

It's Time for Fiduciaries to Get an Education

By Jeffrey DuFour, CEO - Tillit Group, Princeton, NJ

When it was announced in 2004 that the Federal Thrift Investment Board engaged in an investment fiduciary training program, it seemed the United States government finally began to acknowledge the importance of a prudent investment process and educated trustees to oversee it. However, nearly two years later, Federal employees may be the only people who have educated trustees protecting their retirement funds. This is in spite of deep concerns over the state of the U.S. retirement system and continuing news of plan failures.

One might ask, "Aren't all trustees of retirement plans required to go through fiduciary training?" The response, however, is an astounding no. Trillions of dollars of retirement funds are managed by trustees, yet there are absolutely no requirements for training in fiduciary responsibility or independent oversight of the investment process. While the Department of Labor does have oversight due to ERISA (Employee Retirement Income Security Act), it focuses little on the investment management process, mainly concentrating on technical matters and developing protections against illegal acts. As important as those issues are, in all likelihood, poor investment performance and excess costs hurt participants' accounts far more every year than malfeasance and sloppy administrative practices.

Many people say they make their own investment choices when it comes to their 401(k) accounts, so why is it necessary to worry about having trained trustees? Even in these cases, the trustees retain two significant responsibilities in the investment process (in addition to many other responsibilities related to plan management).

First, the trustees develop the list of investment options which are available to plan participants. Even though there are thousands of mutual funds available, many plans only offer a limited number of investment options to their participants (in fact, they only have to offer three). What guidelines do the trustees abide by to select the offered funds?

How do they decide when to drop or add funds? What action was taken after the last round of scandals in the mutual fund industry? Without fiduciary training, how can a trustee make educated decisions about the funds they choose?

Next, trustees must understand how to manage an investment program with a cost structure that is sensible and justifiable. The average mutual fund charges 1.5 percent of asset value each year and, because their costs are typically hidden within net investment returns, plan participants may easily overlook them. By comparison, an S&P 500 Index Fund typically costs about .18 percent per year, or 88 percent less. At first glance the difference may seem insignificant, but over an extended period of 401(k) contributions, the impact is considerable. Without any required training, trustees lack the experience that would allow them to negotiate fee arrangements. It's not a matter of cheaper being better – it's a matter of a trustee's ability to understand, manage and rationalize the fees charged to their participants.

It is clear that federal employees have acquired a tremendous advantage with their "401(k)" plan. They will reap the benefits of having knowledgeable trustees working on their behalf – something that is not required for state and local, union and other employees. Federal employees should not be the only ones who gain the protection of prudent investment practices and educated trustees. The government needs to pass legislation that sets a requirement for education of fiduciaries and independent oversight of all retirement plan investment processes. This would be a commitment in the best interest of those who depend on pensions or 401(k)s, and when it comes down to it, their fiduciaries as well.

Jeff DuFour is CEO of Tillit Group LLC. Tillit provides independent education, consulting, fiduciary certification, litigation support and expert-witness services to investment fiduciaries and their stakeholders. Founded in 2003, Tillit is committed to supporting fiduciaries in their stewardship roles and helping their stakeholders have confidence about their investment practices. Visit them on the Web at <http://www.tillitgroup.com>.