

RETIREMENTSOLUTIONS

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OCTOBER 2017

INGREDIENTS MATTER IN 401(K)
PLAN INVESTMENTS

Why does pizza taste better in Italy and sushi in Japan? It's certainly not the recipes, which are so simple. The answer is the quality of the ingredients, which is better than anywhere else. There's a lesson here for defined contribution plan advisors when it comes to constructing investment menus and even professionally managed investments like target date funds.

With so much emphasis on fees, it's not surprising that index funds have become so popular. And with a further emphasis on asset allocation, it's no wonder that target date funds have grown so quickly, garnering the lion's share of new contributions. But what's missing is an emphasis on the underlying ingredients in the funds and the need for stewards or leaders overseeing their selection to put the client's interest first.

Pendulum Has Swung Too Far

The most popular target date funds are mostly made up of proprietary funds selected by the same fund family. Does anyone think that one fund family has all the best ingredients? And with little oversight, are we confident that these fund managers will pick the best ingredients in stock or just the ones that are most plentiful and profitable?

And while we would not argue that passive investing does not have a place in target date funds and on 401(k) plan investment menus, we believe that the pendulum has swung too far—something that may only be righted with a severe market correction.

So how did it happen that plan advisors—even the most experienced among them—have ceded selection of underlying ingredients to arguably biased third parties and are comfortable making decisions using price as the driving force?

With the demand for services increasing and fees declining at an alarming rate, many advisors have shifted their allegiance from actively managed funds to index funds as a way to stop

the bleeding on their fees while keeping overall plan costs low. Recordkeepers with proprietary target date funds typically charge lower administrative fees in exchange for use of their investments.

Making a Choice

Is it time for advisors to stand up and do the job they have been charged with from the beginning, which is to select the best investments, starting with the best ingredients from money managers based on their historic strengths and performance? Or will advisors continue to cede control to the target date fund managers, or anyone else creating professionally managed accounts, who select the underlying investment ingredients based primarily on cost?

Using that logic, we would feed our families pizza from a chain that delivers and sushi from an automat because of convenience and price. And we would order pizza in Japan and sushi in Italy. That doesn't sound very appealing...or nutritious.

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Fred Barstein is founder and CEO of The Retirement Advisor University (TRAU), a collaboration with UCLA Anderson School of Management Executive Education and The Plan Sponsor University (TPSU). Founded in 2010, TRAU has quickly become the industry's leading training and designation program for focused Defined Contribution (DC) advisors and professionals dedicated to helping them build a sound and sustainable practice while improving plan outcomes for clients. TPSU trains and certifies employers managing their retirement plans, leveraging a standardized curriculum and highly qualified local advisors to deliver on-site programs. In addition, Fred is the founder and Editor in Chief of *NAPA Net*, the daily newsletter and *NAPA Net Magazine*, all part of the National Association of Plan Advisors (NAPA), where he served on the initial force and founding Leadership Committee and currently serves as Industry Ambassador. He is founder and Editor in Chief of 401kTV.

Prior to founding TRAU, Fred was president, chief executive officer and founder of 401kExchange before he left in 2010. Founded in 1996, 401kExchange was a leading business development and market intelligence provider for the 401(k) and retirement industry. His previous experience includes publisher of Bancroft-Whitney, California's official legal publisher, a division of Thomson/West, and Barclays Law Publishers, where, as editor in chief, he led the company to *Inc.* magazine's list of 500 fastest-growing private companies before it was sold to Thomson/West.

Fred received his BA degree from Boston College and his law degree from Cardozo School of Law, Yeshiva University. He is the NAPA Net Liaison to NAPA's Leadership Council, and a member of the NAPA Net and Membership Committees. He was a member of the New York Bar, held Series 6, 26, 28 and 63 licenses and was named 28th "Most Influential Person in the 401(k) Industry" in 2012 by the 401kWire. He has been ranked in the top 50 since the inception of the list in 2007. Fred is a regular speaker before various retirement industry and conferences around the country and internationally.

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