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## A Brave New Deregulated 401(k) World

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By Kerry Pechter     Thu, Aug 2, 2018

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Though only a few lobbyists, policy wonks and 401(k) insiders appear to fully recognize it, the defined contribution industry is approaching an historical inflection point.

If Congress passes certain proposed bills, employers could be relieved of most of the legal, administrative and financial burdens of choosing and maintaining 401(k) plans for their employees. Plan service providers and outside fiduciaries would assume roles traditionally belonging to employers.

By allowing many employers to join a single plan, these changes have subtle but powerful implications—with the potential to create new winners, losers and any number of unintended and unforeseeable consequences.

These points were made clear during an hour-long webcast this week sponsored by the LIMRA Secure Retirement Institute. In the webcast, entitled "Closing the Coverage Gap," Ben Norquist, CEO of [Convergent](#) Retirement Plan Solutions, described the likely future of 401(k).



Ben Norquist

“There are three factors that we think are converging and are likely to transform the industry” in the next two to four years and which will help “move the needle” in terms of expanding plan adoption by small employers, Norquist said. These factors are:

- “A myriad of federal legislation.” The Retirement Enhancement & Savings Act of 2018” (RESA) could “open the floodgate” to new MEPs [multiple employer plans]. MEPs or PEPs [pooled employer plans] would be the vehicle through which control over and responsibility for plan design would move to providers from employers.
- “Momentum at the state level.” Oregon, Washington, Vermont, California and other states have set up or are in the process of setting up their own workplace plan solutions, such as retirement plan exchanges, mandatory workplace IRAs, and state-supervised multiple employer plans. Norquist described these efforts as both a threat and an opportunity for the private sector plan service providers. They could crowd out the private sector, with employers “dumping traditional plans into state plans,” he said. Or, by mandating a plan in almost every business, the states could be “a catalyst for [private] plan adoption” and offer opportunities for “up-selling” employers on the advantages of private plans over state plans.
- “The fintech revolution.” New mobile and web-only digital technologies are disrupting all aspects of the financial services industry, Norquist said. Fintech startups threaten to “leapfrog” traditional retirement service providers. But large legacy providers have more knowledge of the market than startups do. Norquist believes that partnerships between fintech startups and established firms could be powerful.

Norquist recommended that existing retirement service providers follow these trends closely. He advised them to evaluate their own strengths and weaknesses; fine-tune their marketing messages; assess their vulnerabilities; build, buy or partner for necessary new capabilities; capitalize on the opportunities that will inevitably arise.

This was a timely webinar. Today, employers are like the general contractors of their retirement plans. They may not run the plans. But legal responsibility for the major decisions about a plan—what the investment options will be, how much employees will pay for the plan, whether there will be an employer match, and whether to have a plan at all—falls on them, even if they aren’t aware of it.

As such, they are the gatekeepers and guardians of their employees’ retirement savings. It’s a sacred trust. But it has also imposed a burden that many small employers aren’t willing or able to bear. Employer-centric plan sponsorship is seen by some as a bottleneck and a barrier to the universal adoption of tax-deferred workplace savings plans.

The new laws would mean that employers could stop sponsoring plans. Instead industry

service providers would sponsor plans and employers would decide whether or not to join them. Others see it as a business disruption or even a threat. It amounts to a deregulation of 401(k)s, which scares some and elates others.

Others, especially large recordkeepers, see it as an opportunity. Legislators are backing the changes in the belief that they will help bring workplace savings plans to tens of millions of workers at small companies and avert an impending retirement income crisis in the U.S.

*RIJ* is following the progress of the legislative proposals. We think you should too.

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