

Tips to successfully select and monitor your managed account provider



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Managed account services help create customized portfolios for participants that reflect their unique needs using asset allocation models, capital markets forecasts, and core menu investment options.

Key takeaways

Managed accounts may be an effective investment advice feature for your plan participants.

Plan fiduciaries have a duty to select and monitor managed account providers.

Understand related fees, including an opt-in versus a default approach.

Offering a managed accounts (“MA”) service as part of your DC plan may be an effective investment advice feature for your plan participants and a way to address the growing need for more individualized asset allocations – both to and through retirement.

MA providers are investment managers under ERISA section 3(38) and offer independent, third-party advice geared toward more “do-it-for-me” investors. Even though more than one quarter (28%) of all DC plan sponsors offer a managed account, with higher adoption (44%) among larger plans with at least \$250 million in assets, managed accounts only represents 3% to 5% of DC assets.¹ Managed accounts can also meet the criteria for a qualified default investment alternative (QDIA) as an alternative to target date funds. Among plans with a QDIA, 9.5% use an MA as the default option.²

Once an MA provider is selected, plan fiduciaries have a duty to monitor the provider (annual is ideal) for quality assurance processes, reasonableness of fees, qualifications of individuals delivering verbal advice, and participant satisfaction/engagement, among other criteria. Here are some helpful tips for evaluating and monitoring your MA provider.

1. **Advice or guidance:** Advice is provided under the fiduciary rules, but guidance is merely an asset allocation recommendation (not actual investment advice). Since advice is a fiduciary function, it is often preferable that the MA provider’s process to deliver the advice be favorably tested against participant complaints or even litigation. Favorable outcomes for the MA provider can provide added peace of mind to plan sponsors.
2. **Due diligence to hire/monitor:** Hiring and monitoring an MA provider is a fiduciary function. It’s important to conduct a due diligence Request for Proposal (RFP) and evaluate a few MA providers for comparison, especially if your recordkeeper only offers one solution – you may be inclined to simply accept the MA offering “as is” without further due diligence. And given the increased focus on cybersecurity, it’s important to assess a providers’ cyber/fraud policies and procedures for mitigating risk.
3. **Advice methodology:** There are a few key areas where you may see differences among MA providers, so ask questions when evaluating their services. When evaluating an MA provider, fiduciaries should have a basic understanding of the underlying capital markets assumptions used and how it impacts participant portfolios.

Other key areas to evaluate include:



Assumption setting

Use an advice model with well-developed risk and return assumptions backed by research to promote greater return potential while minimizing downside risks.



Individual risk tolerance

Customize the advice to capture an individual's personal risk level and include assets outside of the DC plan (pension benefit, IRAs, savings accounts).



Optimization methodology

Understand the asset allocations that are generated for a range of participants in your plan up to the target retirement age and post retirement. The managed account portfolios should differ from the age appropriate target date funds to ensure it's not simply a more expensive version of the same portfolios.



Company stock treatment

If company stock is part of your plan, understand how it's included/considered. While MA providers do not normally invest in company stock, they may consider those exposures when developing allocation recommendations.

4. **Conflicts of interest:** Extra care should be taken to evaluate a managed account provider that is in any way affiliated with the recordkeeper or proprietary funds used in the advice given, as conflicts of interest may arise.
5. **Fees:** Pricing will often be less if the plan's default for participants is to "opt-out" of the service rather than having participants "opt-in," as the adoption rate is much greater with a default approach. If the fees are paid by the participants, understand how they're disclosed. Inquire about data connectivity fees between the advice provider and the recordkeeper, which should be disclosed to the plan sponsor annually.
6. **Investments:** Will just core menu options be used to build participant portfolios, or will you include additional investments available only in the MA? Expanding beyond the core menu may provide increased diversification without adding additional core options that may not be widely utilized by participants.

Offering managed account services requires a careful process to select and monitor providers, with added due diligence and fiduciary oversight for committees. However, participants can benefit from having access to active, discretionary, and holistic portfolio management – potentially helping them achieve better retirement savings outcomes.

1. Cerulli Associates, U.S. Retirement Markets 2020 (survey of over 700 401(k) plan sponsors).
2. Plan Sponsor Council of America's 63rd Annual Survey Reflecting 2019 Plan Experience (602 plan sponsors).

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