January 22 401(k) Real Talk

Greetings & a warm welcome to this week's edition of 401k Real Talk. This is Fred Barstein contributing editor at WealthManagement.com's RPA omnichannel and CEO at TRAU, TPSU & 401kTV - I review <u>all</u> of the past week's stories and select the most important and interesting ones providing open honest and candid discussion you will not get anyway else. So let's get real!

In a big blow to the ESG market, a Texas federal district court ruled that American Airlines with $14.7bn in assets violated its fiduciary duty by including ESG investments some managed by Blackrock.

Experts predict it will have a chilling effect - we will likely not see much relief from the new Trump administration whose pecuniary rule had an adverse effect on ESG funds in the past.

When plan sponsors consider adding a fund, they conduct a risk/reward analysis mindful of their fiduciary duties which include prudence and loyalty with the later the focus in the American Airlines case.

Not mentioned is the fact that Blackrock owns over 5% of American Airlines stock which could have pitted investor relations against fiduciary duties.

While some are predicting that more private equity investments will be included in DC plans likely through TDFs or managed accounts, Allison Shrager, a Bloomberg columnist and Sr Fellow at the Manhattan institute whose Columbia dissertation quantified the inherent risks in defined benefit and defined contribution plans in a changing labor market, made a strong argument against PE.

Though a Georgetown Center for Retirement Initiatives study estimates that DC plans lag DB returns partly because of their lack of alternative investments, Shrager cites liquidity, transparency and limited regulations as issues questioning whether PE is actually non-correlated.

Eying the over $11 trillion in DC assets, firms like Apollo, Franklin Templeton, Neuberger and Partners Group are keenly focused on bringing PE to 401k plans which may be easier under the new Trump administration.

In 2024, the Employee Benefits Security Administration (EBSA) secured nearly $1.4 billion for plans, participants, and beneficiaries, primarily through enforcement efforts and informal complaint resolutions.

- $742 million was recovered through enforcement efforts
- $544 million was recovered through informal resolutions

2024 compares is close to the $1.434 billion recovered in 2023 with more money from enforcement actions and less from informal complaints.

While senior leadership at EBSA is expected to turn over with Ali Kawar recently resigning, the question is whether Trump will provide more or less resources for these initiatives.

As 106,000 financial advisors plan to retire over the next decade, few with robust succession plans, Cerulli reports that the number of advisors over the past 10 years has been stagnant. Though wire house advisors dominate with over 1/3 of AUM, they only have 15% of advisors losing them at the fastest rate. Independent BDs have 16.5% of advisors followed by pure RIAs at 16%.

Lack of training and interest of younger workers is hurting the financial advisor industry with some predicting that technology and AI can either enable or replace advisors.

Either way, the exit of older advisors will only fuel the M&A market with what seems like endless interest from PE firms.

Speaking of AI, the head of a well heeled hybrid RIA with $16bn and 213 advisors boldly predicts that AI will wipe out 80% of the financial planning business.

Ameriflex's Thomas Goodson foresees data aggregators like Fidelity, Schwab, Apple and Amazon leveraging AI to gain market share.

And while high net worth and family offices who do rely on financial planning, others may be at risk.

DC experts have been predicting that tech giants will enter the 401k industry perhaps attracted to the $11 trillion and over 80 people many of whome need financial planning.

Before you sneer, did anyone see Amazon and Apple becoming major movie studios 5 years ago?

A SWOT analysis is especially critical for any industry going through massive change like workplace retirement planning. Ironically, the defined contribution plan industry's biggest opportunities are also the its biggest challenges.

Read my recent WealthManagement.com column about how advisors need to conduct their own SWOT analysis to stay relevant.

And last but not least, last week's LinkedIn poll asked:

What effect will the new Trump administration have on 401k and 403b plans?

43% of you thought it would be neutral with 33% believing it will improve outcomes and access with just 8% think it will hinder and 16% not sure.

So those were the most important stories from the past week. I listed a few others I thought were worth reading covering:

- What wisdom can advisors get from ERISA lawsuits?
- Vanguard to pay $106M SEC fines over retirement funds

- John Hancock partners with Vestwell
- ERISA excessive fee litigation spikes
- Smart USA shutters PEP business

Please let me know if I missed anything or if you would like to comment. Otherwise I look forward to speaking to you next week on 401k Real Talk.