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General Comment

See attached file(s)

Attachments

CRR Response to Proposed 5500 Changes - RIN 1210-AB63

The Center for Retirement Research

Response to Proposed Changes to the Form 5500 Data

RIN 1210-AB63

The form 5500 data is the most comprehensive publically available database on private sector employer sponsored retirement plans in the US. The data include, among other things, plan type (401(k), DB, Cash balance, etc), data from the income statement and balance sheet, data on asset allocation and fees (both investment management fees and other administrative fees), and data on plan participants. The database is longitudinal, offering researchers the ability to extract trends in the size, health, and performance of US employer sponsored retirement plans in the aggregate and for specific plans. As such, the 5500 data has always been at the core of research and policy analysis focusing on private sector retirement plans.

For the database to continue to support relevant research and analysis in retirement policy, it must evolve as the retirement landscape does. The shift from defined benefit (DB) to defined contribution (DC) plans that put more pressure on individuals to manage their own retirement, a proliferation of complicated investments and opaque fees, and the dramatic decline in retirement savings for both DB and DC plans since the financial crisis of 2008 – to name a few reasons – require new and different data to properly assess the status of retirement in the US and the adequacy of existing and potential policies. Regarding defined contribution plans, for example, there is almost no data available on plan design features. This makes it impossible to know which features best improve the retirement prospects of participants. In the realm of multiemployer defined benefit plans – given the recent financial challenges for some of the largest plans – not knowing who the participating employers are leaves researchers in the dark regarding the risks faced by these plans from financially challenged firms and vice versa. As such, the Center is in full support of the proposed changes proposed by the DOL to expand and improve the data contained in the 5500.

Impressively, the proposed changes to the 5500 address virtually all of the data inadequacies that have often limited researchers' ability to answer the most pressing research questions. In particular, the expansion of investment and fee data in Schedule H, the specifics of DC plan design included in Schedule R, the greater detail regarding the type of distributions made to participants in Schedule H, the separation of multiemployer withdrawal liability payments in Schedule MB, and the addition of DB participant schedules (i.e. tables of actives, retirees, and inactive vested) in SB and MB were much needed. Additionally, the proposed changes to Schedule H and D reporting for DFEs – and plan sponsors invested in DFEs – are well thought-out and wholly supported by the Center.

Below, we outline some of the specific changes to the 5500 that are most useful to the Center for Retirement Research as a research institution. The outline is organized according to topics relevant to the Center's research interests. For each topic of interest to us, we detail the data that the 5500 currently contains and the proposed changes to expand/improve the data. We also suggest some additional expansions/improvements that could be made to increase the 5500's value to researchers further.

Asset Holdings

Regardless of the plan design (defined contribution plan, defined benefit, cash balance, etc), investment performance is central to efficiently providing retirement security to plan participants. Given the increased complexity of investments classes and the increase in the investment into exotic and often illiquid assets in the face of poor returns in more traditional asset classes, it is clear that more detailed data on asset holdings is important to ensuring proper maintenance of retirement assets. The proposed changes to the Schedule H in the 5500 data do much to improve what is known about investment in various complex asset classes by the plan and its participants.

Investments in private equity, commodities, real estate, other “exotic” investments

Currently in the 5500- Schedule H

- Partnership/joint venture interests
- Real estate (other than employer real property)
- Employer real property

Update – Schedule H adds data on privately traded stocks

- Corporate stocks (other than employer securities and foreign investments):
 - Publicly traded
 - Preferred
 - Common
 - Non-publicly traded
 - Preferred
 - Common

Update – Schedule H adds data on Partnership/joint ventures

- Partnership/joint venture interests
 - Value of interest in limited partnerships
 - Value of interest in venture capital operating companies (VCOC)
 - Private equity
 - Hedge funds
 - Other partnership/joint venture interests (Describe)

Update – Schedule H adds data on commodities

- Commodities (direct investments)
 - Precious metals
 - Other (Describe)

Update – Schedule H adds data on derivatives

- Derivatives
 - Futures
 - Forwards
 - Options
 - Swaps
 - Other (Describe, e.g., collateralized debt obligations other than real estate)

Update – Schedule H adds details to real estate investments

- Real Estate Investments (other than employer real property and foreign investments)
 - Developed real property (other than employer real property)
 - Undeveloped real property (other than employer real property)
 - Publicly Traded Real Estate Investment Trusts (REITs)
 - Non-Publicly Traded Real Estate Investment Trusts (REITs)
 - Mortgage-Backed Securities (Including Collateralized Mortgage Obligations)
 - Real Estate Operating Company (REOC)
 - Other real estate related investments (Describe)

Illiquid or hard-to-value assets

Currently in 5500 – Schedule H asks about total holdings and contributions in hard-to-value assets

- Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?
- Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?

Update – 5500 includes Schedule of Assets in the Schedule H (rather than an attachment) and tracks if each reported asset is hard-to-value.

Fees and Expenses

Understanding the fees and expenses involved in running a plan is central to efficiently providing retirement security to participants. Specifically, given the high use of active management and the increased complexity of investment strategies, measuring investment performance against the cost of service is key to ensuring proper stewardship of retirement assets. For DBs, the main issue is assessing the price paid for investing in less traditional asset classes such as private equity, real estate and commodities, and private partnerships. For defined contribution plans, the questions centers around employees choosing high fee funds or the employer offering only high fee funds. The proposed changes to the Schedule H in the 5500 data do much to improve what is known about the fees plans – and their participants – pay to investment managers as well as other service providers.

Fees and Expenses

Currently in 5500 - Schedule H has fees paid directly by plan:

- Professional fees
- Contract administrator fees
- Investment advisory and management fees
- Other

Currently in 5500 - Schedule C contains data on fees paid to individual service providers, both directly (by plan) and indirectly (from source other than plan, usually participant accounts for DC plans). Schedule C is not easiest to use. Fees are often written in string format.

Update – Schedule H breaks down total fees/expenses by type.

- Salaries and allowances
- Contract administrator fees
- Investment advisory and management fees
- IQPA Audit fees
- Recordkeeping and other accounting fees
- Bank or Trust Company Trustee/Custodial Fees
- Actuarial fees
- Legal fees
- Valuation/appraisal fees – used to value “hard-to-value” assets
- Trustee fees/expenses (including travel, seminars, meetings, etc.)
- Other

Update – Schedule H breaks down total expense/fees into portion charged to the plan vs. participant accounts.

- Total paid by the plan, except charges directly against participant accounts
- Total payments charged directly against participant accounts
 - Transaction-based charges to individual participant accounts
 - Plan level expenses apportioned among participant accounts
 - per capita
 - pro rata by account balance
 - other (describe):

Defined Contribution Plans

For defined contribution plans, the key areas of interest for researchers today relate to participation, contribution levels, investment choice and selection, and the drawdown of assets in retirement. To investigate these issues, the data that are needed by the research community are greater disclosure of specific plan design features, eligible versus enrolled participants, investment options and selections, and how assets are ultimately distributed to participants.

Plan Design

Currently in 5500 – 5500 form asks about automatic enrollment and default investments

- If this is a defined contribution pension plan, check all the appropriate box(es) to indicate all type(s) of features your plan has.
 - Code 2S is Automatic Enrollment
- Does the plan have default investment alternatives that are intended to be qualified default investment alternatives (QDIA) (see instructions) for participants who fail to direct assets in their account?

Update – 5500 form expanded questions about default investment

- Does the plan have default investment alternatives that are intended to be qualified default investment alternatives (QDIA) (see instructions) for participants who fail to direct assets in their account? If “Yes,” check all applicable boxes to indicate type(s) of QDIA:
 - Target date/life cycle fund
 - Fixed income
 - Money market or equivalent (under 29 CFR 2550.404c–5(e))
 - Balanced fund
 - Professionally managed account
 - Other (specify)

Update – Added Part VI to Schedule R to cover various DC plan design features

- Were employees participating in the plan eligible to receive employer contributions even if they did not make any elective deferrals?
- If yes, how is the employer’s contribution calculated and enter the percent or dollar amount or other formula?
 - % of a participant’s compensation (provide percentage)
 - \$ per participant (provide amount)
 - Other (specify)
- Does the plan provide for employer matching contributions contingent on employee elective deferrals?
- If yes, enter the percentage, amount or formula to indicate the minimum elective deferrals necessary to qualify for an employer matching contribution (if there is no minimum, check “other” and enter “none”):
 - % of a participant’s contribution up to a limit (provide percentage)
 - \$ per participant (provide amount)

- Other (specify)
- If yes, enter the percentage, amount or other formula to indicate the maximum employer matching contribution under the terms of the plan.
 - b % of a participant's compensation (provide percentage)
 - b \$ per participant (provide amount)
 - b Other (Specify)
- Enter the number of participants making sufficient elective deferrals to receive the maximum employer match.
- Does the plan have automatic enrollment? If yes,
 - Enter the default elective deferral as a percentage of a participant's compensation in the first year after a participant is automatically enrolled?
 - Does the plan have automatic escalation, assuming a participant has made no active elections? If yes,
 - Enter the maximum elective deferral as a percentage of a participant's compensation.
 - Enter the number of participants that have not made any investment decisions and remain in the plan's default investment account(s):
- Enter the number of participants making catch-up contributions.

Participant Data

Currently in 5500 – 5500 Form contains basic on number of participant accounts

- Number of participants with account balances as of the end of the plan year

Update – Expanded 5500 form to include more questions on DC participant counts:

- Number of participants with account balances as of the beginning of the plan year
- Number of participants with account balances as of the end of the plan year
- Number of participants that made contributions during the plan year
- Number of participants that terminated employment during the plan year that had their entire account balance distributed as of the end of the plan year

Benefit Payments/Participant Loans/Withdrawals/Leakages:

Currently in 5500 – Schedule H

- Outstanding participant loan balances
- Interest on participant loans
- Outstanding participant loan balances for which repayment has stopped (#2g)

Update – Adds to Schedule H sub-categories under payments made directly to participants or beneficiaries

- Direct rollovers
- Hardship distributions made from a section 401(k) plan
- Distributions to employees who have attained age 62 and who were not separated from service when the distributions were made for a defined benefit plan or a money purchase pension plan
- Other

What's Still Missing for Defined Contribution Plans?

- Participation/Coverage
 - Number of sponsor employees that are eligible for the plan.
 - Number of participants currently employed by the plan sponsor.
 - Covered payroll
- For participants currently employed by the plan sponsor:
 - Total number; avg. age, tenure, and account balance.
 - 5-yr age/tenure matrix containing in each cell: number of employees, avg. payroll, and avg. account balance.
- For participants that terminated employment in the year and closed their account (i.e. withdrew all funds).
 - Avg. age, tenure, and account balance.
 - 5-yr age/tenure matrix containing in each cell: number of employees, avg. payroll, and avg. account balance.

Single Employer DB Plans

For single employer DB plans, an area of great interest for the Center is in modeling specific plans to see their potential pressure they may put on a specific employer – in effect, stress testing. To do this, actuarial participant and assumption data are needed, as well as plan design data. The proposed inclusion of the active and retiree schedules in the Schedule SB move researchers closer to being able to better model individual plans.

Actuarial Participant Data

Currently in 5500 – Plans covered under ERISA Title IV (PBGC insured plans) must attach a schedule of active employees to the Schedule SB. However, data in attachments are not included in the downloadable electronic 5500 data.

Update – Schedule SB (actuarial data for Single Employer DB) will now directly include schedule of actives, retirees, and terminated vested with information on average age and benefit, and assumed

- age/tenure schedule of actives and covered payroll
- age schedule of retirees and benefits
- age/tenure schedule of terminated vested
- Average age and salary of actives
- Average age and benefit of retirees
- Average age and benefit of terminated vested
- Assume age of retirement for terminated vested
- Assumed form of benefit for terminated vested: annuity or lump sum

What's Still Missing for Single Employer DB Plans

- Covered payroll
- Separate reporting of valuation liability for actives, terminated vested, and retirees.
- Average age of entry for current new plan participants.
- Average age of those who separated in current year.
- Average age of those who retired in the current year.
- Actuarial assumptions of separation and retirement (if there is more than one participant group, use the largest group of plan participants)
- Benefit structure: benefit factor or accrual rate (If there is more than one benefit structure, use the largest group of plan participants. If the benefit factor or accrual rate is not constant through the career, report the replacement rate for an employee that works from age 25 to 62).

Multiemployer DB plans

For multiemployer plans, the key areas of interest for researchers today relate to the challenges faced by the sector as whole and the risks posed to participants, participating employers, and the PBGC. To answer these questions, the data that are needed to by the research community are greater disclosure of the participating employers within each plan, data on withdrawal liability payments (the total annual payment, a schedule of withdrawn employers who are making payments, and how much they are each paying), and actuarial participant data that allows better modeling of the plans. Fortunately, the proposed changes to the 5500 address each of these areas.

Actuarial Participant Data

Currently in 5500 – Plans covered under ERISA Title IV (PBGC insured plans) must attach a schedule of active employees to the Schedule MB. However, data in attachments are not included in the downloadable electronic 5500 data.

Update – Schedule MB (actuarial data for multiemployer DBs) will now directly include schedule of actives, retirees, and terminated vested with information on average age and benefit, and assumed

- age/tenure schedule of actives and covered payroll
- age schedule of retirees and benefits
- age/tenure schedule of terminated vested
- Average age and salary of actives
- Average age and benefit of retirees
- Average age and benefit of terminated vested
- Assume age of retirement for terminated vested
- Assumed form of benefit for terminated vested: annuity or lump sum

Withdrawal Liability Payments

Currently in 5500 – none

Update – Schedule MB separates withdrawal liability payments from other types of contributions

Participating Employers

Currently – Schedule R contains data on total contributions and contribution formula for employers that contribute more than 5 percent of total contribution

Update - none

What's Still Missing for Multiemployer DB Plans

- Covered payroll
- Schedule of all participating employers
 - EIN
- Employer contribution data in Schedule R should refer only to regular contributions and not withdrawal liability payments.
- A new schedule on withdrawal liability payments should be created:
 - Schedule of employers that are supposed to make withdrawal liability payments in that year
 - Employer EIN
 - Withdrawal amount expected
 - Withdrawal amount paid

- Separate reporting of valuation liability for actives, terminated vested, and retirees.
- Average age of entry for current new plan participants.
- Average age for those who separated in current year.
- Average age for those who retired in the current year.
- Actuarial assumptions of separation and retirement (if there is more than one participant group, use the largest group of plan participants)
- Benefit structure: benefit factor or accrual rate (If there is more than one benefit structure, use the largest group of plan participants. If the benefit factor or accrual rate is not constant through the career, report the replacement rate for an employee that works from age 25 to 62).