November 20 401(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!

While auto features have had a positive impact on DC plans, at the DCIIA Academic Forum, Harvard's David Laibson said that that the impact is less than expected eroded over time by job changes and leakage as well as low adoption of auto escalation. He recommended default settings at 6-8%.

As UCLA professor Benartzi pointed out in his recent WSJ column, job changers stress the current system. The recent DOL auto transferability rules and the Portability Service Network eventually might help. Optimally, record keepers could cooperate to enable participants to maintain higher contribution rates when changing jobs and even increase contributions by a % of the raise they get avoiding loss aversion.

When auto IRAs were introduced, some in the private sector were concerned that they would compete. A recent report by Pew Research updating their 2022 study showed that state plans are actually helping to create not erode private plans.

Led by California at 18%, the introduction of state mandates has increased the creation of new plans. They also cited recent legislation and the pandemic as reasons for new plan formation with Cerulli estimating almost 1 million new 401k plans alone by 2029. The private must still answer the question of who will the explosion of new plans.

With RIA acquisitions reaching a new high last quarter according to Devoe, a Cerulli report indicates that more RIAs than ever are joining aggregators.

The share of RIAs affiliated with aggregators grew from 6% in 2018 to 14% last year while AUM increased 10% at $1.5 tr or 18% of all RIA assets.

Not only are there more buyers, RIAs are attracted to aggregators because their tech and services including marketing make them more competitive. With over 37%

expected to retire over the next decade, succession planning is also a big driver.

Concerns? Loss of autonomy and independence, client resistance, and lost revenue during transition.

Some RIA aggregators like Creative Planning, Hightower and Mariner see the retirement market as a way to grow while RPAs have been buying up RIAs to help them leverage the convergence of wealth & retirement at work.

While alts like private equity could certainly improve DC participant returns like they have for decades with DB plans, a Morningstar report warns that high fees, limited transparency and liquidity along with portability issues will pose challenges to this budding market.

The Georgetown Center for Retirement Initiatives estimated that DC plan returns could increase as much as 15 BPs.

Like with retirement income, most likely DC participants will access alts through professionally managed investments like TDFs and managed accounts as the DOL has been skeptical about making them standalone investments. All of which may shift with the new administration which may be more receptive to alts especially as private equity firms have greater influence.

Defined contribution plans are by their nature ruled and regulated by the government which makes lobbyists and associations so important, maybe more than any other industry. And while almost every part of the DC food chain is represented, arguably the most important group – participants – are not.

Read my recent WealthManagement.com column about how this issue could hurt participants and how the DC industry might respond.

And last but not least

My recent LinkedIn poll asked “Which surprise NFL team is most likely to make the Superbowl in 2025?”

Overwhelming, the Washington Commanders were the top choice with the Chargers, Falcons and Broncos well behind. Based on this week’s result, I would be voting for the Chargers.

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

- Will the Trump administration help bring more alts to DC plans?
- Leafhouse announces CIT featuring PE funds
- Wagner Law Group reviews recent forfeiture lawsuits
- Corporate Insight reports on user experiences with DC provider websites
- Morgan Stanley partners with equity retirement service provider

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.