Managed Accounts Basics

What do participants (or employees) really want from their retirement plans? The same thing they want with everything in life – customization and personalization. From Pelotons to Starbucks, many people want things to be quick and customized and why should retirement savings be any different? One way to achieve a more personalized experience is through managed accounts.

Here's What You Really Need to Know:

1. A managed account is a discretionary investment management service (i.e., someone else is doing it for you without you helping them make decisions) for an individual participant's retirement account that is typically based on the investment options available in the retirement plan.

2. The qualified default investment alternative (QDIA) regulations from 2008 made managed accounts one of the options that can receive QDIA protection; this is alongside target date funds and balanced funds as two other options.

3. Managed accounts can be created (or "driven") by the recordkeeper or by the advisor. Advisor-managed accounts (or AMAs) are when an investment advisor (or consultant) selects the funds in the managed account as opposed to the recordkeeper-driven managed accounts where the recordkeeper (through its investment advisory service or entity) selects the funds which could include funds proprietary to that recordkeeper.

Let's Dive In...

Defaulting a participant is typically the best way to get something accomplished with a retirement plan. This is done by selecting a rate at which a participant will automatically start saving in the retirement plan (and potentially automatically escalate up to a certain savings rate). Then, there must be an investment option for those participants who don't otherwise make an election.

By way of background, in 2006, the Pension Protection Act (arguably the biggest piece of retirement legislation until the SECURE Act in 2019) directed the Department of Labor (DOL) to issue a regulation to help plan sponsors with defaulting participants into plans. In a detailed regulation that includes notice and timing requirements, the DOL gave three options for defaulting participants that could receive safe harbor protection if all the requirements were met: (1) managed accounts, (2) target date funds or (3) balanced funds (oh, and the regulations also allowed for a fourth option for a limited duration which is beyond the scope of this discussion).

As many of us know, target date funds really took the lead. According to recent research from PSCA, 85% of plans use a QDIA. In 2020, the default option for 86% of those plans was a target date fund, while only 4% of plans used a managed account. However, there are arguments to suggest that the numbers are shifting – and if not for the default option, then at least as an additional option in the plan. Unlike target date funds that only take one data point into account, which is the date of birth, managed accounts typically rely on many more data points (e.g., marital status, other savings, etc.) to create a more customized participant experience.

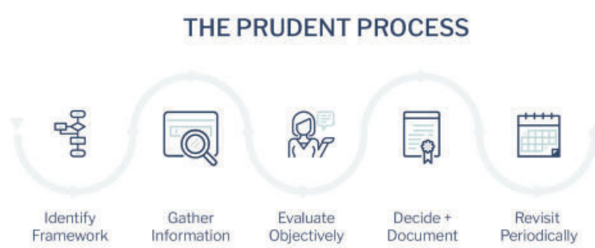
Defaulting and Beyond

Defaulting a participant in a managed account is not the only option. Plan sponsors may either default a participant into a managed account or they may add a managed account as an additional option in the plan. Many plan sponsors select the latter option and add managed accounts as an ala carte option. When managed accounts first came onto the retirement plan scene, they were primarily from recordkeepers as an ala carte option. If the plan sponsor added the managed account option, only those participants who elected to use the option were charged for this additional service. In many cases, retirement plan advisors and consultants helped plan sponsors to review the effectiveness of the managed account offering. As we will discuss below, it is important to recall that managed accounts are investment options on the plan and require a prudent review process.

More recently, advisor-managed accounts have evolved. Here, plan advisors and consultants are serving in a fiduciary capacity to the managed account. This allows the advisor or consultant to provide advice to participants (and not just the plan) while utilizing the technology of the recordkeeper to deliver the solution. Both AMA and recordkeeper-led managed accounts can be made available to a plan as either a default option or an ala carte option, but what has historically been more ala carte seems to be shifting.

A Plan Sponsor's Obligation

Because managed accounts are part of the plan's investments, plan sponsors are required to follow a prudent process for selection, review and replacement of a managed account service - even when there is only one managed account option available to the plan.



A prudent process is a framework or series of steps that can be applied to every task required by ERISA. Just like other investment options, managed accounts should have an identified framework for selection, which may be in the investment policy statement (IPS) or other stated investment guidelines or objectives. For both selection and ongoing monitoring, plan fiduciaries should gather information about the managed account (as well as other managed accounts in the marketplace) to determine how the offering fits within the IPS or other criteria.

Once information is gathered, plan fiduciaries must objectively evaluate the information to determine if the managed account is appropriate for the plan based on the needs of the plan, its participants and the framework put in place. All decisions to select, retain and/or replace managed accounts should be well-documented and revisited at consistent intervals. Even when there is only one option available to the plan, fiduciaries are still required to prudently select, monitor and replace (or remove entirely).

Action Items for Plan Sponsors

More frequently, plan sponsors may be presented with questions about personalization options for the plan and its participants, including managed accounts.

Before adding managed accounts, plan sponsors should be aware of their fiduciary obligations and consider the following—regardless of whether the service is added as a default or an additional ala carte investment option:

1. Identify the parties providing services and particularly who is a fiduciary in each case (e.g., AMA or recordkeeper managed account).
2. Understand the compensation paid for associated services.
3. Determine framework for monitoring, including what reports the advisor or recordkeeper can provide to demonstrate the value of the service and/or appropriate benchmarking.
4. Ask questions and employ the assistance of experts to understand any offerings (such as managed accounts) that are new or unclear.

IRS ANNOUNCEMENTS FOR 2023

CONTRIBUTION LIMIT FOR EMPLOYEES TO
• 401(k) • 403(b)
• most 457 plans • TSP

increase to **$22,500** ('23)
$20,500 ('22)

INDIVIDUALS CONTRIBUTION TO
SIMPLE RETIREMENT ACCOUNTS

increase to **$15,500** ('23)
$14,000 ('22)

50 YRS OLD & OVER CATCH UP CONTRIBUTION LIMIT

PLAN

increase to **$7,500** ('23)
$6,500 ('22)

SIMPLE

increase to **$3,500** ('23)
$3,000 ('22)

Details on these and other retirement-related cost-of-living adjustments for 2023 are in Notice 2022-55, available on IRS.gov.