

# Understanding and Utilizing Computer Based Retirement Plan Participant Investment

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# Advice NOT

We hope that this session is good professional education, and that we spark your thinking about some ideas, concepts, and methods that you might use in your session.

But please understand that nothing in this session is tax or legal advice.

**From 1992 to 2011**

**Two decades of evolution in managing the conflicts and prohibited transactions of model-driven programs for participant investment advice**

# RFP Questions for Advice and Managed Accounts

Is your advice service intended to comply with guidelines of the Pension Protection Act? If yes, describe aspects that are intended to comply with the PPA. If advice services are not intended to comply with the Pension Protection Act, identify exceptions. Do you consider your service to be an “eligible investment advice arrangement” as specified under the Pension Protection Act and Field Assistance Bulletin 2007-01?

Under what circumstances will you take a delegation of fiduciary responsibility from the plan sponsor or from the participant? Please discuss your willingness to assume fiduciary status and responsibility under ERISA with respect to the advice you provide to participants.

What service guarantees are you willing to offer?

# RFP Questions for Advice and Managed Accounts

- Can your service and deliverables qualify as a QDIA?
- How do you accommodate target based or risk based 1940 act mutual funds or collective trusts and advisor constructed model portfolios?
- How is the risk assignment, or preference, established for participants?

# RFP Questions for Advice and Managed Accounts

- Describe how you develop your model portfolios and specific portfolio recommendations? Are the recommendations based on a limited, pre-established set of asset classes or are they customized for each plan. Is the modeling design established on a “to” approach or a “through” concept?
- Does your service simulate forward-looking economic scenarios or use historical distribution of asset returns when simulating future asset returns and portfolio outcomes? If the forward-looking approach is used, how do you derive, or from where do you obtain, your capital market assumptions?
- Are the outcomes from the Portfolio optimization constrained as a byproduct of setting the final allocations? Identify the optimization software used.
- Does your service consider investments outside of the Plans, such as pension and spousal investments? Is advice provided for these investments?

# RFP Questions for Advice and Managed Accounts

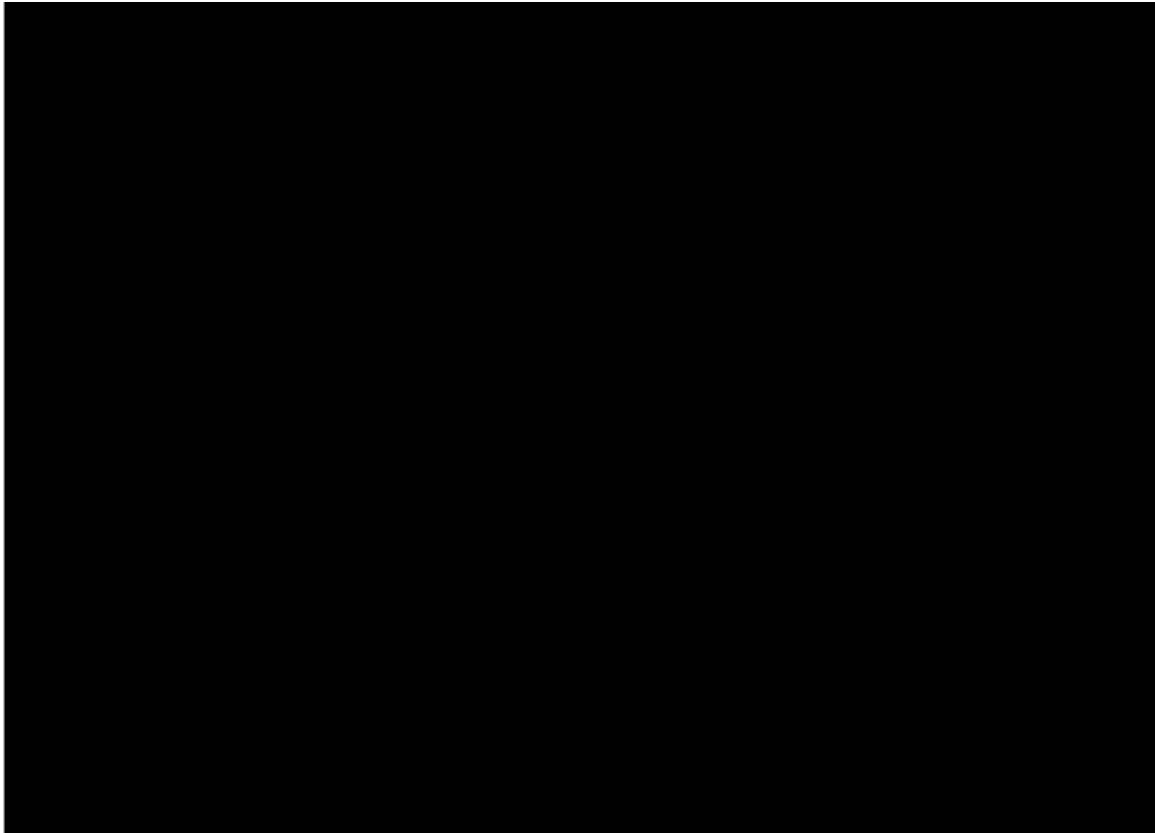
How do you develop, or provide for:

- Social Security benefit projections
- Income replacement ratios
- Recommended savings rates
- Normal retirement ages
- Depletion phase and mortality assumptions

Explain the hierarchy you employ to develop the overall recommendations regarding the total retirement planning scenario. For example, in what order are the decisions about making investment, savings rate, normal retirement age, income replacement ratio changes applied?

What assumptions are variable and subject to sponsor customization?

# Awareness Test



# Why be concerned about this topic?

- Are your clients' retirement plans succeeding?
- How do you define plan success? The sponsor?  
The participant?
- Within this definition, what metrics should be measured?
- What tools and techniques should be used to improve the metrics?



# Connecting the Dots

**The confluence of these factors has in a very short time resulted in a dramatic change in view about what plan sponsors should be doing with respect to their DC plans**

**Evolving Fiduciary Duty Standards for Defined Contribution Plan Sponsors; Alliance Bernstein, December 2010**

# Connecting the Dots

- **That means they are responsible for thinking about the chance that an option could lead to a bad outcome**
- **It is much less common for sponsors to be concerned with metrics of the plan's aggregate effectiveness, but they should be**
- **They rarely judge the efficacy of their own decisions in the same way. But that is just as useful. It is the positive one of monitoring what is going on and seeing where you can become more effective**

**The Retirement Plan Solution**, Don Ezra, Bob Collie, Mathew X. Smith;  
Wiley Finance; 2009

# Connecting the Dots

- **Plan sponsors also have a key role to play, as do financial advisors, in their role of finding innovative solutions to the uncertainties of aging <sup>1</sup>**
- **Our key findings are that participants do learn, alter retirement behavior, and appreciate the programs offered by their employers. Employees value these programs and report that the programs enhance their opinion of their employers <sup>1</sup>**
- **The new measurement focuses on the *quality* of the plans in terms of their ability to facilitate adequate retirement income. Success depends on having plan participants retire with adequate savings while minimizing the potential for catastrophic losses <sup>2</sup>**

<sup>1</sup> **Reorienting Retirement Risk Management.** Robert L. Clark and Olivia S. Mitchell Oxford Press 2010

<sup>2</sup> **Designing Successful Target-Date Strategies for Defined Contribution Plans.** Stacey L. Schaus, CFP; Wiley Finance; 2010

# Connecting the Dots

In 2010, 62% of plan sponsors surveyed feel that their responsibility includes taking an interest whether employees are tracking towards a comfortable retirement (i.e., offering an option that allows participants to plan for a reasonable replacement ratio). This year, we asked survey respondents to rank the importance of “participant retirement readiness,” and it moved right to the top as the most important improvement plan with which sponsors want providers to help.

**Deloitte 2010 Retirement Readiness Survey**

# Connecting the Dots

*“The future of 401(k) plans has begun. Attentive plan sponsors and fiduciaries will want to embrace these changes to show their compassion for their employees and to help those employees achieve retirement security.”*

Fred Reish; *PlanSponsor* magazine, July 2008.

# Solution Path for working with a provider

- Address remaining questions and complete your education
- Articulate your firm's philosophy about retirement readiness
- Prepare an RFP and send it to each service provider you want to consider
- Select at least three advice providers
- Determine which resources will be used for introducing the concept
- Identify several beta clients
- Present the idea of retirement readiness and evaluate the preferred providers
- Schedule conference call and/or WebEx with the provider(s) of choice and clients to formally explain the service and deliverables
- Schedule a face to face meeting for the service provider to meet beta clients for purposes of finalizing the service
- Formulate an ongoing strategy for updating the service and assessing its effectiveness