

**MEMO# 28260**

July 11, 2014

# **GAO Issues Report on Usefulness of Form 5500 Information**

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TO: PENSION MEMBERS No. 30-14  
BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 31-14  
OPERATIONS MEMBERS No. 7-14  
TRANSFER AGENT ADVISORY COMMITTEE No. 44-14 RE: GAO ISSUES REPORT ON  
USEFULNESS OF FORM 5500 INFORMATION

The Government Accountability Office (GAO) recently issued a report recommending several changes to improve the usefulness, reliability and comparability of the Form 5500. The report, titled "Private Pensions – Targeted Revisions Could Improve Usefulness of Form 5500 Information," [\[1\]](#) was prepared at the request of Representative George Miller, Ranking Member of the House Committee on Education and the Workforce. In the report, the GAO examined (1) Form 5500 stakeholder problems with Form 5500 plan investment information; (2) Form 5500 stakeholder problems with Form 5500 service provider fee information; and (3) challenges DOL, IRS and PBGC face in collecting and revising Form 5500 information. The GAO states that its conclusions in the report are based on interviews of knowledgeable agency officials and non-government Form 5500 stakeholders (representatives of plan sponsors, service providers, retirement consultants, attorneys and researchers). It also reviewed industry publications along with relevant federal laws, regulations and agency guidance and inspected a non-representative sample of 10 large defined contribution plan filings and 10 large defined benefit plan filings for the 2012 plan year. The GAO also conducted a two-phase online survey of 43 non-government Form 5500 stakeholders. [\[2\]](#)

## **Report Findings**

The report includes the following challenges identified by Form 5500 stakeholders associated with the current Form 5500.

1. Challenges Associated with Plan Asset Reporting Format, Finding Information, and Inconsistent Data. With respect to the current Form 5500 format, the report states that stakeholders believe that the current Form 5500 Schedule H plan asset categories are not representative of current plan investments, making it difficult to determine how to properly categorize investments. The report further states that stakeholders believe that the form's

“other” plan asset category is too broad and that the current reporting format of plan investments makes it difficult to see the underlying holdings of indirect investments (defined in the report as investments in any pooled investment vehicles that are not registered investment companies and may file their own Form 5500 as a Direct Filing Entity).

The report also states that information is not easily collected or extracted from Form 5500 data, as there is no structured, data-searchable format for Form 5500 attachments that would allow for the conduct of aggregate analyses. The report states that Form 5500 stakeholders identified challenges with understanding instructions and interpreting inconsistently reported data.

2. Misalignment with Other Fee Disclosures and Inconsistent Reporting of Service Provider Fee Information. The report also states that stakeholders identified a wide range of challenges related to Form 5500 service provider fee information. More than half of the survey respondents indicated that the misalignment between Schedule C service provider fee information and the 408(b)(2) disclosures created a significant challenge. In the report, the GAO notes that in a 2009 GAO report titled “Private Pensions: Additional Changes Could Improve Employee Benefit Plan Reporting”, it concluded that this misalignment creates competing sets of fee information for sponsors and service providers, contributes to confusion over what Schedule C requires, is time-consuming for plan sponsors to collect, and is costly for service providers to prepare. In 2010, the Institute sent a letter to the Department of Labor recommending that the Department coordinate the information required by Schedule C with the information required by the 408(b)(2) service provider disclosures. [\[3\]](#)

The report states that stakeholders identified various challenges to consistently reporting information on service provider compensation [\[4\]](#) and challenges associated with collecting compensation information from service providers. The report discusses the challenges associated with determining whether indirect compensation is considered “eligible” for purposes of Schedule C reporting. The report also states that stakeholders identified issues regarding the completeness of service provider disclosure and fee information. As an example, the report states that plan sponsors must report on Schedule C the name, address and EIN of the service provider for eligible indirect compensation, but not compensation amounts or services provided. Finally, stakeholders reported challenges associated with inconsistent reporting of service codes used to describe the types of services provided and compensation received by service providers.

3. DOL, IRS and PBGC Challenges to Collecting More Useful Form 5500 Information. The report discusses the agencies’ administrative processes for revising the Form 5500 and notes that, while the agencies’ rulemaking processes and other information efforts to solicit stakeholder input have provided opportunities for public reaction to the Form 5500, these opportunities have been limited. The report notes that none of the agencies have used advance testing methods, such as focus groups, in-person observations, or user’s perceptions of forms and questions, to obtain non-governmental stakeholder input into changes to Form 5500, despite OMB guidance advising that such a process should be used for complex forms. The report also states that IRS’s statutory prohibition on mandatory electronic filing limits its ability to collect information from Form 5500 filings. Finally, the report states that the agencies’ concerns regarding the contractual costs associated with changing the Form 5500 has limited desirable changes.

## Report Recommendations

The GAO includes the following recommendations in the report:

1. Revise the Schedule H plan asset categories to better match current investment vehicles and provide more transparency into plan investment vehicles.
2. Revise the Schedule of Assets attachments to create a standard searchable format.
3. Develop a central repository for Employer Identification Numbers and Plan Numbers for filers and service providers to improve the comparability of form data across filings.
4. Clarify Schedule C instructions for direct, eligible indirect, and reportable indirect compensation so plan fees are reported more consistently and better align with the 408(b)(2) fee disclosures.
5. Simplify and clarify Schedule C service provider codes to increase reporting consistency.

The GAO also recommends that the Secretaries of the Departments of Labor and Treasury and the Director of the PBGC conduct advance testing (such as focus groups, in-person observations and user's perceptions of forms and questions), as appropriate, and before proposing major changes to the Form 5500 for public comment. Finally, the GAO recommends that Congress consider providing the Department of Treasury with the authority to require that the Form 5500 series be filed electronically.

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### endnotes

[1] A copy of the report is available here: <http://www.gao.gov/assets/670/663855.pdf>.

[2] In the first phase of the panel survey, panelists were asked open-ended questions, to list specific challenges and suggest potential changes to improve the plan investment and service provider information on the Form 5500. The GAO performed a content analysis on the responses to the open-ended questions to aggregate responses into lists of distinct challenges and suggested changes. In the second phase of the survey, the GAO asked each panelist to rate the significance of the challenges and the impact of the suggested changes that the panel had suggested in the first phase.

[3] See [Memorandum](#) to Pension Members No. 34-10, Bank, Trust and Recordkeeper Advisory Committee No. 27-10, Operations Committee No. 22-10, Transfer Agent Advisory Committee No. 48-10 [24501], dated August 19, 2010.

[4] As an example, the report states that due to conflicting interpretations of the Schedule C instructions, one disclosure might reflect certain compensation and expenses of a mutual fund as reportable on one line of Schedule C, while another disclosure for the same type of payments might be reportable on different line of Schedule C.

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