CAPTRUST

August 26, 2021

US Department of Labor
Advisory Council on Employee Welfare and Pension Benefit Plans

Phyllis Klein, CAPTRUST Financial Advisors
Testimony: Self Directed Brokerage Accounts

Executive Summary:

- Plans offering self-directed brokerage accounts vary widely potentially based on other services a record keeper may offer.
- The access to self-directed brokerage accounts does not correlate to the usage by individuals
- The fees for accounts vary widely
- Plan sponsors offer access to these accounts for a variety of reasons:
    - Demand
    - Efficiency in plan menus
- Plan sponsors communicate important information about self-directed brokerage accounts
- Further regulation or guidance to add fiduciary responsibility seems unreasonable

4208 Six Forks Road
Suite 1700
Raleigh, NC 27609

800.216.0645 toll free
919.870.6822 office
919.870.8891 fax

captrust.com

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Hello, my name is Phyllis Klein, I am the Senior Director of Retirement Services at CAPTRUST Financial Advisors. I have worked with retirement plans since 1984 and have witnessed numerous changes in both guidance and regulation and have experienced the use of self-directed brokerage accounts by Plan Sponsors and participants throughout that entire timeframe. In fact, my very first job in the record keeping industry was entering individual brokerage transactions into an early computerized trust system for both defined benefit and defined contribution plans. Even in 1984, defined contribution plans had self-directed brokerage account usage so there is a lengthy history of availability.

In reviewing the June testimony, and in an effort to not be duplicative, I want to try to put into perspective how a party that offers fiduciary services to plan sponsors and plan participants approaches self-directed brokerage accounts.

Currently, CAPTRUST works with numerous 401k and 403b plan sponsors, of which a subset of about 14% or a little over 650 plans offer the ability for individuals to use to self-directed brokerage accounts. Our relationship with a plan sponsor or plan participant in a plan we advise, is not to provide investment advice to assets held in a self-directed brokerage account.

In preparing to testify before the committee, I asked our team to poll several of the largest recordkeepers in the industry to understand their retirement plan client's exposure to the adoption and use of self-directed brokerage accounts. We received responses from 6 of the largest recordkeepers. The results of this polling indicated that those recordkeepers that also offered broad retail brokerage services, had approximately 56% of their plans offering self-directed brokerage. The recordkeepers that did not have broad retail brokerage services had between 1% and 3.64% of plans that offered self-directed brokerage.

Although the record keepers with larger national brokerage firms had a significantly higher percentage of plans offering self-directed brokerage accounts, the usage of those accounts was not correlated to their availability. Across all the responding recordkeepers the use of self-directed brokerage accounts by individuals ranged from .03% up to 3%, by all standards very low.

In addition to offering and using self-directed brokerage accounts, CAPTRUST also gathered information on the various fees associated with using self-directed brokerage accounts. Again, the fees charged for individual account maintenance as well as transaction fees vary widely. Fees charged to participants who wish to use a self-directed brokerage account ranged between "no cost" and $120 per year. Additionally, every respondent charged a fee for broker assisted trades while the majority offer online trading at little to no cost.

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Our experiences indicate that most plan sponsors who offer a self-directed brokerage option do so to provide broader investment access those participants who are more experienced and sophisticated investors. These investors welcome the opportunity to access additional investments.

Self-directed brokerage accounts offer another important option for plan sponsors which is to manage investment menus. Plan sponsors who believe it is in the best interest of their participants to limit investment options in a core investment menu to avoid confusion or overload of choice, seek to allow access to additional investment choices through self-directed brokerage accounts. This construct allows most participants to select from a core investment menu of funds that have fiduciary oversight and regulation by a committee and often by an investment advisor who assists with monitoring and supervising the investments and their costs. In addition, plan sponsors are extremely diligent about informing their employees about the use and risk of self-directed brokerage accounts with some going as far as asking individuals to acknowledge in writing their understanding of the risks and fees.

Based on the low usage of self-directed brokerage accounts and plan sponsors willingness to communicate the risk associated with investing through these accounts, it seems unreasonable to burden plan sponsors who have small percentages of employees utilizing these accounts, with increased fiduciary responsibility.