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Impact of The Pension Protection Act on Advice: What's Working & What Remains to be Done?

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Introduction

- U.S. workforce faces significant challenges today
 - Lack of overall financial literacy
 - Complexity of managing a ‘lump-sum’ in retirement
 - Economic and market uncertainty
- The Pension Protection Act (PPA) highlights the challenge of delivering high-quality and accessible advice
 - How did advice programs work prior to PPA?
 - Has advice delivery changed post-PPA?
 - What remains to be done?

A Brief Regulatory and Legislative History

- DOL Interpretive Bulletin 96-1
 - Defines education vs. advice
- DOL SunAmerica Opinion
 - ‘Independent financial expert’
- Pension Protection Act (PPA)
 - ‘Fiduciary advisor’
 - ‘Eligible advice arrangement’
 - Certified computer model
 - ‘Fee-leveling’
 - Annual audit

Participant Investment Advice Today

- Business model
 - Independent providers and SunAmerica arrangements
 - Plan provider alliances covering at least 43 million participants*
 - Over 50% of plan sponsors offer advice**
- Delivery models
 - Online computer models with representative support
 - Programs with financial advisor intermediaries

* According to the authors' estimates using provider websites, press releases, and PlanSponsor.com.

** According to both DOL and *Deloitte 401(k) Benchmarking Survey 2008 Edition* estimates.

Participant Investment Advice Today – Limitations

- Online computer models
 - Not a preferred method of receiving actionable advice
 - Participants don't necessarily follow the advice
 - Questions related to broader financial planning and allocation of overall resources not addressed
- Financial advisor intermediaries
 - Product sales
 - Uneven participant access
 - Tacit endorsements

Participant Investment Advice Today – Participant Issues

- Financial troubles beyond retirement planning and 401(k) investing
- Complex decisions around retirement and account management
- Retirement is not the most important goal for many – interconnected financial obligations today and in the long-term
- Finding money to save
- Trust

Where Do We Go From Here?

- Expand financial planning programs while addressing related conflicts
 - Housing, credit card debt, tax withholding, retirement decision-support
 - Delivery by salaried representatives
- Re-evaluate the relative cost of participant education and advice programs
 - Cost of employee financial stress and disengagement
 - Cost of expanded advice vs. plan asset management fees
- Leverage auto-solutions to reduce the need for traditional 401(k) investment advice
 - QDIAs will default more participants into diversified investments
 - Focus advice programs on assisting participants with allocating resources for competing goals

Conclusion

- With DOL rules still in flux, investment advice programs continue to operate as they did before
- Future advice programs need to extend beyond selecting investments in the 401(k)
- Consider broader conflicts of interest outside the context of 401(k) investment options