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Rocaton's Comments on the PBS FRONTLINE Documentary "The Retirement Gamble"

April 24, 2013

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As you may be aware, PBS FRONTLINE aired a documentary entitled "The Retirement Gamble" on April 23, 2013. This program was highly anticipated within the retirement and investment communities, particularly because it was expected to harshly criticize Defined Contribution retirement plans. This program was fairly critical of DC plans in general, highlighting issues that have led to instances in which participants were unsuccessful in building adequate retirement savings balances. Although many of the issues highlighted in the program deserve attention, the program also failed to discuss the many positive developments in DC plans over the past few years. The following summarizes the criticisms this program made of DC plans, our thoughts on these topics, and the way in which our clients might respond to participant inquiries regarding the issues mentioned in this program.

Without fully summarizing the approximately hour-long show, the major topics addressed included:

* General concerns over the nature of the retirement system in the U.S., including the decline in coverage of Defined Benefit plans, the lack of access to DC plans, systematic under-savings (in general and in DC plans specifically, with 1/3 of Americans not having any retirement savings), and the challenges of an aging population increasingly worried about the ability to retire at a traditional retirement age as well as the risk of outliving their savings.

* Concerns regarding the dangers of stock market volatility, participant understanding of investment choices, and ineffectiveness of enrollment meetings and other participant materials.

* Fee-related matters, citing a series of topics and examples, including a focus on high mutual fund fees and their potential impact on account accumulation. Comments and examples referred to 2% fees for active management and fund fees as high as 5%. There also was discussion of "hidden fees" and revenue sharing. Notably, the term "kickbacks" was used when referring to revenue sharing payments collected by brokers.

* Advocacy for passive solutions, including a significant presence by Vanguard founder Jack Bogle, and parallels drawn between active management and gambling.

* Discussion of the Department of Labor's efforts to expand the definition of fiduciary in 2010 which were stalled perhaps in large part due to lobbying efforts of financial services firms, but which may be back on the agenda in the coming year. It was stated that as many as 85% of "advisors" are not fiduciaries. Those who are not fiduciaries were described as being self-serving and motivated by their own profit in determining which products to recommend to plan sponsors and participants.

In our view, many of the concerns raised in the show are legitimate, but the show unfairly paints the entire Defined Contribution system with one broad brush stroke. The DC plan market is very diverse. For example, based on our analysis of 2011 Form 5500 data (the latest available), there are almost 600,000 ERISA DC plans offered in the US. The median number of participants in these plans is 12. However, the largest 1,000 plans incorporate 37% of all DC plan participants. As you can imagine, there are significant differences between the largest and smallest DC Plans.

In terms of the issues raised by FRONTLINE, we generally agree that:

* There are structural challenges in the U.S. economy and retirement system that make saving and planning for retirement difficult for many individuals. However, the Defined Contribution system is not necessarily to blame for these challenges and, in many ways, attempts to compensate for some of these challenges. In addition, it should be emphasized that the Defined Contribution system and specific DC plans cannot fully compensate for the systematic under-savings by Americans.

* We also agree that many participants find it difficult to make appropriate investment decisions on their own, even with plan sponsor - provided educational information.

* We concur that fees matter. Undoubtedly, some and, perhaps many, plans have fees that are unnecessarily high and which will erode participants' retirement balances. We also agree that there is a role for passive management within DC plans. Importantly, the reasonableness of fees should be evaluated on an ongoing basis, relative to other similar services or strategies available to the Plan, as well as relative to the value or performance expected.

* Lastly, we agree that the fiduciary status of advisors is a critical element in assuring that they are motivated to provide objective advice to plan sponsors.

Unfortunately, the documentary missed an opportunity to describe the many positive developments within the DC industry. There was essentially no acknowledgement that many DC plans, particularly in the larger part of the market, actually structure and manage their plans in ways that address many of the concerns noted above. For example,

* Many plans have added automatic features (auto-enrollment, auto-escalation) to encourage employees to invest more in their retirement accounts. In addition, the Qualified Default Investment Alternative (QDIA), widely used in DC plans, is helpful to those participants who have difficulty structuring an appropriate investment portfolio in the plan.

* Target date funds and managed accounts were virtually unmentioned in the episode despite their prevalence and growth in the DC market. These can be viable, practical, and often reasonably priced ways for participants that lack sufficient knowledge, interest and/or time to invest in an age-appropriate diversified portfolio.

* Larger plans, in particular, have been and continue to be very fee sensitive and do not typically have fee structures remotely close to the statistics and examples cited in the program. No mention was made of the various fee disclosure regulations that became effective in 2012. These regulations require specific information to be provided to participants. This information would enable participants to learn about the various costs of their plans. Fees, and particularly revenue sharing, can be a complicated and nuanced topic. Revenue sharing, where it exists among our clients' plans, typically is allocated directly toward the cost of managing and administering the plan, and certainly is not used as a "kickback" to a broker.

With regard to participant inquiries, possible talking points that you could customize to your plan's circumstances include:

* *As you may have seen, there was an episode of FRONTLINE, entitled "The Retirement Gamble" that aired on April 23 which had a generally negative view of DC retirement plans. We agree that there are challenges with Americans' savings for retirement and that there are some DC plans with issues. However, no effort was made in the program to highlight the differences between the many well-structured DC Plans which are thoughtfully designed to assist employees to meet their retirement savings needs and other plans, often small DC plans, which do not have the same level of oversight and management. Many of the examples cited were from particularly small plans.*

* *In contrast to the DC plans portrayed in the documentary, your plan offers a broad array of investment choices including very low cost passive funds.*

* *The fees associated with your plan are regularly reviewed to ensure that they are appropriate and competitive. Information regarding these fees has been mailed to you and also are available on the plan recordkeeper's website.*

* *Your plan receives professional oversight from company staff, a company Investment Committee, and an advisor to the Committee which serves in a fiduciary capacity.*

The above points, which should be reviewed to confirm that they reflect your DC plan, can be useful in differentiating your organization and plan from those depicted in the FRONTLINE program.