Fiduciary Advice @ Work

Managed Accounts: Best Practices for Plan Sponsors

With 401(k) recordkeeper margins continuing to shrink, some retirement plan sponsors are experiencing increased pressure to add a "Managed Account" service to their retirement plan investment line-up. The pitch is straight forward; while target date funds are professionally managed, they are not as customized to the participant's situation as a Managed Account which in theory should be better.

In our opinion, Managed Account services are not inherently better or worse than target date funds. Our primary concern is that plan sponsors carry out the proper due diligence before making the fiduciary decision of adding them.

Here are the most important items we recommend plan fiduciaries address when considering a Managed Account service:

1) **Implementation Approach:** Review the data needed by the Managed Account provider when providing advice. At a minimum, the provider should review the participant's age, income, current plan savings, contribution rates, spousal data, and outside plan savings.
2) **Asset Allocation:** Review the methodologies utilized in creating portfolios to match each individual participant's unique circumstances to the portfolio recommended. For instance, the Committee should review assumptions used by the provider if the stated goal is to achieve a defined retirement income replacement ratio. Compare this information to the plan's target date provider assumptions.
3) **Historical Performance:** Review the historical performance of the service provider. This is often the biggest hurdle to overcome as many managed account providers don't provide aggregate performance benchmarking. Compare these returns to those of your plan's target date funds.
4) **Participant Experience:** Determine how often the portfolio will be reviewed with each participant, the circumstances that would prompt a change in the account's allocation, and whether interactions between the participant and service provider are recorded to assist the Committee in auditing the advice provided.
5) **Fees:** Review fees and the procedures followed by the provider to ensure participants understand what they are paying for the service. Compare these fees to the plan's target date funds. Discuss if the Committee desires to establish a process in which each participant must acknowledge each year they understand their Managed Account fees and how those fees compare to the plan's age-appropriate target date fund.

Some of the Managed Account providers we've reviewed are not able to provide the above information making it difficult, if not impossible, to satisfy an expert's definition of a prudent process. Be advised, recent lawsuits alleging "kick-backs" from Managed Account providers to recordkeepers raise the concern of undisclosed conflicts regarding how and why the service is offered.

If your plan offers managed accounts, we recommend your Committee consider what due diligence it has done to confirm the appropriateness of the service. If your plan doesn't currently offer managed accounts, we recommend the Committee exercise its fiduciary duty by following these steps before doing so.