since it will not take rollover IRAs or individual wealth-management accounts. “I don't believe that what we do is a threat to advisors,” he says. “They will tell you, off the record, that they don't want to work with the smaller end of the market,” referring to participants with small account balances. But the advisors definitely are interested in capturing the rollover assets, he says, which bloom enables them to do.

O'Meara foresees potential for advisors to utilize robo-advisors' more user-friendly technology in their practices. “An investment advisor would need to partner with a technology firm to make it work, and we see that as a model moving forward,” he says.

The robo-advisor technology could help advisors solve the problem of how to profitably offer managed accounts to participants with smaller balances, York says. “Advisors can drown in smaller accounts,” she says. “I see these automated solutions as more of a scalable solution in their practices, almost a benefit to advisors. If they can get people to understand the appeal of these solutions while they are Millennials and just starting out, by the time they get to their 50s and 60s and their financial situation is more complex, that is when an advisor can share his or her expertise.”

» Judy Ward is a freelance writer who specializes in covering retirement plans.

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COVER STORY

Trail Blazers



IN A
**LEAGUE
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NAPA'S TOP WOMEN ADVISORS

2015

BY JUDY WARD

Succeeding in a Male-Dominated Profession



W

hen she started in the business nearly 15 years ago, advisor Michele Casey's then-employer had only two other women working at a similar professional level as her.

"There was a reluctance [by men] to treat me as an equal," recalls Casey, now vice president at The Casey Retirement Group at Morgan Stanley in Reno, Nev. "It forced me to work harder, and I felt like I had to 'out-male' the males to get the same respect. I kind of thought that I had to be like a guy."

But Casey came to understand that she has abilities and insights as a female that can help a retirement plan advisor succeed in making a real difference. "The skill set of being nurturing and helpful and altruistic comes a little more naturally to me as a woman," she says. Rather than trying to replicate exactly what male advisors did, she says, "I realized that I wanted to take it to the next level to show that I could do it better. I was able to put that skill set into my work, and that really separated and catapulted me."

Jania Stout has run into hurdles occasionally, but she's also found clear pluses as a woman in building her career as a plan advisor. "Especially in the 401(k) space, we're definitely the minority," says Stout, Baltimore-based practice leader at Fiduciary Plan Advisors at HighTower. But, she says, "If I had to tally up the advantages and disadvantages of being a woman in this business, clearly the advantages outweigh the disadvantages."

At 26 years old, Alicia Malcolm, a Williamsville, N.Y.-based financial advisor at UBS Financial Services Inc.'s The D'Aiuto Institutional Consulting Team, already has experienced rewards and challenges of being a female plan advisor. Her sensitivity to taking time upfront to encourage sponsor prospects to talk about their motivations and concerns has contributed to solidifying these relationships for her team at UBS, and her passion for helping participants nearing retirement has also played a part in getting them on a path to a better outcome.

But Malcolm sometimes has been taken aback to see industry colleagues assume that she is knowledgeable only about the more traditionally female area of education, or seem skeptical about her contributions to winning new sponsor clients. "It used to

drive me insane. But I really came to face that, I can just prove these people wrong" as she uses her skills to build a successful career, Malcolm says. This is a tough business. Some people might have in mind what they want you to be, but you have to know what you want to do — and love it."

Eight women in the industry talked about keys to their success.

Build Your Own Network

Advisor JoanAnn Natola acknowledges, "I don't think it's an issue of sexism as much as it's an issue of networking." A strong male network still exists in the industry and it can impact who gets a sponsor's business. "I absolutely have run into cases where we were told that we were the superior firm, but because 'Joe' was a friend who played football with someone at the sponsor, we have to share the business or he gets the client," says Natola, managing partner of New York City-based Element Financial Group.

So Natola and Alexandra Levi, her fellow Element managing partner, launched and leads a couple of female-centric networks. They organize a quarterly dinner for a New York group of women business owners who get together at gourmet restaurants and discuss their business connections. "We all come with three or four referrals that we'll talk to the group about, in order to enhance each other's business," she says.

Also, Natola and Levi rent space at a New York spa once a year to host an event for 25 female business contacts, generally partner-level attorneys and CPAs. They have a speaker give an educational session for 1½ hours, then they all have spa treatments for a couple of hours. "By doing these events, we've built our own community of attorneys and CPAs, who each have built their own community," she says. "It's our form of a golf tournament — and we make no apologies. We have a high, high ratio of new clients from that network."

Networking with sponsors directly also helps. Twice a year, Malcolm puts together a half-day educational meeting The D'Aiuto Institutional Consulting Team does for employers in upstate New York. She gets client lists from providers and sends out

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“Men converse with a more linear approach. Women tend to come from a broader, more facilitating mindset that plays well with diverse groups and committees.”

— Amy Glynn, Calton & Associates



In what has long been a male-dominated profession, a growing number of women are today making significant contributions to this field. A year ago, the editorial team here committed to an acknowledgement of those contributions with the launch of the latest NAPA-Net list, NAPA's Top Women Advisors.

As with other NAPA-Net industry lists (Top DC Wholesalers/Wingmen, Top 50 Advisors Under 40), we began by asking NAPA Firm Partners to nominate candidates for this recognition. Once voting began, we also allowed for other nominations as well, ultimately receiving nearly 450 nominations and, in the weeks that followed, roughly 12,500 votes from individuals across the spectrum of the retirement industry.

Nominees were asked to respond to a series of questions, both quantitative and qualitative, about their experience and practice. Those anonymized questionnaires were then reviewed by a blue-ribbon panel of judges who, over the course of several weeks, selected the women honored in four separate categories;

All-Stars: Top producers — who have their own book

Captains: All-stars who happen to be principals, owners, team captains of their organizations.

MVPs: — Outstanding players who are part of a team.

Rising Stars: Who have less than five years of experience with retirement plans as an advisor
(some have been working with retirement plans longer, but not as an advisor)

We are pleased and proud to be able to share these results with you here — but most importantly, we commend the fine and important work that these individuals have done to help provide a better retirement for those they work with and for, now and in the years to come.

Outstanding contributors all, they are truly in a league of their own.



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500 invitations, “and I literally call every single person” to follow up and try to get at least 10 attendees, she says. The goal isn’t to immediately sign up these sponsors as clients, “but eventually, when people need something, they come to you. They remember, ‘You educated me and taught me something I didn’t know,’” she says. “You constantly need to stay in front of people, and have a pipeline.”

Develop Both Female and Male Mentors

Kelly Amato thinks back to when she started in this industry about 20 years ago, as her male counterparts got to begin building mentoring relationships while hanging out with more-senior male colleagues on golf outings or getting drinks after work. And formal mentoring programs for women “are all but absent, unless a woman is in a large organization and there’s a concerted effort to mentor young women,” remarks Amato, the Lafayette, Cal.-based director, retirement plans at NFP. In the years since, however, she’s been able to build some deep ties in the industry.

It’s crucial for a woman advisor to develop mentors — both men and women. Both have played a big role in Amy Glynn’s success. In her first job out of college, she wrote retirement plan RFP (request for proposal) responses for a major provider. “I got good exposure by doing that,” since she often had to consult with higher ranking colleagues to get information for the responses, recalls Glynn, now president of retirement services at Calton & Associates, Inc., a Tampa, Florida-based broker/dealer and investment advisory firm.

That’s how Glynn met and got hired by her first key mentor, advisor Margaret Maul. The colorful, Beverly Hills-based Maul “had her own plane, wore red mink coats, had platinum blond hair, and drank malt whiskey,” she recalls. Glynn adds that Maul also ranked, at that time, as the largest female producer in Wall Street history. From Maul, she learned everything from the nuts-and-bolts of 401(k) plan operations to the subtleties of how to talk to sponsor clients effectively. And although she knew of managers “who were so despicable in how they treated women,” she says, “I was protected, because I was working for a woman producing \$5 million a year — in today’s

“This is a tough business. Some people might have in mind what they want you to be, but you have to know what you want to do — and love it.”

— Alicia Malcolm, The D’Aiuolo Institutional Consulting Team

dollars, she probably would be a \$15 million producer.”

Years later Glynn started working on the broker/dealer side of the business at Calton, and she’s learning a lot from board member and longtime senior industry executive John Simmers. He’s coaching her on skills that range from understanding the details of a good contract to effectively reading people’s behavior in meetings. Says Glynn of her male colleague, “He has mentored and placed several of the only female CEOs at broker/dealers that this country has ever seen.”

Counter Resistance by Demonstrating Expertise

Stout only faces sexism in her work a few times a year, “and it’s usually the older generation,” she says. She recalls times when she’s met with male sponsors, and although she clearly ran the meeting, the sponsors spoke mostly to her male colleagues attending. “They’ll ask a man their questions, even though it’s something I just talked about,” she says. “And they don’t make eye contact with me.” To deal with sexism, she adds, “You have to really know your stuff, because certain people automatically think that you won’t know as much.”

As advisor Valerie Leonard says, “Men don’t always take you seriously when you’re young, female and blond.” But the cofounder and financial consultant at Birmingham, Ala.-based Grinkmeyer Leonard Financial adds, “My experience has been that as soon as you demonstrate that you’re an expert, people take you seriously. At the end of the day, everybody has a need. If you can get to a point of understanding their need, their pain point, they will take you seriously. Once they realize that you have a unique solution to their unique problems, I can’t say that being a woman has worked against me.”

Industry veteran (and NAPA Founding President) Marcy Supovitz says she’s experienced sexism very infrequently, which she thinks has a lot to do with her continuous efforts to keep herself knowledgeable about

the business. “Education is extremely valuable. The depth of your knowledge and expertise really matters,” says Supovitz, principal at Worcester, Mass.-based Boulay Donnelly & Supovitz Consulting Group, Inc. and president-elect of the American Retirement Association. “Gender becomes less and less of an issue when people can see that you have real knowledge and wisdom.”

In cases where male sponsors seem to clearly prefer dealing with a male advisor, Stout responds pragmatically. “If I sense that, I’ll make sure I arm myself with a lot of men on my team to bring to the meeting,” she says. “I won’t try to fight it: I’m not going to change somebody’s mind who has been around for 60 years. If I’m not the right fit, it’s not about me winning: It’s about really putting the client first.”

Use What Makes You Different as a Strength

In this male-dominated business, Glynn says, women inherently are distinctive. “So you learn to use it to your advantage, as a differentiator,” she says. For example, she thinks women tend to listen better than men. “Salespeople, in general, talk too much,” she says. “Men converse with a more linear approach. Women tend to come from a broader, more facilitating mindset that plays well with diverse groups and committees.”

Take time to really listen to what a sponsor says about its goals, Supovitz suggests. “Think about their business individually, what’s best for them. You constantly are fighting for the best outcome — and they see that,” she says. “Trust is gained when you have a really good understanding of a plan sponsor’s situation and the goals they are trying to achieve, as well as participants’ situation.”

Women also may tend to relate to business colleagues better as people.

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Amato decided at age 28 to open her own consulting practice (which she sold to NFP three years ago). “Going it alone was a big risk. But I think that my caring about clients as if they were family made the difference in growing my practice,” she says now. “I took on a plan to really nurture it and take care of all aspects. My male counterparts were much more transactional in their approach — it was a numbers game for them. I took a more holistic approach. I was able to examine the whole plan: from a legal perspective (she also is an attorney), its investment weaknesses, and whether participants were setting and approaching their income goals. This is an institutional business, but it is profoundly personal.”

The differences also may reflect on an advisor’s book of business and explain why men and women make great teams, Glynn says. In recent years, she helped judge an industry award for retirement plan advisors, and noticed a difference as she read submissions from men and women advisors describing how they work. Female advisors seemed to naturally gravitate to a broader book of business, she believes. “It was the women advisors who consistently focused on multifaceted demographics: They worked more often with women, same-sex couples, and both highly compensated and lower-compensated people,” she says. “We saw how women had built their practices with overarching solutions for all income levels and nurturing financial-wellness programs. We did not see these as consistently from male-driven practices, many of which are ‘performance-oriented.’”

Find the Right Work/Life Balance

Early in a career she loves, Malcolm struggles to find a work/life balance. “I have a really hard time with it,” she says. “When you love what you do, it can become your life.”

Stout can relate to that struggle as a female advisor. “I’ll be honest with you, I don’t think my challenges have been anything external. It’s been internal, from being a mother,” says Stout, a single mom with two teenage daughters. She’s asked how she has learned to make it work. “You have to be super-organized, and not be afraid to ask for help. Realize that you can’t do it all yourself,” she says.



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Leonard, who has three children age four and younger, has worked really hard to find a balance between her personal life and business life. “My kids will come to the office with me. And I work from my house quite a bit,” she says. She also has a full-time nanny, which helps.

“My life is my work, and my work is my life,” Leonard says. “I’m working if I’m with my kids at the local moon bounce and I meet somebody and start talking. You’re more social when you’re with your kids, and you’d be surprised how many times you meet business owners and executives who serve on plan investment committees.” She’s asked when she recently met a potential client in an unexpected place and says, “Last week, I was in a hot tub at the spa and got talking to the lady next to me, and it turned out she is head of benefits for a local company. I had a meeting scheduled with her within the week.”

As her career began, Casey says, she often was the first person in the office in the morning and the last one out at night,

and also put in lots of weekend hours. Over time, she figured out a better balance, but her successful career as a plan advisor has required hard work. Casey felt the pangs of guilt sometimes: She lives in an area where many women with families don’t work, and recalls that if one of her daughters had a bake-sale fundraiser at school, the other moms often contributed homemade goodies, while she sometimes had to run by a store to pick up something readymade.

But now, with her daughters 14 and 17 years old and growing into women themselves, Casey can see in their character development how they’ve benefitted from watching her build a successful career. “I love the fact that they got to see me work hard,” she says. “I taught them that if you work hard, you will get back what you put into it. In the end, the qualities they’ve learned from watching are going to take them places in their lives.” **N**

» Judy Ward is a freelance writer who specializes in covering retirement plans.

Trends Setting

Shedding light on the latest in industry and demographic trends.

BY NEVIN E. ADAMS, JD

01



Change Parse: What's driving provider changes?

A new report suggests that the plan investment menu is of growing importance in motivating — and determining provider changes by plan sponsors.

The report, by Market Strategies, International, notes that an item moving up in importance is reevaluating the investment menu, for which 45% of plan sponsors said they plan to focus in the upcoming year, up from 38% a year ago, and a full quarter of plan sponsors intend to reevaluate their plan provider in the next 12 months, up from 18% in 2014.

Looking at plan size, the report notes that the proportion of Micro plans intending to reevaluate their investment menu and their plan provider has surged from 33% in 2013 to 45% today. All told, nearly half (46%) of Small plan sponsors intend to reevaluate their investment menus in the coming year (up from 37% in 2014), while 24% of mid-sized

plans intend to reevaluate their plan provider in the next 12 months. In the report, Micro plans are defined as those with \$5 million to \$20 million in plan assets, Mid-sized range from \$20 million to \$100 million, Large from \$100 million to \$500 million, and Mega have more than \$500 million in plan assets.

DC plan sponsors continue to refine their investment lineups, with half (50%) of all plans intending to make some sort of change to their investment offering in the coming year. One-third (35%) expect to change the mix of plan investments, averaging 16 to 20 options in total, while keeping the total number of investments the same. Those inclinations vary with plan size; 55% of Small and 51% of Mid-sized plan sponsors are likely to modify their investment lineups, compared with 31% of Mega plan sponsors that intend to increase the total number of offerings. More than half (52%) of Micro plan sponsors are not planning any change.

While that the investment menu climbs the criterion list, the report also notes that, as in prior years, the primary concern of plan sponsors is ensuring the plan complies with regulations, although this is now cited by just under half (49%) of all plan sponsors as a top 3 area of focus, down from 57% in 2013, and just ahead of reducing plan costs (47%). In fact, one-in-five cite reducing plan costs as their top priority.

Both Large and Mega plans prioritize reducing plan costs, balancing this with the need to enhance participant education (Large, 47%) and to adequately prepare participants for retirement (Mega, 48%).

Disclosure Leverage

The report explains that while most (55%) of plan sponsors surveyed intend to maintain their current fee arrangements, they cited a growing minority of plan sponsors that are likely to take action. For example,

more than 4 in 10 Mid-sized and Large plan sponsors say they intend to request fee reductions from their current providers, and one-third (34%) of Large plans are likely to issue a formal RFP for recordkeeping services, up from just 21% a year ago.

As for those new fee disclosures, one third (33%) of all plan sponsors continue to use that information as a benchmarking tool, while one-quarter (25%) plan to leverage this new knowledge to negotiate for lower fees. However, among larger plans, the number intending to negotiate doubles; 48% of Mega plans say they plan to do so, and more than half (51%) of Large plans do. Additionally, nearly half (46%) of Large plans and more than one-third (35%) of Mega plans are also aiming to change some or all funds to lower-fee share classes.

Switch Criteria

Three-quarters (75%) of plan sponsors are at least somewhat likely to initiate a formal review of their current 401(k) plan over the

next 12 months, and among this subgroup, 15% say that a switch in providers is highly likely. The potential for likely turnover increases to 26% among Large plans and 21% among Mega plans.

The criterion plan sponsors report to use most often in this evaluation process is:

- 55% - quality of investment options
- 48% - plan administration fees
- 48% - range of investment options
- 46% - overall service quality for participants
- 37% - plan design features

However, once again plan size matters; service quality for participants is the top criterion cited by Large plan sponsors, and a very close second among Small and Mega plans, while Micro plans are driving the increased attention to plan design features, and Mid-sized plan sponsors express more interest this year in ease of fulfilling fiduciary responsibilities.

As for what would cause them to switch 401(k) plan providers, plan administration

fees topped the list (for the second year in a row), cited by 41% of all plan sponsors (and the top criteria for plan sponsors in all size segments). Tied for second was quality of investment options and plan investment fees (33% each), while range of investment options was cited by 30% (up from 21% in 2014).

As for the other criteria, Mega plans rate service quality for participants equally with plan administration fees, and in general, appear less fee-sensitive than their smaller-plan counterparts. Plan investment fees rank second as a reason for switching among Micro, Small and Large plans, while Mid-sized plans are more likely to switch due to the quality of the investment options.

The findings in the research paper were derived from two separate online surveys of 401(k) plan sponsors; the first conducted in February and March 2015 and the second conducted in March and April 2015 by Cogent Reports.

02



Preparation Aid?: Who is responsible for financial preparedness?

Plan sponsors may have a growing interest in financial wellness programs, but that doesn't mean they are feeling responsible for ensuring the outcomes.

A new survey finds that only 16% of employers strongly believe they have a responsibility to ensure employees' financial preparedness, though larger firms — those with at least 100 employees — are more inclined to agree than smaller firms (46% to 29%), and 45% of employers do agree (though not strongly). That said, nearly as many — one-in-four (39%) — employers disagree. Companies that have growing HR departments are also much more inclined to feel this sense of responsibility for their employees (5.9 vs. 4.9 among companies whose HR departments are staying the same size), according to the Guardian Workplace Benefits Study.

While 65% of workers strongly agree that employers have a responsibility to provide benefits and ensure financial preparedness, those who agree that their employers have a responsibility to offer benefits tend to work for larger companies with 1,000 or more

employees (52% vs. 42%) and earn incomes of \$50,000 or more (75% vs. 67%). Those categories of workers are, of course, also more likely to have access to workplace benefits. Women (79%) are also somewhat more likely than men (73%) to believe offering benefits is an employer's responsibility.

That said, employees continue to report their benefits play a major role in how financially secure they feel; and 42% suggest they rely on their benefits for all or most of their financial preparedness. The report's authors suggest that reliance on benefits is perhaps leading many employees to believe employers have a responsibility to provide core benefits. Employers, however, don't necessarily view benefits in the same way and may be underestimating employees' positive views.

In fact, according to the report, most employers underestimate the impact of benefits on employees' overall financial security. Employees place greater weight on their benefits in this regard (65%) compared to employers (54%).

Small employers, with five to 49 employees, appear to have a strong understanding of how their employees feel about their benefits overall (just a 4-point gap with employee perspectives). However, larger employers — especially those with 5,000 or more employees — dramatically underestimate employee satisfaction with their benefits (a 28-point gap).

The Guardian Workplace Benefits Study was conducted for Guardian by Greenwald & Associates, an independent market research firm located in Washington, D.C.



03



Small Stuff: How small plans are different — and not.

In many respects, small plans mirror, or in some cases, echo by several years, the structures of larger plans — but a new report suggests that a majority of smaller plans are reenrolling participants into a qualified default investment alternative when converting.

Among smaller plans — at least those covered by the Vanguard Retirement Plan Access (VRPA) offering, launched in 2011, and designed for retirement plans with up to \$20-plus million in assets — 7 in 10 plans reenrolled participants to a QDIA at conversion and 95% using this strategy reenrolled to a target-date fund.

Size Differences

Additionally, according to the small business edition of Vanguard's *How America Saves* report VRPA plans were more likely to offer target-date funds (97% compared with 88%, among the broader Vanguard record-keeping client base), and their participants were more likely to use TDFs when offered (73% versus 66%). Smaller plans were considerably more likely to have designated a qualified default investment alternative (QDIA) than their larger brethren (98% versus 71%), and more likely to offer a Roth option (75% versus 56%).

However, they were considerably less likely to allow immediate eligibility for employee contributions (23% compared with 58%), and automatic enrollment (18% versus 36%), though participation rates, availability (and take up) of Roth, catch-up and average deferral rates were comparable.

Compared with the larger Vanguard based of recordkeeping clients, smaller plans had much smaller average and median balances (\$53,959 and \$9,601, compared with \$102,682 and \$29,603, respectively).

Automatic Enrollments

As of December 2014, one-fifth of VRPA plans permitting employee-elective deferrals had adopted automatic enrollment. Six in 10 of these plans automatically enroll participants at a 3% contribution rate. Four in 10 of these plans automatically increase the contribution rate annually. Nearly all of these plans use a target-date or other balanced investment

strategy as the default fund, with 95% choosing a target-date fund as the default.

Forty-three percent of VRPA plans provided only a matching contribution in 2014. Nine percent of plans provided both a matching and a nonmatching employer contribution. One in five plans provided only a nonmatching employer contribution. Finally, 28% of plans made no employer contributions of any kind in 2014.

Six in 10 VRPA plans with an employer contribution had adopted a safe harbor design, most commonly a safe harbor match with a value of 4% on up to the first 5% of employee contributions (42% of safe harbor plans). One in 10 VRPA plans provided a safe harbor match with a value greater than 4% on up to the first 6% of employee contributions. About half of VRPA plans adopted a safe harbor nonelective employer contribution with a 3% value or higher.

Various studies have shown that income is one of the primary determinants of plan participation rates, and indeed the Vanguard report notes that, while about half of eligible employees with income of less than \$30,000 contributed to their employer's DC plan in 2014, 86% of employees with income of more than \$100,000 elected to participate. Even among the highest-paid employees, 14% of eligible workers still failed to take advantage of their employer's DC plan.

Deferral Rates

Participation rates were lowest for employees younger than 25; only 48% of employees younger than 25 made deferrals to their employer's plan in 2014, while about 7 in 10 eligible employees between ages 45 and 64 did. In 2014, deferral rates were lowest for participants younger than 25. This group saved only 4.8% of income. Deferral rates for participants ages 55 to 64 were about 75% higher, averaging 8.5%. Deferral rates also rose directly with employee tenure, and tenure also had a significant influence on plan participation; in 2014, only 6 in 10 eligible employees with less than two years on the job participated in their employer's plan, compared with 8 in 10 employees with tenure of 10 years or more.


In 2014, participants with incomes between \$30,000 and \$49,999 had deferral rates averaging 5.4%, while participants earning \$75,000 to \$99,999 had deferral rates of 7.7%, about 40% higher. Deferral rates were 7.8% for participants earning \$100,000 or more. Participants in the VRPA population earning less than \$30,000 have higher deferral rates averaging 6.3%, though a minority of these participants (2%) have very high deferral rates. Excluding participants deferring more than 50%, Vanguard found that participants earning less than \$30,000 had deferral rates averaging 4.8%.

Nearly all VRPA plans offered catch-up contributions in 2014, though only 18% of age-50-and-older participants eligible for catch-up contributions took advantage of this feature in 2014. Similarly, while at year-end 2014, the Roth feature was offered by three-quarters of VRPA plans, it had only been adopted by 14% of participants in plans offering the feature.

The average VRPA plan offered 20.1 investment options in 2014 and, counting a target-date series as a single fund offering, the median plan sponsor offered 20 investment options in 2014. In 2014, one in five plans offered more than 25 distinct investment options, while 7% of plans offered 10 or fewer. On average, VRPA plan participants used 2.7 funds and the typical participant held just one fund (remember that the researchers count each target-date fund used as a separate fund).

Loans

In 2014, 71% of VRPA 401(k) plans permitted participants to borrow from their plan and 82% of participants had access to a loan feature. That said, only 9% of VRPA participants offered a loan had a loan outstanding at year-end 2014.

On average, the outstanding loan account balance equaled 12% of the participant's account balance including the loan, and the average participant had borrowed about \$8,400. 



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BY STEFF C. CHALK

The Advent of the Chief Retirement Officer

It's time to recognize the CRO as a strategic contributor to the well-being of the 401(k) plan sponsor and each plan participant.

It is not often that life offers a true do-over in an area where things matter. In the game of tennis, for example, when the net is scraped during the initial second serve and the ball lands in the appropriate service box, both the strong and the lucky are rewarded with a second chance to get a second “in.” That’s clearly a second chance, but unless one is playing Tour Tennis, getting one more serve is hardly something that matters very much.

Here’s something that does matter: rebooting 401(k) participant education.

Half a Million Hits in 20/100ths of a Second

Googling “401(k) failure” returns just under half a million hits; if the word “education” is added, the number of hits climbs to over 580,000. Opinions are varied and plentiful regarding how and why education efforts have failed most 401(k) plan participants. So let’s begin with the conclusion that something must change.

The key question is, where does retirement education need to go from here?

Enter the CRO

Retirement plan sponsors that want to make a positive impact for both the firm and their employees through effective oversight of their plan can now pursue a new way of achieving those goals: by adding a Chief Retirement Officer (CRO).

The position is unknown to most organizations, of course, and the CRO’s job functions are not yet household words. In fact, the position currently exists in only a handful of forward-thinking companies that recognize the benefits associated with preparing participants for an orderly separation of service at normal retirement age.

A major role of the CRO is that of

negotiator. The CRO as negotiator is responsible for the prudent oversight of fees, services and all plan related expenses. A committee provides multiple viewpoints — but a CRO firmly identifies the responsible party within

Opinions are varied and plentiful regarding how and why education efforts have failed most 401(k) plan participants.”

a company who is required to make certain that the best share class of an investment is utilized for the benefit of all participants. The presence of a “professional purchaser” — and even a formal, written expense policy — may have saved a lot of time and trouble in the case of *Tibble vs. Edison*. The CRO’s negotiator role should be thought of as a strategic one in addition to a functional one.


A second role of the CRO should be a communications specialist. The CRO should deliver very specific messages to plan participants, starting with the touchstone messages of Thayer and Bernartzi: “Save More Today” and “Save More Tomorrow.”

The CRO’s communications role may also include being (or overseeing) an onsite Certified Financial Planner (CFP) or other financial designation holder. The designation holder in this instance would not sell securities, of course; certainly, it would be a mistake

to open the door for an individual in that position to “give advice” absent the compliance-induced muzzle that normally constrains conversations with plan participants about savings and retirement. Rather, this person would be a readily accessible internal resource to which a plan participant could turn for a meaningful answer — at last — to the question, “What should I do?”

How about tying pay to performance? Would it make sense to compensate the CRO based upon successfully preparing a workforce for retirement? How about basing the CRO’s compensation on the percentage of a workforce that is on track to retire at or near normal retirement age, or perhaps upon the number of employees who are ready to retire in any given year, or upon income replacement ratios pre-retirement?

Participant Education 2.0

The costs and expenses associated with retaining an uninspired workforce go well beyond lost productivity and an inferior work product. It’s time to recognize the Chief Retirement Officer as a strategic contributor to the well-being of each plan participant and the sponsoring company. The retirement industry can ill afford to double-fault on Participant Education 2.0. 

» Steff C. Chalk is the executive director of The Retirement Advisor University (TRAU) and The Plan Sponsor University (TPSU).



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BY DAVID N. LEVINE

What Do Plan Sponsors Ask About Advisors?

Explaining and showing your value proposition and distinguishing skills and resources on an ongoing basis can make a big difference.

For months on end, we've all been focused on the Department of Labor's "conflict of interest" rule. To break things up a little, in this column let's go back to basics, with a focus on the relationship between a service provider (including an advisor) and a plan sponsor.

For many of us, the past 15 to 20 years has been a period of rapid growth, transitioning from an era in which few plans had an advisor to a world in which there are fewer and fewer "advisor-less" clients.

When counseling plan sponsors of all sizes, I often work in collaboration with advisors in assisting our common clients on their day-to-day design, compliance and investment needs. However, on some days, I'm asked to sit down with a plan sponsor to discuss their service provider world. While each client is unique, I have often heard variations of the following questions when the topic of advisors comes up.

- **Does it make a difference which advisor I use?** Those of us who work in the land of advisors on a daily basis know that each advisor and his or her practice is unique. Each has a different style, approach and, to borrow a phrase from the DCIO community, "value add" propositions. Some advisors do investment services only; others manage money themselves; and still others do investment education and advice. Advisors should try to avoid complacency and highlight what makes them unique — and not just when the advisor RFP process comes around, as it inevitably does.
- **Why does my advisor charge me more than other advisors who have been contacting me?** This question often follows the question above. When choosing investments, cost is not always the only factor to consider — and that same rule


“As our industry comes closer and closer to saturation, competition is bound to increase.”

applies to selecting an advisor. Explaining and showing your value proposition and distinguishing skills and resources on an ongoing basis can make a big difference. While some plan sponsors may want the cheapest option, there are many who just want the comfort of knowing that they are getting the right value for what they are paying. Don't take that understanding for granted.

- **Why is my advisor suggesting/offering all these extra services?** Many advisors are now offering additional services, such as 3(38) services of all flavors and sizes and investment advice services, to their clients. Often, these services are designed to help plan sponsors fulfill their business objectives (such as through education of their employees) or fiduciary duties (such as through 3(38) services). However, in some cases, they are presented in a way that just seems to plan sponsors like an effort to increase amounts paid to the advisor — which can trigger concerns about conflicts of interest. If you are expanding your service offerings, make sure you communicate the reasoning behind your suggestion to a plan sponsor client. It can make a world of difference.

These may seem like common sense questions with common sense answers, but it is easy to forget their importance. As service providers of all stripes, we live in a world of

convergence of services where record keepers, TPAs, accountants, advisors and lawyers are providing services that can be complementary and competitive at the same time. As our industry comes closer and closer to saturation, competition is bound to increase. Furthermore, in the modern world of fee disclosure, it is easy to simply look at bottom line cost to make a decision. And the proposed conflict of interest rule may further accelerate the focus on bottom line costs.

So where does an advisor go from here? In my book, it seems that all that is old becomes new again. The services advisors provide may evolve — those fancy scorecards of the late '90s and early 2000s are commonplace now — but relationships with plan sponsors remain key. Explain why you are a strong business partner and what you bring to the table in terms of value because, in the end, when the questions are asked behind closed doors, it seems that communication and support, no matter the change in products or technology, is what so often matters most. 

» David N. Levine is a principal with the Groom Law Group, Chartered, in Washington, DC.

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BY DONALD B. TRONE

A Decisionmaking Framework Your Clients Can Use Every Day

To inspire and engage your clients, teach them one universal decisionmaking framework they can use every single day.

- T**here are three reasons why your clients hate “fiduciary”:
1. No matter how you present the subject, you’re going to be talking about liability, responsibility and risk. Instead, learn how to communicate with your clients in terms of leadership and stewardship.
 2. A corollary to the first point: When you communicate in complex and analytical terms, such as when you’re talking about fiduciary responsibility, you’re going to be producing in clients the hormone cortisol — the “fight-or-flight” hormone. Cortisol is an inhibitor to the creation of oxytocin, dopamine and serotonin, the hormones that are essential for the feelings associated with leadership, stewardship and security. You can’t build client trust and loyalty by only talking about fiduciary responsibility.
 3. Clients don’t use the fiduciary decision-

making framework often enough to master the process. As a result, they become frustrated and feel that they’re always on the back side of the learning curve. Try doing anything only four times a year and see if you ever become proficient.

In past columns I have written about the first two points; in this column I’m going to focus on the third. To inspire and engage your clients, teach them one universal decisionmaking framework they can use every single day to run their division or department, company, board of directors meetings or 401(k) investment committee meetings.

Lessons from Katrina

What should a universal decisionmaking framework look like? We can learn several important lessons by studying Hurricane Katrina.

This year marks the 10th anniversary of Katrina, which slammed into New

Orleans on Aug. 29, 2005. The U.S. Coast Guard rescued 24,500 people during the first nine days of the crisis, and was one of the few government agencies to put up an appropriate response. Following the crisis, Congress held hearings to try to determine why the Coast Guard got it right and why most other first responders failed. Here are the three most salient findings from the hearings:

1. Simple is preferable to complex when dealing in a dynamic, ever-changing environment. Nearly all government agencies had thick manuals containing hurricane policies and procedures manuals. The problem was that they were too complex and dependent upon a working communications and transportation infrastructure. When the infrastructure collapsed, so did the plans.
2. Under duress, one will fall to the level to which one has been trained. The manag-

ers of many of the government agencies had not personally participated in drills and training programs. As the crisis unfolded, managers lacked the courage and confidence to act decisively.

3. Agencies lacked a defined ethos. Ethos is an ancient Greek word that means the consistency, balance and continuum of three elements: behavior, core values and a defined decisionmaking framework. When hell breaks loose, a person with a well-defined ethos knows how to greet the devil.

The Coast Guard succeeded in its response to Katrina because it had a well-defined ethos, and crews were well-trained to respond to emergencies using relatively simple, standardized decisionmaking procedures that were practiced nearly every day.

Now think about the attributes of Starbucks, Google, Apple, Amazon, Chick-Fil-A, Southwest, Nordstrom and The Ritz, to name a few great companies. What do they all share in common? The answer: A well-defined ethos, relatively simple decision making procedures and a commitment to excellence through training.

So, do you think your plan sponsors would prefer to talk about the differences between 3(38) and 3(21) — yet again? Or to study, practice and learn how to apply the details of a universal decisionmaking framework that could be essential to the plan sponsor's success? Which would your clients like to learn about more — being a great fiduciary or being a great leader?

Keep in mind that we're still going to accomplish everything on your fiduciary checklist. It's just that we're going to present the topics as leadership, stewardship and governance opportunities — not fiduciary responsibilities.

A Universal Decisionmaking Framework

The framework I am going to share with you has three characteristics:

1. Though we're not going to use "fiduciary" to describe this framework, appreciate the fact that the exercise of the framework will help plan sponsors to demonstrate their procedural prudence. Every dimension of the framework is fully substantiated by ERISA and DOL regulations, regulatory opinion letters and bulletins and case law.

2. The framework is truly universal. It can be used to train any leader who has legal, financial, moral or professional responsibility for their decisionmaking process. And the framework can be used to train leaders from any industry sector or domain (corporate, not-for-profit, government and military).

3. It can be fully integrated with leadership tenets and stewardship attributes. It is the integration of leadership, stewardship with governance (a decisionmaking framework) that defines a great ethos.

Our universal framework has five steps and 17 dimensions. Dimensions provide the details to a step. Think of the framework as a checklist. The liability most key decisionmakers face is a result of omission, as opposed to commission — it's not what the decisionmaker did, but rather what the decisionmaker failed to do. Having a defined framework helps to ensure that the key elements of a strategy or plan are not omitted.

As a retirement professional, you'll initially see the framework through the lens of an ERISA fiduciary: as a way to satisfy the requirements of procedural prudence. But what if you decided to start your own company, and you needed to provide potential investors a business plan? Or you're involved with a community foundation, and the board of directors is bogged down in discussions that contribute little to the long-term success of the organization. Or your plan sponsor client has seen a material drop in earnings and is trying to analyze the reasons why. Any time there is a need to assess a critical decision, or to demonstrate the details of a prudent process, the following framework can be utilized.

Step 1: Analyze

- 1.1 State goals and objectives
- 1.2 Define roles and responsibilities of decisionmakers
- 1.3 Brief decisionmakers on objectives, standards, policies and regulations

Step 2: Strategize ("RATE")

- 2.1 R – Identify sources and levels of risk
- 2.2 A – Identify assets
- 2.3 T – Identify time horizons
- 2.4 E – Identify expected outcomes

Step 3: Formalize

- 3.1 Define the strategy that is consistent with RATE
- 3.2 Ensure the strategy is consistent with implementation and monitoring constraints
- 3.3 Formalize the strategy in detail and communicate

Step 4: Implement

- 4.1 Define the process for selecting key personnel to implement
- 4.2 Define the process for selecting tools, methodologies and budgets to implement the strategy
- 4.3 Ensure that service agreements and contracts do not contain provisions which conflicts with objectives

Step 5: Monitor

- 5.1 Prepare periodic reports that compare performance with objectives
- 5.2 Prepare periodic reports that analyze costs, or ROI, with objectives
- 5.3 Conduct periodic examinations for conflicts of interest and self-dealing, and breaches of a code of ethics
- 5.4 Prepare periodic qualitative reviews or performance reviews of decisionmakers

Conclusion

There you go — simple (175 words) and universal. This one framework can be used to define a decisionmaking framework for anyone who has legal, financial, moral or professional responsibility for their decisionmaking process. It's a process your clients can use every single day and doesn't require a mastery of the fiduciary or portfolio management lexicon. It's a framework that is essential to inspiring and engaging others. 🌟

» Don Trone, GFS® is the CEO and co-founder of 3ethos. He also founded and was president of the Foundation for Fiduciary Studies, and was the principal founder and first CEO of fi360. Don is the author of 12 books, including his most recent, *LeaderMetrics®*, co-authored with Mary Lou Wattman, GFS®.



BY FRED BARSTEIN

Nothing is Hard

Delivering “nothing” can be hard — but if you can minimize costs, liability and work, then it becomes easier to focus on outcomes and participants.

What do plan sponsors really want from their DC plan? The honest answer today, unfortunately, is nothing. They would like no costs, no work and no liability. For plan advisors dedicated to improving outcomes and working with plan participants, this reality can be disheartening. But in order to change things, first you have to be realistic. So delivering “nothing” can be hard — but if you can minimize costs, liability and work, then it becomes easier to focus on outcomes and participants.

Obviously, what plan sponsors want depends on the size and type of plan and company. For example, 403(b) plans will usually care more about people than for-profit entities do. But even deeper, the answer depends on the role of the executive:

- HR managers care about people
- Finance cares about costs
- CEOs/COOs care about liability

So it’s important to focus on different issues depending on the executive you’re working with. For small and mid-sized companies, HR and benefits play the major role. CFOs often don’t want to or see the need to get involved. The industry and sympathetic HR executives care far more about outcomes than the CFO does because we have done a terrible job of showing how a bad DC plan, where people cannot retire on time, will cost the company real dollars in the form of increased health care costs, disability, absenteeism, PTO and salary — not to mention productivity and succession planning.

Plan sponsors have a Maslow Hierarchy approach to their DC plan which, simply put, includes:

1. Survival or Safety — compliance and liability
 2. Belonging — best practices
 3. Self-Actualization — outcomes
- They want to make sure they will not be fined or sued, and they want to know what others like them are doing (the so-called “herd” mentality). Only then will they be willing to focus on outcomes. Getting the CFO engaged and on board is the single biggest missing element to helping plans focus on outcomes.

So how can an advisor use this information to sell more plans and help clients? First, we need a better understanding of the HR community. Most of them have 10 jobs, of which retirement plans are just one, and almost none of them have been properly trained. They tend to be middle-aged women fighting for relevance and recognition within their organizations. If advisors treat them like roadblocks, looking only to get to the CFO or other decision makers, the job is nearly impossible. But if they are treated with respect, HR executives can be valuable internal sales people.


Next, get involved with local associations. For example, while SHRM is huge — with 280,000 members — there are 40 local SHRM chapters and other associations hungry for speakers, content and members. Offering to help recruit clients to a local association will distinguish an advisor looking for exposure to the group’s members.

After over 100 TPSU programs in just over two years, here’s what we learned that plan sponsors want from their advisor:

1. Simply the plan and the industry for them
2. Be transparent about your role and fees
3. Education and financial wellness
4. Be a thought leader

“If all that plan sponsors care about are fees, funds and fiduciary, the real value of experienced, dedicated and passionate plan advisors will be minimized.”

It’s not enough to have satisfied clients. You want raving fans that proactively promote you. What percentage of your clients are raving fans? Some say that time is an illusion, which is true when you consider how quickly you can close a plan when there is more trust involved. Leveraging centers of influence and client referrals is infinitely better than cold calling and third-party lead generation.

Delivering nothing can be hard, but it’s getting easier as out of pocket costs have been lowered, advisors that are part of teams are taking over a lot of the work and best practices as well as outsourcing will minimize liability. So after delivering “nothing,” nothing is hard, even helping to improve outcomes. Because if all that plan sponsors care about are fees, funds and fiduciary, then the death spiral of lower advisory fees will only continue and the real value of experienced, dedicated and passionate plan advisors will be minimized. 

» Fred Barstein is the founder of The Retirement Advisor University (TRAU) and The Plan Sponsor University (TPSU). He serves as NAPA’s Industry Ambassador.



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Case(s) in Point

In this issue, two cases in which legal precedents weren't, and another where a failure to follow instructions resulted in a loss with no damages.

BY NEVIN E. ADAMS, JD



CASE 1: DAMAGED 'GOODS'

Revenue-sharing case closes with a whimper, not a bang

In a finding that illustrates the importance of procedure, as well as prudence, plan fiduciaries were found to have breached their fiduciary duties, but paid no damages.

On remand, the district court in *Tussey v. ABB* ruled on the issues remanded from the 8th Circuit's mixed 2014 decision. In the most recent iteration (the ABB case was initially filed in 2006; the district court issued its ruling in 2012), the court found the ABB defendants breached their ERISA fiduciary duties when making a fund menu mapping change — but since the plaintiffs failed to provide damages calculations consistent with the 8th Circuit's narrow mandate, gave the “win” to the defendants.

More Likely Than Not

The district court found it “...more likely than not that ABB decided to remove the Wellington Fund and map its assets into the Fidelity Freedom Funds to benefit ABB,” though it admitted that it couldn't establish that this was the sole motivation. That said, the court found “...too many coincidences to make the beneficial outcome for ABB serendipitous, particularly considering the

powerful draw of self-interest when transactions are occurring out of sight and are unlikely to ever be discovered.”

Specifically, the court acknowledged that “Lifestyle funds were coming into vogue at this time and the Wellington Fund had a short period when it did not perform as well as it had previously. However, given the procedural irregularities including the strong performance of the Wellington Fund during the time period specifically identified in the IPS, ABB's inconsistent explanations for removing the Wellington Fund and mapping its assets to Fidelity Freedom Funds, the fact that ABB took a substantial part of the PRISM Plan's assets and put them in an investment that was so new that ABB needed to make an exception to the IPS, and Fidelity's explicit offer to give ABB a better deal if the Wellington assets were mapped into the Fidelity Freedom Funds, the Court is confident that ABB was conflicted when it chose to take the Wellington Fund assets and put them into the Fidelity Freedom Funds.”

However, when it came to damages, the 8th U.S. Circuit Court of Appeals had left some fairly specific directions on how that was to be calculated — basically an assumption that if the plan had not swapped the

Wellington Fund for the Fidelity fund that the participants who had been invested in the Wellington Fund would have stayed in that fund for the whole period in question — and comparing the difference between that result, and their actual return.

Plaintiffs took issue with this approach — maintaining that precedent dictated that the proper measure of damages would be an assumption that the funds would have been invested in the most profitable of the alternative, with the plan fiduciary bearing the burden of proving that the fund would have earned less than this amount.

To this the district court noted that, even if it were to assume that the performance of the alternative target fund that had the highest rate of return would be the proper measure of damages, “Plaintiffs have presented no evidence of what that figure would be.” Moreover, “given that the Eighth Circuit has suggested a measure of damages, the Court finds that measure persuasive and Plaintiffs have failed to present evidence of the only measure of damages that the Eighth Circuit has tacitly approved.”



CASE 2: PREDICT 'SHUN'

11th Circuit: Fiduciaries not liable for failing to predict stock performance

The U.S. Supreme Court may have set aside the presumption of prudence, but it's still no slam dunk for plaintiffs in stock drop cases.

The most recent example came in the 11th Circuit's affirmed dismissal of ERISA breach of fiduciary claims in *Dennis Smith v. Delta Airlines Inc., et al.* Plaintiff Dennis Smith was a participant in the Delta Family-Care Savings Plan, which offered Delta stock as an investment option. Smith's account balance declined when the price of Delta stock dropped between 2000 and 2004, so he sued the Delta plan fiduciaries in March 2005, alleging, among other things, that they imprudently continued to allow participants to invest in the stock, despite the company's poor financial performance and questions about its ability to survive.

The district court originally dismissed the complaint for failure to state a claim, and the 11th Circuit affirmed. Then the Supreme Court ruled in *Fifth Third Bancorp v. Dudenhoefter* that the so-called "presumption of prudence" that had led to many of these stock-drop cases being dismissed wasn't quite so inviolate after all. So plaintiff Smith decided to take his case to a higher court, filing a petition for writ of certiorari with the U.S. Supreme Court, which vacated the 11th Circuit's ruling, and remanded for further consideration in light of the *Dudenhoefter* ruling.

On remand, the district court again dismissed the claims and the 11th Circuit again affirmed. In its ruling, the 11th Circuit referenced *Dudenhoefter's* finding that "allegations based on 'over- or undervaluing the stock are implausible as a general rule, at least in the absence of special circumstances,"

concluding that Smith's claim before it was just the type of claim that the Supreme Court would deem "implausible," particularly since Smith had not alleged that the fiduciaries "had material inside information about Delta's financial condition that was not disclosed to the market" or the existence of a special circumstance, such as fraud or other improper conduct, that would render reliance on the market price imprudent.

"Absent such circumstances, the Delta fiduciaries cannot be held liable for failing to predict the future performance of the airline's stock," the 11th Circuit wrote. "Thus, while Fifth Third may have changed the legal analysis of our prior decision, it does not alter the outcome."

The case is *Smith v. Delta Air Lines*, 2015 U.S. App. LEXIS 13165 (11th Cir. July 29, 2015) (unpublished).



CASE 3: TIME 'PASSAGES'

Court finds *Tibble* no precedent for stock drop case

Asked to reconsider a decision regarding fiduciary review in the wake of *Tibble v. Edison*, a district court found no reason to do so.

The case, *In re Citigroup ERISA Litig.*, No. 11 CV 7672 JGK, ___F.Supp.3d___, 2015 WL 4071893 (S.D.N.Y. July 6, 2015), brought in the United States District Court, Southern District of New York, was a stock drop case brought against Citigroup.

During the subprime mortgage crisis of 2008, the price of Citigroup Inc. ("Citigroup") stock dropped precipitously, while the Citigroup 401(k) Plan (the "Citigroup Plan") and the Citibuilder 401(k) Plan for Puerto Rico (the "Citibuilder Plan") required that the plans include an option to allow employees to invest in the Citigroup Common Stock Fund, which was invested in Citigroup common stock. The plaintiffs, participants and beneficiaries of the plans, claimed that the various defendants were responsible for the plans' investments and


breached their fiduciary duties by failing to limit the plans' investments in Citigroup common stock.

The court had already dismissed their claims as time-barred, and on a failure to show any special circumstances that would have made it imprudent for the defendants to rely on market valuations of Citigroup common stock. However, in the wake of *Tibble v. Edison*, the plaintiffs argued that the Supreme Court's decision there compelled reconsideration of the determination that their claims were time-barred.

However, an by Springer & Roberts LLP notes that here the court found that *Tibble* has little in common with this case since it did not concern ESOPs or the duties of fiduciaries faced with a drop in the price of company stock held by such plans.

The court noted that ERISA's statute of limitations bars a claim after "the earlier of" (1) six years after "the date of the last action which constituted a part of the breach or violation ..." or (2) "three years after the earliest date on which the plaintiff had actual knowl-

edge of the breach of violation," and that *Tibble* only addressed the six-year statute of limitations.

In the Citigroup case, the court dismissed the claims based on the three-year statute of limitations because it found that plaintiffs acquired actual knowledge of the alleged violations more than three years before they filed the complaint. Additionally, the court noted that *Tibble's* reaffirmation of ERISA's reliance on trust law did not involve claims based on a drop in an employer's stock price. Ultimately, the court concluded that the plaintiffs had not shown any change in controlling law that warranted reconsideration of the court's prior opinion. 

Firing Lines

NAPA-Net readers weigh in on the client firing ‘experience.’

BY NEVIN E. ADAMS, JD

Most of the respondents to a recent NAPA Net reader poll have fired clients — though not for the same reason(s), and not in the same way(s). In mid-August we asked NAPA-Net readers to share their insights and experience with terminating relationships with clients. Respondents to the poll were a seasoned bunch — just under 80% had 15 years or more of workplace retirement plan experience under their belts. With that much experience, it was perhaps not surprising that just under 95% had fired clients (nearly three-quarters had fired more than one) — and that the remaining 5% fell into the “no, but I should have” category. Breaking down the data, roughly 48% said they had fired between 2 and 5 clients, while another one-in-five (21%) had terminated 6-10 relationships, and 5% more than 10.

Firing “Lines”

As for the reasons behind that action, half attributed it to issues with fees/profitability, one in five said their client refused to follow their advice, and a similar number said it

was because those clients “refused to comply with the law.” The remaining 10% said those clients refused to comply with the plan document.

Of course, those selections don’t do justice to the actual experiences. As one explained, “they refused to follow my advice, they refused to comply with the plan document and they refused to comply with the law. Because of that, the plans were high risk, and overall, the relationships not profitable.”

A refusal to provide timely information was noted by several respondents — as was significant delays in paying their bills. As one reader noted, “They wouldn’t respond to requests, and when matters came to a head, they blew up and yelled and cursed at me,”

“I couldn’t get them to respond to my emails or phone calls,” noted another. “I had signed on as a nondiscretionary RIA, and due to their inaccessibility to me, I was unable to get them to approve various changes that I recommended. Ultimately, I decided there was too much liability (and frustration — life’s too short!) for me to continue trying to get them to cooperate.”

And of course, with multiple client termi-

nations, there were multiple reasons; “Fired for refusing to follow advice and refusing to provide requested information,” observed one reader, who also had “one fired for refusing to comply with the law. The owner later appeared in the newspaper with a multiple count Medicare fraud indictment.” Additionally that reader fired another “...because they completely stopped responding to our information requests,” and another “...because of the abusive behavior of their CFO towards our firm.”

Another reader who terminated a client who refused to follow their advice noted that the client was also becoming unprofitable. “They were smaller plans that were outside TPA, who was doing a poor job too. We ended up having to do a lot of the TPA’s job e.g. notices,” they said.

Still another reader said they had terminated clients for “All of the above — the client was smallish and the fees were low because the client had a credit line with the bank I worked for so our department was the loss leader. This was a long term client and the father owned the business; he retired; and left it to his son who ran the business into the ground

(substance abuse problems, several arrests). It started with amendments to the plan increasing the number loans and in-service withdrawal provisions primarily so the son/owner could get at his money in the plan. After he tapped all of his funds the payroll submissions were submitted late then became nonexistent (son directed payroll to not send files) the last few months prior to resigning. Loans fell into delinquency. The fees typically paid the employer became late and pursuant to the trust agreement were assessed against the trust. I decided to start copying the father (because he would periodically call to express frustration when the trust was hit because of an unpaid fee) but never addressed the issues. During this time (well over a year) a departmental civil war of sorts was taking place: the trust department wanted to fire the client but lending (who in our world “owned” the client wanted to retain them. Once the revolving credit line started experience some issues I was granted permission to resign but by then lot of damage was done.” One reader cited a firing “...because the management team created an adversarial atmosphere, most often in open participant meetings; always assuming everything was the advisors’ fault, including a puny match and operational failures.”

The Problems Emerge...

In most cases, the problem emerged about a year into the relationship with the client — or did for 61% of this week’s respondents. On the other hand, for about 8% the problem emerged after the first committee meeting — and for 31%, it was evident “almost immediately.” For one reader’s situation, the awareness came “...a couple months in. They would make promises in meetings, and would never follow through.” “Our firm was quite patient and did our best to make both relationships work. In both instances, when we realized we were just spinning our wheels, we finally severed the relationships. We gave one of those clients about 5 years. The other, we gave 2,” explained another. The issues weren’t always with the client, however. As one reader noted, “It had to do with our growth as a company and the client revenue no longer fitting into our service model”. Another explained, “Most of the client firing occurred after our operations have grown and our service model changed based on AUM.”

“Breaking” Bads?

When it came to breaking the news half of this week’s respondents said they told those clients the real reason for the termination, while 17% did not — and the remaining third said that while they told the client the real reason, they “may have dressed it up a bit.” However, one reader explained “No, not worth the time after the last blow up.” Concluding the story recounted earlier, a reader noted that “By the item I resigned the son was in jail again (assault and possession) so I had to take a trip to visit the father and provide him a 30-day notice in person. The lender did not have to resign; the father became so incensed with the trust department he fired them before I made it back to the office.” One reader noted “We said we were reviewing our client load, and I can’t recall the euphemism we used to explain the reason we felt they might be better served elsewhere...but in both situations these clients were behaving as if their retirement plans were an annoyance, and at every turn they were putting themselves, and potentially our firm, at risk.”

Problem “Spots”

Readers also had some tips on how to spot a problem client: “Create a report showing your yearly income from each client and create your service model around that. If client with a very low (or negative) yearly income gives you or your staff trouble, you have all the reason to let them go immediately.” “A bad client is easy to identify. A few frustrating annual cycles is all you need to determine that things are not going to improve. We have always been a hands-on firm, and these particular clients both required a lot of extra visits and conversations that ultimately led nowhere. We were concerned with both clients that their lack of response would lead to inaccurate 5500 filings, and decided that the risk was not worth it.” “If during your selection process, you feel in your gut that they might be a pain, walk away and save yourself some headaches.” “Truthfully...try to really determine up front if there is a potential misfit, then decline the client engagement. If the problem evolves over time, call out each incident and deal with it, and document it.” “Look for key patterns of behavior, that, if continued, would make the relationship difficult,

and whether it may put you at risk.”

“Dot your i’s and cross your t’s. Also, advise them to ask the vendor for help finding a TPA replacement.”

“Ask questions on why they are considering changing advisers and the circumstances.

Try to avoid signing on trouble clients to begin with, even if you are in need of another client for the week/month/quarter.”

“I should fire more of my smaller clients, but have avoided doing so. Instead, I manage the relationships by providing less frequent ‘touches’ for those clients.”

“The best defense is a good offense...set expectations early, look/listen to client reactions, monitor behavior, and again, do not be afraid to call them out, in a professional way. The only thing I truly have is a great reputation for honesty and fairness (and 30 years experience!); no client is worth losing that!”

Some closing comments...

“Some clients aren’t worth the trouble, and in my case, trust and respect became an issue early on. (actually 29 days after the official implementation!),” noted one. “They know that they are a demanding pain in the ass, and they also know that their company is a dysfunctional outfit with poor leadership,” said another respondent. But this poll’s Editor’s Choice goes to the reader who said “I would have to change the names to protect the guilty.....”

Thanks to everyone who participated in this week’s NAPA Net Reader Poll! We post up a new question every Monday on www.napa-net.org. Got a question you’d like to pose to our readers? Email me at nevin.adams@usaretirement.org.



BY NEVIN E. ADAMS

‘Blind’ Sighted

Are you exploiting naïve myopic workers with that employer match?

Over the years, I’ve seen some convoluted ways to rationalize undermining the tax preferences of workplace retirement plans and substituting government tax credits — but a new one just may take the cake.

“A Behavioral Contract Theory Perspective on Retirement Savings,” authored by Ryan Bubb and Patrick Corrigan from the New York University School of Law and Patrick L. Warren from Clemson University’s John E. Walker Department of Economics, starts off by assuming that workers are rational, though perhaps not rational in the way you or I might consider to be rational. However, I’ll accept as logical their assertion that rational workers will prefer saving through an employer-provided plan, rather than accepting a job that does not provide such a plan.

They also claim to provide an analysis that “provides novel explanations for the use of low default contribution rates in automatic enrollment plans, the shift away from defined benefit annuities toward lump sum distributions in defined contribution plans, and the offering of investment options with excessive fees.” Well, it’s certainly novel. More on that in a minute.

Exploit ‘Actions’

The authors claim that employers that provide qualified retirement plans provide more after-tax compensation (in the form of employer contributions not subject to FICA) to employees than employers that do not, and that if workers are rational (there’s that “rational” reference again), then competition for workers in the labor market should therefore provide incentives for employers to offer such plans. So, all other things being equal, workers would prefer to work for an employer that offers a plan than one that doesn’t. So far, so good.

Now we all know that some workers

don’t save, and some don’t save enough. But the paper maintains that some workers under-save due to myopia — and because they do, you wind up with employer plan designs that “exploit the myopic,” and that they do so specifically by — wait for it — offering matching contributions, which the study’s authors claim “naïve myopic workers overvalue.”

Moreover, they claim that this matching results in what they term “cross-subsidization” of rational workers, which, in turn, lowers myopic workers’ total compensation. Said another way, matching contributions mean that the naïve, myopic part of the workforce is not only undersaving (because they overvalue the contributions), but actually receiving less compensation (since the employer is paying them less to offset the cost of the contributions). Are you following this?

And while you may be under the impression that employers offer matching contributions either to increase NHCEs’ contribution rates or to meet one of the safe harbors so that they can provide greater tax-advantaged compensation to HCEs, or perhaps even just to help workers accumulate enough for retirement, according to the researchers, you would be wrong. They claim that employers offer those matches precisely because myopic workers overvalue them. Sound like a devious plot to you? Now you’re getting it...

Not only that, they also claim that matching contributions crowd out what they consider to be the superior — and non-redistributive — “commitment device” of non-elective contributions. That’s right, contributions that do not require any particular action on the part of the worker other than to exist and be eligible. Apparently it’s the reward for specific (savings) behaviors that is distorting things.


‘Over’ Matched?

Indeed, these researchers believe that the mere existence of the match means that

workers will overestimate how much they will, in fact, save for retirement — and, since they think they will accumulate more than they actually will, they will save less — and employers save money, not only because they pay less (the offset for the matching contributions), the workers will choose to save less — and get less of a match.

Put simply, the paper claims that the labor market gives employers incentives to craft plan designs that cater to what biased workers perceive to be of value, and that the same behavioral biases that produce worker mistakes in saving for retirement will also typically lead workers to prefer plans that fail to correct their mistakes (apparently by encouraging them to save for retirement, but not as much as they need) and that can even exacerbate them. The result, they say, is an equilibrium set of choice architectures (plan design) that fails to effectively address the basic retirement savings policy problem of people not saving enough for retirement. Choice architecture that, in their estimation, is making things worse, not better. Because employers offer workplace retirement plans — and have the temerity to match the contributions of workers who take advantage of these programs. The horror!

The solution for this? Substituting for the current system of employer-provided pension plans a new federal defined contribution plan, designed by a federal agency and not linked to any particular job, of course. Oh, and not only do they claim that this could improve savings outcomes, but that it would do so “at little to no fiscal cost to the government.” Except, presumably, for the part where the government trades the temporary deferral of tax revenues for the permanent forgiveness of a government tax subsidy.

FWIW, I find it hard to believe that this kind of analysis would survive serious scrutiny outside of the rarefied air of academia. But stranger notions have. 

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