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Consulting Offices:
Omaha, Nebraska
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Plan Sponsor Alert: What Qualified Default Investment Alternatives (QDIAs) are appropriate?

The Pension Protection Act of 2006 included provisions to assist and protect plan sponsors in fulfilling their fiduciary responsibilities regarding what type of investment is appropriate when a participant makes no investment election. QDIAs are entitled to fiduciary protection. But the question of what QDIAs are appropriate has been a subject of some debate. Initially, it was thought that acceptable investment approaches would be Life Style funds (also known as Asset Allocation funds), Target Date funds (also known as Life Cycle funds), Balanced funds, and Managed accounts.

The insurance industry lobbied to have “stable value type” funds included, but they were only partially successful. Stable value funds or money market funds can only be used as short-term (120 days or less) solutions, so their use is limited.

The Department of Labor (DOL) has provided some rigid QDIA guidelines which plan sponsors must observe. These guidelines may eliminate some of the original choices or require adjustments to existing investment choices.

In order to qualify as a QDIA, Target Date funds must now include a fixed income component, no matter how long the target date length of time. Many Target Date funds created for young investors provide no fixed income exposure. Under DOL guidance the fixed income component must be provided if QDIA compliance is desired, even though it runs counter to some Modern Portfolio theories.

Life Style funds may prove to be difficult choices, because the guidelines appear to emphasize age as a key factor. Life Style funds are primarily risk based with age as a secondary factor in determining the amount of risk to assume.

Balanced fund must be consistent with the target level of risk appropriate for participants in the plan as a whole. In essence, the plan sponsor must take into account plan demographics and factor age in the determination. A professional will probably have to provide this analysis for the plan, making the choice complicated to implement.

Managed accounts must look at each individual and factor in age to determine the asset allocation. In addition, there must be a mix of equity and fixed income exposures. The inference is that even the most aggressive investor may need some fixed income exposure for the investment to be truly “managed.”

Bottom line, at this time it appears that the safest approaches to providing an eligible QDIA will be limited to some specific Target Date funds or a Managed account, as long as all portfolios have some fixed income exposure.

Did you know that Kidder is now in Tucson?

We are very pleased to announce that Pension Specialists, Inc., located in Tucson, AZ and operated by Lynn Karabinas, has merged with Kidder Benefits Consultants, Inc. The combination of the two firms brings together similar cultures, a commitment to the highest level of personalized service, and additional recognized expertise in sophisticated design techniques, consulting and administration for both Defined Benefit, Cash Balance, and Defined Contribution plans such as 401(k), 403(b), 457(b) and ESOP plans.

The addition of the Tucson location and the professional staff located there as both a Regional Consulting and Administrative Office will complement our West Des Moines headquarters’ Consulting and Administrative services and broaden our scope of services throughout the Midwestern and Southwestern regions of the United States. We also maintain Consulting Offices in Omaha, NE, Rochester, MN, and Albuquerque, NM. Our combined organization now administers more than 1,000 qualified plans with qualified plan assets approaching $1 billion.