

ICI VIEWPOINTS

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Serving Retirement Savers in a Changing Regulatory Environment

The 401(k) and other defined contribution plans are evolving toward new structures and products to help participants solve their savings and investment challenges, and new regulations now under consideration need to be crafted to support that trend, a panel of retirement plan experts told ICI's General Membership Meeting.

After years of expanding investment options, plan sponsors and providers are shrinking menus and packaging funds to make it easier for participants to chart their course toward a secure retirement. The 401(k) industry must pay attention to "what Apple is teaching our consumers to demand—simplicity, elegant design, and control," said James D. McCool, Executive Vice President, Institutional Services, at Charles Schwab & Co. The 401(k) plan of the future, he added, "must pass the iPhone test—can I take it out of the box and start using it right away?"

Automatic enrollment, auto-escalation, target date funds, and more effective participant education can help reach that goal. "For most participants in most plans, target date funds are the best tool" to help "overwhelmed" savers, said Michael Falcon, Head of Retirement for J.P. Morgan Asset Management. Beyond that, providers need "easier ways to communicate" with participants to answer their most common question: "'how am I doing—am I red light, green light, or yellow light?'" Falcon said.

Panelists expressed concern, however, that pending and contemplated regulations could slow the trend toward simplicity by erecting barriers between participants and those who serve them. New 401(k) disclosures, for example, could fuel "a race to the bottom, with all the focus on getting the lowest fees," unless participants get a clear message on the services those fees provide, said Dan Houston, President, Retirement, Insurance, and Financial Services for Principal Financial Group. Panelists agreed that the disclosures would serve participants better if they included more context: "Knowing your fees doesn't help unless you know whether they're average, typical, high, or low," McCool said.

Another regulatory pitfall could be new "standard of care" regulations for plan providers that aim to "expand the definition of plan fiduciaries," said panel moderator Jamey Delaplane, Principal at the Vanguard Group. Delaplane queried the panel on potential repercussions. "There could be significant repercussions, particularly in the IRA space" if more categories of participant education and assistance are subject to fiduciary standards set by the Employee Retirement Income Security Act (ERISA), Delaplane noted.

Sponsors and providers must work together “to preserve the employer-based system and promote its development,” Houston said. “And then we need regulatory alignment with that objective.”

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