October 16 401(k) Real Talk

Greetings & a warm welcome to this week's edition of 401k Real Talk. This is Fred Barstein contributing editor at WealthManagement.com's RPA omnichannel and CEO at TRAU, TPSU & 401kTV - I review all of the past week's stories and select the most important and interesting ones providing open honest and candid discussion you will not get anyway else. So let's get real!

Another day, another data breach this one against Fidelity who self reported that over 77,000 customers' information was compromised. Though Fidelity spends as much or more than anyone on cybersecurity, they are most vulnerable through 3rd party vendors with access to sensitive data who are more likely to be attacked because of weaker security measures.

Data is the fuel for participant engagement without which convergence will sputter and may require 3rd parties like advisors and fintech companies to gain access. As security breaches continue, record keepers and plan sponsors will be more reluctant to share data potentially setting up roadblocks in an industry slow to adopt change or take risk.

You know that ERISA is mainstream when the US Supreme Court takes up a case as they have decided to do with the Cornell lawsuit.

Plaintiffs made the usual claims citing poor performing funds, high fees and the use of expensive share classes but the issue is what plaintiffs have to due to avoid early dismissal of their complaint – a strict reading of ERISA or specific facts that back that claim?

With lower courts split, the Supreme Court ruling may determine whether more cases will be filed or will a higher bar discourage lawsuits.

Though many asset managers are eager to get alternatives like PE funds into DC plans, the progress is slow.

A recent Cerulli report indicated that 25% of asset managers are offering alts to DC plans mostly through CITs and interval funds with a similar percentage considering it within the next 2 years.

As cited in a 2021 DOL statement, concerns remain about liquidity, transparency, oversight and complications.

Very few plan sponsors are asking for alts while inertia may also delay adoption just like with retirement income. But just like retirement income, there's a lot of money and big players pushing for alts to be offered to DC participants.

T Rowe Price, #3 in TD assets, is offering a customized version with called the Personalized Retirement Managers using a managed account wrapper through Morningstar.

The new service will take into account other assets and risk profile and will not levy an extra charge.

American Funds, the #5 TD provider, and Pimco have also introduced their own personalized TDs as the demand for personalization continues while concerns remain about managed accounts costs. Adoption has been slow though the logic behind personalized TDFs is sound – unfortunately logic does not always equate to adoption.

With the growing momentum behind "personalized" target date funds, it's worth reflecting about their evolution. Not only do TDFs embody the evolution of the

DC industry and could be the vehicle for further change, they also provide valuable lessons that could lead to DC 3.0 with DC 2.0 personified by the auto plan.

TDFs, just a tool, would never have taken off without the Pension Protection Act and the adoption of auto features powered by BeFi nudges.

Read my recent WealthManagement.com column about lessons learned from the dramatic increase in TDFs can lead to better use of data, another tool, through AI which is an agent with the ability to take action.

My recent LinkedIn poll asked “Which products, services or ideas will have the greatest and most positive impact on DC plans and participants in the next 5 years?” Almost tied were convergence and PEPs with retirement income slightly ahead while managed accounts finished last.

So those were the most important stories from the past week. I listed a few others I thought were worth reading covering:

- Alicia Munnell steps down as director at BC

- UK offers first-ever collective DC plan with retirement income
- What to consider when about benefits after an acquisition
- Loans may actually not be so bad
- DOL fiduciary rule stayed a second time

Please let me know if I missed anything or if you would like to comment. Otherwise I look forward to speaking to you next week on 401k Real Talk.