On the Road with RIJ: Penn's Archaeology Museum

By Kerry Pechter *Thu, Apr 30, 2015*

We're at the Wharton School's 2015 Pension Research Council symposium, an exclusive meeting of retirement academics and professionals held each year in Philadelphia. Also: A link to slides from ERISA lawyer Marcia Wagner's webinar on the DOL conflict-of-interest proposal yesterday.

RIJ is reporting this week from the Museum of Archaeology at the University of Pennsylvania, where the Wharton School's Pension Research Council is holding its annual symposium. Right now, David Tuesta, chief economist of BBVA Research in Madrid, Spain, is presenting slides on the pros and cons of investments in infrastructure by pension funds worldwide.

This event's attendees perennially include a high concentration of pension experts who are well known in the retirement field, especially in the academic wing of the business. There's no red carpet here, but the luminaries I've spotted so far include Stacy Schaus of PIMCO, Amy Kessler of Prudential, Raymond Maurer of Goethe University in Frankfurt, Gary Mottola of FINRA (formerly of Vanguard), consultant Jodi Strakosch (formerly of MetLife Retirement) David John of AARP and, of course, Olivia Mitchell, the director of the Pension Research Council—just to name the ones I saw while grabbing a croissant, coffee and cantaloupe slices at the breakfast buffet.

The speaker who follows Tuesta is Peter Fisher of Tapestry Networks, a corporate governance consulting firm. He's describing an international organization, the Insurance Governance Leadership Network, where non-executive directors from global insurance companies talk with regulators about high-level insurance and accounting issues. It's something I probably should have known about already. Its members, according to one slide, include Liberty Mutual, Lincoln Financial Group, MetLife, the National Association of Insurance Commissioners, Moody's Investors Services, Travelers, and the Federal Reserve System. Heavy, stratospheric stuff; it will require further investigation. (At right, a Greek coin from the museum's collection.)

Fredrik Axsater of State Street Global Advisors, followed up these two speakers with a commentary on their presentations. He observed that there are obvious conflict-of-interests associated with investments by a national pension plan in the same country's infrastructure projects. (In the U.S., much of the local infrastructure is financed with municipal bonds or federal dollars.)

Investments in infrastructure also tend to be illiquid, he noted, so they will be hard to offer within defined contribution plans as long as those plans involve daily valuations and trading. Those issues aside, he favored pension investments in infrastructure. (During a Q&A period, there was some debate about whether the biggest barriers to pension fund investment in infrastructure is regulation, or the high fees associated with private equity firms that often broker big infrastructure deals, or the complexity of infrastructure projects, or the risk-averse nature of pension fund boards. The answer is probably, "All of the above.")

The low-yield environment is perhaps the biggest danger for retirement savers, Axsater said. According to State Street calculations back in 2007, Americans who saved and invested 11% of their income per year would be able to replace 65% to 80% of their final incomes in retirement.

Given the latest predictions for lower investment returns in the future, however, State Street now believes that an 11% savings rate would only produce a 45% replacement rate. "I call that a shock to the system," he said. To close that gap, his firm believes that people may have to retire a few years later, somehow squeeze an extra 50 more basis points of yield from their portfolios, and/or buy a life annuity that starts paying income at age 80.

Webinar on DOL proposal

Yesterday at 4 p.m., ERISA super-lawyer Marcia Wagner presented a webinar on the new

DOL conflict-of-interest proposal. The webinar was mainly a recitation of the major points of the proposal, but Wagner also provided some of expert commentary—which is what we were all waiting for. You can find a copy of the slides **here**.

In brief, Wagner believes that the "DOL proposal will affect substantially all advisors because of reach to IRA assets," that it will be "costly for broker-dealers and insurance agencies," that the so-called Best Interest exemption disclosures "appear to significantly exceed 408(b)(2) fee disclosures," and that the proposal will have "little or no impact on RIAs, but certain advisors may decide to join or become RIAs."