
The Bucket

By Editorial Staff Thu, Feb 26, 2015

Late-breaking news about Fidelity's new IRA bonus offer, and brief items from Wagner Law Firm, 401k Averages Book, Cerulli Associates, Betterment and Northwestern Mutual.

Fidelity offers bonuses for IRA contributions

In a stunt that echoes the \$600 bonuses that TD Ameritrade and E*Trade offer for big-ticket IRA rollovers, Fidelity announced today that it will match a percentage of a person's contributions to his or her IRA for three years after he or she opens a Fidelity IRA with a lump sum of \$10,000 or more.

The matches on the three annual follow-on contributions range from as small as one percent if the new IRA is opened with a deposit of \$10,000 to \$50,000, to as large as 10% if the new IRA is opened with at least \$500,000.

Here's how a Fidelity release described the new offer:

- The match is available to new or existing customers who transfer a Roth, Traditional or Rollover IRA to Fidelity.
- When this occurs, and an individual makes contributions to the IRA over the next three years, Fidelity will match the annual contribution up to 10%.
- Direct rollovers from a 401(k) or 403(b) plan are not eligible.
- If a customer transfers \$500,000, he or she will earn 10% on future contributions.
- If a contribution of \$5,500 is made in the first year, that customer will receive a \$550 match.

There's a 1.5% match for three annual contributions made after an initial deposit of \$50,000 to \$100,000, 2.5% for contributions made after a deposit of \$100,000 to \$250,000, and 5% for contributions made after a deposit of \$250,000 to \$500,000, Fidelity said in a release.

DoL won't ban commissions: Wagner Law

The Wagner Law Firm, which specializes in pension law, offered the following report this week:

The White House and the U.S. Department of Labor ("DOL") have released new information concerning the DOL's highly anticipated proposal to revise its fiduciary definition under

ERISA. The DOL proposal has not yet been published, but the Obama Administration has arranged this coordinated release of information as part of its ongoing efforts to promote the proposed rule change.

Broader Fiduciary Definition. Updated information concerning the DOL fiduciary proposal was circulated through a newly released fact sheet from the White House as well as FAQs posted on the DOL's website. As discussed in these releases, the DOL proposal would indeed broaden the definition of "investment advice," which in turn would broaden the scope of advisors to plan clients who would be viewed as fiduciaries for ERISA purposes.

New fiduciary standard and exemption. Under the proposed rule, advisors under the new fiduciary definition would be required to put their client's best interest first. However, the proposed rule would not require advisors to *eliminate* their conflicts of interest.

Instead, the proposal would include a prohibited transaction exemption that would merely require advisors to *mitigate* their conflicts and also disclose them. The new exemption would be "principles-based" (*i.e.* based on general principles rather than detailed "rules-based" requirements), providing advisors with the flexibility to adopt appropriate practices and adapt them over time.

Although the applicable releases do not explicitly reference the Investment Advisers Act of 1940 (the "Advisers Act"), based on the description of the new fiduciary standard and exemption, it appears that the DOL fiduciary proposal would impose a set of principles-based requirements on advisors to plan sponsors and participants that would be analogous to those found under the Advisers Act.

No ban on commissions or non-fiduciary education. The applicable releases state that the DOL remains committed to ensuring that all common forms of compensation, including commissions and revenue sharing, would still be permitted under the proposal. Thus, it appears that the new exemption under the DOL proposal would permit the receipt of "variable compensation" so long as the conflict is mitigated under the advisor's practices and fully disclosed. The releases also state that advisors would continue to be able to provide general education on retirement savings across plans and IRAs without triggering fiduciary status. For example, when providing guidance on the mix of stocks and bonds that a person should have based on his or her expected retirement date, the advisor should be able to provide such guidance in a non-fiduciary capacity.

Next steps for DOL fiduciary proposal. Although the DOL proposal has not yet been published, Labor Secretary Thomas Perez has informally stated that the proposed rulemaking is being submitted to the Office of Management and Budget (“OMB”). Following a standard interagency review at OMB, which is expected to be completed within 90 days, the DOL proposal would finally be made available to the public.

CEA Report on Conflicted Advice. In addition to the releases described above, the White House Council of Economic Advisers (“CEA”) released a report analyzing the economic cost of conflicts of interest. The report makes the following conclusions:

- Conflicted advice lowers investment returns by roughly 1 percent annually.
- The aggregate annual cost of conflicted advice for IRA assets is roughly \$17 billion each year.
- A retiree receiving conflicted rollover advice will lose roughly 12 percent if the savings are drawn down over 30 years.

The focus of the CEA report suggests that the DOL fiduciary proposal will include significant restrictions on advisors seeking to provide rollover advice to participants. Presumably, the CEA report will be used to support the DOL’s required economic analysis for its proposed rulemaking, quantifying the costs of conflicts and the expected impact of the rule.

Additional resources

<http://www.whitehouse.gov/the-press-office/2015/02/23/fact-sheet-middle-class-economics-strengthening-retirement-security-crack>

<http://www.dol.gov/featured/protectYourSavings>

http://www.whitehouse.gov/sites/default/files/docs/cea_coi_report_final.pdf

Year-over-year changes in 401(k) fees are minimal, new book shows

The average total plan cost for a small retirement plan (50 participants/\$2,500,000 assets) remained flat at 1.44% over the past year, while underlying investment fees declined, according to the newly released 15th Edition of the *401k Averages Book*.

“Although total plan costs remained flat or increased by a basis point for the majority of plan sizes, we saw a year-over-year decline for eight of the nine investment categories we

track,” said David Huntley, the book’s co-author.

“For example, Large US Equity fees declined from 1.40% to 1.38% and Target Date Funds from 1.35% to 1.32%,” he said, noting that participants’ exposure to equities and target date funds has grown as 401(k) balances reach new highs. “Traditionally US equities, target date funds and international have higher expenses than fixed income and stable asset so the shift from one to the other resulted in total plan costs remaining flat.”

For large retirement plans (1000 participants/\$50,000,000 assets), total plan costs were flat at 1.03% and underlying investment fees declined. The study shows Large US Equity fees declined to 1.03% from 1.05% and Target Date Funds to .96% from 0.98% for large retirement plans.

“Plans have been successful at driving down investment expenses by changing share classes or prudence in the selection process,” said Joseph Valletta, Huntley’s co-author.

Wide range between low- and high-cost providers

Total plan costs on a small plan range from .43% to 1.88%, while large plan costs range from 0.31% to 1.38%.

The 15th Edition of the 401k Averages Book can be purchased for \$95 by calling (888) 401-3089 or online at www.401ksource.com.

Plans offer automated advice to disengaged participants: Cerulli

Advice in defined contribution (DC) plans is mainly delivered automatically today and is often administered without any action from the plan participant, according to Cerulli Associates, the global analytics firm.

“Plan sponsors have increasingly embraced auto-features, which were once thought of as radical, in an attempt to boost plan participation and employee contributions,” said Jessica Sclafani, senior analyst at Cerulli, in a release. “This shift in perception is in response to the overall lack of participant engagement.”

“Retirement advice begins with auto-enrollment, which informs employees they should save for retirement. Auto-enrollment is a crucial first step in auto-advice that captures the most vulnerable population of the workforce that isn’t saving at all,” the release said.

According to Cerulli's 2014 Plan Sponsor Survey, 73% of plan sponsors have incorporated automatic features into their plan design. Nearly 90% of plans use auto-enrollment, with the majority of flows directed toward target-date funds.

"While widespread adoption of auto-enrollment is a step in the right direction, a deferral rate of less than 5% salary is inadequate and will not translate to retirement security," the release continued.

Because the participant bears the most responsibility for saving, Cerulli said, it views the implementation of auto-features as a "realistic versus paternalistic" approach to plan design.

Betterment receives \$60 million in new private equity

Betterment, the automated investing service, has announced the close of a \$60 million round of growth funding. Private equity firm Francisco Partners led the financing, which includes investments from previous investors Bessemer Venture Partners, Menlo Ventures, and Northwestern Mutual Capital.

Launched in 2010, Betterment manages more than \$1.4 billion of assets in tax-efficient, personalized portfolios for more than 65,000 customers and considers itself the largest automated investment service, by size of customer base.

Peter Christodoulo of Francisco Partners has joined Betterment's board of directors, the company also announced. Francisco Partners has made previous investments in Prosper Marketplace, eFront, PayLease, Paymetric, Avangate and Hypercom, among others.

In the past year, Betterment has introduced new features, including Tax Loss Harvesting+ and Tax Impact Preview. The company also recently unveiled Betterment Institutional, a digital solution for financial advisors.

Northwestern Mutual revenues reach record \$26.7 billion

Northwestern Mutual posted record levels of revenue, assets and surplus for 2014, as well as a dividend payout to policyowners for 2015 that is expected to exceed \$5.5 billion, a record, the company said in a release.

In 2014, Northwestern Mutual's revenue (\$26.7 billion), total assets (\$230 billion), operating gain before dividends and taxes (\$6.1 billion), and total surplus (\$22.6 billion) all reached record high levels.

In addition, the company said it increased its life insurance in-force to \$1.5 trillion (five percent over 2013) and managed more than \$87 billion in client investment assets (12% over 2013).

The \$5.5 billion of total dividends Northwestern Mutual expects to distribute to policyowners in 2015 includes record dividends on traditional permanent life insurance (\$4.8 billion), disability income insurance (\$320 million), term life insurance (\$150 million), and variable life insurance (\$105 million). "We also expect to pay \$45 million on fixed and variable annuities," the release said.

The company also expanded its Portfolio Income Annuities to the non-qualified market in 2014, fueling annuity sales. Total annuity sales reached a record \$2.4 billion, up four percent over 2013. In 2015, the company plans to introduce the Accelerated Care Benefit, a new optional benefit available with its permanent life insurance to help meet long-term care needs.

A new 1.1 million sq. ft. expansion of Northwestern Mutual's corporate headquarters in downtown Milwaukee, Wisconsin, is under construction. The company expects to add 1,900 jobs by 2030. In 2015, it expects to add more than 450 employees, many of them in information technology.

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