

Living with Defined Contribution Pensions

Remaking Responsibility for Retirement

Edited by

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Chapter 10

The Changing Paradigm of 401 (k) Plan Servicing

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If one examines the changes in the employee benefit plans offered by American companies over the past decade, it would be difficult to judge whether medical or retirement plans had changed more dramatically. Medical plans have undergone much change (including managed medical care, “flexible” benefits, and the shifting of medical plan costs to employees), but developments in the world of retirement benefits have been significant as well.

In both cases, employers have turned rapidly to new ways to pay for these benefits, primarily looking to limit their financial exposure and make more predictable their short- and long-term liabilities. Employers have begun to ask their employees to pay part or even all the cost of these benefits, and this shift has been rationalized using a variety of now-common workplace mantras: employee empowerment, the freedom to choose what’s best for the individual, and personal control. In medical plans, it is called managed care; in retirement, it is called defined contribution.

While the introduction of managed care plans has begun to redefine the nature of healthcare in this country, the shift in retirement plans from defined benefit (the traditional “pension” plan) to defined contribution (primarily 401 [k]) plans may well alter the retirement landscape even more significantly in the years to come.

Consider the following. The ability of the social security system to continue to fund workers’ retirements meets with widespread skepticism in the workplace, in part because of fears of an encroaching national debt and in part by aging baby boomers who must depend on fewer young workers to support them during retirement. At the same time, however, approximately 25 percent of employees who have a defined

contribution retirement plan do not participate.¹ Of those who do, on average they are saving no more than about 5 percent or 6 percent of their salaries, an amount most experts agree will not provide a significant replacement income at retirement (Foster Higgins, Inc. 1993). This is only exacerbated by the fact that many employees eligible for such plans do not begin saving until they are in their late thirties or early forties, weakening the power of compound earnings (Access Research, Inc. 1995). And, by and large, 401(k) savers put a disproportionate percentage of their savings in stable value funds, which many experts say will not provide the growth necessary to build an inflation-proof nest egg (Hewitt Associates, cited in EBRI 1995).

Finally, what savings do exist are often depleted years before retirement, as job-changers take advantage of an IRS loophole that permits access to their accumulated 401(k) assets. When employees change jobs, they are offered a choice: to take a "distribution" from their 401(k) plans (in short, to "get the cash") or to transfer the money — or a portion of it — to another IRS-qualified retirement plan. In alarming numbers, employees have simply taken the money, even though they will have to pay taxes and, in most cases, a 10 percent penalty for early withdrawal. In 1990 alone, according to the Employee Benefit Research Institute, *more than \$40 billion of preretirement lump-sum distributions was not rolled over* into any other qualified plan, significantly diminishing those employees' hopes for a richer retirement (EBRI 1994).² One survey (Burkhauser and Salisbury 1993) suggests that only 13 percent of recipients "roll over" lump sum preretirement distributions into qualified retirement instruments and 40 percent of the recipients use some of the funds for consumption.

In short, many employees do not have access to any defined contribution retirement plan, and those who do are not all participating, are saving at low rates, are investing unwisely, and are squandering their savings at the first opportunity. Few if any American companies are creating new pension (defined benefit) plans, and the benefits from existing ones are being trimmed.³

Given all this, it looks as if the once stable world of American retirement security may be in for some significant and unprecedented change (see Table 1). The purpose of this chapter is to demonstrate that these changes are also having a significant and long-term effect on the way employers' 401(k) plans are administered and serviced by financial intermediaries, primarily banks, mutual funds, and insurance companies. In fact, the shift away from defined benefit plans, the growing emphasis on employee involvement, and the increased use of sophisticated information technology are all changing the basic paradigm of client service, which is in turn changing how major portions of the financial services industry do business and service clients.

TABLE 1 The Evolution of 401(k) Features: How Plan Design, Account Information, and Client Service Are Moving from an Institutional to an Individual Focus

	<i>First wave: focus on the institutional plan sponsor</i>	<i>Second wave: a retail orientation for a retail customer</i>	<i>Next wave: total participant interaction facilitated by technology</i>
Employee access to plan information	Limited primarily to Summary Plan Description	Prospectuses, sales literature, toll-free 800 access, meetings, financial planning assistance	Internet, technology-driven, total access to information and assistance, data-based information
Investment options	"Mystery" funds, limited choices, fees hidden	Mutual funds (with no-load pricing), brokerage options, asset allocation funds, daily transfers, increased number of options	Commoditization of funds, individual securities, unlimited access, personally managed portfolios, lowered expense ratios, custom-built needs-based portfolios
Valuation of individual accounts	Quarterly at best, often annually	Daily or monthly	Daily, or on-demand pricing (with individually traded securities)
Employee access to account information	Limited: annual or semi-annual statements	Monthly or quarterly statements; statements on-demand. 24-hour access via 800 number	Access via Internet
Ability for employees to transfer among investments	Monthly at best, often quarterly	Moving to daily, via 800 #; many still limited to monthly	Daily, via Internet
Definition of client	Plan sponsor; investment/pension committee	Still focused on plan sponsor but increased awareness of participant	Participant

The First Wave: Intense Focus on the “Institutional” Sponsor

Until the mid-1980s, many American companies provided to their employees benefit packages (medical, dental life insurance disability, pension, etc.) that permitted almost no employee choice about individual benefits or levels of coverage. The prevailing institutional view of benefits packages was that “one size fits all.” This attitude was seen as appropriately “paternalistic” at the time, and employees appeared to be content under such a system, in essence surrendering individual choice (if it were ever even contemplated by the average employee) in exchange for a comprehensive package of benefits.

The paternalistic attitude about benefits was also evident in employers’ approaches to providing retirement security through the traditional defined benefit (pension) plan. Again, as with other benefits, one size fit all, and employee choice was almost absent from a plan’s ongoing existence, except as the eventual recipient of this paternalistic largesse.

Until about 10 years ago, an employer offering a retirement plan designed it in consultation with professional benefits consultants and actuaries. Employers made annual contributions to “fund” the plans (usually), and they handled investment of the plan’s assets with the help of money managers (primarily banks and insurance companies). It was the rare employer that disclosed to employees any useful information about the financial workings of the plan (Hurley et al. 1995). Employees were told of the plan’s existence, but often knew nothing else, except perhaps that the company would calculate the pension amount based on a complicated formula based on “years of service” and “final average pay” (Hurley et al 1995). Of course, the official “Summary Plan Description” was available upon request, but it was infrequently requested and certainly less frequently read or understood. Employees were not encouraged to ask questions, and it was generally the case that the employer would not assume that the employees had any need to know much more than the fact that the company had a pension plan.

Because the plan sponsor—the employer—was identical for both defined benefit (DB) and defined contribution (DC) plans, it should be no surprise that in the earliest days of DC plans, roughly the early 1980s, employers administered them in very much the same way that they had administered their companies’ DB pension plans. Again, here, the third-party administrators and money managers hired by plan sponsors continued to think of the employer as the client, justifiably, and continued to manage the relationship the way they managed their traditional pension clients. There was little focus on the employee, if any. Employers asked insurance companies, banks, and investment management companies to

manage the assets of the DC plan (the employees' money), often in nonretail "separate" accounts (Hurley et al. 1995). Separate accounts are an unregistered pool of investments managed separately from the investment manager's "general" accounts. They are not registered mutual funds. Employee records were kept primarily by banks and insurance companies, and an account statement—a new wrinkle from the traditional pension plan!—distributed to participants once a year was the norm. (It is entirely possible, given the newness of these plans, the small balances, and the history of sparse plan information, that many employees expected little more.)

Limited Information for Participants

Prior to a decade ago, the plan information employees did receive was often limited to that mandated by federal pension regulations (primarily through the Employee Retirement Income Security Act, ERISA). In the case of 401(k) plans, this was usually no more than a wordy, legal "Summary Plan Description" and an enrollment form to initiate contributions through payroll deduction (Hurley et al. 1995). Separate accounts, unlike mutual funds, do not have prospectuses, so descriptions to potential investors, the participants, were often inconsistent and incomplete. Some employers explained the 401(k) plan to newly hired employees during their "orientation" program, but because most plans required an eligibility period of one year, the explanation was often perfunctory and employee interest low. Few employees understood the plans well, but, again, it was not at all clear that that mattered much to employees accustomed to benefit paternalism.

"Mystery" Funds with Infrequent Valuations

Taking a cue from their DB plans, employers generally offered separate-account investment options, not mutual funds, as noted above. With such investments, very little "public" information is either required or available. On the other hand, one clear difference between DB and DC plans is that participants' accounts have to be "valued" and that value has to be communicated to participants. In the early days of 401(k) plans, this task usually given over to the outside administrator or fund manager, but semi-annual or annual valuations were felt to be sufficient.

Limited Ability to Move Money Among Investment Options

Transfers of accumulated assets within a participant's account were limited, typically, to the valuation frequency. As noted, this was almost never

more often than once a quarter. To make the process even more onerous, employees had to plan and formally request a transfer well in advance of the plan's deadline for such activity, usually at least a month before the valuation date, and based on information that was usually at least two months old. A decade ago, employees also had little flexibility to increase or decrease contributions from their pay or change how those contributions were allocated among the plan's investment options.

Little or No Investment Choice

Early 401(k) plans introduced to employees the ability to direct the investment of their contributions to their retirement accounts. Even ten years ago, however, there were often no more than a handful of investment options available: a stable value option (fixed income), a balanced (stock and bond) option, and sometimes company stock (*Financial Planner* 1994). Even today, investment options can be rather limited in 401(k) plans: it is not uncommon to find a plan with a single investment option of company stock, resulting in single-security "portfolios" that a professional financial planner would consider quite risky.

Alternatively, the investments were insurance company separate accounts, including the highly popular stable value, or fixed interest, account, often so called Guaranteed Investment Accounts (GICs). With these accounts, employees received a rate of return that was fixed, and announced in advance, for a specified period of time, commonly a year. The principal and interest were "guaranteed" by the insurance company. Because of the guarantee and the declared earnings, these options have always been very popular with employees, often capturing as much as 50 percent of the typical plan's assets (Hewitt Associates, cited in EBRI 1995). This remains so today, despite the highly publicized failures of several insurance companies.

Emphasis On the Needs of the Plan Sponsor

The focus of these plans, and the subsequent delivery of support services by third-party providers, was almost exclusively on the "institutional" client, the plan sponsor. Even contact with the sponsor by the service provider was infrequent: annual performance reviews, perhaps, or annual "rate re-sets" on the stable value options. There was next to no contact with, or access by, employees. Employees received limited information, about both the plan and the investment options, and much of what they received was dated, complex, and not meant to be helpful or supportive of decision making. This appears to have been based on a sort of "Pandora's Box" theory of employee communication: "The less they

know, and the less we remind them of this plan, the fewer headaches I'll have to deal with!"

In short, DC plans originated with the focus on the institutional sponsor, and the services provided to the sponsor by third-party administrators, recordkeepers, and investment managers were essentially driven by the institutional relationship forged by the pension business. Employees were quite secondary to the business, despite the obvious fact that, without their active participation, the plans simply did not exist.

The Second Wave: Employee "Empowerment" and a Retail Investment Orientation Brings More Information and Access

By the late 1980s, a number of economic, market, and even social forces were converging on the 401(k) business that would change forever the way these plans were designed and administered. These forces would even begin to redefine for service providers who their "client" was and, therefore, would also begin to reshape the nature, type, and variety of services provided to both plan sponsors and participants.

One major reason these "Dark Ages" of 401(k) plans drew to a close was that the large mutual fund companies started to notice the growth in "assets under management" within these plans by the late 1980s. In 1986, the total assets within 401(k) plans was \$155 billion; by 1988, that figure had grown 48 percent to \$230 billion and, by 1990, it had grown another 30 percent to \$300 billion (Access Research 1995). In 1996, assets in 401(k) plans approached \$690 billion, an increase of 345 percent from their levels just 10 years before (Access Research 1995). Clearly, as more companies began to introduce 401(k) plans, and as more employees began to contribute to them, and as earnings began to build up with them, they became more and more attractive to a wider variety of service providers. In short, to paraphrase the late Senator Everett Dirksen, "pretty soon we started to talk about serious money."

Mutual Fund Companies Enter the Picture

When the big mutual fund companies began to enter the market, they brought with them their "retail" approach to investments. Their funds often had "brand" names and came with prospectuses, which made sponsors and participants more comfortable than the mysterious separate accounts. Their funds were valued daily, and information on them was available through a toll-free 800 telephone number or in daily newspapers. The fund companies had resources to staff their telephone service centers with people to answer participants' questions. Additionally,

the insurance companies lost some luster when several company failures reduced GIC values in the late 1980s. In 1989, the 401(k) market share enjoyed by mutual fund companies was estimated to be 15 percent; by 1995, it had more than doubled to 33 percent (Access Research 1996). In the same period of time, the 401(k) market share of insurance companies shrank from 39 percent to 29 percent, and that of banks dropped from 31 percent to 24 percent (Access Research 1996).

Retail Approach Influences the Institutional Market

As the mutual fund companies began to capture more and more 401(k) market share, their retail orientation also began to redefine the nature of service and the definition of "the client." Previously, the approach was "institutional," and provider services were directed toward the plan sponsor. Now, the approach became much more "retail," and services began to be directed toward the individual consumer (the participant). For example, since mutual fund companies already provided quarterly or even monthly statements to their investors, they began to offer this service to 401(k) plans' participants, as well. Fund companies had glossy marketing information and sales literature for their funds, and they even began to offer sophisticated materials on financial planning and investment decision making. These materials could be readily adapted to meet the special issues of 401(k) plans, and the mutual fund companies began to use their availability for employees as a marketing tool with the plan sponsor.

More and more 401(k) plans being introduced in the late 1980s also began to feature the fact that mutual funds were valued and traded daily. This feature allowed participants to conduct daily transactions among the plan's investment options. Today, more than a third of all 401(k) plans, regardless of size, have daily valuation, and, among large plans (at companies with more than 1,000 employees), the number approaches 50 percent, with the trend accelerating over the past several years (Access Research 1996). While many plan sponsors were initially concerned about the advisability of offering daily transaction capability within a long-term savings and retirement account, their fears about market timing and frequent trading have not been borne out in practice. Recordkeepers and money managers report little or no increase in participant transactions following the introduction of daily valuation. In fact, some have postulated that having less opportunity to trade—say, in a quarterly valued plan—puts more pressure on participants to actually do so, since they know that if a transaction is not initiated another quarter will have to pass before the next transaction window opens.⁴ Daily trading

appears to have been accepted easily by employee investors, and it is becoming the norm. Some sponsors, however, have introduced daily valuation of their plan investments but limited their participants to less frequent transactions, usually monthly or quarterly. Finally, mutual fund companies were also used to providing toll free telephone access to customer service representatives for their retail investors, so this feature was introduced to 401(k) plans, as well. The participant could call essentially 24 hours a day to get up-to-date account balances, conduct transactions, check on the status of transactions, and ask questions about the plan's various investment options or administrative details.

In short, partly because of the mutual funds' entry into the 401(k) market, participants became a much more important part of the service equation. And the plan providers — again, mutual funds, insurance companies, and large recordkeepers — began to think about keeping the individual participant happy as a way to keep their institutional client happy. The result was that participants began to enjoy much broader access to their accounts and much improved information about the plan and about information about the investments within the plan.

Whither the Plan Sponsor?

Interestingly, the trend toward focusing on the needs of the individual participant began at about the same time that plan sponsors were becoming less paternal about benefits in general *and* at about the same time that these plans were becoming much more important for most workers' retirements than the traditional defined benefit pension plan.

Employers Introduce Employee Choice and Limit Exposure to Rising Benefit Costs

At the end of the 1980s, employers began to rethink the comprehensive benefits packages they had provided, driven in part by the rising cost of medical benefits. Rather than provide a one-size-fits-all package, employers began to employ the concept of so-called "flexible" benefits: providing a specified dollar amount to cover benefit costs and then letting the employee choose which benefits to "buy" and at what levels. The employee who wanted the most coverage or the richest plans might have to pay for those benefits him or herself. This provided a very effective way for the employer to define and predict the annual expenditures required for employee benefits. This was in sharp contrast to the traditional method of covering benefit costs, through which the employer paid regardless of how high benefit costs might go in any given year. The con-

cept was often explained in a variety of ways. New lifestyles required new kinds of benefits packages. Employees were being “empowered” to manage their own benefits packages. Modern employees wanted more personal choice. In particular, employees were told that these new benefits packages gave them the flexibility to *not* purchase benefits in which they had no interest and then use those freed-up “benefits dollars” to pay for other benefits that were attractive to them. Using the concept of so-called “total compensation” (which conceives that the employer provides compensation comprised of salary and benefits, including holidays and paid time off), some flexible benefits packages (primarily from larger corporations) even allow employees to buy and sell vacation days, which means an employee willing to trade in higher benefits can have more time off the job, and vice versa.

The effect of this trend was to introduce to employees the idea that they were responsible for their own benefits, that they might have to pay for higher levels of benefits, and that they had the right to choose what they wanted. Clearly, this worked in close parallel to the changes in retirement benefits: the shift from traditional employer-managed pension plans to employee-directed DC programs.

“Downsizing,” “Outsourcing,” and Other Business Trends Converge to Focus on the Employee

Other forces within business were also beginning to shape the delivery of benefits in general and 401(k) plans in particular. Many large employers began to reduce their total number of employees, and often the “nonessential” or “nonline” benefits or human resources staff were among the first to go (*Institutional Investor* 1994). Sometimes, these companies turned to outside vendors to provide traditional benefits services, further weakening the institutional ties. In fact, many employers began to look at “total” benefits outsourcing, by which they meant contracting with outside vendors to provide benefits and administrative services that were traditionally managed within the employer’s own workforce.

Also, employers began to shift to employees some of the responsibility for funding benefit programs, including retirement benefits, and rationalized the change under the umbrella of employee empowerment. There was even some interest among employers in a concept called “total compensation,” which meant that an employer would provide as compensation a fixed-dollar amount to employees, who would then decide how to divide it up among such things as current pay, vacation, health benefits, and retirement savings.

These forces combined to change the long-standing paradigm that the

plan sponsor was solely in charge of retirement benefits and that the participant was a secondary player whom it was best to keep in the dark.

The Next Wave: Focus on Interaction and Information, Driven by Technology

Now that employers have empowered employees, given them open and on-request access to information, and authorized them to make decisions about their financial well-being in retirement, the cat, as it were, may be out of the bag. It seems that employees will be satisfied with traditional employer responses to investment flexibility, instant information, access to account transactions, and education that goes well beyond plan-specific communications. Furthermore, as account balances grow in DC plans—the six-figure 401(k) account is no longer uncommon—employees may simply no longer be willing to let the management and servicing of such significant assets be driven by what the employer deems appropriate.

Employees are already demanding more and faster information, different investment options, and increased flexibility within the plan itself. Loan features are common. Employees' accounts are "portable": they can take their accounts with them if they change jobs. And there are even some service providers offering brokerage options within the 401(k) plan. With such an option, the participant could invest in hundreds of different no-load mutual funds and even trade individual securities. These are not common, but as investors become more sophisticated and balances increase, there will surely be more demand for this type of flexibility.

But the real demand from employees is for more information, and not just about the plan itself or the plan's investment options. Employees want to know how to make decisions about financial-planning issues, how to manage money, and how to prepare for a financially sound retirement. And service providers appear to be willing to provide this increased information in order to increase assets and keep the business.

Changing Government Policy in the 401(k) Market

In the mid-1990s, even the federal government has begun to contribute to this movement toward increased investment flexibility, plan information, and investment education. In 1995, the U.S. Department of Labor (DOL) launched a national public relations campaign called "Save! Your Retirement Clock Is Ticking!" in conjunction with plan sponsors and 401(k) service providers (EBRI 1995). The point of the campaign is to

encourage employees to understand that they now have personal financial responsibility for much of their financial well-being during retirement and to continue the general education of employees on financial planning, investment basics, and financial decision making.

The campaign was followed very quickly by an "exposure draft" in December 1995 of the DOL's Interpretative Bulletin on Internal Revenue Code (IRC) Section 404(c), with the final Bulletin released in June 1996. This provides for plan sponsors a "safe harbor" from employees who may want to hold their employer liable for poor investment performance or other shortcomings within the sponsor's 401(k) plan (USDOL 1996). Essentially, 404(c) affords such protection if, generally, the employer provides (1) a reasonable selection of investment options (three distinctly different options is the minimum), (2) the ability for individuals to have reasonable access to their accounts for the purpose of moving assets among options, (3) certain information about the plan and its investments, and (4) sufficient information that the employee can make an "informed" decision about participation, contribution levels, and the management of individual accounts. The Interpretive Bulletin also makes it clear that it is permissible for employers—that is, that liability for damages is not increased—to provide generic financial planning information, including such things as asset allocation, risk/reward, and the projection of individual account balances based on assumptions of investment performance by asset class. In other words, increased access and information *for the participant* are not only now protected, they are even mandated, by federal regulatory statutes.

Given the lack of information sponsors have traditionally provided and the mystery funds they once structured, even in the recent past, one can now ask, Whither the plan sponsor? Is not the participant the new client for 401(k) service providers? And, further, will not this new client demand new products and services that the industry may be unused to providing?

The Role of Technology in Participant Service

Clearly, one of the most important tools to facilitate the movement toward increased attention on the participant will be technology, primarily through its ability instantaneously to provide access to, and to update, individual account information.

This movement began with daily valuation and the use of toll free voice-response technology, but it has already moved well beyond that initial arrangement. Service providers now offer investment and financial planning information through the Internet, and a handful have even begun to permit transactions within that medium. (Security remains a concern

for many providers, but the direction is clear.) The on-line employee can easily download mutual fund prospectuses or call up third-party evaluations of various funds' current and long-term performance. Retirement planning software—in both diskette and CD-ROM formats—are widely available and often provided free of charge by providers expecting greater participation and contributions (assets under management). There are providers who have developed financial education seminars “attended” by thousands of employees in dozens of locations across the nation through video teleconferencing facilities. To support 401(k) enrollment meetings, employers for years have asked service providers to provide technology-based communications tools like videos, audiovisual aids, and cassette tapes, and there are even software programs that allow employers to enroll employees by entering data into a personal computer and then electronically transmitting the information to the record keeping department, payroll system, and other employer divisions. Employees are now also able to enroll in their 401(k) plans over the 800 telephone lines maintained by service providers: no paper, no delay, no hassles.

An Example: Paperless Loan Transactions

Providers also now offer 401(k) loans directly through voice-response, touch-tone telephone systems. This process directly bypasses the plan sponsor, who, in the past, had to: (1) distribute loan forms to employees requesting them, (2) receive the forms from the employee, (3) check the forms' accuracy, (4) forward the loan forms to the service provider, (5) distribute the promissory note to the employee, (6) return the signed promissory note to the service provider, and (7) sometimes even hand-carry the check to the participant. This process is just one of many that clearly demonstrates how the new service paradigm puts the focus squarely on the participant and eliminates the role of the plan sponsor entirely, except for the initial design of the loan feature (which may have taken place years ago) and for monitoring ongoing management reports from the providers. In fact, this process was not driven by participants, many of whom did not know how cumbersome the loan process was, but by the sponsors themselves, who are asking service providers for more and better ways to save them time and effort by refocusing their service on the participant.

This move to a “paperless” environment, one that uses technology as a means to provide information, investment education, account transactions, instant access to account balances, and investment flexibility, is now the most powerful force shaping the future of 401(k) communications and administration.

Conclusion

Given the new focus on employee-directed retirement plans, driven by the broad range of factors noted above, the old paradigm of the primacy of the "traditional" plan sponsor and the definition of sponsor service may be rapidly changing. At least three assertions can be made based on the trends discussed:

First, service providers (mutual fund companies, insurance companies, third-party administrators, etc.) are now fully involved in the business of employee communications, whether they recognize that fact or not, and whether they do it well or not. Record keeping, administration, and even investments are becoming commodities. The most powerful differences in client service will be the providers' ability to motivate employees, their power to communicate with them, their ability to understand employee needs, and the resources to link technologies as a tool to facilitate participant interaction.

Second, success in capturing DC market share will be driven to a large part by providers' ability to blend effective employee communications with the power and efficiency of technology. The traditional factors driving a plan sponsor's decision to purchase services from a provider (stability, fixed-income expertise, administrative, and record-keeping expertise) appear to be diminishing.

Finally, once having been "empowered" to shape their own financial well-being during retirement, employees will continue to demand products and services different from those their employers may have selected in traditional defined-benefit plans. In the future, it is quite conceivable that major 401(k) plan features and the nature of plan servicing will be driven by neither sponsors nor providers, but by the ever-increasing number of true clients, the participants. The sponsor's ability to provide attractive and competitive 401(k) plans, and the provider's ability to capture market share and assets may well depend on their willingness and ability to listen to employees and where *they* want these plans to go.

Notes

1. The average rate of participation among employees eligible for 401(k) plan participation was 76 percent in 1995, according to Access Research, Inc. (1996).

2. The figure cited includes both defined benefit and defined contribution preretirement lump-sum distributions.

3. "[O]ne recent study reported that [DB] coverage had slipped to 43 percent. For those who are covered, the defined benefit has been defined every more skimpily. Cost-of-living adjustments disappeared years ago. The percentage of salary that a worker could get at retirement stopped rising. In the past five to ten years, more and more employers have switched from a final-average-pay formula

to a career average. Because the new formula draws on the earlier years of a career when a worker earns less, a pension based on it may be only half as rich as one calculated with the old formula, according to Dennis Kass, a managing director at J.P. Morgan Investment Management and the chief Federal pensions administrator before [David] Walker, . . . [and w]here defined benefit plans used to provide 50 to 60 percent of preretirement income, says David Veeneman, a consultant with Hewitt Associates, they now make up only 25 to 40 percent" (*Institutional Investor* 1994: 51).

4. Revealed in unpublished employee surveys and focus group research conducted in 1995 and 1996 by the author for several large clients (with employee populations in excess of 5,000) of the Metropolitan Life Insurance Company Defined Contribution Group of New York.

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