# Fiduciary Considerations When Adding and Reviewing Managed Accounts

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For many employees enrolling in workplace benefits, retirement does not seem as imminently crucial as health or dental insurance. Additionally, human resource professionals tasked with enrollment may not be equipped to address retirement plan mechanics, and may therefore be quick to refer participants to the Summary Plan Description (SPD) and the investment option menu. As a result, while employees may manage to navigate the basic enrollment process, some will struggle with the appropriate deferral contribution amount and investment option selection, which in turn can affect retirement readiness.

Fast-forward to the advent of the managed account. Beyond the standard investment menu of mutual funds, and even beyond target-date funds, the introduction of managed accounts offers retirement plan participants a more personalized investment strategy and the opportunity to further refine their retirement portfolios based on their own personal situation (i.e., age, salary, state of residence, marital status, as well as risk tolerance, personal goals and outside assets).

However, as plan sponsors review the benefits of adding managed accounts to their retirement plans, there are ever-present fiduciary considerations which must be addressed.

## OVERALL BENEFIT AND PARTICIPANT ENGAGEMENT

Many retirement plan participants struggle with appropriate fund selection. The introduction of target date funds (TDFs) helped to ease this struggle with a "set-it-and-forget-it" approach to investing. However, while TDFs automatically adjust the asset allocation based on the year the employee is expected to retire, managed accounts further customize the asset allocation based on the individual needs and risk tolerance of the participant.

When considering adding a managed account feature, retirement plan sponsors must carefully reflect on their plan and participants to deem whether the option may truly lead to a more positive participant experience and better retirement outcomes. For example, when considering whether to use managed accounts as the plan's Qualified Default Investment Alternative (QDIA), plan sponsors should ask themselves if participants will realistically take the initiative to interact with the system by providing the data necessary to further customize their accounts – both initially and ongoing. There is the old adage: "bad data in, bad data out." This is particularly true of managed accounts. Without participant engagement, a managed account does not provide its intended maximum benefit and, therefore, may not be worth the investment.

Additionally, plan sponsors should consider how robust the managed account feature is and how complex is it for plan participants to fully engage with the program and to otherwise optimize their overall experience. Is it simple enough for all participants to share their outside financial information? Is the program effective in illustrating the benefits of increased savings rates to ultimately encourage plan participants to save more for retirement on an individual basis?

Finally, plan sponsors must consider what the obligations are of the participants once they enroll in managed accounts. Are they able to opt-out at any time and, if so, how are fees assessed at that point?

## INVESTMENT METHODOLOGY

While not the level of detail with which most plan sponsors normally familiarize themselves, those considering adding managed accounts should understand the behind-the-scenes methodology regarding portfolio model creation, particularly if managed accounts are to serve as the plan's QDIA. Plan sponsors should consider whether the funds in the plan that ultimately comprise the managed accounts lend themselves to the maximum benefit of the program. For instance, the plan's current investment lineup must carry the appropriate coverage of the Morningstar style boxes needed to create properly allocated, individual portfolios. Another consideration is whether the correct balance between active and passive funds can be achieved under the current investment lineup; or whether the investment lineup would require an overhaul before the addition of managed accounts can be considered. These factors should be carefully measured as part of a plan sponsor's due diligence process prior to moving forward with a managed account feature.

## RECORDKEEPER VERSUS OUT-SOURCED VENDOR

As suggested above, another consideration for plan sponsors is whether to use their recordkeeper's proprietary managed account feature or an outsourced vendor. There may be advantages and disadvantages to both. For instance, more than likely, there would be a greater level of comfort in choosing the current recordkeeper's proprietary managed account product, as there would certainly be familiarity with the firm as well as service expectations at both the plan sponsor and participant levels. Therefore, this could seem like a natural course of action.

However, in this scenario, if the recordkeeper suggests the addition of managed accounts, there could be a question of whether it is warranted, or rather, a subtle method to generate additional revenue. Further, if plan sponsors only consider the managed account feature offered by their recordkeeper, there could be the fiduciary concern of avoiding a prudent due diligence process out of sheer convenience.

Soliciting requests for proposals (RFPs) can help show a due diligence process, as it would likely mean interviewing vendors and "test-driving" their respective products. However, it could also be perceived by some participants as adding another layer of complexity to the plan.

## PERFORMANCE REPORTING AND BENCHMARKING

One of the major issues with managed accounts has been, and continues to be, reporting and benchmarking. Plan sponsors should be aware of the fact that unlike mutual funds or even target date funds, where there is an "apples-to-apples" benchmark for comparison purposes, managed accounts are personalized portfolios of investments, and tracking performance and benchmarking at the plan level is typically unavailable. In fact, an across-the-board reporting and benchmarking solution has yet to be developed for managed accounts. In the meantime, many advisors develop their own internal methods for reporting and benchmarking.

Although this is certainly an important fiduciary consideration, it should be noted that the main objective of managed accounts is to provide plan participants with customization of their portfolio and, therefore, a personalized return based upon their unique asset allocation.

## CONTRACTUAL TERMS AND FEES

Contract terms and fees for managed accounts are a major fiduciary concern. Contracts should be carefully reviewed, as they can span a wide range of terms and allow for different terms depending on the plan type or size. As such, fees at both the plan level and the participant level must be reasonable in relation to the services provided. It would not be unusual for a smaller plan to pay larger fees for managed accounts.

At the participant level, fees should also be reasonable and appropriate. For example, plan sponsors should look for a tiered fee schedule, with reductions taken based upon participants' achieving specific asset thresholds.

## CONCLUSION

Adding a managed account option to a retirement plan can allow plan participants to develop more personalized investment strategies, but it does not come without fiduciary considerations for plan sponsors. Retirement plan sponsors must consider the overall benefit of adding managed accounts to their retirement plan, the likelihood of participant engagement, the appropriate vendor choice, the limitations of reporting and benchmarking, and the costs for both the plan and the participants, to ensure their fiduciary obligations are met.

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For more information on our services, please contact **Mike Volo,** Senior Partner, at **781.997.1426** or **mvolo@cammackretirement.com**.

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