



Report to the Ranking Member,
Committee on Education and the
Workforce, House of Representatives

June 2014

401(K) PLANS

Improvements Can Be Made to Better Protect Participants in Managed Accounts

Why GAO Did This Study

401(k) plan sponsors have increasingly offered participants managed accounts—*services* under which providers manage participants' 401(k) savings over time by making investment and portfolio decisions for them. These services differ from investment options offered within 401(k) plans. Because little is known about whether managed accounts are advantageous for participants and whether sponsors understand their own role and potential risks, GAO was asked to review these services.

GAO examined (1) how providers structure managed accounts, (2) their advantages and disadvantages for participants, and (3) challenges sponsors face in selecting and overseeing providers. In conducting this work, GAO reviewed relevant federal laws and regulations and surveyed plan sponsors. GAO interviewed government officials, industry representatives, other service providers, and 12 plan sponsors of varying sizes and other characteristics. GAO also conducted case studies of eight managed account providers with varying characteristics by, in part, reviewing required government filings.

What GAO Recommends

Among other things, GAO recommends that DOL consider provider fiduciary roles, require disclosure of performance and benchmarking information to plan sponsors and participants, and provide guidance to help sponsors better select and oversee managed account providers. In response, DOL agreed with GAO's recommendations and will consider changes to regulations and guidance to address any issues.

View [GAO-14-310](#). For more information, contact Charles Jeszeck at (202) 512-7215 or jeszeck@gao.gov.

401(K) PLANS

Improvements Can Be Made to Better Protect Participants in Managed Accounts

What GAO Found

GAO's review of eight managed account providers who, in 2013, represented an estimated 95 percent of the industry involved in defined contribution plans, showed that they varied in how they structured managed accounts, including the services they offered and their reported fiduciary roles. Providers used varying strategies to manage participants' accounts and incorporated varying types and amounts of participant information. In addition, GAO found some variation in how providers reported their fiduciary roles. One of the eight providers GAO reviewed had a different fiduciary role than the other seven providers, which could ultimately provide less liability protection for sponsors for the consequences of the provider's choices. The Department of Labor (DOL) requires managed account providers who offer services to defaulted participants to generally have the type of fiduciary role that provides certain levels of fiduciary protection for sponsors and assurances to participants of the provider's qualifications. DOL does not have a similar explicit requirement for providers who offer services to participants on an opt-in basis. Absent explicit requirements from DOL, some providers may actively choose to structure their services to limit the fiduciary liability protection they offer.

According to providers and sponsors, participants in managed accounts receive improved diversification and experience higher savings rates compared to those not enrolled in the service; however, these advantages can be offset by paying additional fees over time. Providers charge additional fees for managed accounts that range from \$8 to \$100 on every \$10,000 in a participant's account. As a result, some participants pay a low fee each year while others pay a comparatively large fee on their account balance. Using the limited fee and performance data available, GAO found that the potential long-term effect of managed accounts could vary significantly, sometimes resulting in managed account participants paying substantial additional fees and experiencing lower account balances over time compared to other managed account participants. Further, participants generally do not receive performance and benchmarking information for their managed accounts. Without this information, participants cannot accurately evaluate the service and make effective decisions about their retirement investments. Even though DOL has required disclosure of similar information for 401(k) plan investments, it generally does not require sponsors to provide this type of information for managed accounts.

Sponsors are challenged by insufficient guidance and inconsistent performance information when selecting and overseeing managed account providers. DOL has not issued guidance specific to managed accounts on how sponsors should select and oversee providers, as it has done for other funds. GAO found that the absence of guidance for managed accounts has led to inconsistency in sponsors' procedures for selecting and overseeing providers. Without better guidance, plan sponsors may be unable to select a provider who offers an effective service for a reasonable fee. In addition, DOL generally does not require providers to furnish sponsors with performance and benchmarking information for managed accounts, as it does for investments available in a plan, although some providers do furnish similar information. Without this information, sponsors cannot effectively compare providers when making a selection or determine whether managed accounts are positively affecting participants' retirement savings.

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Abbreviations

BLS	Bureau of Labor Statistics
DOL	U.S. Department of Labor
EBRI	Employee Benefit Research Institute
EBSA	Employee Benefits Security Administration
ERISA	Employee Retirement Income Security Act of 1974
IRA	Individual Retirement Account
MVO	Mean-Variance Optimization
PPA	Pension Protection Act of 2006
QDIA	Qualified Default Investment Alternative
RIA	Registered Investment Adviser
SEC	U.S. Securities and Exchange Commission

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June 25, 2014

The Honorable George Miller
Ranking Member
Committee on Education and the Workforce
House of Representatives

Many 401(k) plan participants lack the knowledge, interest, or time to manage their retirement accounts.¹ In response, plan sponsors have increasingly offered managed account services to their participants.² In managed accounts, service providers make investment and portfolio decisions for participants in employer-sponsored 401(k) plans.³ Managed accounts typically provide customized investment management of participants' 401(k) accounts as they accumulate, and sometimes as they spend down, their retirement savings. Similar investment arrangements have been offered to retail investors since the 1970s, but managed accounts have gained popularity in 401(k) plans in part due to regulations issued by the Department of Labor (DOL) in 2007 providing that certain managed accounts could be used as "qualified default investment alternatives" in 401(k) plans. We estimate that the total amount of defined contribution plan assets in managed accounts exceeded \$100 billion at

¹ A recent Congressional Research Service report noted that relatively few defined contribution plan participants diversify investments across classes of assets or periodically rebalance their accounts to maintain appropriate diversification—two recommendations made by many financial advisers. The report also noted that even if a plan offers a range of low-cost, diversified investment options and offers investment education and investment advice, it is not unusual for some participants to make investment choices that may prove to be unwise in the long run. Congressional Research Service, *401(k) Plans and Retirement Savings: Issues for Congress* (Washington, D.C.: Jan. 7, 2011).

² The Plan Sponsor Council of America found in its *49th and 56th Annual Profit Sharing and 401(k) Surveys* that about 25 percent of sponsors offered managed accounts in 2005 but in 2012 this number had grown to about 36 percent.

³ Service providers are outside entities, such as investment companies, banks, or insurance companies that a plan sponsor hires to provide some of the services necessary to operate the plan. These services include managed accounts, investment management (e.g., selecting and managing the securities included in a mutual fund), consulting and providing financial advice to the plan sponsor (e.g., selecting vendors for investment options or other services), and recordkeeping (e.g., tracking individual account contributions), among other things.

the end of 2012.⁴ Demand for managed accounts may continue to grow, as these services may be attractive to the many 401(k) plan participants who may lack the knowledge or initiative to make prudent choices about how much to contribute and how to direct their assets among investment options in their plan. However, the increasing trend to offer managed accounts in 401(k) plans has raised some concerns about whether such services are advantageous for participants in terms of service and cost and whether sponsors understand their role in overseeing the use of managed accounts. In light of these concerns, you asked us to examine managed accounts in 401(k) plans.

In conducting this work, we answered the following questions:

- 1) How do service providers structure managed accounts?
- 2) What are the advantages and disadvantages of managed accounts for 401(k) plan participants?
- 3) What challenges, if any, do plan sponsors face in selecting and overseeing managed account providers?

To answer these questions, we reviewed relevant research and federal laws, regulations, and guidance on managed accounts in 401(k) plans.⁵ To examine the key issues related to managed accounts in 401(k) plans and gather data about their prevalence and performance, we conducted in-depth case studies of eight selected managed account providers that, according to our estimates, represented over 95 percent of the managed account industry in defined contribution plans, as measured by assets

⁴ In defined contribution plans, benefits are based on contributions and the performance of the investments in participants' individual accounts. The predominant type of defined contribution plans are 401(k) plans.

⁵ For the purpose of this report, we focused only on arrangements initiated by the plan sponsor for the 401(k) plan—i.e., the 401(k) plan sponsor made a decision to offer the managed account to its participants, either as a default option or on an opt-in basis. By contrast, we did not focus on certain arrangements that could be considered “managed accounts” when the 401(k) plan sponsor was uninvolved. For example, if the plan sponsor offers participants the use of a brokerage window—arrangements under which participants may select investments beyond those designated by the plan, referred to by a variety of names, including brokerage window and self-directed brokerage account—plan participants could independently contract with advisers to manage their retirement savings in the plan. Plan sponsors would usually not be involved in the selection and monitoring of these advisers.

under management in 2013. We selected providers based on their size, location, and legal and fee structures. We also interviewed industry representatives—including academics, industry research firms, and participant advocacy groups—and government officials, including officials from DOL’s Employee Benefits Security Administration (EBSA). To gain additional information on the structure of managed accounts in 401(k) plans and the role of service providers, we reviewed Securities and Exchange Commission (SEC) filings⁶ for the eight managed account providers in our case studies and 22 other providers we identified during the course of our work. As part of our case studies, we reviewed available documentation on the structure of managed accounts. To further understand the different methodologies and structures of managed accounts, we developed and submitted participant scenarios to the eight providers and asked them to provide hypothetical asset allocations for those participants, which seven of them completed and returned to us. To identify the advantages and disadvantages of managed accounts for 401(k) plan participants and any challenges sponsors face in selecting and overseeing managed account providers, we reviewed relevant documentation such as quarterly managed account reports to plan sponsors and conducted semi-structured interviews with 12 plan sponsors. To identify sponsors for interviews, we conducted a non-generalizable survey facilitated through PLANSPONSOR.⁷ Based on their responses to the survey, we selected sponsors with a variety of characteristics, such as plan size and managed account provider. Further, we used publicly available data to develop illustrations of how various factors may affect the outcomes of participants in managed accounts. To assess the reliability of these data, we considered the reliability and familiarity of the source of the data or information and, when necessary, interviewed representatives of those sources about their methods, internal controls, and results. We found these data sufficiently

⁶ The “Form ADV” is the form used by investment advisers to register with both the SEC and state securities authorities. Among other things, the form requires investment advisers to prepare narrative brochures that provide information such as the types of advisory services offered—including managed accounts in 401(k) plans—the adviser’s fee schedule, disciplinary information, and conflicts of interest. This brochure is the primary disclosure document that investment advisers provide to their clients.

⁷ PLANSPONSOR is a media and research firm in the retirement benefits industry. According to PLANSPONSOR, it has been the nation’s leading authority on retirement and benefits programs since 1993 and is dedicated to helping employers navigate the complex world of retirement plan design and strategy on behalf of their employees.

reliable for our purposes. For more information on the data and other methodologies we used see appendix I.

We conducted this performance audit from October 2012 to June 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Managed Accounts in Other Workplace Defined Contribution Plans and Individual Retirement Accounts (IRAs)

As managed accounts have gained popularity in 401(k) plans, there are indications that they may also be gaining popularity in government and non-profit workplace retirement savings plans, commonly referred to as 457 or 403(b) plans. Many of the providers we spoke to that offer managed accounts to 401(k) plans also offer services to other plans like these. In addition, some providers are starting to offer managed accounts in IRAs, and in particular rollover IRAs—when participants separate from their employer they may decide to roll their funds into an IRA. One of these providers noted that it is easier to engage participants who use managed accounts through products such as IRAs, and there is more flexibility with investment options, even though the provider's marketing costs may be higher.

Source: GAO analysis of provider information | GAO-14-310

Under Title I of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, employers are permitted to sponsor defined contribution plans in which an employee's retirement savings are based on contributions and the performance of the investments in individual accounts. Typically, 401(k) plans—the predominant type of defined contribution plan in the United States—allow employees who participate in the plan to specify the size of their contributions and direct their assets to one or more investments among the options offered within the plan.⁸ Investment options generally include mutual funds, stable value funds,⁹ company stock, and money market funds. To help participants make optimal investment choices, an increasing number of plans are offering professionally managed allocations—including managed accounts—in their 401(k) plan lineups.

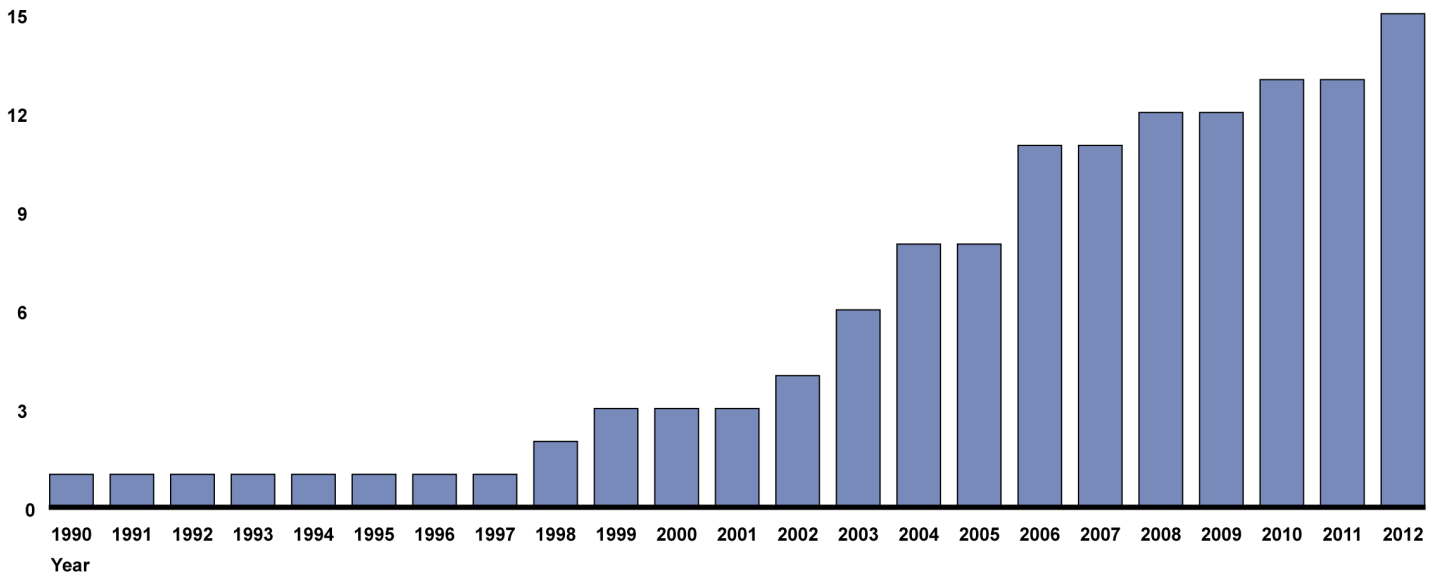
Managed accounts are *investment services* under which providers make investment decisions for specific participants to allocate their retirement savings among a mix of assets they have determined to be appropriate for the participant based on their personal information. As shown in figure 1, managed accounts were first offered to 401(k) plans around 1990, but most providers did not start offering them until after 2000.

⁸ In 2011, U.S. employers sponsored over 510,000 401(k) plans covering more than 61 million workers with more than \$3.1 trillion in plan assets. U.S. Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin: Abstract of 2011 Form 5500 Annual Reports, Version 1.0* (Washington, D.C.: June 2013). A worker who actively participated in a 401(k) plan may participate in more than one defined contribution plan and also might participate in a defined benefit plan in addition to his or her 401(k) plan. Contributions to the defined contribution plan may also be made by employers.

⁹ Stable value funds are designed to preserve the total amount of participants' contributions, or their principal, while also providing steady positive returns.

Figure 1: Number of Managed Account Providers Serving 401(k) Plans Since 1990

Number of providers offering managed account services



Source: GAO analysis of information from managed account providers. | GAO-14-310

Note: This figure represents only those providers that developed the underlying discretionary management method for managing participants' accounts. Plan record keepers—providers that maintain records of participant contributions and returns—have a role in offering managed accounts to participants, but generally rely on managed account providers to develop asset allocation strategies for participant accounts. Some of these managed account providers offer their services through multiple record keepers and may be sub-contractors to record keepers. In the latter situation, the record keeper may brand the managed account as their own, but decisions about how to allocate participant retirement savings come from the managed account provider. For example, one of the managed account providers listed in this figure provides its discretionary managed account services through 18 record keepers. Thus, participants in plans that use one of those 18 record keepers may all receive the same underlying discretionary management, but their record keeper may brand the managed account differently.

Managed accounts differ from other professionally managed allocations, such as target date funds and balanced funds, in several key ways. Target date funds (also known as life cycle funds) are *products* that determine an asset allocation that would be appropriate for a participant of a certain age or retirement date and adjust that allocation so it becomes more conservative as the fund approaches its intended target








date.¹⁰ Target date funds do not place participants into an asset allocation; instead, participants generally self-select into a target date fund they feel is appropriate for them based on the fund's predetermined glide path that governs asset allocation. Balanced funds are *products* that generally invest in a fixed mix of assets (e.g., 60 percent equity and 40 percent fixed income assets). While target date funds manage the fund to reach a target date, managed accounts may consider other, more personalized factors such as a participant's stated risk tolerance,¹¹ even though they are not required to do so. As shown in figure 2, managed accounts may offer higher levels of personalization than other types of professionally managed allocations.

¹⁰ There is considerable variation in target date fund portfolio construction. See GAO, *Defined Contribution Plans: Key Information on Target Date Funds as Default Investments Should Be Provided to Plan Sponsors and Participants*. [GAO-11-118](#) (Washington, D.C.: Jan. 31, 2011).

¹¹ Risk tolerance refers to a participant's ability and willingness to lose some or all of his or her original investment in exchange for greater potential returns. An aggressive investor—one with a high risk tolerance—is more likely to risk losing money in order to get better results by, for example, investing a higher portion of assets in stocks. By comparison, a conservative investor—one with a low risk tolerance—tends to favor investments that will preserve the original investment and thus is more likely to invest a higher portion of assets in lower risk investment options such as bonds.

Figure 2: Key Differences among Balanced Funds, Target Date Funds, and Managed Accounts in 401(k) Plans

Professionally managed allocations

	Investment products			Investment service			
	Balanced funds	Target date funds		Managed accounts			
		Basic	Custom ^a		Customized ^b	Customized + Personalization ^c	
Mix of assets	Fixed mix over time	Mix adjusts over time					
Adjust mix based on	N/A	Retirement date/age	Retirement date/age and plan demographics		Individual characteristics	Individual characteristics and additional personal information	
	 Plans A, B, C	 Plans A, B, C	 Plan A	 Plan B	 Plan C		

Source: GAO analysis of DOL publications, industry publications, and information from plan sponsors, record keepers, and managed account providers. | GAO-14-310

^aSome plan sponsors have established custom target date funds instead of relying on preexisting target date funds offered by investment management firms. Custom target date funds can be more precisely tailored to match a plan’s objectives and demographics, and offer a plan sponsor greater control over the underlying investments of a target date fund. However, custom target date funds may involve costs greater than those of an already-existing fund, so they may be more popular among larger plan sponsors.

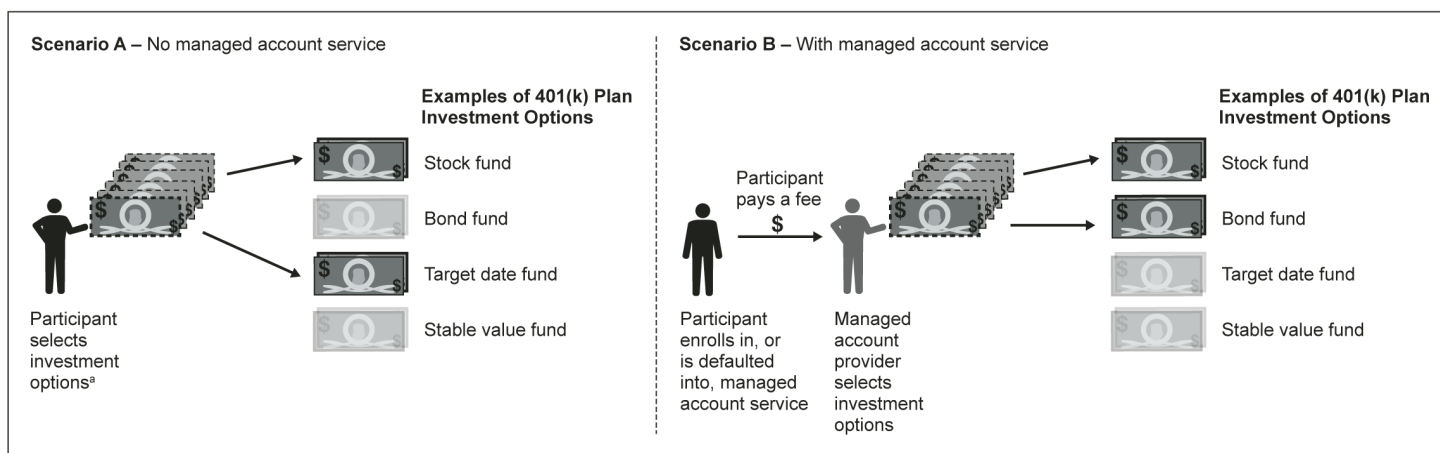
^bIn customized managed account services, the provider allocates a participant’s account based solely on the participant’s age or based on additional factors that can be easily obtained from the plan’s record keeper, such as gender, income, current account balance, and current savings rate.

^cPersonalization by managed account providers includes not only a review of age and recordkeeping data, but the provider also allows participants to provide personalized information such as stating their preferences for risk or the availability of spousal assets to inform the asset allocation process.

Managed accounts are generally considered to be an investment service—not one of the plan’s investment options—while target date funds are considered to be investment options. In the latter, participants can invest all or a portion of their 401(k) plan contributions in a target date fund, but generally cannot directly invest in a managed account. Instead, the role of the participant is to enroll in the managed account service, or be defaulted into it, generally relinquishing their ability to make investment decisions unless they disenroll from, or opt out of, the managed account. As shown in figure 3, managed account providers decide how to invest contributions, generally among the investment options available in a 401(k) plan, and then manage these investments over time to help participants reach their retirement savings goals. By comparison,

participants not enrolled in a managed account have to make their own decisions about how to invest their 401(k) plan contributions.

Figure 3: Example of How Managed Account Providers Make Investment Decisions For Participants



Source: GAO analysis of DOL publications, industry publications, and information from plan sponsors, record keepers, and managed account providers. | GAO-14-310

^aWhen sponsors do not offer managed account services, they may decide to default participants into an investment option such as a target date fund.

DOL Oversight

DOL’s Employee Benefits Security Administration (EBSA) is the primary agency through which Title I of ERISA is enforced to protect private pension plan participants and beneficiaries from the misuse or theft of their pension assets. To carry out its responsibilities, EBSA issues regulations and guidance; investigates plan sponsors,¹² fiduciaries, and service providers; seeks appropriate remedies to correct violations of the law; and pursues litigation when it deems necessary. As part of its mission, DOL is also responsible for assisting and educating plan sponsors to help ensure the retirement security of workers and their families.

¹² We use the term “plan sponsors” generally in this report, but in some circumstances the requirements would apply to plan sponsors, plan fiduciaries, or plan administrators, which may be the same entity or different entities, depending on the situation.

Managed Accounts as
Qualified Default Investment
Alternatives and Opt-in
Services

In 2007, DOL designated certain managed accounts as one type of investment that may be eligible as a qualified default investment alternative (QDIA) into which 401(k) plan fiduciaries may default participants who do not provide investment directions with respect to their plan contributions.¹³ DOL designated three categories of investments that may be eligible as QDIAs if all requirements of the QDIA regulation have been satisfied—these categories generally include: (1) an investment product or model portfolio that is designed to become more conservative as the participant’s age increases (e.g., a target date or lifecycle fund); (2) an investment product or model portfolio that is designed with a mix of equity and fixed income exposures appropriate for the participants of the plan as a whole (e.g., a balanced fund); and (3) an investment management service that uses investment alternatives available in the plan and is designed to become more conservative as the participant’s age increases (e.g., a managed account).¹⁴ DOL regulations indicate that plan fiduciaries who comply with the QDIA regulation will not be liable for any loss to participants that occurs as a result of the investment of their assets in a QDIA, including investments made through managed account arrangements that satisfy the conditions of the QDIA regulation.¹⁵ However, plan fiduciaries remain responsible for the prudent selection

¹³ Default Investment Alternatives Under Participant Directed Individual Account Plans, 72 Fed. Reg. 60,452 (Oct. 24, 2007) (codified at 29 C.F.R. § 2550.404c-5). The final QDIA regulation implemented amendments to Title I of ERISA enacted as part of the Pension Protection Act of 2006 (PPA). Pub. L. No. 109–280, § 624, 120 Stat. 780, 980. With the enactment of PPA, section 404(c) of ERISA was amended to provide relief afforded by section 404(c)(1) to fiduciaries that invest participant assets in certain types of default investment alternatives in the absence of participant investment direction. Specifically, section 624(a) of PPA added a new section 404(c)(5) to ERISA, which provides that, for purposes of section 404(c)(1), a participant in an individual account plan shall be treated as exercising control over the assets in the account with respect to the amount of contributions and earnings which, in the absence of an investment election by the participant, are invested by the plan in accordance with regulations prescribed by the Secretary of Labor. Section 624(a) of PPA also directed that such regulations provide guidance on the appropriateness of designating default investments that include a mix of asset classes consistent with capital preservation or long-term capital appreciation, or a blend of both.

¹⁴ 29 C.F.R. § 2550.404c-5(e)(4)(i), (ii), and (iii). DOL also designated principal preservation products for use by plan sponsors, but only within the first 120 days of an individual’s participation. 29 C.F.R. § 2550.404c-5(e)(4)(iv) and (v). DOL explained that the 120 day timeframe is intended to provide plans a reasonable amount of time to effectuate the transfer of a participant’s assets to another QDIA. See 72 Fed. Reg. 60,464.

¹⁵ 29 C.F.R. § 2550.404c-5(b)(1).

and monitoring of any QDIA offered by the plan.¹⁶ To obtain relief, plan fiduciaries must provide participants with advance notice of the circumstances under which plan contributions or other assets will be invested on their behalf in a QDIA; a description of the QDIA's investment objectives, risk and return characteristics, and fees and expenses; and the right of participants to opt out of the QDIA, among other things.¹⁷ A 2012 survey of defined contribution plan sponsors by PLANSPONSOR indicated that managed accounts were used as a QDIA less than 5 percent of the time.¹⁸

Managed accounts are also offered as opt-in services by over 30 percent of defined contribution plan sponsors. Managed accounts can be offered as both QDIA and opt-in services, allowing the plan sponsor to choose which services to offer their participants. Plan fiduciaries who offer managed account services only to participants who affirmatively elect to use the service (i.e., on an opt-in basis), rather than by default, are not required to comply with the QDIA regulation, although such fiduciaries still are subject to the general fiduciary obligations under ERISA with respect to the selection and monitoring of a managed account service for their plan.

Disclosure Regulations

Plan sponsors, including those who offer managed account services in their 401(k) plans, are required to issue a variety of informational disclosures and notices to plan participants and beneficiaries at enrollment, on a quarterly and annual basis, and when certain triggering

¹⁶ 29 C.F.R. § 2550.404c-5(b)(2).

¹⁷ 29 C.F.R. § 2550.404c-5(c)(3) and (d). A worker who is defaulted into a QDIA generally has 90 days to opt out and withdraw any contributions (including the earnings on those contributions). These amounts will not be subject to the extra tax that normally applies to distributions received before age 59½. 26 U.S.C. § 414(w)(2)(B) and 29 C.F.R. § 2550.404c-5(c)(5)(ii).

¹⁸ PLANSPONSOR, *2012 Defined Contribution Survey: Looking to the Stars* (November 2012).

events occur.¹⁹ These disclosures—often referred to as participant-level disclosures—when made in accordance with regulatory requirements, help ensure that plan participants have access to the information they need to make informed decisions about their retirement investments. In addition, when a plan sponsor chooses to default participants into managed accounts as a QDIA, the sponsor must inform participants of this decision annually through a number of specific disclosures, based on the plan’s design. The QDIA disclosures, when made in accordance with regulatory requirements, provide relief from certain fiduciary responsibilities for sponsors of 401(k) plans.²⁰

Service providers that provide managed account services to a plan may be required to provide certain disclosures about the compensation they will receive to plan sponsors offering a managed account service under different DOL disclosure requirements. These disclosures—often referred to as service provider disclosures—are intended to provide information sufficient for sponsors to make informed decisions when selecting and monitoring service providers for their plans. DOL’s final rule on these disclosures requires service providers to furnish sponsors with information to help them assess the reasonableness of total compensation paid to providers, to identify potential conflicts of interest, and to satisfy other reporting and disclosure requirements under Title I of

¹⁹ See generally 29 C.F.R. § 2550.404a-5. Sponsors are required to furnish participants with plan-related and investment-related fee information annually and with information on administrative and individual expenses actually charged to participants’ accounts quarterly on or before the first date a new participant can first direct his or her investments. The purpose of these disclosures is to ensure that participants and beneficiaries have access to plan information to help them make informed decisions about their retirement. For a review of required participant disclosures and notices related to 401(k) plans, see GAO, *Private Pensions: Clarity of Required Reports and Disclosures Could Be Improved*, [GAO-14-92](#) (Washington D.C.: Nov. 21, 2013).




²⁰ See generally 29 C.F.R. § 2550.404c-5(c)(3) and (d). In addition to providing plan sponsors with relief from certain fiduciary responsibilities, these disclosures help ensure that participants and beneficiaries are in a position to make informed decisions concerning their participation in their employer’s plan.

ERISA, including the regulation governing sponsor’s disclosure to participants.²¹

Roles and Fiduciary Obligations Under ERISA

Managed account provider roles may differ from those of other plan service providers. As shown in figure 4, when a plan sponsor decides to offer participants a managed account service, other entities may contribute to its implementation and operation.

Figure 4: Entities that May Participate in a Managed Account Service Arrangement in 401(k) Plans

Entity	Plan Sponsor	Plan Record keeper	Managed Account Provider
			
Key roles	<ul style="list-style-type: none"> Decides to offer managed accounts, selects a managed account provider, and, if applicable, negotiates the service agreement with the provider. Monitors the managed account. 	<ul style="list-style-type: none"> Maintains a recordkeeping system that is used to track contributions and returns. May provide the managed account provider with basic information on the participant, such as the participant’s account balance, that the managed account provider uses to inform the development of a strategy for investing participant accounts. Changes participant investments in accordance with the investment strategy developed by the managed account provider. 	<ul style="list-style-type: none"> Generally, develops an asset allocation strategy and selects investment options for investing participant accounts based on information provided by the record keeper and, if applicable, any other personalized information provided by the participant.

Source: GAO analysis of DOL publications, industry publications, and information from plan sponsors, record keepers, and managed account providers. | GAO-14-310

²¹ Reasonable Contract or Arrangement Under Section 408(b)(2)—Fee Disclosure, 77 Fed. Reg. 5632 (Feb. 3, 2012)(codified at 29 C.F.R. § 2550.408b-2(c)). In its fact sheet to the 408(b)(2) disclosure final rule, DOL stated that “fundamental to the ability of [sponsors to fulfill] these obligations is obtaining information sufficient to enable them to make informed decisions about an employee benefit plan’s services, the costs of such services, and the service providers.” See DOL, EBSA, *Fact Sheet, Final Regulation Relating to Service Provider Disclosures Under Section 408(b)(2)* (Washington, D.C.: February 2012).

Some record keepers and intermediary²² service providers refer to themselves as “managed account providers” because they make this service available to participants, but they do not ultimately decide how to invest participant contributions.²³ Similarly, even though target date fund managers or collective investment trust managers may select an overall asset allocation strategy and investments to fit that strategy for the funds they offer to 401(k) plan participants, these managers also do not ultimately decide how to invest participant accounts.²⁴

Plan sponsors are typically the named fiduciaries of the plan. Managed account providers and record keepers may also be fiduciaries, depending on their roles and the services they provide. Fiduciaries are required to carry out their responsibilities prudently and solely in the interest of the plan’s participants and beneficiaries.²⁵ Plan service providers that have investment discretion or provide investment advice about how to invest participant accounts generally may be “3(38) Investment Manager” fiduciaries or “3(21) Investment Adviser” fiduciaries.²⁶ A 3(38) Investment

²² Some record keepers contract with an intermediary provider that offers the use of multiple managed account providers.

²³ In this report, such record keepers or intermediary providers are not included in the term “managed account provider.”

²⁴ When sponsors default participants into a target date fund the manager of that fund may be responsible for making asset allocation decisions, but the decision to select the fund for the participant is made by the sponsor, not a provider as is the case in a managed account.

²⁵ See 29 U.S.C § 1104(a). Under ERISA, a fiduciary is anyone who has discretionary control or authority over the management or administration of an ERISA-covered plan, such as a 401(k) plan, including the plan’s assets, as well as anyone who, for a fee, renders investment advice with respect to a plan. 29 U.S.C. § 1002(21). Plan sponsors and other plan fiduciaries have specific responsibilities under ERISA. In accordance with ERISA and related DOL regulations and guidance, responsibilities of plan sponsors and other fiduciaries may include, but are not limited to: selecting and monitoring any service providers to the plan; reporting plan information to the federal government and to participants; adhering to the plan documents, including any investment policy statements; identifying parties-in-interest to the plan and taking steps to monitor transactions with them; selecting and monitoring investment options the plan will offer and diversifying plan investments; and ensuring that the services provided to their plans are necessary and that the cost of those services is reasonable.

²⁶ See 29 U.S.C. § 1002(21)(A)(ii) and (38). Depending on the facts and circumstances, plan service providers may also play other fiduciary roles under 3(21). See 29 U.S.C. § 1002(21)(A)(i) and (iii). Both 3(38) and 3(21) fiduciaries are required to act solely in the interest of participants and beneficiaries.

Manager fiduciary can only be a bank, an insurance company, or a Registered Investment Adviser (RIA). Under ERISA, 3(38) Investment Manager fiduciaries have the power to manage, acquire, or dispose of plan assets, and they acknowledge, in writing, that they are a fiduciary with respect to the plan. In contrast, a 3(21) Investment Adviser fiduciary usually does not have authority to manage, acquire, or dispose of plan assets, but is still a fiduciary because its investment recommendations may exercise some level of influence and control over the investments made by the plan. When managed account services are offered as QDIAs, the managed account provider is generally required to be a 3(38) Investment Manager fiduciary. There is no similar explicit requirement for managed account providers whose services are offered within a plan on an opt-in basis.²⁷

Providers Structure Managed Accounts Differently, which Can Harm Participants

Managed Account Providers Vary Their Services

Managed account providers vary how they provide services, even though they generally offer the same basic service—initial and ongoing investment management of a 401(k) plan participant’s account based on generally accepted industry methods. The eight providers in our case studies use different investment options, employ varying strategies to develop and adjust asset allocations for participants, incorporate varying types and amounts of participant information, and rebalance participant accounts at different intervals.²⁸ As a result, participants with similar characteristics in different plans may have differing experiences.

²⁷ 29 C.F.R. § 2550.404c-5(e)(4)(iii) and (e)(3)(i), and 29 U.S.C. § 1002(38).

²⁸ We estimate that these eight providers represented over 95 percent of the managed account industry in defined contribution plans, as measured by assets under management in 2013.

Investment Options

To develop participant asset allocations, most of the eight providers in our case studies use the investment options chosen by the plan sponsor.²⁹ By contrast, other providers require plan sponsors that want to offer their managed account to accept a preselected list of investment options from which the provider will determine participant asset allocations, including exchange traded funds³⁰ or asset classes not typically found in 401(k) plan lineups, such as commodities. Because they are atypical investment options, participants who do not sign up for managed accounts may not be able to access them. Compared to typical 401(k) plan investment options, these atypical investment options may provide broader exposure to certain markets and opportunities to diversify participant retirement assets.

Asset Allocation Strategies

The eight managed account providers in our case studies generally reported making asset allocation decisions based on modern portfolio theory, which sets a goal of taking enough risk so that participants' 401(k) account balances may earn large enough returns over time to meet their retirement savings goals, but not so much that their balances could earn

²⁹ The managed account provider may require that the plan sponsor add investment option(s) in order to offer the managed account. For example, one provider requires sponsors to offer a minimum of 5 asset classes in its 401(k) plan investment options, including U.S. equity, international equity, intermediate-term bonds, small/mid-cap funds, and other bond-type funds (stable value funds, money market funds, or long-term bond funds). Representatives of this provider said that smaller plans were less likely than larger plans to offer investment options in all of these asset classes, and in this case, the provider will consult with the plan sponsor to make the necessary changes. This consulting or advice is separate from the managed account service.

³⁰ Exchange traded funds are similar to mutual funds in that they offer investors a way to pool their money in a fund that makes investments in stocks, bonds, or other assets and, in return, to receive an interest in an investment pool. However, shares of the exchange traded funds are traded on a national stock exchange and at market prices that may or may not be the same as the net asset value of the shares. Unlike traditional mutual funds, exchange traded funds do not sell individual shares directly to investors, and investors may not redeem individual shares; the funds only issue and redeem their shares in large blocks known as creation units.

lower or even negative returns.³¹ Managed account providers generally help participants by constructing portfolios that attempt to provide maximum expected returns with a given level of risk, but their strategies can range from formal to informal. The formal way of determining this type of portfolio is called “mean-variance optimization” (MVO), under which providers plot risk and return characteristics of all combinations of investment options in the plan and choose the portfolio that maximizes expected return for a given level of risk.³² There are a number of specific techniques that managed account providers can apply to improve the quality and sophistication of asset allocations, including Monte Carlo simulation.³³ However, some providers incorporated less formal ways of achieving a diversified portfolio, such as active management and experience-based methods.³⁴ The eight providers in our case studies use

³¹ Modern portfolio theory is a body of academic and empirical work that focuses on choosing a portfolio, not just its individual parts. Central components include: (1) the concept of diversification—the notion that with a well-chosen group of assets participants may be able to limit their losses and reduce fluctuations of investment returns without sacrificing too much potential gain, and (2) the concept of rebalancing—bringing a participant’s portfolio back to an appropriate asset allocation mix—because over time some investments may become misaligned with the participant’s investment goals. Rebalancing helps ensure that participant portfolios do not overemphasize one or more asset categories by returning the portfolio to a comfortable level of risk.

³² The highest return for each level of risk comprises the most efficient mix of investments, or the efficient frontier.

³³ Monte Carlo simulation describes the range of outcomes from a given asset allocation assuming various inputs for expected returns, volatilities, and correlations of investment options in the plan. For more information see Stacy L. Schaus, *Defining Successful Target Date Strategies For Defined Contribution Plans: Putting Participants on the Optimal Glide Path* (Hoboken, NJ: 2010). More information on other techniques, including the Black-Litterman model and resampled mean-variance optimization, can be found in Ibbotson Associates, *Developing Robust Asset Allocations* (Chicago, IL: April 2006)

³⁴ Active management strategies seek to achieve specific goals and require more hands-on management of the fund by the investment manager than passively managed funds. Experience-based methods for developing asset allocations rely on tradition, experience, or rules of thumb and may be less expensive to implement than efficient frontier methods. Popular experience-based methods include: (1) 60/40 equity/fixed income as a neutral starting point, (2) allocation to fixed income assets increase with participants’ risk aversion, (3) allocation to equity assets increase with time horizon, and (4) allocation to equity assets remain at one hundred minus the participant’s age. While traditional finance, and modern portfolio theory in general, describes how markets work, some experience-based methods of asset allocation incorporate lessons learned from behavioral finance, a discipline that attempts to describe how investors actually behave. See G. Curtis, “Modern portfolio theory and behavioral finance,” *The Journal of Wealth Management*, 7(2) (2004), 16-22.

varying strategies and participant goals to develop and adjust asset allocations for participants, as shown in table 1. As a result, participants with similar characteristics may end up with different asset allocations.

Table 1: Eight Providers' Strategies for Developing 401(k) Managed Account Participant Asset Allocations

Provider	Strategies	Participant goal (percent of participant's final ending compensation) ^a	Description
A	Mean-variance optimization (MVO), ^b Monte Carlo, ^c and experience-based ^d	100 percent	According to this provider, it has 19 options for the equity percentage of the participant's account, and 31 options for years to retirement. This provider builds an efficient frontier for asset classes, but also considers lifecycle theory, evaluating changing participant risk tolerances over time and tradeoffs between a participant's financial and human capital.
B	MVO	85 percent	According to this provider, it constructs 101 portfolios per plan—one for each equity/fixed income combination. If a participant is defaulted into the managed account or does not provide personalized information, this provider will determine the participant's asset allocation solely on their investment time horizon. If the participant provides personalized information, this provider will assess their personal financial situation to determine an appropriate asset allocation. Based on this asset allocation, this provider places the participant into the appropriate portfolio.
C	MVO, Monte Carlo, and experience-based	80 percent or higher	According to this provider, it creates 10 asset allocation model portfolios using the investment options in the plan and places participants in 1 of the 10 model portfolios based on their risk profile. It uses a glide path approach to reduce risk in each portfolio over time. ^e This provider noted that it believes its glide path approach is more conservative than many target date fund glide paths.
D	MVO, Monte Carlo, and experience-based	80 percent	This provider said it tends to be more conservative, investing participants' 401(k) account balances more heavily in fixed income assets and setting parameters for international and emerging market assets, to increase the probability that participants will achieve their retirement savings goals.
E	MVO and experience-based	70 percent	According to this provider, it allocates participant accounts to 1 of 50 steps on one of three glide paths based on the participant's age and ratio of retirement assets to liabilities. This provider uses actuarial calculations to determine participant "funded ratios"—dividing the total amount of money the participant is expected to have saved at retirement by the total amount of money the participant needs to have saved in order to fund lifetime retirement income.
F	MVO, Monte Carlo, and experience-based	70 percent	According to this provider, it creates individualized strategies for each participant, which this provider noted results in unique portfolios for approximately 80 percent of its participant population. Unlike other providers, it does not set asset allocation targets prior to selecting investment options.

Provider	Strategies	Participant goal (percent of participant's final ending compensation) ^a	Description
G	Active management ^f	No goal specified	This provider said it develops a set of five portfolios using exchange traded funds. ^g Each portfolio has a dedicated flexible portion for which the provider will be able to adjust between equity assets and cash based on market conditions. This provider places participants in one of the portfolios based on their age.
H	Experience-based	No goal specified	This provider said it generally relies on a time horizon based formula to determine optimal asset allocations for participants. This provider's default formula is to subtract the participant's age from 100 and allocate that percent of the participant's account to an equity pool of assets, with the remainder allocated to a fixed income pool. ^h This provider includes in the fixed income pool estimates of the total value a participant could expect to receive from defined benefit plans and Social Security retirement benefits.

Source: GAO analysis of information provided by managed account providers. | GAO-14-310

^aManaged account providers have different philosophies about how much a participant should expect to spend during retirement, generally communicated as a percentage of the participant's expected final ending compensation. The goal they determine for participants may be an integral part of the provider's strategy for determining the participant's appropriate asset allocation. Providers that calculate this goal may provide participants status updates on their progress towards achieving this goal.

^bMVO is the formal way of constructing portfolios that balance risk and return. It entails plotting risk and return characteristics of all combinations of investment options in the plan and choosing the portfolio that maximizes expected return for a given level of risk.

^cMonte Carlo simulation describes the range of outcomes from a given asset allocation assuming various inputs for expected returns, volatilities, and correlations of investment options in the plan.

^dExperience-based methods for developing asset allocations rely on tradition, experience, or rules of thumb and may be less expensive to implement than MVO strategies. Popular experience-based methods could include allocation to fixed income assets increase with participants' risk aversion or allocation to equity assets remain at one hundred minus the participant's age.

^eA "glide path" approach generally adjusts participant risk levels downward over time.

^fActive management strategies seek to achieve specific goals and require more hands-on management of the fund by the investment manager than passively managed funds. This provider uses a rules-based approach, but also considers market trends in actively managing the flexible portion of their asset allocation.

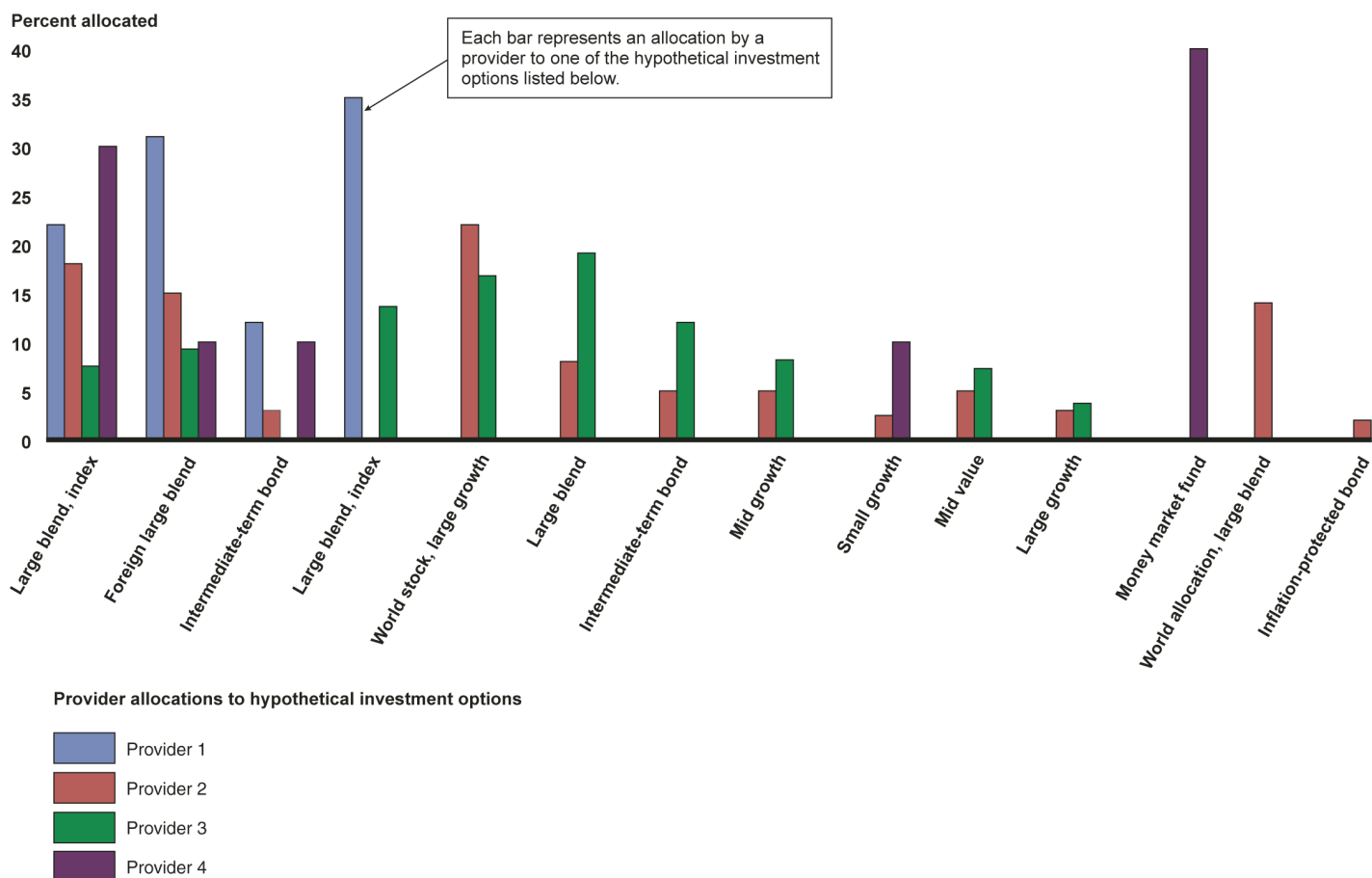
^gExchange traded funds are similar to mutual funds in that they offer investors a way to pool their money in a fund that makes investments in stocks, bonds, or other assets and, in return, to receive an interest in an investment pool. However, shares of the exchange traded funds are traded on a national stock exchange and at market prices that may or may not be the same as the net asset value of the shares. Unlike traditional mutual funds, exchange traded funds do not sell individual shares directly to investors, and investors may not redeem individual shares; the funds only issue and redeem their shares in large blocks known as creation units.

^hWhile one hundred minus age is this provider's default method for determining asset allocation to equities, the provider noted that plan sponsors may specify other methods of determining the appropriate asset allocation to equity assets.

Providers' use of different asset allocation strategies leads to variation in the asset allocations participants actually experience. As shown in figure 5, four of the eight providers in our case studies vary in their

recommendations of specific investment options for a 30-year old participant.³⁵

Figure 5: Selected Provider Allocations to Hypothetical Investment Options for a Hypothetical 30-year-old Participant



Source: GAO analysis of provider asset allocations. | GAO-14-310

Note: This figure presents illustrative allocations from four case study providers for our hypothetical 30-year-old participant. Investment option categories presented here are based on publicly reported

³⁵ However, allocations were generally similar across asset classes, such as equity and fixed income. See appendix II for an additional discussion of the methodology and results of this work. We asked all eight providers in our case studies to provide example asset allocations for five hypothetical participant scenarios in one hypothetical plan. Seven of the eight providers submitted asset allocations for the hypothetical participant scenarios we developed and some providers submitted multiple allocations given varying assumptions and strategies.

Morningstar Fund information in January 2014 for the 14 mutual funds that we selected for hypothetical plan investment options based on available information about whether these funds could be found in 401(k) plans.

Type and Amount of Participant Information

The type and amount of information providers use can also affect the way participant account balances are allocated. For example, two of the eight providers in our case studies only offer a *customized* service—allocating a participant’s account based solely on age or other factors that can be easily obtained from the plan’s record keeper, such as gender, income, current account balance, and current savings rate. The other six providers also offer a *personalized* service that takes into account additional personal information to inform asset allocations, such as risk tolerance or spousal assets. Providers that offer a personalized service reported that personalization could lead to better asset allocation for participants, but they also reported that generally fewer than one-third, and sometimes fewer than 15 percent, of participants furnish this personalized information. As a result, some industry representatives felt that participants may not be getting the full value of the service for which they are paying. For example, participants who are defaulted into managed accounts that offer a highly personalized service run the risk of paying for services they are not using if they are disengaged from their retirement investments. As shown in table 2, we found that among five of the seven providers that furnished asset allocations for our hypothetical scenarios, there was little relationship between the level of personalization and the fee they charged to participants for the managed account service.³⁶

Table 2: Effect on Provider Allocations Using Personalized Information for 30- and 57-year-old Hypothetical Participants

Provider	Effect of adding participants’ personalized information on the asset allocation of a hypothetical 30-year-old participant ^a	Effect of adding participants’ personalized information on the asset allocation of a hypothetical 57-year-old participant ^a	Comparative size of additional managed account fee charged to participants (range from 0.08 to 1 percent) ^b
A	Change	Change	Middle
B	Change	Change	Higher
C	No change	Change	Lower
D	No change	Change	Lower to higher
E	Nearly the same ^c	No change	Lower

³⁶ See appendix II for an additional discussion of the methodology of this work.

Provider	Effect of adding participants' personalized information on the asset allocation of a hypothetical 30-year-old participant ^a	Effect of adding participants' personalized information on the asset allocation of a hypothetical 57-year-old participant ^a	Comparative size of additional managed account fee charged to participants (range from 0.08 to 1 percent) ^b
F	No change	No change	Lowest to middle
G	No change	No change	Middle

Source: GAO analysis of provider asset allocations. | GAO-14-310

Note: Seven of the eight providers in our case studies submitted example asset allocations for five hypothetical participant scenarios in one hypothetical plan. Two of the five hypothetical participant scenarios pertain to a 30-year old participant and another two pertain to a hypothetical 57-year old participant. For each hypothetical participant, one scenario only included customized information—age or other factors that can be easily obtained from the plan's record keeper, such as gender, income, current account balance, and current savings rate—and the other scenario provided the same customized information but with additional, personal information, such as the hypothetical participant's preference for risk or their spouse's assets.

^aWe compared the asset allocations sent by the seven providers for the 30-year old and 57-year old participants to determine how the additional, personal information affected their hypothetical asset allocations and report here whether the asset allocations for each provider changed, were nearly the same, or did not change. Providers A through E in this table told us that additional personal information affects their asset allocations, which was generally confirmed by the differences in their asset allocations. For example, provider A's mid-range fee is less than could be expected given that personalization resulted in different asset allocations for both participants, while provider E's low fee is to be expected given that personalization generally did not result in different asset allocations for either participant. In contrast, providers F and G told us that they only offer a customized service, which was confirmed by the fact that their asset allocations did not change for each hypothetical participant.

^bProviders in our case studies told us the range of fees they typically charge participants who use their services—generally between 0.08 and 1 percent of the value of the assets providers manage for the participant. Here, we have included a comparative statement about the fee that participants could be charged if they enrolled in, or were defaulted into, managed accounts with one of these providers.

^cWe categorized this provider's asset allocations as "nearly the same" because they differed by less than 5 percent. Comparatively, allocations classified as the "No change" were exactly the same, and allocations classified as "Change" differed by more than 10 percent and sometimes by over 300 percent.

Some managed account providers' services may become more beneficial as participants age or as their situations become more complex because personalization seeks to create a tailored asset allocation for each participant. Such an individualized approach could even mean that older participants who are close to retirement and very young participants just starting their careers could be placed in equally risky allocations based on their personalized circumstances. However, industry representatives told us that participants who never supply additional, personalized information to managed account providers may be allocated similarly over time to those participants in target date funds.

Rebalancing Approaches and Time Frames

Providers differ in their approaches and time frames for rebalancing participant managed accounts—adjusting participant accounts to reflect any changes to their asset allocation strategies based on changing market conditions and participant information. Seven of the eight

providers in our case studies use a “glide path” approach to systematically reduce participant risk over time but one does not set predetermined glide paths for participants. Similarly, two of the eight providers in our case studies rebalance participant accounts annually, while the other providers generally review and rebalance participant accounts at least quarterly. Despite these differences in approaches and timeframes, our analysis of provider hypothetical asset allocations indicated that providers generally allocated less to equity assets and more to fixed income or cash-like assets for the older hypothetical participants than for the younger hypothetical participant.³⁷

Providers Vary Their Fiduciary Roles and Some May Offer Less Liability Protection for Sponsors

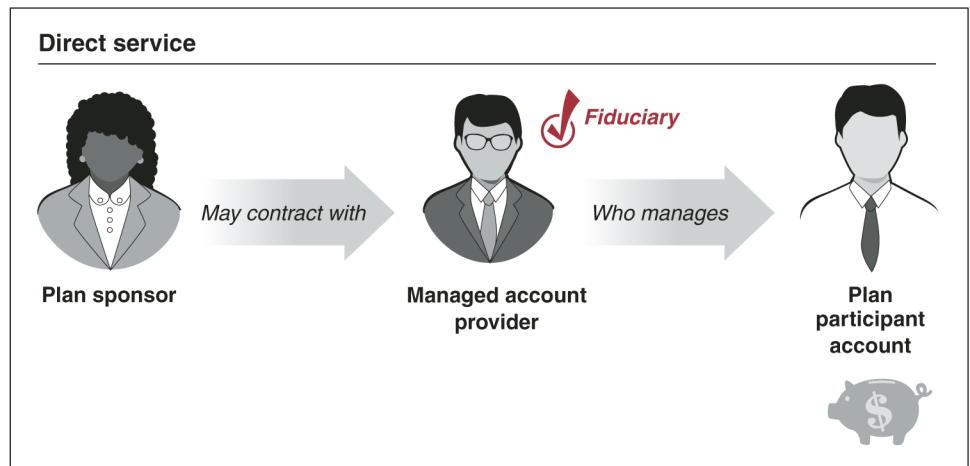
Some managed account providers in our case studies offer their services under “direct” arrangements in which the plan sponsor directly contracts with a provider to offer these services, as shown in figure 6.³⁸ According to the providers we spoke with, managed account providers in this type of arrangement are generally fiduciaries, but record keepers may not be fiduciaries with respect to the managed account service, as their role consists primarily of providing information to the managed account provider and implementing asset allocation changes to participant accounts.³⁹

³⁷ See appendix II for an additional discussion of the methodology and results of this work.

³⁸ We estimate that these eight providers represented over 95 percent of the managed account industry in defined contribution plans, as measured by assets under management in 2013.

³⁹ In conducting this work, we did not reach independent conclusions about whether or to what extent various entities involved in managed account arrangements are fiduciaries under ERISA because such determinations are generally based on the facts and circumstances of a particular situation. Instead, we report information provided by the entities included in our review.

Figure 6: Example of a Direct Managed Account Arrangement in a 401(k) Plan



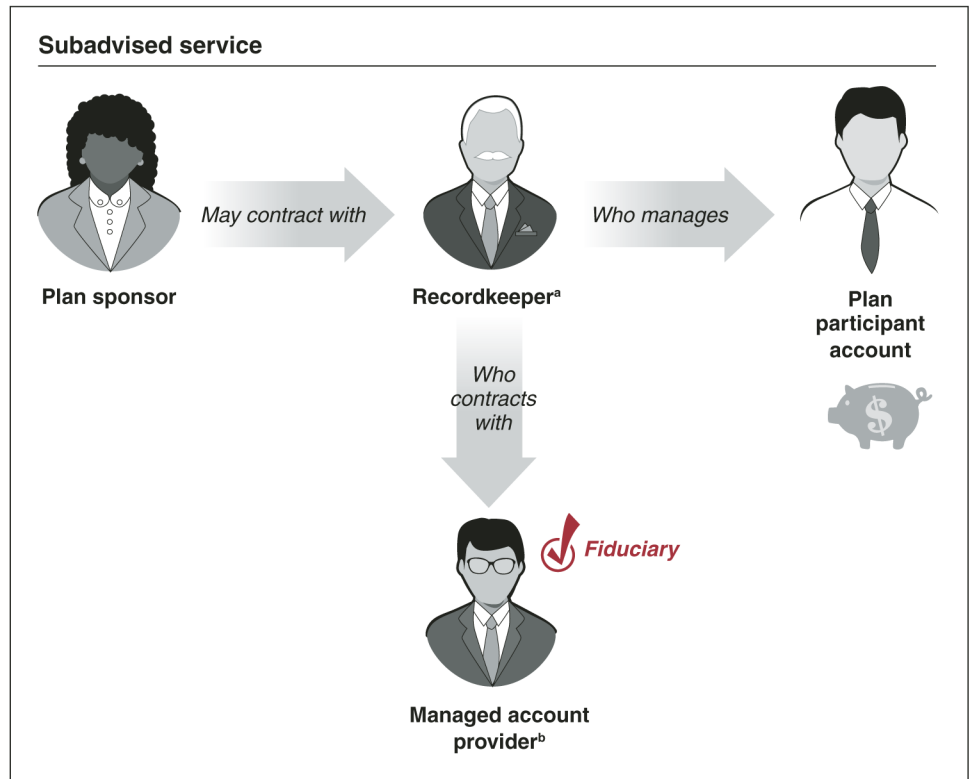
Source: GAO analysis of managed account provider case studies. | GAO-14-310

Note: Plan sponsors are typically the named fiduciaries of the plan. In addition, all eight managed account providers included in our case studies told us they take on some level of fiduciary responsibility for the managed account, regardless of whether their services are offered as a Qualified Default Investment Alternative or on an opt-in basis.

By contrast, some managed account providers use “subadvised” arrangements to offer their services. According to the providers we spoke to, in these arrangements, the plan sponsor does not directly contract with the managed account provider, and the plan’s record keeper, or an affiliate, may take on some fiduciary responsibility with respect to the managed account, as shown in figure 7. The record keeper may fulfill some of the responsibilities the managed account provider would have in a direct arrangement. These responsibilities may include providing periodic rebalancing based on the provider’s strategy, marketing managed account services, or offering other ongoing support for participants.⁴⁰

⁴⁰ However, record keepers differ in their approach to this arrangement. Specifically, some record keepers use an intermediary provider that takes on fiduciary responsibility and offers the use of multiple managed account providers, from which plan sponsors select a managed account provider to offer their plan participants. Other record keepers contract with only one managed account provider to obtain access to their managed account software, but every other function to support the managed account is provided by the record keeper.

Figure 7: Example of a Subadvised Managed Account Arrangement in a 401(k) Plan



Source: GAO analysis of managed account provider case studies. | GAO-14-310

Note: Plan sponsors are typically the named fiduciaries of the plan. In addition, all eight managed account providers included in our case studies told us they take on some level of fiduciary responsibility for the managed account, regardless of whether their services are offered as a Qualified Default Investment Alternative or on an opt-in basis. Subadvised arrangements can be offered in multiple ways. For example, providers can charge level fees or could follow the structure laid out in the Department of Labor’s SunAmerica Advisory Opinion 2001-09A (December 2001).

^aRecord keepers or their affiliates may also take on fiduciary roles, depending on the services they provide.

^bWhen a record keeper contracts with an intermediary provider that offers the use of multiple managed account providers, the intermediary would take the place of the managed account provider in this graphic and the multiple managed account providers that contract with the intermediary would be below the intermediary.

All of the eight managed account providers in our case studies told us that they take on some level of fiduciary responsibility—regardless of whether their services are offered as QDIAs or on an opt-in basis—so they each offer some protections to sponsors and participants in

managed accounts. Seven of the providers in our case studies told us that they willingly accept 3(38) Investment Manager fiduciary status for discretionary management over participant accounts,⁴¹ but one of the eight providers in our case studies noted that it never accepts 3(38) Investment Manager fiduciary status because it only has discretion over participants' accounts once a year.⁴² This provider told us that it is only a 3(21) Investment Adviser fiduciary even though its managed account service is similar to that of the other providers in our case studies.⁴³ Under ERISA, 3(21) Investment Adviser fiduciaries usually do not have authority over plan assets, but they may influence the operation of the plan by providing advice to sponsors and participants for a fee.⁴⁴ As such, they are generally liable for the consequences when their advice is imprudent or disloyal. In contrast, a 3(38) Investment Manager fiduciary has authority to manage plan assets at their discretion and with prudent judgment, and is also liable for the consequences of imprudent or disloyal decisions. Because 3(38) Investment Manager fiduciaries have explicit discretionary authority and must have the qualifications of a bank, insurance company, or RIA,⁴⁵ sponsors who use 3(38) Investment Manager fiduciaries may receive a broader level of liability protection from those providers as opposed to providers who offer managed account

⁴¹ 3(38) Investment Manager fiduciaries are required to acknowledge in writing that they are fiduciaries with respect to the plan, and in this regard, can be said to "willingly accept" 3(38) fiduciary status. See 29 U.S.C. § 1002(38)(C).

⁴² This provider requires participants to initially give affirmative consent that they want the provider to initially allocate and annually rebalance their accounts going forward. The provider automatically implements its annual allocations unless participants opt out of the service. According to representatives of the provider, this managed account service has not yet been used by 401(k) plan participants, but one record keeper has agreed to provide this service.

⁴³ We did not reach any independent conclusions about whether and to what extent this provider is or should be a fiduciary under ERISA.

⁴⁴ See 29 U.S.C. § 1002(21)(A)(ii) and 29 C.F.R. § 2510.3-21(c).

⁴⁵ As noted previously, a 3(38) Investment Manager fiduciary can only be a bank, an insurance company, or an RIA, but there are no similar requirements for 3(21) Investment Adviser fiduciaries, who DOL officials noted could be highly qualified or have limited or no experience.

services as 3(21) Investment Adviser fiduciaries.⁴⁶ In addition, when a 3(38) Investment Manager fiduciary is used, participants may have a broader level of assurance that they are receiving services from a qualified manager in light of the requirements related to qualifications of such fiduciaries.

As noted previously, when managed account services are offered as QDIAs, DOL requires the managed account provider to generally be a 3(38) Investment Manager fiduciary, but DOL has no similar explicit requirement for managed account providers whose services are offered on an opt-in basis.⁴⁷ Absent explicit requirements or additional guidance from DOL, some managed account providers may choose to structure the services they provide to limit their fiduciary liability, which could ultimately provide less liability protection for sponsors for the consequences of provider investment management choices. Given the current lack of direction or guidance about appropriate fiduciary roles for providers that offer managed accounts on an opt-in basis, sponsors may not be aware of this potential concern. Industry representatives we spoke with expressed concern about managed account providers who do not accept full responsibility with respect to managed account services by acknowledging their role as a 3(38) Investment Manager fiduciary. Other representatives also noted that it was important for sponsors to understand providers' fiduciary responsibilities given the important differences between 3(21) Investment Adviser and 3(38) Investment Manager fiduciaries with respect to the nature of liability protection they

⁴⁶ Plan sponsors, as named fiduciaries of 401(k) plans, are required to act prudently in selecting and monitoring managed account providers that are either 3(38) Investment Manager or 3(21) Investment Adviser fiduciaries. According to DOL officials, if a 3(38) Investment Manager fiduciary is appointed to manage plan assets, the plan trustee—who could be the plan sponsor or some other entity—is relieved from being held responsible for those assets. They further explained that, provided a plan sponsor trustee prudently selects and oversees a 3(38) Investment Manager fiduciary service provider, the sponsor cannot be held responsible for poor investment decisions made by the provider. This protection does not exist for the plan sponsor trustee if a 3(21) Investment Adviser fiduciary is selected.

⁴⁷ In QDIA regulations the requirement that a managed account provider be a 3(38) Investment Manager fiduciary is a condition under which a “safe harbor” could be achieved by the plan sponsor. Outside of such a safe harbor, as would be the case with opt-in managed account services, there is currently no similar requirement. DOL officials noted that it is not clear that DOL could require 3(38) Investment Manager fiduciary status outside of such a safe harbor context.

may provide for sponsors and the services they may provide for both sponsors and participants.

Some Providers Offer Additional Services That Could Lead to Conflicts of Interest, which DOL Has Not Addressed

Managed account providers may offer potentially valuable additional services to participants in or near retirement regarding how to spend down their accumulated retirement savings, but these services could lead to potential conflicts of interest. Most of the providers in our case studies allow participants to continue receiving account management services when they retire as long as they leave all or a portion of their retirement savings in the 401(k) plan. Some of those providers also provide potentially useful additional services to participants in or near retirement and do not typically charge additional fees for doing so.⁴⁸ These services may include helping participants review the tax consequences of withdrawals from their 401(k) account and advising them about when and how to claim Social Security retirement benefits. However, these providers may have a financial disincentive to recommend an out-of-plan option, such as an annuity or rollover to other plans or IRAs, because it is advantageous for them to have participants' continued enrollment in their managed account service offered through a 401(k) plan.

Providers have developed ways to mitigate some of this potential conflict of interest by, for example, offering advice on alternate sources of income in retirement such as TIPS.⁴⁹ Regardless, representatives from a participant advocacy group noted that managed account providers should have little involvement in a participant's decision about whether to stay in the managed account. As part of its responsibilities to protect plan participants under ERISA, DOL has not specifically addressed whether conflicts of interest may exist with respect to managed accounts offering

⁴⁸ According to the managed account providers in our case studies who offer these additional services, participants receiving asset allocation and savings services from managed account providers while they accumulate retirement assets pay the same fee as participants receiving spend-down services from those managed account providers.

⁴⁹ TIPS—derived from their former name, Treasury Inflation-Protected Securities—are inflation-indexed debt issued by the U.S. Treasury. These bonds have principal and coupon payments that are linked to movements in the Consumer Price Index. They are a defensive measure against expectations of inflation, which typically erodes the real yield of conventional bonds. Even if inflation fears are in check, these bonds can benefit when the yields fall on traditional Treasuries. These unique securities act very differently than any other fixed-rate bond, and their volatility can change over time, depending on the level of interest rates.

additional services to participants in or near retirement.⁵⁰ As a result, participants can be easily persuaded to stay in the managed account given the additional services offered to them by managed account providers.⁵¹ Additionally, the ease that these services offer could discourage managed account participants from fully considering other options, which can ultimately put them at risk of making suboptimal spend-down decisions.

Managed Accounts Offer Advantages for Some Participants, But Fees and Lack of Standardized Reporting Requirements from DOL Can Offset These Advantages

⁵⁰ Although DOL has not addressed this issue, in its 2010 proposal on the definition of fiduciary advice, DOL requested comments on whether and to what extent the final regulation defining fiduciary investment advice should encompass recommendations related to taking a plan distribution, including the costs and benefits associated with extending the regulation to these types of recommendations.

⁵¹ In our previous report on IRA rollovers, we found that participants chose the easiest, most accessible option because they were often unaware of their choices or had to do additional work to gain advantages from the other options. GAO, *401(k) Plans: Labor and IRS Could Improve the Rollover Process for Participants*, [GAO-13-30](#) (Washington D.C.: Mar. 7, 2013).

Various Industry Representatives Report that Managed Accounts Can Provide a Number of Advantages for Participants

Increase Diversification

Some managed account providers and plan sponsors have said that increased diversification of retirement portfolios is the main advantage of the managed account service for 401(k) plan participants. Increased diversification for participants enrolled in a managed account can result in better risk management and increased retirement income compared to those who self-direct their 401(k) investments. For example, one provider's study of managed account performance found that the portfolios of all managed account participants were believed to have been appropriately allocated, but that 43 percent of those who self-directed their 401(k) investments had equity allocations that were believed to be inappropriate for their age, and nearly half of these participants' portfolios were improperly diversified.⁵² The advantages of a diversified portfolio include reducing a participant's risk of loss, reducing volatility within the participant's account, and generating long-term positive retirement outcomes.⁵³

Another reported advantage of managed accounts is that they help to moderate volatility in 401(k) account performance, compared to accounts of those who self-direct their 401(k) investments. For example, in two recent reports on managed account performance, one record keeper

⁵² See Morningstar, *Better Expected Retirement Outcomes with Managed Accounts* (July 15, 2013). In another study of managed accounts, this managed account provider found that its participants who self-directed their 401(k) investments were either too aggressive or too conservative in their asset allocation strategies, and many were significantly underdiversified, with nearly half of the participants in the study having more than 30 percent of their retirement account improperly allocated. See Morningstar, *Making the Case for Managed Accounts* (2011). We did not verify the accuracy of the information provided in this report. Information provided by Morningstar is from a limited dataset and was used to project future outcomes only for the small set of Morningstar participants enrolled in its advisory service. These data are not representative of the future performance of the universe of defined contribution plan participants.

⁵³ For additional information on diversification, see U.S. Securities and Exchange Commission, *Beginners' Guide to Asset Allocation, Diversification, and Rebalancing*, accessed on March 17, 2014, <http://www.sec.gov/investor/pubs/assetallocation.htm>.

Encourage Larger Contributions

concluded that the expanded use of professionally managed allocations, including managed accounts, is contributing to a reduction in extreme risk and return outcomes for participants, and is also gradually mitigating concerns about the quality of portfolio decision-making within defined contribution plans.⁵⁴ Managed account providers in our eight case studies also claim that the increased personalization and more frequent rebalancing of managed accounts create an appropriately diversified portfolio that better meets a participant's retirement goals than target date funds or balanced funds. According to these providers, periodic rebalancing combats participant inertia, one of the main problems with a self-directed 401(k) account, and the failure to update investment strategies when financial circumstances change over time.⁵⁵

Several managed account providers told us that another advantage of managed accounts is the tendency for participants to save more for retirement compared to those who are not enrolled in the service. For example, in a study of managed accounts, a provider reported that participants in plans for which this provider offers the service contributed \$2,070 more on average in 2012 than participants who self-directed investments in their 401(k) accounts (1.9 percent of salary more in contributions on average than participants who self-direct 401(k)

⁵⁴ See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013) and Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios* (Valley Forge, PA: November 2012). These papers examine the portfolio outcomes for Vanguard participants in defined contribution plans who enrolled in a managed account, invested in a target date fund or balanced fund, or self-directed their 401(k) investments from 2007 through 2012 and from 2006 through 2011, respectively. We did not verify the accuracy of the information provided in these reports. Information provided by Vanguard is from a limited dataset that can only describe the portfolio performance for Vanguard defined contribution plan participants with these types of retirement portfolios over a finite period of time. These data are not representative of the portfolio performance of the universe of defined contribution plan participants or for other periods of time.

⁵⁵ In addition, managed account providers and sponsors have reported that participants in managed accounts have reduced the percentage of company stock held in their retirement portfolios, which can help to reduce risk associated with investing heavily in a single equity. For example, one sponsor we interviewed said that the managed account it offers participants does not allow investments in company stock and, as a result, the managed account has substantially improved participants' portfolio diversification by decreasing investments in company stock by two-thirds.

investments).⁵⁶ This provider noted that managed account participants are better at taking advantage of their plan's matching contribution than participants who self-direct their 401(k) investments. For example, they found that 69 percent of managed account participants contributed at least to the level of the maximum employer matching contribution, while only 62 percent of participants who self-directed investments contributed to this level. This provider said that communication with managed account participants can lead to increased savings rates when they are encouraged to increase savings rates by at least 2 percentage points and to save at least to the point where they receive the full employer match, if such a match exists.⁵⁷ Another service provider told us that it offers an online calculator that managed account participants can use to understand their retirement readiness. The provider also said that participants who use the calculator can see how increased savings can lead to improved retirement outcomes and will often increase their savings rate into their managed account.

Improve Access to Retirement Planning Information

Retirement readiness statements received by participants who are enrolled in a managed account are another reported advantage of the service. Participants generally receive retirement readiness statements that can help them assess whether they are on track to reach their retirement goals, and the statements generally contain information about their retirement investments, savings rate, asset allocations, and projected retirement income. These statements help participants understand the likelihood of reaching their retirement goals given their current investment strategy and whether they should consider increasing their savings rates or changing risk tolerances for their investments. In some cases, these statements may provide participants with their first look in one document at the overall progress they are making toward their

⁵⁶ See Morningstar, *Better Expected Retirement Outcomes with Managed Accounts* (July 15, 2013). We did not verify the accuracy of the information provided in this report. Information provided by Morningstar is from a limited dataset and was used to estimate savings and portfolio performance only for a small set of Morningstar participants enrolled in its advisory service. These data are not representative of the savings or portfolio performance of the universe of defined contribution plan participants.

⁵⁷ This provider presents every participant who enrolls in its managed accounts service with a gap analysis that shows the effect that even a small increase in savings can have on a participant's retirement income. See Morningstar, *Making the Case for Managed Accounts* (2011).

retirement goals.⁵⁸ As shown in table 3, our review of three providers' statements shows that they use different metrics on participant readiness statements to evaluate participants' retirement prospects. For example, each statement provided participants with information on their retirement goals and risk tolerance, and a projection of their future retirement income to demonstrate the value of the service.

Table 3: Information in Retirement Readiness Statements Furnished to Participants in Three Managed Accounts that GAO Reviewed

	Provider 1	Provider 2	Provider 3
Participant profile, retirement goals, and/or risk tolerance	✓	✓	✓
Retirement readiness projection and expected monthly or annual retirement income ^a	✓	✓	✓
Current asset allocation	✓	✓	
Opening and closing account balance for the period	✓	✓	
Participant assets and/or liabilities	✓	✓	
Savings rate	✓	✓	✓
Individual fund and aggregate account performance	✓		
Fees	✓		
Action plan to increase savings	✓	✓	✓

Source: GAO analysis of managed account reports reviewed during provider cased studies. | GAO-14-310

^aTypically, a projected amount of monthly income in retirement from all sources, including the 401(k) plan, Social Security retirement benefits, and any defined benefit plans.

Similar advantages, however, can be achieved through other retirement investment vehicles outside of a managed account and without paying the additional managed account fee. For example, in one recent study, a record keeper that offers managed accounts through its platform showed that there are other ways to diversify using professionally managed allocations, such as target date funds, which can be less costly.⁵⁹ Although managed account providers may encourage participants to save more and review their progress towards achieving a secure retirement, participants still have to pay attention to these features of the managed

⁵⁸ While plan sponsors can contract with their plan administrators or record keepers to offer these types of statements to participants even if they do not offer a managed account, we found that managed account providers consistently offered this feature to participants.

⁵⁹ See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013).

account for it to provide value. Even if 401(k) plan participants are not in managed accounts, we found that in some instances they can still receive advice and education from a provider in the form of retirement readiness statements.

Fees for Managed Accounts Can Be a Disadvantage for Participants

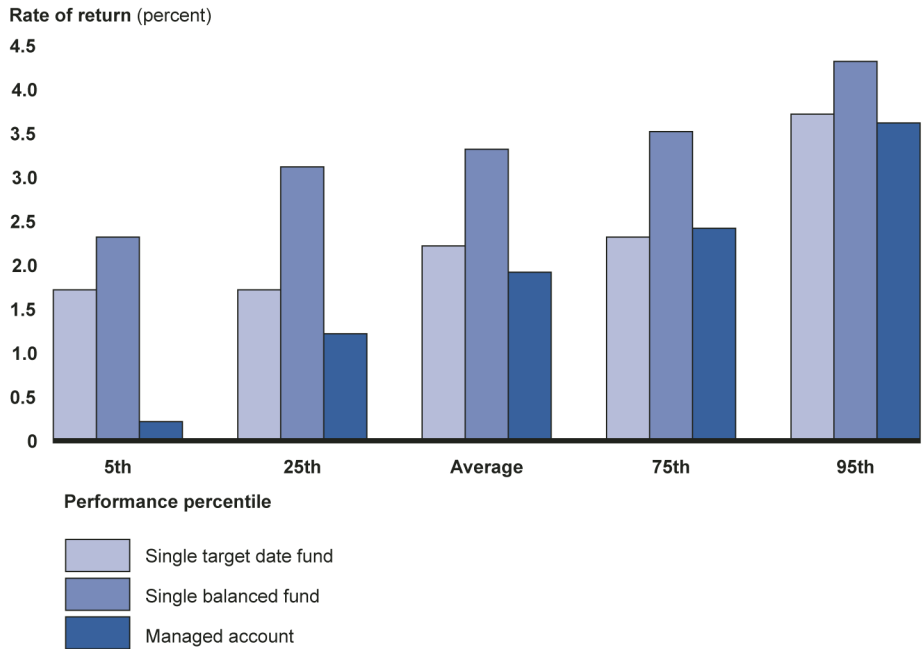
The additional fee a participant generally pays for a managed account was the primary disadvantage mentioned by many industry representatives, plan sponsors, and participant advocates. Because of these additional fees, 401(k) plan participants who do not receive higher investment returns from the managed account services risk losing money over time. Some managed account providers and record keepers have reported that managed account participants earn higher returns than participants who self-direct their 401(k) plan investments, which may help participants offset the additional fee charged. For example, one provider told us that participants enrolled in managed accounts saw about 1.82 percentage points better performance per year, net of fees, compared to participants without managed accounts. Given these higher returns, this provider projects that a 25-year-old enrolled in its managed account could potentially see up to 35 percent more income at retirement than a participant not enrolled in the service, according to this provider's calculations.⁶⁰ Another provider reported that the portfolios of participants who were defaulted into managed accounts were projected to receive returns of nearly 1 percentage point more annually, net of fees, after the provider made allocation changes to the participants' portfolios.

However, the higher rates of return projected by managed account providers may not always be achievable. For instance, we found limited data from one record keeper that published returns for managed account participants that were generally less than or equal to the returns of other professionally managed allocations (a single target date fund or balanced fund) as shown in figure 8.⁶¹

⁶⁰ Morningstar, *Better Expected Retirement Outcomes with Managed Accounts* (July 15, 2013).

⁶¹ Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013). For additional information obtained from this report, see appendix III.

Figure 8: Example of Annualized Rates of Return from One Record Keeper for Different Types of Professionally Managed 401(k) Portfolios, 2007-2012, Net of Additional Fees



Source: GAO representation of Vanguard returns data. | GAO-14-310

Note: Information in this record keeper's reports is from a limited dataset that can only describe the portfolio performance for this record keeper's defined contribution plan participants with these types of retirement portfolios over a finite period of time. These data are not representative of the portfolio performance of the universe of defined contribution plan participants or for other periods of time. See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013) and Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios* (Valley Forge, PA: November 2012). These studies examine the effect of professionally managed allocations on participant portfolio construction in defined contribution plans. Professionally managed allocations are participant accounts where 100 percent of the balance is invested by a professional money manager. For these studies, a single target date fund is the most common type of professionally managed allocation, but the category also includes traditional balanced funds and a managed account advisory service. The 5-year returns data include portfolio returns from the recession of 2007-2008. For this reason, the traditional balanced fund had generally higher returns over this period because of their larger fixed income exposure. Return results would likely be different if data from 2007-2008 were not included in the analysis.

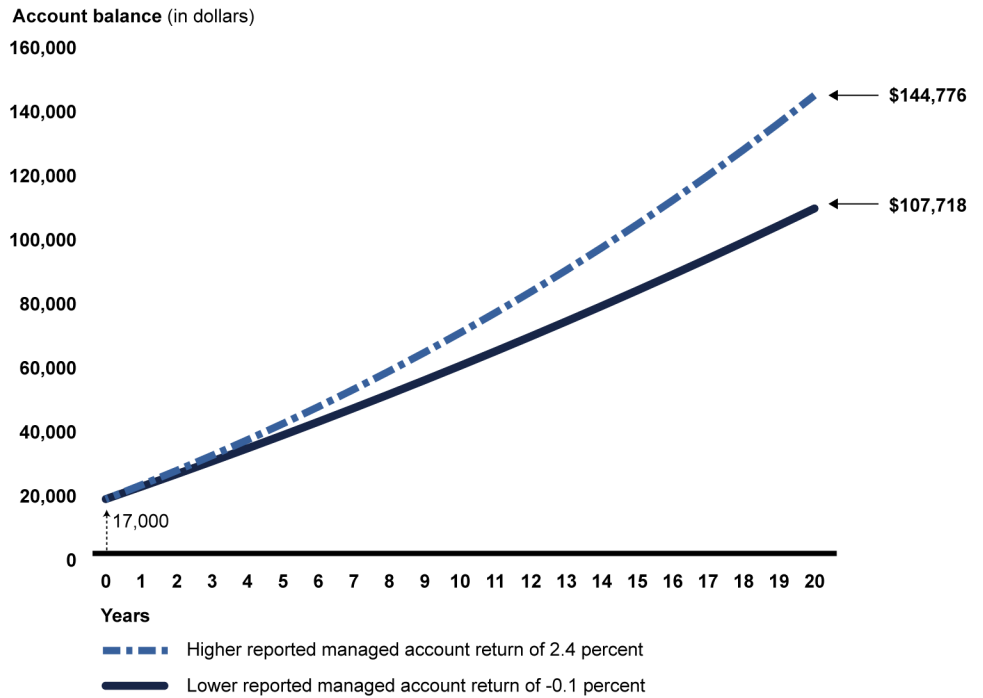
We used these and other returns data published by this record keeper to illustrate the potential effect over 20 years of different rates of return on

participant account balances.⁶² On the lower end, this record keeper reported that, over a recent 5-year period, 25 percent of its participants earned annualized returns of -0.1 percent or less, not even making up the cost of the additional fee for the service. On the higher end, the record keeper reported that, over a slightly different 5-year period, 25 percent of its participants earned annualized returns of 2.4 percent or higher for the service. These actual returns illustrate the substantial degree to which returns can vary. If such a 2.5 percentage point difference (between these higher and lower reported managed account rates of return of 2.4 percent and -0.1 percent, respectively) were to persist over 20 years, a participant earning the higher managed account rate of return could have nearly 26 percent more in their ending account balance at the end of 20 years than a participant earning the lower rate of return in their managed account.⁶³ As shown in Figure 9, using these actual rates of return experienced by participants in managed accounts, such a variation in rates of return can substantially affect participant account balances over 20 years.

⁶² We found little available data on the performance of managed accounts. For the purpose of this illustration, we used Vanguard's published data on 5-year annualized returns for defined contribution plan participants with either professionally managed allocations or participant-constructed portfolios, which we refer to as a self-directed 401(k) account. The 5-year returns data include portfolio returns from the recession of 2007-2008. Return results would likely be different if data from 2007-2008 were not included in the analysis. Information provided by Vanguard is from a limited dataset that can only describe the portfolio performance for Vanguard defined contribution plan participants with these types of retirement portfolios over a finite period of time. These data are not representative of the portfolio performance of the universe of defined contribution plan participants or for other periods of time. See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013) and Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios* (Valley Forge, PA: November 2012).

⁶³ The -0.1 percent return represents the 25th percentile in managed account returns performance for the period of 2006-2011. The 2.4 percent return represents the 75th percentile in managed account returns for the period of 2007-2012. See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013) and Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios* (Valley Forge, PA: November 2012).

Figure 9: Example of Growth in a Participant's 401(k) Account Balance over Time Using Different Reported Managed Account Rates of Return, Net of Additional Fees



Source: GAO analysis of information from providers and published data on managed account fees and returns. | GAO-14-310

Note: We conducted this analysis assuming that the participant had a starting account balance of \$17,000 (based on the Employee Benefit Research Institute's (EBRI's) estimated median 401(k) account balance at year-end 2011), a starting salary of \$40,000 (based on the Bureau of Labor Statistics' seasonally adjusted median weekly earnings for the third quarter of 2013), an average annual salary increase of 1.75 percent (based on the Bureau of Labor Statistics' salary increase estimate for the 12-month period ending September 2013), and a savings rate of 9.7 percent (based on EBRI's estimate of an average employee savings rate of 6.7 percent for 2012 and a 3 percent average employer match). We used Vanguard's published data on 5-year annualized returns for defined contribution plan participants with professionally managed allocations, including managed accounts and participant-constructed portfolios, which we refer to as self-directed 401(k) accounts. The -0.1 percent return represents the 25th percentile in managed account returns performance for the period of 2006-2011. The 2.4 percent return represents the 75th percentile in managed account returns for the period of 2007-2012. The managed account rates of return in this analysis are net of additional fees charged to participants. The 5-year returns data include portfolio returns from the recession of 2007-2008. Return results would likely be different if data from 2007-2008 were not included in the analysis. Information provided by Vanguard is from a limited dataset that can only describe the portfolio performance for Vanguard defined contribution plan participants with these types of retirement portfolios over a finite period of time. These data are not representative of the portfolio performance of the universe of defined contribution plan participants or for other periods of time. See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013) and Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios* (Valley Forge, PA: November 2012).

Further, this record keeper's published data on managed account rates of return were net of fees—rates of return would be higher if participants did

not pay the additional fee for the service. For example, using this record keeper's average fee rate in our analysis,⁶⁴ we estimate that a hypothetical managed account participant who earned a higher rate of return of 2.4 percent will pay \$8,400 more in additional fees over 20 years than a participant who self-directs investments in their 401(k) account and does not pay the additional fee.⁶⁵ To illustrate the potential effect that fees could have on a hypothetical participant's account balance over 20 years, we used a higher fee of 1 percent reported to us by one provider to estimate that a participant would pay \$14,000 in additional fees compared to a participant who self-directs investments in their 401(k) account over the same period. However, based on the reported performance data we found, there is no guarantee that participants will earn a higher rate of return with a managed account compared to the returns for other professionally managed allocations or self-directed 401(k) accounts. The limited performance data we reviewed show that in most cases, managed accounts underperformed these other professionally managed allocations and self-directed 401(k) accounts over a 5-year period. However, managed account participants with lower rates of return still pay substantial additional fees for the service. To further illustrate the effect of fees on account balances, a hypothetical participant who earns a lower managed account rate of return of -0.1 percent would pay \$6,900 in additional fees using this record keeper's average fee over 20 years

⁶⁴ For the purpose of this illustration, we used fee data reported to us during our case studies of managed account providers. We also used Vanguard's published data on 5-year annualized returns for defined contribution plan participants with either professionally managed allocations or participant-constructed portfolios, which we refer to as a self-directed 401(k) account. The 5-year returns data include portfolio returns from the recession of 2007-2008. Return results would likely be different if data from 2007-2008 were not included in the analysis. Information provided by Vanguard is from a limited dataset that can only describe the portfolio performance for Vanguard defined contribution plan participants with these types of retirement portfolios over a finite period of time. These data are not representative of all possible fees charged to participants for a managed account, the portfolio performance of the universe of defined contribution plan participants, or for other periods of time. See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios*, (Valley Forge, PA; August 2013) and Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios*, (Valley Forge, PA; November 2012).

⁶⁵ The 2.4 percent rate of return represents the 75th percentile for this record keeper's managed account participants for the period of 2007-2012. For the same period, the 75th percentile was 3.3 percent for participants with self-directed 401(k) accounts, 3.5 percent for participants invested in a single balanced fund, and 2.3 percent for participants invested in a single target date fund. See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013)

compared to a participant who self-directed investments in their 401(k) account, and the additional fees would increase to \$11,500 at the 1 percent fee level using the lower rate of return.⁶⁶

The additional managed account fees, which are charged to participants over and above investment management and administrative fees,⁶⁷ can vary substantially, and as a result, some participants pay no fees, others pay a flat fee each year, and still others pay a comparatively large percentage of their account balance for generally similar services from managed account providers.⁶⁸ In our case studies, we reviewed the additional fees charged to participants for the service. One managed account provider charges a flat rate and fees for the other seven providers ranged from 0.08 to 1 percent of the participant's account balance annually, or \$8 to \$100 on every \$10,000 in a participant's

⁶⁶ The -0.1 percent rate of return represents the 25th percentile for this record keeper's managed account participants for the period of 2006-2011. For the same period, the 25th percentile was 0.0 percent for participants with self-directed 401(k) accounts, 2.7 percent for participants invested in a single balanced fund, and 0.3 percent for participants invested in a single target date fund. See Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios* (Valley Forge, PA: November 2012).

⁶⁷ Participants with 401(k) accounts generally pay investment management fees and other administrative fees to providers or record keepers to maintain their accounts. Investment management fees, which can vary by investment option, are generally charged as a percentage of assets and indirectly charged against participants' accounts because they are deducted directly from investment returns. Administrative fees, on the other hand, can be assessed as an overall percentage of total plan assets regardless of participants' investment choices, in addition to a flat rate for some fixed services, such as printing plan documents. In the latter, the sponsor has the option of passing along some or all of the administrative fees to participants. We previously reported that recordkeeping and administrative fees are often paid by the plan sponsors, but participants bear them in a growing number of plans. GAO, *Private Pensions: Changes Needed to Provide 401(k) Plan Participants and the Department of Labor Better Information on Fees*, [GAO-07-21](#) (Washington, D.C.: Nov. 16, 2006).

⁶⁸ Participants generally receive information on the fees they pay to the managed account provider in their plan, but do not receive comparative fee information for other providers. We found few independent sources of comprehensive and consistent information on managed account fees charged by providers that a participant could use to compare fees across providers. PLANSPONSOR publishes an annual Asset Allocation Solutions Buyer's Guide that includes some information on the additional fees certain providers charge for managed accounts. However, the information on fees is not consistent across providers and, in some instances, does not contain information specific enough to allow participants to accurately identify the fee they will have to pay for their individual managed account. Instead, publicly available fee information on managed accounts can usually be found in specific managed account provider SEC filings or sometimes on provider websites, which participants may find confusing or incomplete.

account.⁶⁹ Therefore, participants with similar balances but different providers can pay different fees. As shown in table 4, participants with an account balance of \$10,000 whose provider charges the highest fee may pay 12.5 times as much as participants whose provider charges the lowest fee (\$100 and \$8, respectively). However, participants with an account balance of \$500,000 may pay up to 250 times as much as other participants but one is subject to a provider who charges the highest fees while the other is at the lowest fee provider (\$5,000 and \$20, respectively).

Table 4: Example of Variation in 401(k) Plan Managed Account Fees

Provider	Type of fee	Example of annual fee charged on \$10,000 account balance	Example of annual fee charged on \$500,000 account balance
A	Flat fee	\$20	\$20
B	Variable fee, ^a capped ^b	\$25	\$250
C	Variable fee	\$10	\$500
D	Variable fee, direct arrangement ^c	As low as \$8	As low as \$400
	Variable fee, subadvised arrangement ^d	As high as \$40	As high as \$2,000
E	Variable fee, tiered, ^e default ^f	As high as \$35	As high as \$1,100
	Variable fee, tiered, opt-in ^f	As high as \$60	As high as \$2,350
F	Variable fee, tiered	Averages \$45-\$50	Averages \$2,250-\$2,500
G	Variable fee, default	As low as \$45	As low as \$2,250
	Variable fee, opt-in	As high as \$55	As high as \$2,750
H	Variable fee, large plan	As low as \$25	As low as \$1,250
	Variable fee, small plan	As high as \$100	As high as \$5,000

Source: GAO analysis of managed account provider case studies. | GAO-14-310

Note: We estimate that these eight providers chosen for our case studies represented over 95 percent of the managed account industry in defined contribution plans, as measured by assets under management in 2013.

^aFees can vary based on a number of factors, such as certain plan characteristics (i.e., the amount of assets in the plan, the percentage of plan participants enrolled in managed accounts) or the level of a participant's account balance.

^bThis provider placed a limit on the fee they charge at a specific dollar amount.

^cA direct arrangement generally refers to situations where the managed account provider contracts directly with the plan sponsor.

⁶⁹ In limited instances, some participants may not pay a fee at all because managed account providers noted that some plan sponsors subsidize or pay the fees charged to participants.

^dA subadvised arrangement generally describes situations where the managed account provider contracts with another plan services provider. In this arrangement plan sponsors do not contract directly with managed account providers.

^eFees may be tiered, meaning that they generally decrease as a participant's account balance increases.

^fFees may vary based on whether or not participants are defaulted into managed accounts by the plan sponsor or choose to opt into the managed account service.

Participants with large account balances whose managed account provider caps fees at a certain level benefit more than similar participants whose fees are not capped. Of the providers we reviewed who charge variable fees, one provider caps the fee at a certain amount per year. For example, this provider charges 0.25 percent or \$25 for every \$10,000 in a participant's account, with a maximum of \$250 per year, so participants who use this provider only pay fees on the first \$100,000 in their accounts. As a result, the difference in fees paid by participants using this provider, or providers who charge flat rates, widens as participant account balances increase.

Plan characteristics can affect fees participants pay to managed account providers. For example, at one managed account provider included in our review, a participant in a small plan may pay more for a managed account than a similar participant in a large plan. Similarly, a participant in a plan with high enrollment or that uses managed accounts as the default may pay less for a managed account than a participant with the same balance in a plan with low enrollment or that offers managed accounts as an opt-in service. We also found through our case studies that fees can vary based on factors beyond the plan's characteristics, such as the types of providers involved in offering the managed account, the size of participant account balances, and the amount of revenue sharing⁷⁰ received by the managed account provider. Fees calculated through revenue sharing can vary in accordance with the investment options the plan sponsor chooses to include in the plan and the amount of revenue the provider actually receives from these options. In these cases, initial fee estimates for the managed account may differ from actual fees they pay. In addition, some plan sponsors also pay fees to offer managed account services, but since

⁷⁰ Revenue sharing generally refers to indirect payments made from one service provider to another service provider in connection with services provided to the plan, rather than payments made directly by the plan sponsor for plan services.

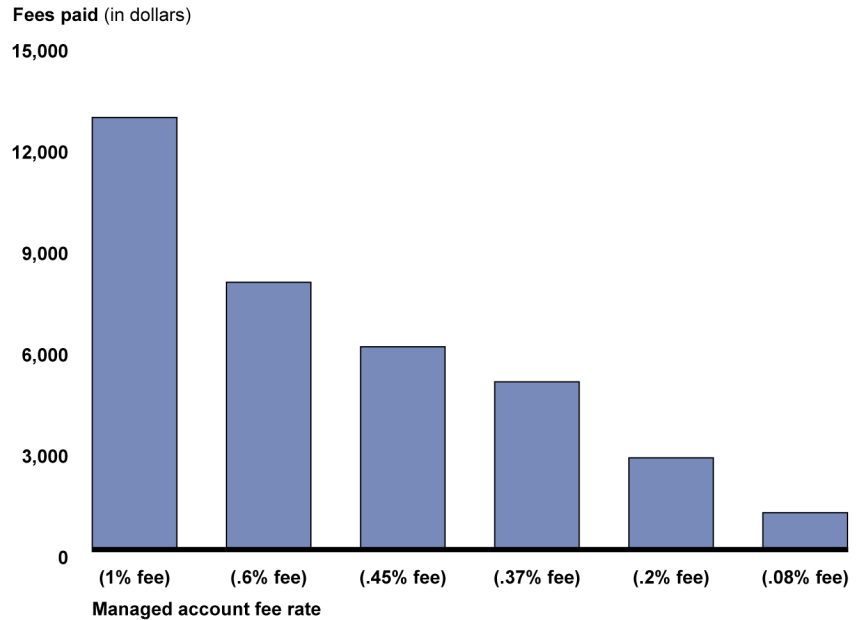
these fees may be paid out of plan assets, participants in these plans may pay more than participants in plans that do not pay fees.⁷¹

As shown above, paying higher additional fees to a provider for a managed account service offers no guarantee of higher rates of return compared to other providers or compared to the reported rates of return earned by participants who invest in other professionally managed allocations or who self-direct investments in their 401(k) accounts. Because the additional fee is charged to participants on a recurring basis, such as every quarter or year, the costs incurred over time by participants who use managed accounts can accumulate. We used fee data reported by managed account providers to illustrate the effect that different fees could have on a participant's managed account balance over time. As shown in figure 10, a hypothetical participant in our illustration who is charged an additional annual fee of 1 percent of their account balance for their managed account may pay nearly \$13,000 more over 20 years than they would have paid in any other investment without the managed account fee. This compares to about \$1,100 in additional fees paid over 20 years by a participant who is charged an annual fee of 0.08 percent for a managed account, the lowest variable non-capped fee we found.⁷²

⁷¹ For example, one managed account provider may charge a one-time setup fee of \$25,000 to cover the costs of setting up a large or particularly complex plan's managed account service, which may have primarily institutional investment options that require additional modeling by the managed account provider. Another provider charges between \$6 and \$14 per participant in the plan, which is generally paid from plan assets or absorbed into the plan's recordkeeping fees.

⁷² The hypothetical participant in our illustration is based on certain reported data, as described in the notes under Figure 10.

Figure 10: Variation in Additional Participant Fees Paid for a Managed Account Over a 20-Year Period Given Different Fee Rates



Source: GAO analysis of information from providers and published data on managed account fees and returns. | GAO-14-310

Note: We conducted this analysis assuming that the participant had a starting account balance of \$17,000 (based on the Employee Benefit Research Institute's (EBRI's) estimated median 401(k) account balance at year-end 2011), a starting salary of \$40,000 (based on the Bureau of Labor Statistics' seasonally adjusted median weekly earnings for the third quarter of 2013), an average annual salary increase of 1.75 percent (based on the Bureau of Labor Statistics' salary increase estimate for the 12-month period ending September 2013), and a savings rate of 9.7 percent (based on EBRI's estimate of an average employee savings rate of 6.7 percent for 2012 and a 3 percent average employer match). This participant invested over 20 years using a managed account service with an annual rate of return of 1.9 percent, which represents an average of the average rates of return earned by participants with self-directed 401(k) accounts published by Vanguard in its 401(k) performance reports for the periods of 2006-2011 and 2007-2012. We used Vanguard's published data on 5-year annualized returns for defined contribution plan participants with professionally managed allocations, including managed accounts, and participant-constructed portfolios, which we refer to as self-directed 401(k) accounts. The 5-year returns data include portfolio returns from the recession of 2007-2008. Return results would likely be different if data from 2007-2008 were not included in the analysis. Information provided by Vanguard is from a limited dataset that can only describe the portfolio performance for Vanguard defined contribution plan participants with these types of retirement portfolios over a finite period of time. These data are not representative of the portfolio performance of the universe of defined contribution plan participants or for other periods of time. See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013) and Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios* (Valley Forge, PA: November 2012).

Lack of a Requirement for Performance and Benchmarking Information Inhibits Participant Evaluation of Managed Accounts

The limited availability of returns-based performance data and lack of standard metrics can also offset the reported advantages of managed accounts. In its final rule on participant-level disclosures, DOL requires that sponsors disclose performance data to help participants make informed decisions about the management of their individual accounts and the investment of their retirement savings, and that sponsors provide appropriate benchmarks to help participants assess the various investment options available under their plan.⁷³ By requiring sponsors to provide participants with performance data and benchmarking information for 401(k) investments, DOL intends to reduce the time required for participants to collect and organize fee and performance information and increase participants' efficiency in choosing investment options that will provide the highest value.

Since the applicability date of the participant-level disclosure regulation, for most plans in 2012, DOL has required plan sponsors to provide participants who invest in a "designated investment alternative" in their 401(k) account with an annual disclosure describing the fees, expenses, and performance of each of the investment funds available to them in the plan.⁷⁴ DOL defines a designated investment alternative as "any investment alternative designated by the plan into which participants and beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts."⁷⁵ For designated investment alternatives, plan sponsors are required to disclose to participants specific information identifying the funds available to them in the plan, results-based performance information over varying time periods, and performance benchmarks in a way that invites comparison with established benchmarks and market indexes, as shown in table 5.

⁷³ See Fiduciary Requirements for Disclosure in Participant-Directed Individual Account Plans, 75 Fed. Reg. 64,910 (Oct. 20, 2010) (codified at 29 C.F.R. pt. 2550).

⁷⁴ This requirement is referred to as the participant-level disclosure regulation. 29 C.F.R. § 2550.404a-5.

⁷⁵ 29 C.F.R. § 2550.404a-5(h)(4).

Table 5: Examples of Plan and Investment-Related Information Plan Sponsors Are Required to Disclose to Participants with 401(k) Investments

Type of information	Requirement
Identifying information	<ul style="list-style-type: none"> The name of each designated investment alternative^a The type or category of the investment (e.g., money market fund, balanced fund (stocks and bonds), large cap stock fund, employer stock fund, employer securities).
Performance data ^b	<ul style="list-style-type: none"> For designated investment alternatives with respect to which the return is not fixed, the average annual total return of the investment for 1-, 5-, and 10-calendar year periods (or for the life of the alternative, if shorter) ending on the date of the most recently completed calendar year. A statement indicating that an investment's past performance is not necessarily an indication of how the investment will perform in the future.
Benchmarks ^b	<ul style="list-style-type: none"> Standard: For designated investment alternatives with respect to which the return is not fixed, the name and returns of an appropriate broad based securities market index over the 1-, 5-, and 10-calendar year periods (or for the life of the alternative, if shorter), which is not administered by an affiliate of the investment issuer, its investment adviser, or a principal underwriter, unless the index is widely recognized and used. Custom: In the case of designated investment alternatives that have a mix of equity and fixed income exposure (e.g., balanced funds or target date funds), a plan administrator may blend the returns of more than one appropriate broad-based index and present the blended returns along with the returns of the required benchmark, provided that the blended returns reflect the proportion of actual equity and fixed-income holdings of the designated investment alternative. For example, where a balanced fund's equity-to-bond ratio is 60:40, the returns of an appropriate bond index and an appropriate equity index may be blended in the same ratio and presented along with the benchmark returns.

Source: GAO analysis of DOL regulations at 29 C.F.R. § 2550.404a-5(d)(1)(i),(ii), and (iii). | GAO-14-310

^aDOL defines a designated investment alternative as “any investment alternative designated by the plan into which participants and beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts.” 29 C.F.R. § 2550.404a-5(h)(4).

^bPlan sponsors are required to furnish this information to participants in a chart or similar format that is designed to facilitate comparison of such information for each designated investment alternative offered under the plan. 29 C.F.R. § 2550.404a-5(d)(2)(i). The final rule includes a Model Comparative Chart plan sponsors may elect to use to satisfy this requirement. See 75 Fed. Reg. 64,942.

Despite DOL’s requirements for designated investment alternatives, with respect to managed accounts offered either as an opt-in or default service, plan sponsors are generally only required to disclose to 401(k) participants the identity of the managed account provider or investment manager and any fees and expenses associated with its management. Neither plan sponsors nor managed account providers are required to isolate within the participant-level disclosure investment-related information on the individual funds that comprise the participant’s managed account or present aggregate performance of the account for a given period. DOL generally does not consider most managed accounts to be “designated investment alternatives.” Instead, according to DOL, managed account providers are generally considered to be “designated investment managers” as they provide a service to participants rather

than an investment option, such as a mutual fund.⁷⁶ As a result, the investment–related information required in DOL’s participant-level disclosure regulation does not apply to investment services, such as many managed accounts.

Because DOL does not require plan sponsors to provide participants information on the performance of their managed accounts or to compare performance against a set of standard benchmarks, it is potentially difficult for participants to evaluate whether the additional fees for managed accounts are worth paying, considering the effect of fees on returns and retirement account balances. As a result, participants may be unable to effectively assess the overall value of the service and to compare performance against a set of standard benchmarks. Not all of the retirement readiness statements we reviewed included returns-based performance data or information on the amount of additional fees the participant had paid for the service.⁷⁷ Some managed account providers did include projections of a participant’s future retirement income on these statements. Even though the projections may be based on sound methodologies, if standard returns-based performance data are absent from these statements, participants will have to rely primarily on these projections to gauge the overall value of the service. Without performance and benchmarking information presented in a format designed to help participants compare and evaluate their managed account, participants cannot make informed decisions about the managed account service.

Likewise, with respect to QDIAs, DOL only requires plan sponsors to disclose to participants a description of each investment’s objectives, risk and return characteristics (if applicable), fees and expenses paid to

⁷⁶ Specifically, DOL’s 2012 field assistance bulletin states that “neither an investment management service nor each individual account it manages should be considered a designated investment alternative, as described under 404a-5(h)(4).” DOL also confirmed in the bulletin that if a plan designates a fiduciary investment manager to allocate the assets in a participant’s individual retirement account among the designated investment alternatives available in the plan, neither the investment management service nor the individual account it manages would be considered a designated investment alternative and the disclosure requirements would be satisfied as long as the designated investment manager were identified under 29 C.F.R. § 2550.404a-5(c)(1) and the fees for such services were disclosed under 29 C.F.R. § 2550.404a-5(c)(3). See Field Assistance Bulletin No. 2012-02R.

⁷⁷ All participants with a 401(k) account are required to receive fee information from their plan sponsor in a separate disclosure. See 29 C.F.R. § 2550.404a-5.

providers, and the right of the participant to elect not to have such contributions made on their behalf, among other things.⁷⁸ In 2010, DOL proposed amendments to its QDIA disclosure requirements that would, with respect to target date funds or similar investments, require sponsors to provide participants historical returns-based performance data (e.g., 1-, 5-, and 10-year returns).⁷⁹ According to DOL officials, the proposed QDIA rule change may apply to managed accounts offered as a QDIA to participants. However, the proposed requirements as written may be difficult for plan sponsors to implement because they are not tailored specifically for managed accounts.⁸⁰ One participant advocacy group noted that, without similar information, participants may not be able to effectively assess managed account performance over time and compare that performance to other professionally managed investment options available under the plan or across different managed account providers.⁸¹

As mentioned above, DOL affirms in the participant-level disclosure regulation that performance data are required to help participants in 401(k) plans to make informed decisions about managing investments in their retirement accounts, and that appropriate benchmarks are helpful tools participants can use to assess the various investment options available under their plan.⁸² The benefits outlined in the participant-level disclosure regulation would also apply to the proposed changes to the

⁷⁸ 29 C.F.R. § 2550.404c-5(d)(3).

⁷⁹ Target Date Disclosure, 75 Fed. Reg. 73,987 (Nov. 30, 2010)(to be codified at 29 C.F.R. § 2550.404c-5). On June 3, 2014, DOL re-opened the comment period for these proposed amendments through July 3, 2014. See Target Date Disclosure, 79 Fed. Reg. 31,893 (June 3, 2014).

⁸⁰ As previously mentioned, in its frequently asked questions for the 404a-5 participant disclosure regulation, DOL clarifies that managed account services may be considered “designated investment managers” and, as such, may not be considered “designated investment alternatives.” Because managed accounts are generally a service, some of the investment-related disclosure requirements in the proposed rule, such as information on the QDIA’s investment issuer or the QDIA’s objectives, risks, and strategies, may not apply to managed accounts.

⁸¹ However, if the managed account service is limited to the plan’s designated investment alternatives, participants would receive the investment-related disclosures for all of the plan’s designated investment alternatives, in a comparative chart format as required under the participant-level disclosure regulation at 29 C.F.R. § 2550.404a-5(d).

⁸² See Fiduciary Requirements for Disclosure in Participant-Directed Individual Account Plans, 75 Fed. Reg. 64,910 (Oct. 20, 2010) (codified at 29 C.F.R. pt. 2550).

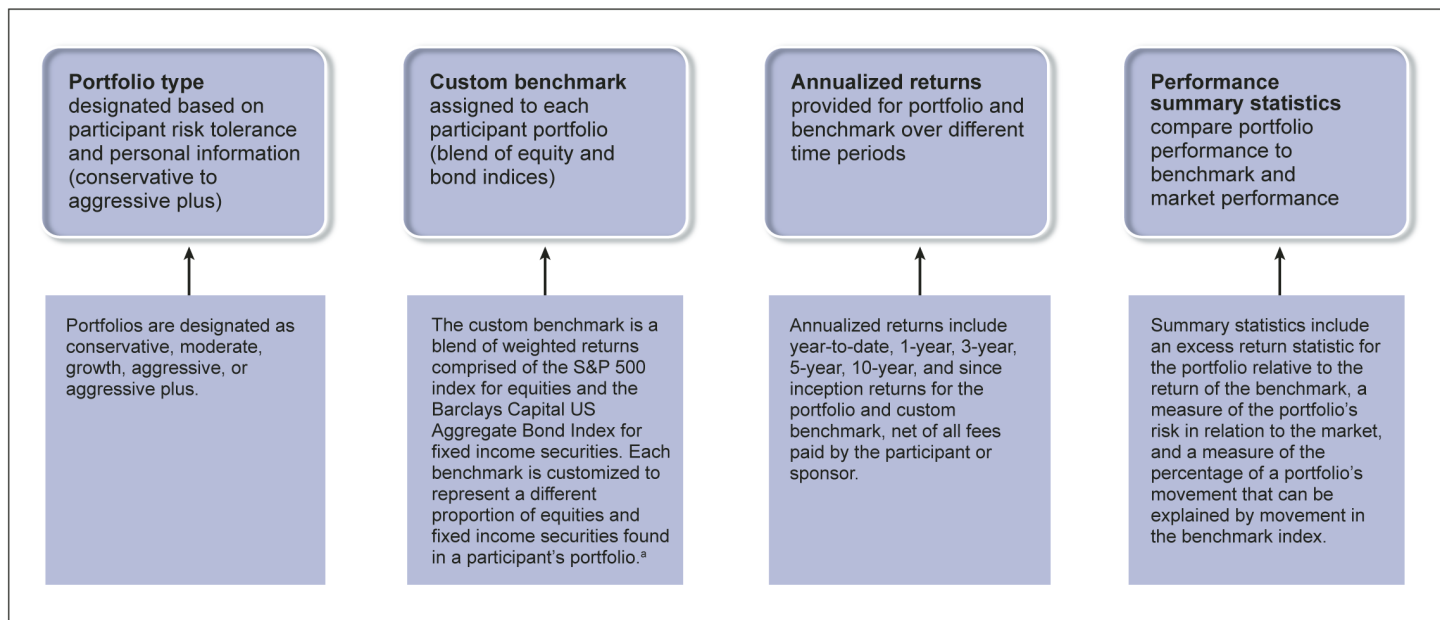
QDIA regulation. Specifically, DOL expects that the enhanced disclosures required by the proposed regulation would benefit participants by providing them with critical information they need to evaluate the quality of investments offered as QDIAs, leading to improved investment results and retirement planning decisions by participants. DOL believes that the disclosures under the proposed regulation, combined with performance reporting requirement in the participant-level disclosure regulation, would allow participants to determine whether efficiencies gained through these investments are worth the price differential participants generally would pay for such funds. However, absent DOL requirements that plan sponsors use standard metrics to report on the performance of managed accounts for participants who are defaulted into the service as a QDIA, it would be potentially difficult for these participants to evaluate the effect that additional fees could have on the performance of their managed accounts, including how the additional fees could affect returns and retirement account balances, possibly eroding the value of the service over time for those participants.

Improved performance reporting could help participants understand the risks associated with the additional fees and possible effects on their retirement account balances if the managed accounts underperform, which is critical information that participants could use to take action to mitigate those risks. Discussions with managed account providers suggest that returns-based performance reports and custom benchmarking can be provided to managed account participants.⁸³ For example, as shown in figure 11, one managed account provider we spoke to already furnishes participants access to online reports that include returns-based performance data and custom benchmarks, which can allow them to compare performance for a given period with an established equity index and bond index. Some providers told us that it would be difficult to provide participants in managed accounts with performance information and benchmarks because their retirement portfolios contain highly personalized asset allocations. While it may be more challenging for providers to furnish performance information on personalized managed accounts compared to model portfolios, we

⁸³ A customized benchmark is a blend of more than one broad-based index that reflects the mix of asset classes included in a portfolio. For example, for a portfolio that includes investments in stocks and bonds, a customized benchmark would be composed of a percentage of a broad based stock market performance index as well as a percentage of an appropriate bond index.

identified one participant statement that included performance information from a provider who personalizes asset allocations for their participants' retirement portfolios.

Figure 11: Example of Custom Benchmarks and Summary Statistics Used to Report Managed Account Performance to Participants



Source: R. T. Jones Capital Equities Management, Inc. | GAO-14-310

^aFor example, if a portfolio designated as "growth" is made of approximately 80 percent equity assets and 20 percent fixed income assets, then the corresponding blended custom benchmark could be comprised of a weighted average of 80 percent S&P 500 index performance and 20 percent Barclays Capital U.S. Aggregate Bond index performance. Custom benchmarks for other portfolio types correspond similarly.

The provider told us that the blended custom benchmark described in figure 11 allows participants to more accurately evaluate and compare the aggregate performance of the different individual funds held in their managed account because the benchmark is linked to the participant's risk tolerance. The online report also describes any positive or negative excess returns for the portfolio relative to the return of the custom benchmark, net of fees. The provider said that the excess return statistic is representative of the value that the provider or portfolio manager has added or subtracted from the participant's portfolio return for a given

period.⁸⁴ Another managed account provider furnishes retirement readiness statements that include returns-based information for each of the funds in participants' accounts. However, the statement did not include standard or custom benchmarks that would allow participants to compare the performance of their managed account with other market indexes.

Absent Guidance, Sponsors Face Challenges in Selecting and Overseeing Managed Account Providers

DOL Has Not Addressed Sponsor Access to Managed Account Provider Options

Some sponsors report that their choice of a managed account provider may be limited to those options—sometimes only one—offered by the plan's record keeper.⁸⁵ Although DOL's general guidance on fiduciary responsibilities encourages sponsors to consider several potential providers before hiring one,⁸⁶ six of the 10 sponsors we interviewed said that they selected a managed account provider offered by their record keeper without considering other options and two other sponsors said that their record keeper's capabilities partially restricted their choice of a

⁸⁴ The provider has made a generic version of its managed account performance report available to the public on its website—participants and sponsors can see how performance comparisons can be made using the provider's custom benchmarks and can review a description of the benchmarks and other key summary statistics provided on the report.

⁸⁵ As previously noted, record keepers maintain recordkeeping systems that are used to track 401(k) plan contributions and returns. They may also offer managed account providers on these systems and play other key roles in the implementation and continued operation of managed accounts. For instance, they provide information to the managed account provider and implement asset allocation changes to participant accounts. Thus, for a sponsor to be able to offer a managed account, the sponsor's record keeper must be able to work effectively with the managed account provider.

⁸⁶ Department of Labor, Employee Benefits Security Administration, *Meeting Your Fiduciary Responsibilities* (Washington, D.C.: February 2012).

provider. Some record keepers voluntarily offered sponsors more managed account provider options when sponsors asked for them.⁸⁷ In the absence of DOL requiring sponsors to request multiple provider options, sponsors said they were reluctant to pursue options not offered by their record keeper for a variety of reasons. These reasons included: (1) concern that their record keeper's systems might be unable to support additional options; (2) familiarity with the current provider offered by their record keeper;⁸⁸ and (3) belief that there was no need to consider other options—one sponsor said that its record keeper has consistently provided excellent service and support for a reasonable fee and, as a result, the sponsor felt comfortable accepting the record keeper's recommendation of the provider offered on its recordkeeping system.

Without the ability to choose among multiple providers, sponsors have limited choices, which can result in selecting a provider who charges participants higher additional fees than other providers who use comparable strategies to manage participant investments, which are ultimately deducted from participant account balances. In addition, limited choices can result in sponsors selecting a provider whose strategy does not align with their preferred approach for investing participant contributions. For example, a sponsor who endorses a conservative investment philosophy for their plan could select a provider who uses a more aggressive method for managing participant investments.

Several managed account providers and record keepers said that a limited number of providers are offered because, among other things, it is costly to integrate 401(k) recordkeeping systems with managed account provider systems. In addition, record keepers may offer a limited number of providers to avoid losing revenue and because they evaluate a provider before deciding to offer its managed account service. Such steps include reviewing the provider's investment strategy and assessing how the provider interacts with participants. One managed account provider estimated that sponsors might have to spend \$400,000 and wait more than a year before offering the provider's managed account to plan

⁸⁷ For example, a large record keeper we interviewed said that it began offering two managed account provider options instead of one because sponsors asked for more options. Similarly, in the past, record keepers have modified their systems to allow for greater target date fund choice pursuant to sponsor requests.

⁸⁸ These sponsors had been using an advice service offered by the provider before they selected the provider's managed account service.

participants if it is not already available on their record keeper's system. Additionally, record keepers may lose target date fund revenue or forgo higher revenue opportunities by offering certain managed account providers and may believe that offering multiple options is unnecessary once they have identified a provider that is effective.

Although sponsors may have access to a limited number of managed account providers on their record keepers' systems, some providers have developed approaches that make it easier for record keepers to offer more than one managed account option to sponsors. For instance, one provider we interviewed, which acts as an intermediary and fiduciary, contracts with several other providers and makes all of these providers available to its record keepers, thus allowing the record keepers' sponsors to choose among several managed account providers without incurring additional costs to integrate the record keeper with any of the providers.⁸⁹ Another managed account provider has developed a process to transfer information to record keepers that does not require integration with the recordkeeping system, thus making it less difficult for any record keeper to work with them.

Sponsors Lack Sufficient Guidance from DOL to Inform Their Selection and Oversight of Managed Account Providers

Available evidence we reviewed suggests that sponsors lack sufficient guidance on how to select and oversee managed account providers. Several of the sponsors we interviewed said that they were unaware of any set list of standards for overseeing managed accounts, so they do not follow any standards, and even managed account providers felt that sponsors have insufficient knowledge and information to effectively select a provider. Because sponsors may not have sufficient knowledge and information, record keepers could play a larger role in the selection process. In addition, providers indicated that it is difficult for sponsors to compare providers and attributed this difficulty to the absence of any widely accepted benchmarks or other comparison tools for sponsors. Some industry representatives indicated that additional guidance could

⁸⁹ Specifically, this provider contracts with several independent RIAs who develop asset allocation model portfolios for participants based on information that the provider collects, such as information regarding plan investment options and any personalized information about participants. The provider standardizes the integration of operation of each investment adviser, so that a single integration with the provider is required, even if the sponsor later decides to switch to another investment adviser that contracts with the provider.

help sponsors better select and oversee managed account providers and highlighted specific areas in which guidance would be beneficial, such as:

- determining whether a managed account fee is reasonable;
- understanding managed accounts and how they function; and
- clarifying factors sponsors should consider when selecting a managed account provider.

Although DOL is responsible for assisting and educating sponsors by providing them with guidance, it has not issued guidance specific to managed accounts, as it has done for target date funds,⁹⁰ even though it has issued general guidance on fiduciary responsibilities, including regulations under ERISA 404(a) and 404(c), which explicitly state DOL's long-standing position that nothing in either regulation serves to relieve a fiduciary from its duty to prudently select and monitor any service provider to the plan. DOL guidance on target date funds outlines the factors sponsors should consider when selecting and monitoring target date funds, such as performance and fees, among other things. The absence of similar guidance specific to managed accounts has led to inconsistency in sponsors' procedures for selecting and overseeing providers and may inhibit their ability to select a provider who offers an effective service for a reasonable fee. Specifically, without assistance regarding what they should focus on, sponsors may not be considering factors that DOL considers relevant for making fiduciary decisions, such as performance information. For example, sponsors considered a range of factors when selecting a managed account provider, including record keeper views on the quality of the provider, the provider's willingness to serve as a fiduciary, and the managed account provider's investment strategy. In addition, as shown in table 6, while nearly all of the sponsors said that they considered fees when selecting a managed account provider, only 1 of the 10 sponsors we interviewed said that they considered performance information when selecting a managed account provider. In addition, only half of the sponsors we interviewed reported that they take steps to formally benchmark fees by, for example, comparing their participants'

⁹⁰ Department of Labor, Employee Benefits Security Administration, *Target Date Retirement Funds - Tips for ERISA Plan Fiduciaries* (Washington, D.C.: February 2013). As previously noted, target date funds are another professionally managed allocation that can be used to invest 401(k) plan participant assets and are also one of the categories of investments that may be eligible as a QDIA pursuant to DOL's regulations.

fees to the amount of fees that participants in similarly-sized organizations pay.

Table 6: Comparison of Factors Sponsors Said They Considered When Selecting a Managed Account Provider

Factors considered	Sponsors										
	1	2	3	4	5	6	7	8	9	10	
1. Fees	X	X	X	X	X	X	X	X	X	X	^a
2. Provider's investment strategy	X	X	X	X			X				
3. Provider's ability to work with the plan's record keeper	X		X		X					X	
4. Provider's ability to meet the needs of the sponsor's workforce	X		X	X							X
5. Provider's independence		X	X		X		X				
6. Provider's willingness to serve as a fiduciary	X			X	X						
7. Provider reporting	X	X									
8. Record keeper views on the provider							X		X		
9. Overall quality of provider's services relative to others									X	X	
10. Provider's size/share of the industry	X	X									
11. Provider's ability to accommodate the plan's investment options	X										
12. Ability of participants to opt out of the managed account service							X				
13. Familiarity with provider											X
14. Returns-based performance information											X

Source: GAO analysis of information obtained from interviews with sponsors. | GAO-14-310

Note: To select sponsors for semi-structured interviews, we conducted a non-generalizable survey because a comprehensive list of plan sponsors that offer managed accounts did not exist at the time of our review. We selected sponsors with a variety of characteristics such as plan size (amount of assets in the plan and number of participants in the plan), managed account provider used, and method for enrolling participants into the managed account service (default or opt-in). See appendix I for additional information on our approach for selecting sponsors.

^aThis sponsor said that its managed account provider does not charge participants an additional fee for managed account services. Thus, fees were not a concern for this sponsor.

The extent to which sponsors oversee managed account providers also varies. Nearly all of the 10 sponsors we interviewed said that they review reports from their managed account provider or record keeper as part of their oversight process, and the managed account providers we interviewed highlighted the role that these reports play in the oversight process.⁹¹ Several of these providers noted that the reports they provide

⁹¹ These reports can include information such as changes in participant savings rates and portfolio risk levels.

help sponsors fulfill their fiduciary responsibility for oversight. Most sponsors said that they also take other steps to oversee managed account providers, such as regularly meeting with them. However, only one sponsor said that, as part of its oversight activities, it independently evaluates benchmarks, such as stock market performance indexes. In addition, even though participants generally pay an additional fee for managed account services, not all of the sponsors we interviewed said that they monitor fees.

Inconsistent Performance Information Allowed by DOL Hinders Sponsor Evaluation of Managed Accounts

Some industry representatives indicated that consistent performance information could help sponsors more effectively compare prospective managed account providers and ultimately improve selection and oversight. Similar to the challenges participants face in evaluating managed accounts because of a lack of performance information, industry representatives said that sponsors need information as well, including:

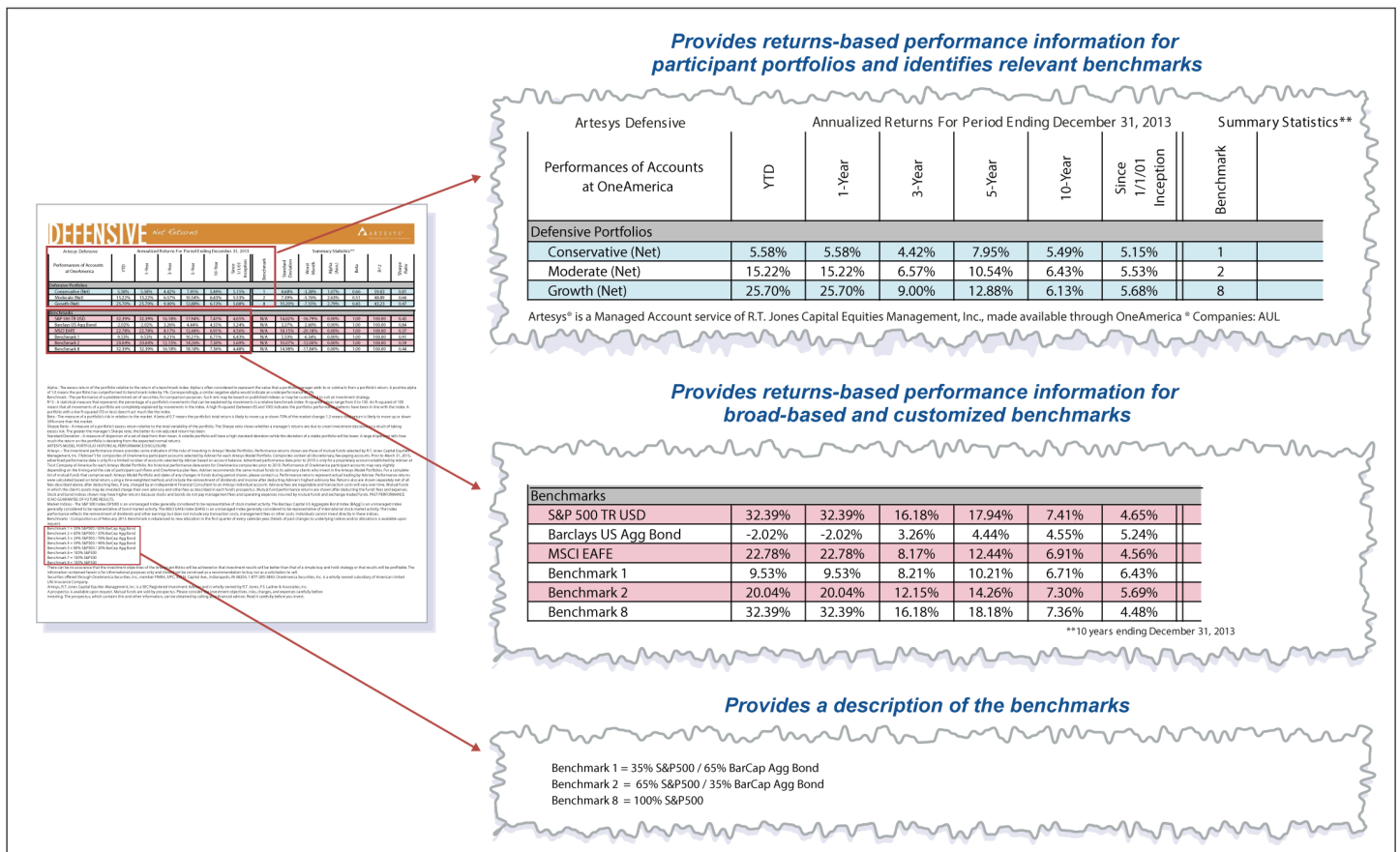
- useful, comparative performance information and a standard set of metrics to select suitable providers;
- access to standard performance benchmarks to monitor them; and
- access to comparable managed account performance information to evaluate performance.

Some providers highlighted challenges with providing performance information on managed accounts and, as a result, furnish sponsors with other types of information to demonstrate their value to participants. For example, providers may not furnish returns-based performance information to demonstrate how their offerings have affected participants because the personalized nature of managed accounts makes it difficult to measure performance. In lieu of providing returns-based performance information, providers furnish sponsors with changes in portfolio risk levels and diversification, changes in participant savings rates, and retirement readiness. One managed account provider said that it does not believe there is a way to measure the performance of managed accounts, noting that it develops 20 to 50 investment portfolios for any given plan based on the investment options available in the plan.

Nonetheless, a few providers voluntarily furnish sponsors with returns-based performance information.⁹² One provider that used broad-based market indexes and customized benchmarks noted that it would be difficult for a sponsor to select a managed account provider without being able to judge how the provider has performed in the past. In addition, this provider, unlike some other providers, noted that the personalized nature of some managed accounts does not preclude managed account providers from being able to generate returns-based performance information. For example, even though plans may differ, providers can collect information from record keepers for each of the plans that offer managed accounts and create aggregate returns data, which could then be disclosed to sponsors along with an explanation of how the data were generated. As shown in figure 12, the report that this provider distributes to sponsors contains an array of performance information for participant portfolios, including rates of return earned by the portfolios for multiple time periods and benchmarks. In addition, the report provides a description of the benchmarks—broad-based market indexes as well as customized benchmarks.

⁹² One of the providers that furnishes performance information is able to do so even though it develops 101 portfolios for each plan included in its managed account service prior to placing participants into an optimal portfolio.

Figure 12: Example of Returns-Based Performance Information Provided to Sponsors by One Provider



Source: R.T. Jones Capital Equities Management, Inc. | GAO-14-310

DOL regulations require that service providers furnish sponsors with performance and benchmarking information for the investment options available in the plan.⁹³ DOL maintains that sponsors need this information in order to make better decisions when selecting and monitoring providers for their plans. However, DOL regulations generally do not require managed account providers to furnish sponsors with performance and

⁹³ DOL's service provider disclosure regulations require that some service providers furnish investment-related information, such as performance and benchmarking information concerning plan designated investment alternatives, that must be disclosed pursuant to the participant-level disclosure regulation. See 29 C.F.R. § 2550.408b-2(c)(1)(iv)(E)(3) and 29 C.F.R. § 2550.404a-5(d)(1).

benchmarking information for managed accounts because, as previously noted, managed accounts are not considered to be designated investment alternatives. Without this information, sponsors cannot effectively compare different providers when making a selection or adequately determine whether their managed account offerings are having a positive effect on participant retirement savings, as they can currently determine with the designated investment alternatives available in the plan.

Conclusions

Managed accounts can be useful services and may offer some advantages for 401(k) participants. They build diversified portfolios for participants, help them make investment decisions, select appropriate asset allocations, and estimate the amount they need to contribute to achieve a secure retirement. Given these potential advantages, it is no surprise that the number of managed account providers has grown and that plan sponsors, seeking to provide the best options for plan participants, have increasingly offered managed accounts. The extent to which managed accounts benefit participants may depend on the participant's level of engagement and ability to increase their savings. Despite the potential advantages, better protections are needed to ensure that participants realize their retirement goals. These protections are especially important as additional fees for this service can slow or erode participants' accumulated retirement savings over time.

Helping plan sponsors understand and make appropriate decisions about managed accounts can better ensure that participants are able to reap the full advantages of managed accounts. Since plan sponsors select a managed account provider, participants who use these services are subject to that managed account provider's structure and strategies for allocating participant assets, which can potentially affect participants' ability to save for retirement, especially if they pay high fees. Some participants cannot be assured that they are receiving impartial managed account services or are able to rely on accountable investment professionals taking on appropriate fiduciary responsibilities. Clarifying fiduciary roles for providers who offer managed accounts to participants on an opt-in basis or for providers who offer additional services to participants in or near retirement could help ensure that sponsors have a clear understanding of provider responsibilities so they can offer the best services to their participants.

DOL can also help sponsors gain clarity and confidence in selecting and monitoring managed account providers. This is particularly salient since

managed accounts can be complicated service arrangements and there are considerable structural differences among the managed account options offered by providers. By requiring sponsors to request multiple provider options from their record keeper, DOL can help ensure that sponsors thoroughly evaluate managed account providers before they are offered to participants. In addition, providing sponsors with guidance that clarifies standards and suggests actions for prudently selecting and overseeing managed account providers, such as documenting their processes and understanding the strategies used in the managed account, positions sponsors to better navigate their fiduciary responsibilities. Additional guidance also positions sponsors to consider additional factors when choosing to default participants into managed accounts. Supplementing this guidance by requiring providers to furnish consistent performance information to sponsors so that they can more effectively compare providers can assist sponsors in their efforts to provide a beneficial service that could help preserve and potentially enhance participants' retirement security.

Finally, DOL can also help participants evaluate whether their managed account service is beneficial. Without standardized performance and benchmarking information, participants may not be able to effectively assess the performance of their managed account and determine whether the additional fee for the service is worth paying. For participants who opt into managed accounts, this information could help them more effectively assess the performance of their managed account and compare that performance to other professionally managed alternatives that may be less expensive, such as target date funds. Alternatively, for participants who are defaulted into managed accounts, this information could be valuable when they start to pay more attention to their retirement savings.

Recommendations for Executive Action

To better protect plan sponsors and participants who use managed account services, we recommend that the Secretary of Labor direct the Assistant Secretary for the Employee Benefits Security Administration (EBSA) to:

- a) Review provider practices related to additional managed account services offered to participants in or near retirement, with the aim of determining whether conflicts of interest exist and, if it determines it is necessary, taking the appropriate action to remedy the issue.

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- b) Consider the fiduciary status of managed account providers when they offer services on an opt-in basis and, if necessary, make regulatory changes or provide guidance to address any issues.

To help sponsors who offer managed account services or who are considering doing so better protect their 401(k) plan participants, we recommend that the Secretary of Labor direct the Assistant Secretary for EBSA to:

- c) Provide guidance to plan sponsors for selecting and overseeing managed account providers that addresses: (1) the importance of considering multiple providers when choosing a managed account provider, (2) factors to consider when offering managed accounts as a QDIA or on an opt-in basis, and (3) approaches for evaluating the services of managed account providers.
- d) Require plan sponsors to request from record keepers more than one managed account provider option, and notify the Department of Labor if record keepers fail to do so.

To help sponsors and participants more effectively assess the performance of managed accounts, we recommend that the Secretary of Labor direct the Assistant Secretary for EBSA to:

- e) Amend participant disclosure regulations to require that sponsors furnish standardized performance and benchmarking information to participants. To accomplish this, EBSA could promulgate regulations that would require sponsors who offer managed account services to provide their participants with standardized performance and benchmarking information on managed accounts. For example, sponsors could periodically furnish each managed account participant with the aggregate performance of participants' managed account portfolios and returns for broad-based securities market indexes and applicable customized benchmarks, based on those benchmarks provided for the plan's designated investment alternatives.
- f) Amend service provider disclosure regulations to require that providers furnish standardized performance and benchmarking information to sponsors. To accomplish this, EBSA could promulgate regulations that would require service providers to disclose to sponsors standardized performance and benchmarking information on managed accounts. For example,

providers could, prior to selection and periodically thereafter, as applicable, furnish sponsors with aggregated returns for generalized conservative, moderate, and aggressive portfolios, actual managed account portfolio returns for each of the sponsor's participants, and returns for broad-based securities market indexes and applicable customized benchmarks, based on those benchmarks provided for the plan's designated investment alternatives.

Agency Comments and Our Evaluation

We provided a draft of this report to the Department of Labor, the Department of the Treasury, the Securities and Exchange Commission, and the Consumer Financial Protection Bureau for review and comment. The Department of the Treasury and the Consumer Financial Protection Bureau did not have any comments. DOL and SEC provided technical comments, which we have incorporated where appropriate. DOL also provided written comments, which are reproduced in appendix IV. As stated in its letter, DOL agreed with our recommendations and will consider each of them as it moves forward with a number of projects.

In response to our recommendation that DOL review provider practices related to additional managed account services offered to participants in or near retirement to determine whether conflicts of interest exist, DOL agreed to include these practices in its current review of investment advice conflicts of interest, noting that such conflicts continue to be a concern. Regarding our second recommendation, to consider the fiduciary status of managed account providers when they offer services on an opt-in basis, DOL agreed to review existing guidance and consider whether additional guidance is needed in light of the various business models we described. By considering managed account service provider practices and fiduciary roles in its current efforts and taking any necessary action to address potential issues, we believe DOL will help ensure that sponsors and participants receive unconflicted managed account services from qualified managers.

DOL also agreed to consider our other recommendations in connection with its current regulatory project on standards for brokerage windows in participant-directed individual account plans. We believe that this project may be a good starting point for requesting additional information and considering adjustments to those managed account services participants obtain from advisers through brokerage windows. As we noted in our report, we did not include these types of managed accounts in our review because the plan sponsor is not usually involved in the selection and

monitoring of these advisers. Since participants can obtain managed account services without using a brokerage window, we encourage DOL to also consider our third and fourth recommendations outside of the context of brokerage windows. Providing guidance to sponsors for selecting and overseeing managed account providers, as suggested by our third recommendation, may help sponsors understand their fiduciary responsibilities with respect to managed accounts. Similarly, requiring plan sponsors to ask for more than one choice of managed account provider, as suggested by our fourth recommendation, could encourage record keepers to offer additional choices. By taking the steps outlined in these recommendations, DOL can help ensure that participants are being offered effective managed account services for reasonable fees.

With respect to our recommendation requiring plan sponsors to ask for more than one choice of managed account provider, DOL noted that it needs to review the extent of its legal authority to effectively require plans to have more than one managed account service provider. We continue to believe that the action we suggest in our recommendation—that DOL simply require plan sponsors to *ask* for more than one *choice* of a provider, which is slightly different than how DOL has characterized it—may be an effective method of broadening plan sponsors' choices of managed account providers. However, we agree that DOL should examine the scope of its existing authority in considering how it might implement this recommendation.

Finally, DOL agreed to consider our recommendations on the disclosure of performance and benchmarking information on managed accounts to participants and sponsors in connection with its open proposed rulemaking project involving the qualified default investment alternative and participant-level disclosure regulations. We believe that DOL's consideration of these recommendations in connection with this rulemaking project will be helpful for participants and sponsors, and encourage DOL to include managed accounts in this rulemaking. Although managed accounts are different than target date funds in multiple ways, as presented in our report, we believe that managed account providers can and should provide some level of performance and benchmarking information to sponsors—and sponsors to participants—to describe how managed accounts perform over time and the risks associated with the service. In addition, to the extent that managed accounts offered on an opt-in basis are not covered by DOL's project, we encourage DOL to consider adopting similar changes to the participant-level disclosures for those managed accounts that are not governed by QDIA regulations.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to appropriate congressional committees, the Secretary of Labor, the Secretary of the Treasury, the Chair of the Securities and Exchange Commission, the Director of the Consumer Financial Protection Bureau, and other interested parties. In addition, the report will be available at no charge on GAO's website at www.gao.gov. If you or your staff members have any questions about this report, please contact me at (202) 512-7215 or jeszeckc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles Jeszeck". The signature is written in a cursive style with a large, looping initial "C".

Charles A. Jeszeck
Director
Education, Workforce, and Income Security

Appendix I: Objectives, Scope, and Methodology

Our objectives for this study were to determine (1) how service providers structure managed accounts, (2) the advantages and disadvantages of managed accounts for 401(k) participants, and (3) the challenges, if any, that plan sponsors face in selecting and overseeing managed account providers.

To answer our research objectives we undertook several different approaches. We reviewed relevant research and federal laws, regulations, and guidance on managed accounts in 401(k) plans. We reviewed available documentation on the structure of managed accounts in 401(k) plans and the role of service providers, including Securities and Exchange Commission (SEC) filings of the Form ADV by 30 record keepers, managed account providers, and other related service providers.¹ We interviewed industry representatives and service providers involved with managed accounts—including record keepers, academics, industry research firms, and participant advocacy groups—and government officials from the Department of Labor’s Employee Benefits Security Administration (EBSA), SEC, the Department of the Treasury, and the Consumer Financial Protection Bureau.

Case Studies of Managed Account Providers

To examine key issues related to how managed accounts in 401(k) plans are structured, we conducted in-depth case studies of eight selected managed account providers.² Since we were unable to identify a comprehensive list of managed account providers that provide services to

¹ The “Form ADV” is the form used by investment advisers to register with both the Securities and Exchange Commission (SEC) and state securities authorities. The form consists of two parts. Part 1 requires information about the investment adviser’s business, ownership, clients, employees, business practices, affiliations, and any disciplinary events of the adviser or its employees. Part 2 requires investment advisers to prepare narrative brochures that provide information such as the types of advisory services offered—including managed accounts in 401(k) plans—the adviser’s fee schedule, disciplinary information, and conflicts of interest. The brochure is the primary disclosure document that investment advisers provide to their clients.

² Some record keepers and intermediary service providers refer to themselves as “managed account providers” because they make this service available to participants, but they do not ultimately decide how to invest participant contributions. Thus, we excluded most record keepers and intermediary providers from our definition of a managed account provider. Similarly, even though certain other providers, such as target date fund managers, may select an overall asset allocation strategy and investments to fit that strategy for the funds they offer to 401(k) plan participants, these managers also do not ultimately decide how to invest participant accounts.

401(k) plans, to select providers for case studies we first developed a list of 14 managed account providers based on discussions with two industry research firms and our own analysis of information from record keeper websites and other publicly available documentation. To assess the reliability of these data, we interviewed the two industry research firms and compared their information with the results of our analysis for corroboration and reasonableness. We determined that the data we used were sufficiently reliable for selecting managed account providers for case studies. From the list of 14 providers, we selected 10 providers based on their size, location, and legal and fee structures, from which we used eight as the basis for our case studies. According to our estimates, the eight managed account providers we included in the case studies represented over 95 percent of the managed account industry in defined contribution plans, as measured by assets under management in 2013.

In conducting case studies of managed account providers, we interviewed representatives of the managed account provider and chose five providers for site visits based on their locations and size. We also reviewed publicly available documentation describing the nature of the managed account and sample reports furnished by providers, confirmed the type of information these providers consider when managing a participant's account, and analyzed fee data furnished by managed account providers. To assess the reliability of the fee data furnished by managed account providers, we corroborated and assessed the completeness of reported fee data based on information in provider SEC filings and any other relevant documentary evidence, when possible. We determined that the data were sufficiently reliable for depicting the range and types of fees charged to sponsors and participants by providers. In addition, to further understand the different strategies and structures of managed accounts, we developed and submitted five hypothetical participant scenarios in one hypothetical plan to the eight service providers and asked them to provide example asset allocations, and advice if practical, for those participants. Seven of the eight managed account providers completed and returned asset allocations to us. See appendix II for additional detail on the development of hypothetical scenarios and results from this work.

Illustrations of Fee and Return Data Over Time

To illustrate potential performance outcomes for participants in managed accounts, we used available data on actual managed account rates of return and fees to show how managed accounts could affect 401(k) account balances over 20 years. We developed two scenarios, isolating the effects of variability in the following factors:

1. Managed account rates of return – We used annual average managed account rates of return ranging from -0.1 percent to 2.4 percent, based on published performance data.³ We compared the change in account balances for those managed account rates of return with the change in account balances for a 1.4 percent rate of return experienced by participants who directed their own 401(k) investments.
2. Managed account fees – We used different fee levels obtained from published reports and provider interviews ranging from a low additional annual fee of 0.08 percent to a 1 percent annual fee.⁴ We compared fee totals and ending account balances for varying fee levels with those of participants who did not pay the additional fee because they directed their own 401(k) investments.

For each scenario, we held all other factors constant by assuming that the participant's starting account balance was \$17,000 and starting salary was \$40,000, the salary increased at a rate of 1.75 percent per year, and the participant saved 9.7 percent⁵ of their salary each year.⁶ To the extent possible, we developed scenarios using information provided to us during interviews with industry representatives or found in published reports on managed accounts or on other economic factors. To assess the reliability of these data, we considered the reliability and familiarity of the source of the data or information and, when necessary, interviewed representatives

³ See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013) and Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios* (Valley Forge, PA: November 2012). In Vanguard's reports, return rates for managed accounts, target date funds, balanced funds, and self-directed 401(k) investments are reported at the 95th, 75th, 50th, 25th, and 5th percentile over two different periods, 2006-2011 and 2007-2012, respectively.

⁴ Other fee rates that we used in this scenario include 0.2 percent (provider reported), 0.37 percent (provider reported), 0.45 percent (an average of the fees we found), and 0.6 percent (provider reported).

⁵ Participant savings are a combination of the amount of salary saved by the participant and the employer match.

⁶ The starting account balance of \$17,000 is based on the Employee Benefit Research Institute's (EBRI) estimated median 401(k) account balance at year-end 2011; the starting salary of \$40,000 is based on the Bureau of Labor Statistics' (BLS) seasonally adjusted median weekly earnings for the third quarter of 2013; the average annual salary increase of 1.75 percent is based on BLS' salary increase estimate for the 12-month period ending September 2013; the savings rate of 9.7 percent is based on the EBRI's estimate of an average employee savings rate of 6.7 percent for 2012 and a standard 3 percent average employer match.

of those sources about their methods, internal controls, and results. Based on these interviews and our review of published data, we determined that the data we used were sufficiently reliable for use in these illustrations.

Because this work presents simplified illustrations of potential effects on participants over time, we used nominal dollar amounts over 20 years and did not take into account inflation or changes in interest rates. Similarly, to minimize effects of percentage growth/loss sequencing on account balances, we applied the same rates of return to each of the 20 years for each scenario. The rates of returns we used in both scenarios already incorporated different asset allocations for participants with a managed account or a self-directed 401(k) account. This work does not attempt to specify or adjust these specific asset allocations.

Semi-Structured Interviews with Plan Sponsors

To identify the advantages and disadvantages of managed accounts for 401(k) plan participants and any challenges sponsors face in selecting and overseeing managed account providers, we conducted semi-structured interviews with 12 plan sponsors. Our process for interviewing plan sponsors involved multiple steps, as outlined below.

Sponsor Selection

Since a comprehensive list of sponsors that managed accounts did not exist at the time of our review, to select sponsors for semi-structured interviews, we conducted a non-generalizable survey facilitated by PLANSPONSOR, a member organization.⁷ The survey included questions about sponsors' 401(k) plans, such as the amount of assets included in the 401(k) plan and the number of participants in the plan, and the reasons why sponsors decided to offer, or not offer, managed accounts to 401(k) plan participants. To minimize errors arising from differences in how survey questions might be interpreted and to reduce variability in responses that should be qualitatively the same, we conducted pretests with industry representatives. Based on feedback from these pretests, we revised the survey in order to improve question clarity. PLANSPONSOR included a link to our survey in an e-mail that was sent to approximately 60,000 of its subscribers. In addition,

⁷ PLANSPONSOR is a media and research firm in the retirement benefits industry. According to PLANSPONSOR, it has been the nation's leading authority on retirement and benefits programs since 1993 and is dedicated to helping employers navigate the complex world of retirement plan design and strategy on behalf of their employees.

PLANSPONSOR promoted the survey eight times over 4 weeks between June 3 and June 28, 2013. A record keeper and one industry association also agreed to forward a link to our survey to their clients and members, respectively.

Fifty-seven sponsors completed our survey, and 25 of them provided contact information, indicating they were willing to speak with us. Forty-eight sponsors indicated that they offer managed accounts to their 401(k) plan participants, and 20 of these sponsors provided us with their contact information. Nine sponsors indicated that they do not offer managed accounts to their 401(k) plan participants, and five of these sponsors provided us with their contact information.

We reviewed the survey responses of those sponsors willing to speak with us and selected sponsors to interview based on the following characteristics:

- Plan size (assets in the plan, number of participants)
- Managed account provider
- Enrollment method (Qualified Default Investment Alternative, or QDIA, vs. opt-in)
- Length of time sponsors have been offering managed accounts

To obtain a variety of perspectives, we selected at least two sponsors with any given characteristic to the extent possible. For instance, we selected several (1) sponsors of varying sizes in terms of the amount of assets included in their 401(k) plans and the number of plan participants; (2) sponsors that use different managed account providers; and (3) sponsors that have been offering managed accounts for more than 5 years. Also, we selected one sponsor that offered managed accounts as a default option. In total, we selected 10 sponsors that offer managed accounts and 2 sponsors that do not offer managed accounts, as shown in table 7.

Table 7: Characteristics of Sponsors Selected for GAO Interviews

Sponsors	Total 401(k) plan assets (range)	Number of plan participants (range)	Managed account service provider	Method of offering managed accounts	Length of time sponsor has offered managed accounts (range)
Sponsor 1	\$100 million or more	25,000 or more participants	Provider A	Opt-in	Between 2 and 5 years
Sponsor 2	\$100 million or more	2,500 to 24,999 participants	Provider A	Opt-in	Less than 2 years
Sponsor 3	\$10 million or more but less than \$50 million	50 to 499 participants	Provider B	Opt-in	More than 5 years
Sponsor 4	\$1 million or more but less than \$10 million	Fewer than 50 participants	Provider C	Opt-in	More than 5 years
Sponsor 5	\$100 million or more	2,500 to 24,999 participants	Provider A	Opt-in	Between 2 and 5 years
Sponsor 6	\$50 million or more but less than \$100 million	500 to 2,499 participants	Provider A	Opt-in	More than 5 years
Sponsor 7	\$100 million or more	2,500 to 24,999 participants	Provider A	Opt-in	Between 2 and 5 years
Sponsor 8	\$100 million or more	25,000 or more participants	Provider A	Opt-in	More than 5 years
Sponsor 9	\$50 million or more but less than \$100 million	500 to 2,499 participants	Provider D	Opt-in	More than 5 years
Sponsor 10	\$50 million or more but less than \$100 million	2,500 to 24,999 participants	Provider E	Default	More than 5 years
Sponsor 11	\$1 million or more but less than \$10 million	Fewer than 50 participants	N/A ^a	N/A ^a	N/A ^a
Sponsor 12	\$100 million or more	2,500 to 24,999 participants	N/A ^a	N/A ^a	N/A ^a

Source: GAO analysis of information obtained from interviews with sponsors. | GAO-14-310

^aSponsor does not offer managed accounts.

Sponsor Semi-structured Interviews

We developed semi-structured interview questions to capture information on how sponsors learn about and select managed accounts, how they oversee managed accounts, and the advantages and disadvantages of managed accounts for participants. We developed separate questions for sponsors offering managed accounts and those not offering managed accounts. We shared the interview questions with three sponsors before we began conducting the semi-structured interviews to ensure that the questions were appropriate and understandable. We made no substantive changes to the questions based on this effort. We interviewed 10 sponsors that offer managed accounts and 2 sponsors that do not offer managed accounts. As part of our interview process, we also

requested and reviewed relevant documentation from plan sponsors such as quarterly managed account reports from managed account providers or record keepers.

Participant Survey

As part of our approach for determining the advantages and disadvantages of managed accounts for 401(k) plan participants, we developed a non-generalizable online survey to directly obtain participant perspectives on managed accounts, such as the advantages and disadvantages of managed accounts for 401(k) plan participants and participants' level of satisfaction with their managed account offering. However, we did not receive any completed responses to our survey. The survey was conducted on a rolling basis from August 1, 2013 to February 25, 2014—a link to the survey was distributed at various points in time.

We conducted this performance audit from October 2012 through June 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Methodology and Additional Results from Hypothetical Scenarios

Participant and Plan Scenarios

To understand the different strategies and structures of managed accounts, we developed and submitted five hypothetical participant scenarios in one hypothetical plan to the eight managed account providers chosen for our case studies. Table 8 shows basic information provided for the hypothetical participant scenarios 1, 2, and 3.

Table 8: Basic Information for GAO Hypothetical Participant Scenarios Provided to Managed Account Providers

	Scenario 1	Scenario 2	Scenario 3
Current age	30	45	57
Gender	Female	Female	Male
401(k) account balance (for sponsor's plan only)	\$10,000	\$60,000	\$100,000
Initial investments/allocation	70% equity 30% fixed	55% equity 45% fixed	43% equity 57% fixed
Current annual salary/compensation	\$36,000	\$40,000	\$52,000
Current contribution (as a percent of salary) (6 percent employee contribution and 3 percent company match)	9%	9%	9%
State of residence	CA	CA	CA

Source: GAO Analysis of data and information from industry representatives and government statistics. | GAO-14-310

Table 9 shows the additional personalized information provided to managed account providers for hypothetical participant scenarios 1 and 3.

Table 9: Additional Personalized Information for GAO Hypothetical Participant Scenarios 1 and 3

	Scenario 1A	Scenario 1B	Scenario 3A	Scenario 3B
Expected retirement age	Not provided	62	Not provided	62
Expected age at death ^a	Not provided	86	Not provided	83
Participant-specified risk tolerance (general scale of 1-5, 1 representing lowest risk and 5 representing highest risk)	Not provided	3	Not provided	1
Defined benefit plan expected annual payout	Not provided	None	Not provided	\$11,000
Outside assets (including retirement and other savings accounts, etc.)	Not provided	All outside savings, including an IRA from a previous job: \$11,500	Not provided	IRA: \$69,000
Residential property	Not provided	Current renter	Not provided	Homeowner with mortgage of \$85,000
Debt, withdrawal needs, and desired future expenditures	Not provided	Non-mortgage debt of \$9,700	Not provided	Non-mortgage debt of \$6,000

Appendix II: Methodology and Additional Results from Hypothetical Scenarios

	Scenario 1A	Scenario 1B	Scenario 3A	Scenario 3B
Spouse/family information	Not provided	Single, no children	Not provided	Wife (age 56, independent contractor, compensation \$55,000, expected retirement age 63, \$120,000 IRA where risk of investments is 3 of 5 on scale noted above)

Source: GAO Analysis of data and information from industry representatives and government statistics and calculators. | GAO-14-310

^aA 2009 report sponsored by The Society of Actuaries and The Actuarial Foundation notes that individuals tend to underestimate their own life expectancy, which may lead managed account providers to underestimate their future financial needs. The study recommends that financial planning programs that allow users to input their own life expectancy, such as those provided by managed account providers, should provide information assisting people in doing so and noting that many people underestimate their life expectancy, which could cause them to underestimate their retirement income needs. The report also found large differences in the treatment of longevity risk (which includes the risk of outliving one's life savings) and inadequate focus on making assets last a lifetime. The report notes that one approach to dealing with longevity risk would be to run scenarios with death occurring at various ages, such as 80, 90, and 95, rather than analyzing a single age at death. See John A. Turner and Hazel A. Witte, *Retirement Planning Software and Post-Retirement Risks* (The Society of Actuaries and The Actuarial Foundation: December 2009).

Table 10 shows some of the hypothetical plan level information we compiled for scenario development.

Table 10: GAO Hypothetical Plan Information

Plan size	\$75 million in assets
Matching contributions	On the first 6 percent of pay contributed each year, the company will match 50 cents for each dollar contributed (total of 3 percent company matching contribution)
Administrative fees	39 basis points per participant, annually
Other plan characteristics	<ul style="list-style-type: none"> • Managed account offered as an opt-in service only • Plan does not allow hardship withdrawals or loans • Plan does not allow company stock investments by plan participants • All participants pay into Social Security

Source: GAO Analysis of data and information from industry representatives and government statistics. | GAO-14-310

In addition, to generate hypothetical plan information, we selected 14 hypothetical plan investment options from various asset classes, as shown in table 11. We selected these mutual funds to represent a range of asset classes and based on available information from April 2013 about whether these funds could be found in 401(k) plans.

Table 11: GAO Hypothetical Plan Investment Options

		Expense ratio^a in basis points (bp)
Large company		
1	Large blend, index fund	17 bp ^b
2	Large blend, index fund	9 bp
3	Large growth fund	74 bp
4	Large blend fund	62 bp
Small, midsize company		
5	Mid value fund	79 bp
6	Small growth fund	92 bp
7	Mid growth fund	80 bp
Bond funds		
8	Intermediate-term bond fund	22 bp
9	Inflation-protected bond fund	20 bp
10	Intermediate-term bond fund	43 bp
Foreign and global stock		
11	World stock, large growth fund	79 bp
12	World allocation, large blend fund	107 bp
13	Foreign large blend fund	20 bp
Money market fund		
14	Money market fund – taxable	36 bp

Source: GAO compilation of fund information in January 2014 as reported by Morningstar. | GAO-14-310

^aThe expense ratio is a fund's operating fees as a percentage of its assets.

^bBasis points are units equal to one hundredth of a percentage point.

Note: These funds represent actual investment options that could have been available to 401(k) participants as of January 2014, but we have only included a description of each fund based on fund information reported by Morningstar.

We developed the hypothetical scenarios based on data and information from industry representatives—including research firms, other industry groups, and providers—and a calculator and statistics provided by a number of government agencies. To assess the reliability of these data, we considered the reliability and familiarity of the source of the data or information and, when necessary, interviewed representatives of those sources about their methods, internal controls, and results. We determined that the data we used were sufficiently reliable for developing hypothetical participant- and plan-level scenarios.

Provider Responses

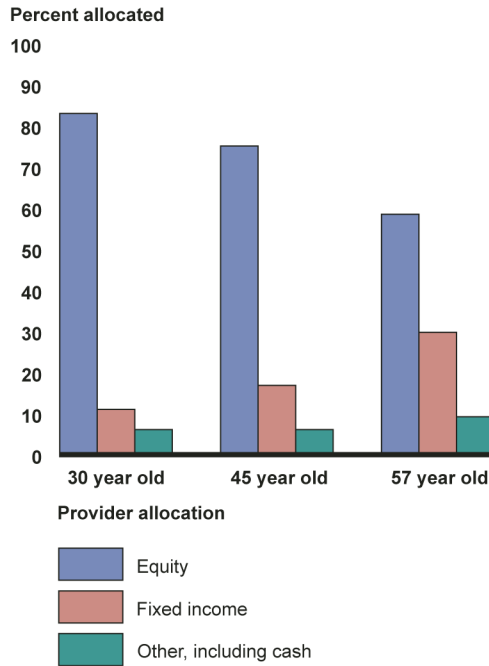
We asked all eight managed account providers chosen for our case studies to provide example asset allocations and advice, if practical, for all five hypothetical participant scenarios. Seven of the eight managed account providers completed and returned asset allocations to us for the hypothetical scenarios. Five of the seven providers who sent allocations furnished two allocations for each scenario, but each gave different reasons for doing so. One of the providers furnished two allocations for each scenario because they actively manage participant allocations given changes in market conditions and their allocations could generally range within the two extremes. Another provider furnished two allocations for each scenario assuming different initial holdings because, for that provider's strategy, a person's initial holdings of plan investment options influence the provider's recommended allocations, even though both of these allocations have the same overall risk and return characteristics. In some of the figures presenting results of this work, we have included one or both of these two providers' second allocations. For the other three providers we have chosen to only include one of their asset allocations in the figures presenting the results of this work because they did not pertain to managed account service by itself or they did not include the full services offered by the managed account. We did, however, incorporate the more general understanding we gained from these alternate asset allocations in our report findings.

In addition, a number of providers' systems required that they make certain assumptions about participants outside of the hypothetical scenario information we provided. In these cases, the assumptions they made did differ, sometimes substantially, and this may have affected their asset allocation results. For example, to generate a participant's goal, providers used varying assumptions of a participant's annual salary growth—from 1.5 to 3.5 percent. We did not attempt to categorize or eliminate any inconsistencies in provider strategies, but instead report their results to show the variation that a participant may experience.

Additional Results

As shown in figure 13, the median values of all providers' allocations show a downward trend in asset allocations to equity assets and an upward trend in asset allocations to fixed income and or cash-like assets as participants age.

Figure 13: Median Allocations for GAO Hypothetical Participant Scenarios Show a Downward Trend in Allocations to Equity as the Participant Ages

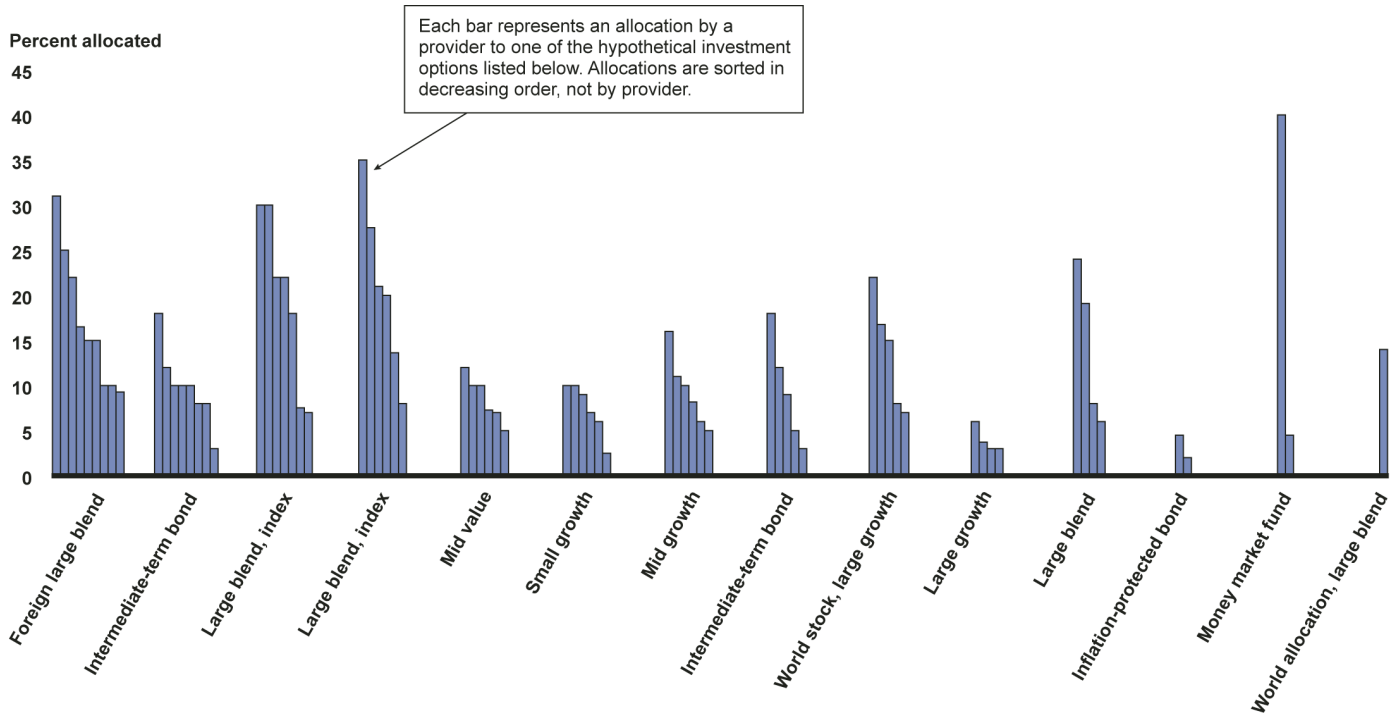


Source: GAO analysis of provider asset allocations. | GAO-14-310

Note: Since each bar in this figure represents the median result of all providers, the sum of the three bars in each scenario does not add up to 100.

For each hypothetical participant, we found that providers varied widely in their recommendations of specific investment options, but participants could be similarly allocated to asset classes, such as cash and cash equivalents, equity, and fixed income. For the hypothetical 30-year-old participant, select asset allocations were presented in the report at figure 5, and all allocations to specific investment options are shown in figure 14.

Figure 14: Provider Allocations to Hypothetical Investment Options for a Hypothetical 30-year-old Participant



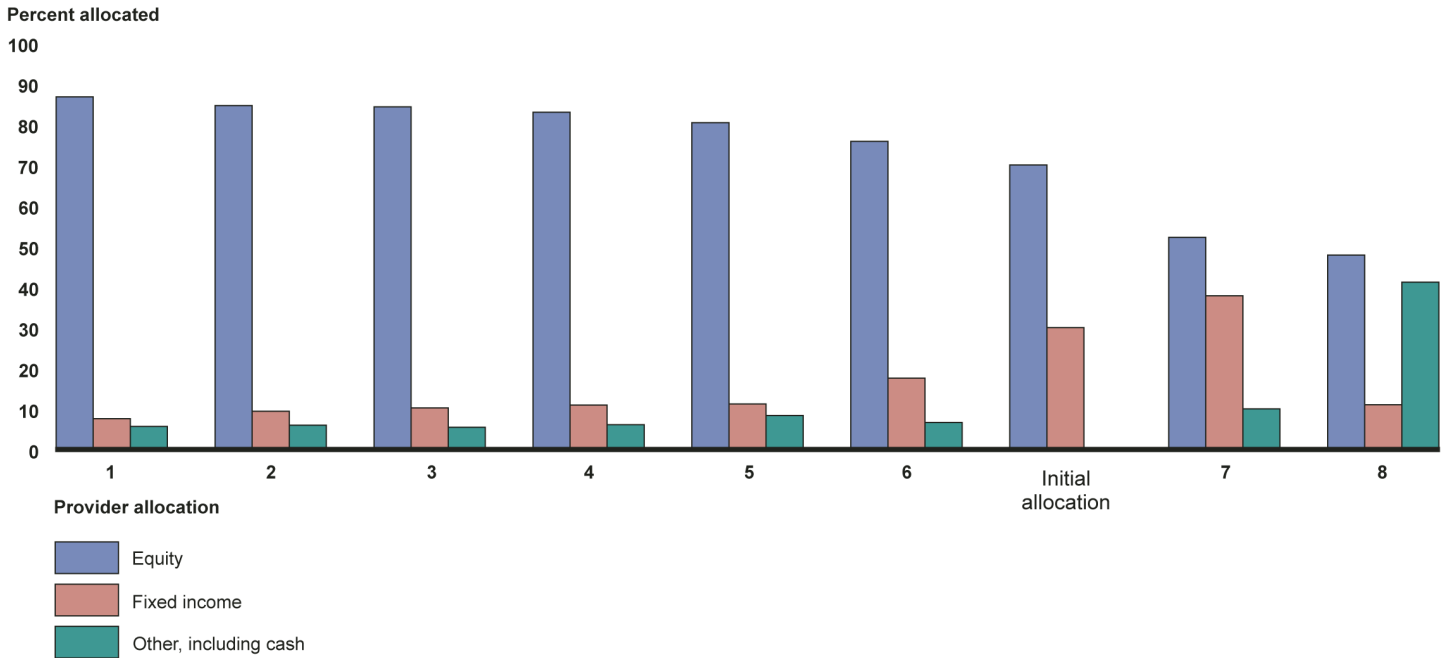
Provider allocations to hypothetical investment options

Source: GAO analysis of provider asset allocations. | GAO-14-310

Note: Seven of the eight managed account providers in our case studies submitted asset allocations for the hypothetical participant scenarios we developed. Some providers submitted multiple allocations given varying assumptions and strategies, and we have included two of those providers' second allocations in this figure. Thus, there are nine allocations to the first hypothetical investment option, "foreign large blend." In addition, some investment options have fewer allocations because providers did not generally allocate portions of the hypothetical participant's account to all investment options. For example, only one provider allocated a portion of the hypothetical participant's account to the last hypothetical investment option, "world allocation, large blend."

However, at the asset class level, six of the eight asset allocations for this participant were more aggressive than the initial allocation of 70 percent equity and 30 percent fixed income, while two had more balanced asset allocations as shown in figure 15.

Figure 15: Provider Allocations to Asset Classes for a Hypothetical 30-year-old Participant

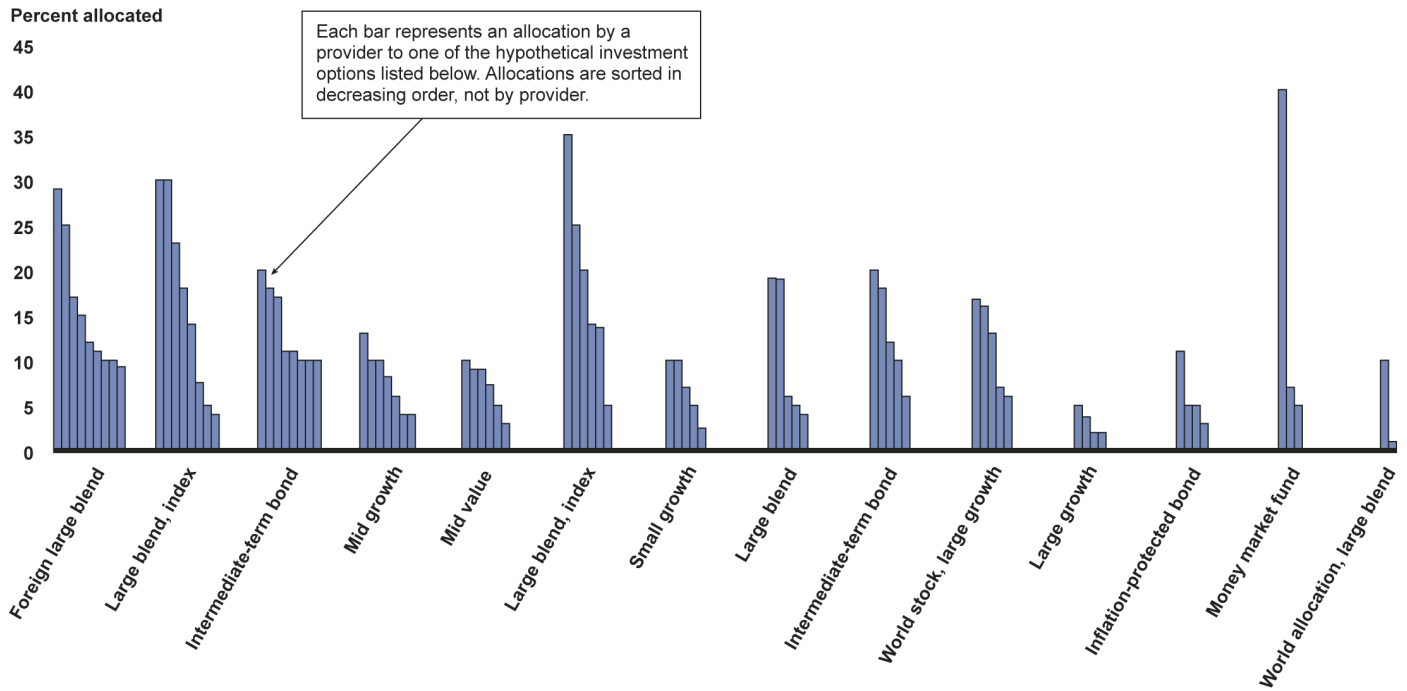


Source: GAO analysis of provider asset allocations. | GAO-14-310

Note: Seven of the eight managed account providers in our case studies submitted asset allocations for the hypothetical participant scenarios we developed. Some providers submitted multiple allocations given varying assumptions and strategies, and we have included one of those providers' second allocations in this figure.

The results were similar for the 45 and 57-year-old hypothetical participants. Starting from an initial asset allocation of 55 percent equity and 45 percent fixed income, providers reported varying asset allocations to investment options for the 45-year-old hypothetical participant, as shown in figure 16, and allocations at the asset class level shown in figure 17.

Figure 16: Provider Allocations to Hypothetical Investment Options for a Hypothetical 45-year-old Participant

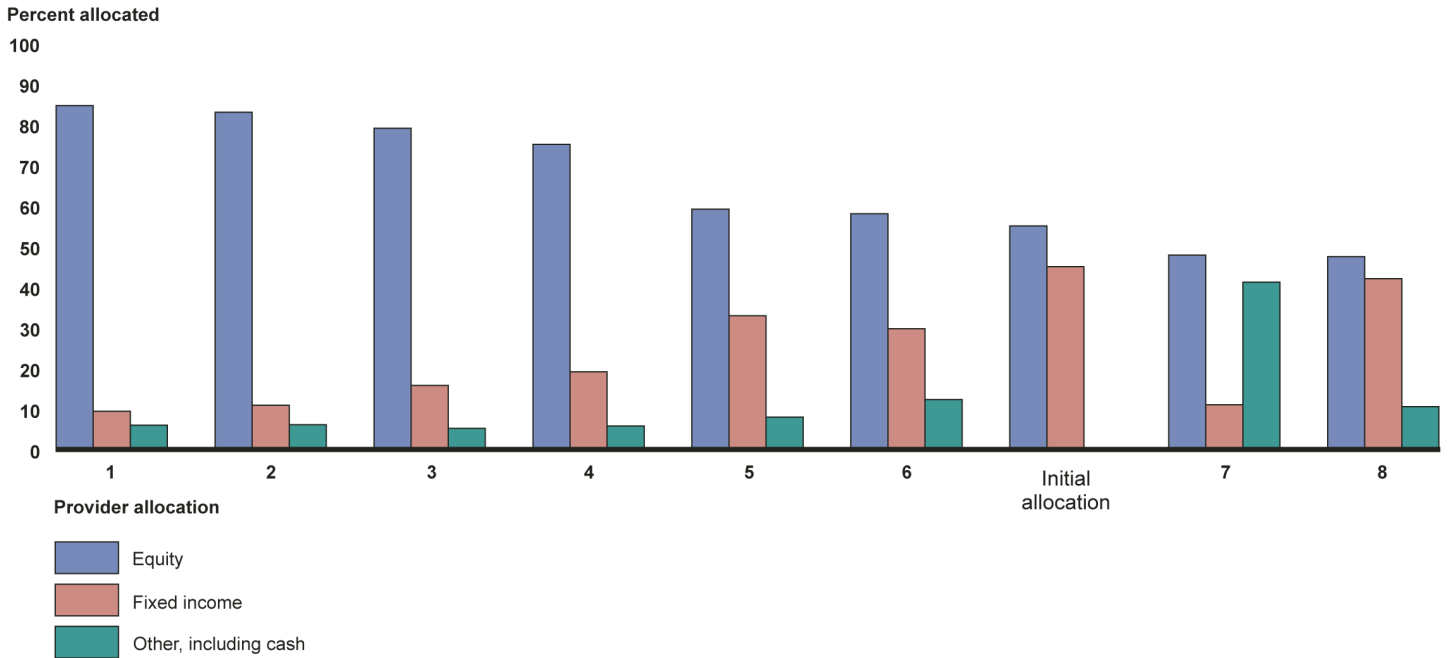


Provider allocations to hypothetical investment options

Source: GAO analysis of provider asset allocations. | GAO-14-310

Note: Seven of the eight managed account providers in our case studies submitted asset allocations for the hypothetical participant scenarios we developed. Some providers submitted multiple allocations given varying assumptions and strategies, and we have included two of those providers' second allocations in this figure. Thus, there are nine allocations to the first hypothetical investment option, "foreign large blend." In addition, some investment options have fewer allocations because providers did not generally allocate portions of the hypothetical participant's account to all investment options. For example, only two providers allocated a portion of the hypothetical participant's account to the 14th investment option, "World allocation, large blend."

Figure 17: Provider Allocations to Asset Classes for a Hypothetical 45-year-old Participant

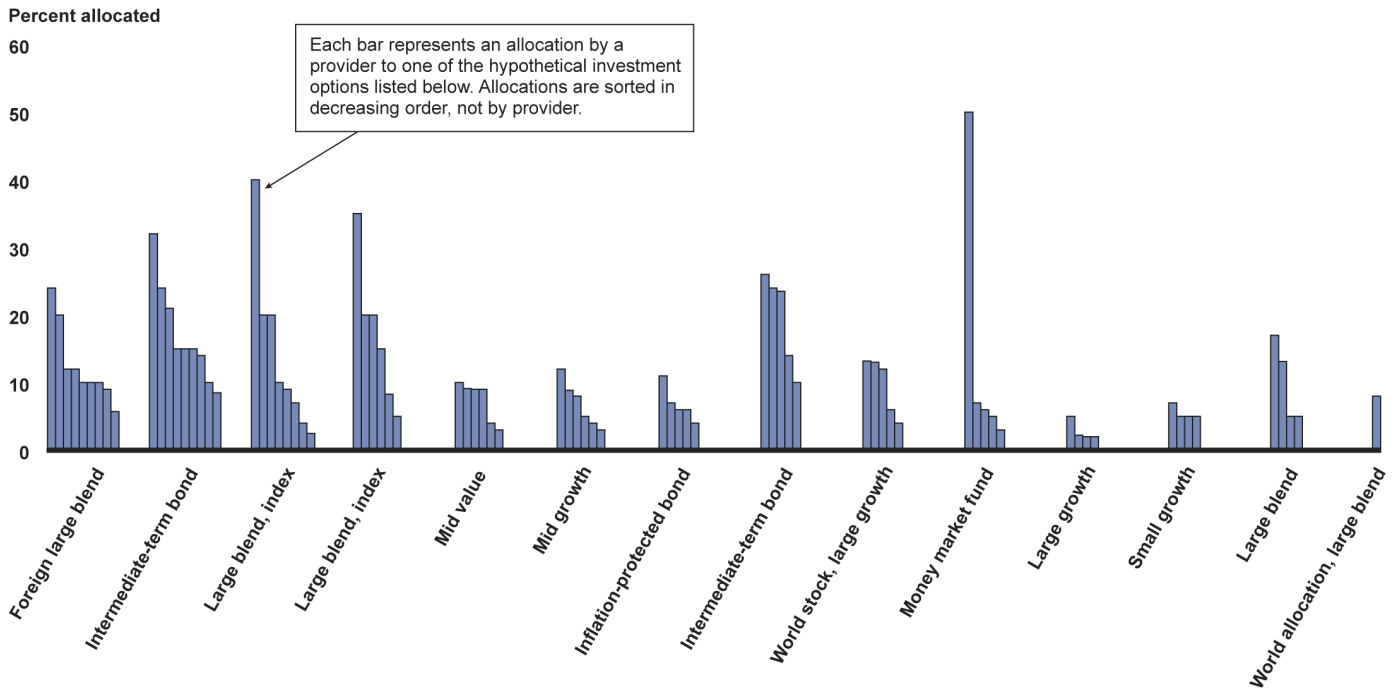


Source: GAO analysis of provider asset allocations. | GAO-14-310

Note: Seven of the eight managed account providers in our case studies submitted asset allocations for the hypothetical participant scenarios we developed. Some providers submitted multiple allocations given varying assumptions and strategies, and we have included one of those providers' second allocations in this figure.

Starting from initial asset allocation of 43 percent equity and 57 percent fixed income, figure 18 shows variation in allocations to investment options for the 57-year-old hypothetical participant and figure 19 shows variation in allocations at the asset class level.

Figure 18: Provider Allocations to Hypothetical Investment Options for a Hypothetical 57-year-old Participant

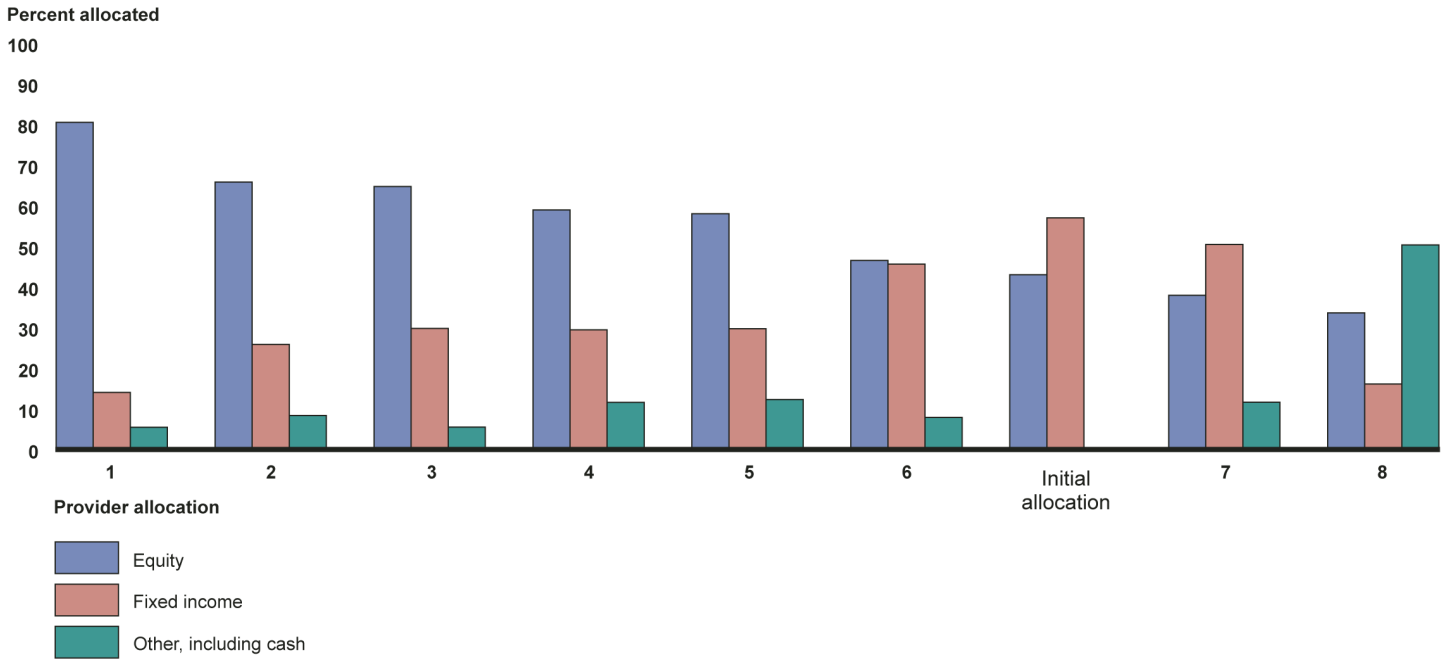


Provider allocations to hypothetical investment options

Source: GAO analysis of provider asset allocations. | GAO-14-310

Note: Seven of the eight managed account providers in our case studies submitted asset allocations for the hypothetical participant scenarios we developed. Some providers submitted multiple allocations given varying assumptions and strategies, and we have included two of those providers' second allocations in this figure. Thus, there are nine allocations to the first hypothetical investment option, "foreign large blend." In addition, some investment options have fewer allocations because providers did not generally allocate portions of the hypothetical participant's account to all investment options. For example, only one provider allocated a portion of the hypothetical participant's account to the 14th investment option, "World allocation, large blend."

Figure 19: Provider Allocations to Asset Classes for a Hypothetical 57-year-old Participant

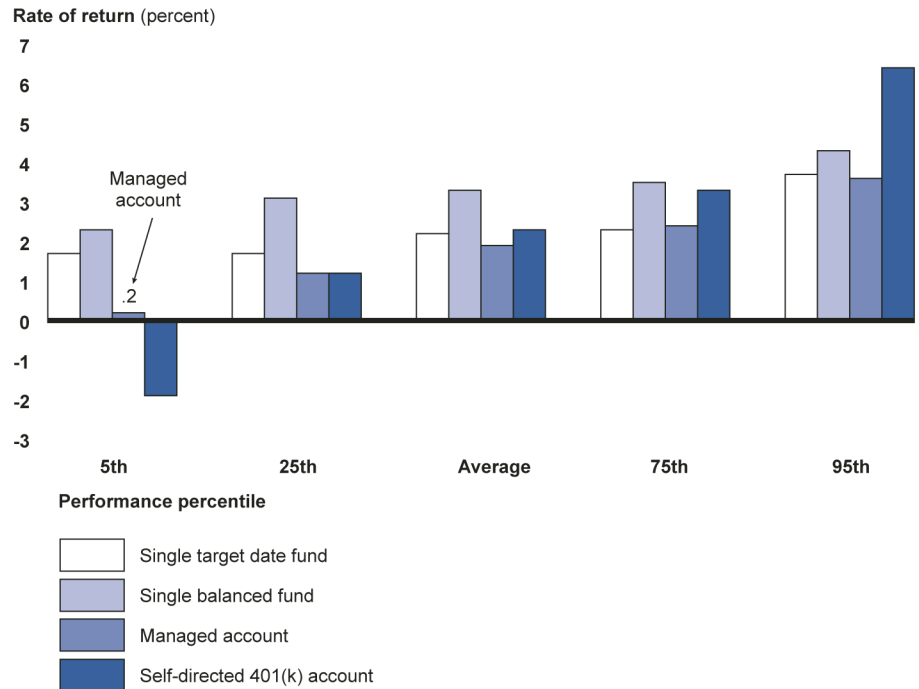


Source: GAO analysis of provider asset allocations. | GAO-14-310

Note: Seven of the eight managed account providers in our case studies submitted asset allocations for the hypothetical participant scenarios we developed. Some providers submitted multiple allocations given varying assumptions and strategies, and we have included one of those providers' second allocations in this figure.

Appendix III: Additional Performance Information from One Record Keeper's Report

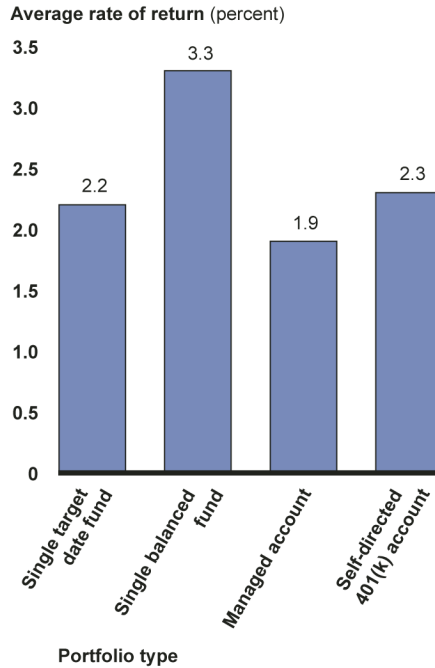
Figure 20: Examples of Annualized Rates of Return from One Record Keeper for Different Types of Professionally Managed and Self-directed 401(k) Portfolios, 2007-2012, Net of Additional Fees



Source: GAO representation of Vanguard returns data. | GAO-14-310

Note: This record keeper offers managed accounts on its platform and has issued studies on the aggregate performance of professionally managed allocations. Information in these reports is from a limited dataset that can only describe the portfolio performance for this record keeper's defined contribution plan participants with these types of retirement portfolios over a finite period of time. These data are not representative of the portfolio performance of the universe of defined contribution plan participants or for other periods of time. See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013) and Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios* (Valley Forge, PA: November 2012). These studies examine the effect of professionally managed allocations on participant portfolio construction in defined contribution plans. Professionally managed allocations are participant accounts where 100 percent of the balance is invested by a professional money manager. For these studies, a single target date fund is the most common type of professionally managed allocation, but the category also includes traditional balanced funds and a managed account advisory service. The record keeper's reports also provide performance results for participant-constructed portfolios—portfolios that do not have professionally managed allocations—which we refer to as “self-directed 401(k) accounts.” The 5-year returns data include portfolio returns from the recession of 2007-2008. For this reason, the traditional balanced fund had generally higher returns over this period because of their larger fixed income exposure. Return results would likely be different if data from 2007-2008 were not included in the analysis.

Figure 21: Average Annualized Rates of Return from One Record Keeper for Different Types of Professionally Managed and Self-directed 401(k) Portfolios, 2007-2012, Net of Additional Fees



Source: GAO representation of Vanguard returns data. | GAO-14-310

Note: This record keeper offers managed accounts on its platform and has issued studies on the aggregate performance of professionally managed allocations. Information in these reports is from a limited dataset that can only describe the portfolio performance for this record keeper's defined contribution plan participants with these types of retirement portfolios over a finite period of time. These data are not representative of the portfolio performance of the universe of defined contribution plan participants or for other periods of time. See Vanguard, *Professionally Managed Allocations and the Dispersion of Participant Portfolios* (Valley Forge, PA: August 2013) and Vanguard, *Target Date Funds and the Dispersion of Participant Portfolios* (Valley Forge, PA: November 2012). These studies examine the effect of professionally managed allocations on participant portfolio construction in defined contribution plans. Professionally managed allocations are participant accounts where 100 percent of the balance is invested by a professional money manager. For these studies, a single target date fund is the most common type of professionally managed allocation, but the category also includes traditional balanced funds and a managed account advisory service. The record keeper's reports also provide performance results for participant-constructed portfolios—portfolios that do not have professionally managed allocations—which we refer to as “self-directed 401(k) accounts.” The 5-year returns data include portfolio returns from the recession of 2007-2008. For this reason, the traditional balanced fund had generally higher returns over this period because of their larger fixed income exposure. Return results would likely be different if data from 2007-2008 were not included in the analysis.

Appendix IV: Comments from the Department of Labor

U.S. Department of Labor

Assistant Secretary for
Employee Benefits Security Administration
Washington, D.C. 20210



JUN 11 2014

Charles A. Jeszeck
Director, Education, Workforce, and Income Security
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Jeszeck:

Thank you for the opportunity to review the Government Accountability Office's (GAO) draft report entitled "401(k) Plans: Improvements Can be Made to Better Protect Participants in Managed Accounts."

To better protect plan sponsors and participants who use or are considering using managed account services, and to help them more effectively assess the performance of managed accounts, GAO makes six specific recommendations falling into three overall categories. GAO recommends that the Department of Labor: (1) review and take appropriate action regarding managed account service provider practices and fiduciary roles, (2) require disclosure of performance and benchmarking information to plan sponsors and participants, and (3) provide guidance to help sponsors better select and oversee managed account providers.

The first specific recommendation is that the Department of Labor (Department) review provider practices related to additional managed account services offered to participants in or near retirement, with the aim of determining whether conflicts of interest exist and, if it determines it is necessary, taking the appropriate action to remedy the issue. In the 2010 proposed rule on investment advice conflict of interest, the Department requested comments on how this rulemaking could address fiduciary recommendations to plan participants that they take distributions of plan benefits. See 75 FR 65266 (October 22, 2010). The subject of conflicts of interest that can arise when fiduciaries recommend such actions, including at or near retirement, continues to be a concern. In our continued review of these issues, we will include the practices that relate to additional managed account services offered to participants in or near retirement.

The second recommendation is that the Department consider the fiduciary status of managed account providers when they offer services on an opt-in basis and, if necessary, make regulatory changes or provide guidance to address any issues. In our view, the fiduciary status of managed account providers does not differ on the basis of whether the managed account is the plan's default investment option or whether the participant affirmatively chooses it. The dispositive factor for determining the managed account provider's fiduciary status under ERISA is whether the provider engages in any conduct described in section 3(21) of ERISA. A managed account provider that makes investment decisions for specific participants would engage in such

conduct.¹ Nonetheless, we will review existing guidance and consider whether additional guidance is needed in light of the various business models described in your report.

The third recommendation is that the Department issue guidance to help sponsors better select and oversee managed account providers. The fourth recommendation is for the Department to require plan sponsors to request from record keepers more than one managed account provider option, and notify the DOL if a record keeper fails to do so. The fifth and sixth recommendations are for the Department to amend existing regulations to require that sponsors and providers furnish standardized performance and benchmarking information on managed accounts to help participants.

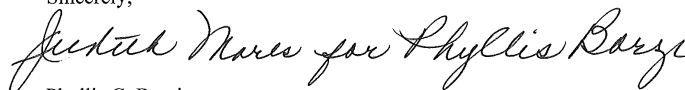
We will consider the third, fourth, fifth and sixth recommendations in connection with our current regulatory project on standards for brokerage windows in participant directed individual account plans (RIN: 1210-AB59). This project will address whether potential regulatory or other guidance for such arrangements may be appropriate. As you discuss in footnote 5 of your report, participants using brokerage windows could independently obtain managed account services for their investments. We intend to start this project by issuing a Request for Information (RFI) this year and we will consider whether these four recommendations can be explored as part of this RFI.

In reviewing the fourth recommendation, it will be necessary for DOL to consider the extent of its legal authority to effectively require that plans have more than one managed account service provider.

Finally, we will consider the fifth and sixth recommendations in connection with our open proposed rulemaking project involving the qualified default investment alternative and participant-level fee disclosure regulations (RIN:1210-AB38).

We appreciate your recommendations, and will consider them as we move forward.

Sincerely,



Phyllis C. Borzi
Assistant Secretary

¹ See, e.g., 29 CFR 2550.404c-5(f) (examples 8 and 9) (involving an investment manager selected by the participant, as opposed to a default selection) and EBSA Field Assistance Bulletin 2012-02R (Question 27) (also involving an investment manager selected by the participant).

Appendix V: GAO Contact and Staff Acknowledgments

Contact

Charles A. Jeszeck, Director, (202) 512-7215 or jeszeck@gao.gov.

Staff Acknowledgments

In addition to the individual above, Tamara Cross (Assistant Director), Jessica Gray (Analyst-in-Charge), Ted Burik, Sherwin Chapman, and Laura Hoffrey made significant contributions to this report. In addition, Cody Goebel, Sharon Hermes, Stuart Kaufman, Kathy Leslie, Thomas McCool, Sheila McCoy, Mimi Nguyen, Roger Thomas, Frank Todisco, Walter Vance, and Kathleen Van Gelder also contributed to this report.

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