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 all of last 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!

Like a pandora's box, the issues and lawsuits against TIAA for their advice and managed accounts products seem to be emerging with the latest one filed by Schlichter on behalf of participants from various universities that use TIAA.

Drive by market share loss and revenue declines, the complaint alleges that TIAA with the help of Morningstar also named in the lawsuit, use their advice tool and managed account product to steer clients in high priced and very profitable proprietary funds. This lawsuit and another filed last year by Dartmouth participants follows a 2021 SEC fine. Morningstar was sited because they were held up as a trusted, objective and unbiased resource.

Just recently, according to CNBC, a whistleblower filed a complaint with the SEC on similar issues.

At the heart of the suit is the failure to act in participant's best interests and show that even large plans with quite knowledgeable administrators might need an object resource like an advisor or consultant unless, of course, they have their own managed account or investment products.

CITs have officially overtaken mutual funds as the most popular TDF wrapper with more than 50% market share at $1.9 trillion as of June 30 according to Morningstar. They have been capturing more of the flow since 2020 with 67% in 2023.

Driven by lower costs, less scrutiny and flexibility allowing larger groups like advisory firms to negotiate, they have overcome many of the issues though advisors and clients still do not have a clear understanding of them and might need some education.

Just as mutual funds democratized investing for the average person which grew exponentially in DC plans, access to private equity would give DC investors the ability to invest in private companies as IPOs dwindle. According to a Georgetown University study, DC participants would have enjoyed a 15 basis point increase over a decade if they had access to illiquid assets like PE, real estate and infrastructure.

A recent column by Morningstar makes the case for PE highlighting the value as well as issues with PE including illiquidity, transparency and costs much of which can be overcome by new wrappers and big players greedily eyeing DC plans just as more money flows into professional managed investments.

It's also a good way for advisors to distinguish themselves just as wealth advisors have been doing though, again, training and education may be required to overcome issues.

Small account balances can be burdensome for DC plan sponsors so many use a 3rd party to force out accounts with $1,000-$7000 into an IRA if they do not make a selection or pay participants directly if less than $1,000.

What most plans and advisor may not realize that the selection of a force out vendor is a fiduciary act which would require documented due diligence which includes fee, types of services and investments. Plans may be limited by the vendors their record keeper works with.

The DOL has proposed an auto transferability rule while 6 of the largest record keepers along with Retirement Clearing House have created the Portability Service Network to facilitate easier transfers. These issues will only grow as more smaller plans are created.

The world appears to be on fire with a pivotal election looming, global conflicts and greater importance of technology, especially AI as we awaken to a post-Covid world.

Read my recent WealthManagement.com column about how these global and existential issues are igniting fundamental changes in DC plans in what used to be a relatively sleepy and insulated industry and why some players will be left without a seat when the music stops.

Poll Question

I've started a short weekly LinkedIn poll which has gotten a tremendous response. Here are the results of the last two:

Is the convergence of wealth & retirement a fad? 86% of you said no, just 6% said yes whiles 8% were not sure

Will AI/ChatGPT have an impact on bringing advice at scale to the masses? 46% said it wd have a major impact, 39% said some, with just 10% limited.

Stay tuned for the next poll on Friday

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

1. Benchmarking outcomes, not fees
2. Workforce equity concerns may spur more employers to put dollar caps on 401(k) matches
3. Fidelity 2024 retiree health care cost estimate
4. Mapping 403b failure
5. Large-cap active growth equity funds led corporate 401(k) plan investment changes in 2023

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.