GAO Highlights

Highlights of GAO-14-310, a 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 jeszeckc@gao.gov.

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.