Testimony on behalf of Alight Solutions by:

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Introduction

Chairman Glenn Butash, Issue Chair and members of the ERISA Advisory Council, thank you for the opportunity to submit these comments for the record. Alight is pleased to share our thoughts and research with the ERISA Advisory Council on the important topic of brokerage windows in participant-directed individual account retirement plans (i.e., self-directed brokerage accounts, “SDBA”).

Alight is a leading provider of benefits administration and cloud-based HR and financial solutions. We are the largest independent recordkeeper of employer-provided defined benefit and defined contribution plans, serving millions of retirement plan participants in the U.S. Central to this mission is helping our clients secure better retirement futures for their employees by delivering solutions and strategies designed in the participants’ best interest. In order to do that, we conduct in-depth research to understand participants’ decisions and actions that impact retirement security, and how plan sponsors can help participants manage their financial situation, including goals, time horizon and risk tolerance.

Our testimony will focus on the history of brokerage windows, how they have evolved, how they are being used today, and what disclosures to participants are required. We believe our testimony generally reflects the perspectives of sponsors of large and mid-sized defined contribution plans[1]. We will routinely cite data from two credible research reports, Trends & Experience in Defined Contribution Plans and Universe Benchmarks. The Trends & Experience survey was completed by more than 240 employers, across a variety of plan types, sizes and industries. Combined, these plans represent approximately 8.5 million employees and more than $725 billion in assets. Universe Benchmarks reflects the saving and investing behavior of approximately three million employees eligible for defined contribution plans.

As a provider of a brokerage window and as a trusted service provider to defined contribution plan sponsors, Alight has experience with large plan sponsors that provide brokerage windows. Based on those experiences, we believe that brokerage windows, while not appropriate for all investors, do provide a beneficial investment option for certain plan participants who are interested and willing to take a very hands-on approach to managing their investments. It is also our view that participants with access to brokerage windows are adequately protected under ERISA.

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[1] Alight describes a mid-size plan as any plan with 5,000-14,999 eligible employees and a large plan as any plan with 15,000 or more eligible employees.

Testimony

I. Background on brokerage windows

Since 401(k)s first went into effect in the early 1980s, plan sponsors have offered a variety of investment choices because they must follow the rules and regulations under ERISA. Generally, these plans work well because of the extensive due diligence conducted by plan sponsors, and because they attempt to simplify participant choices within the plan menu and eliminate the confusion that comes with having too many investment options.

Defined contribution plans such as 401(k)s are clearly the predominant source of retirement wealth for most Americans. Increasingly, however, employers are making brokerage windows available in their 401(k) plans in response to employee demand for more investment options.

In simple terms, brokerage windows give participants more control over how they invest their money. Brokerage windows allow participants to establish a personal brokerage account within their employer's defined contribution plan. The investment options made available through brokerage windows are usually much more numerous than in the plan menu, thus giving participants access to a broader array of stocks, bonds, mutual funds and exchange traded funds (ETFs).

For the plan sponsor, brokerage windows are a way to keep the core fund lineup simple because it satisfies participant demand for niche investment products while avoiding changes to the core investment options. Participants affirmatively agree to the terms and conditions of these brokerage accounts and are responsible for any fees associated with maintaining and trading in those accounts.

II. Opportunities for participants

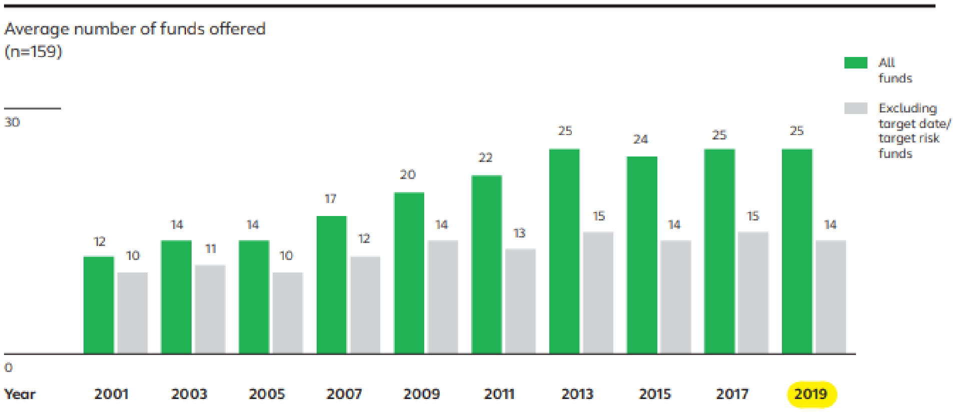
<u>More options and flexibility</u>

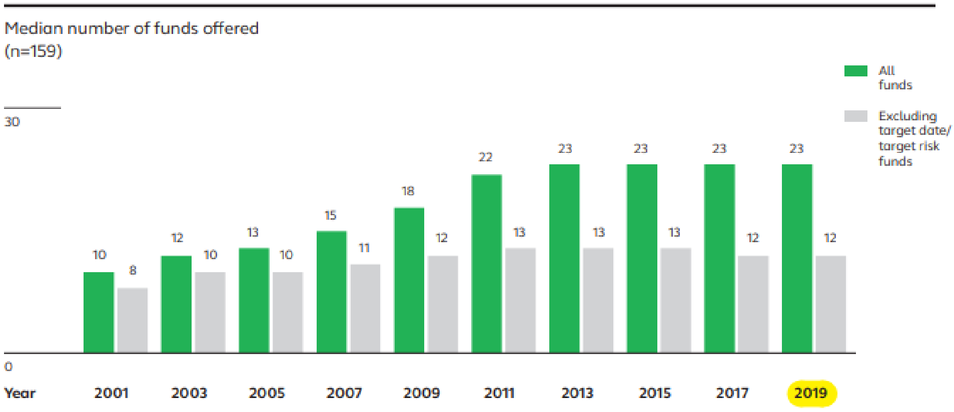
Participants in defined contribution plans often have diverse investment needs. Brokerage windows can serve to complement the investment options offered to participants and enable participants who have the experience and desire to direct their own investments the opportunity to do so. More choice and control within their portfolio can be appealing to sophisticated investors who also use financial advisors to help manage these assets.

In 2019, an average of 25 investment options were offered in defined contributions plans[2], which has been relatively consistent for the last several years. Alternatively,

[2] Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).

brokerage windows allow participants to choose from a virtually unlimited range of mutual fund families, stocks and fixed-income products. Participants have the option to invest in asset classes and sectors that may not be available in their core menu but are attractive to their investor profile such as environmental, social and governance (ESG) funds.





Source: Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).

When retirement account balances grow larger, participants may want the flexibility and choice that brokerage windows offer. While participants usually can't deposit contributions directly into brokerage windows, they can transfer money from their defined contribution plan's investment funds into a brokerage window at any time.

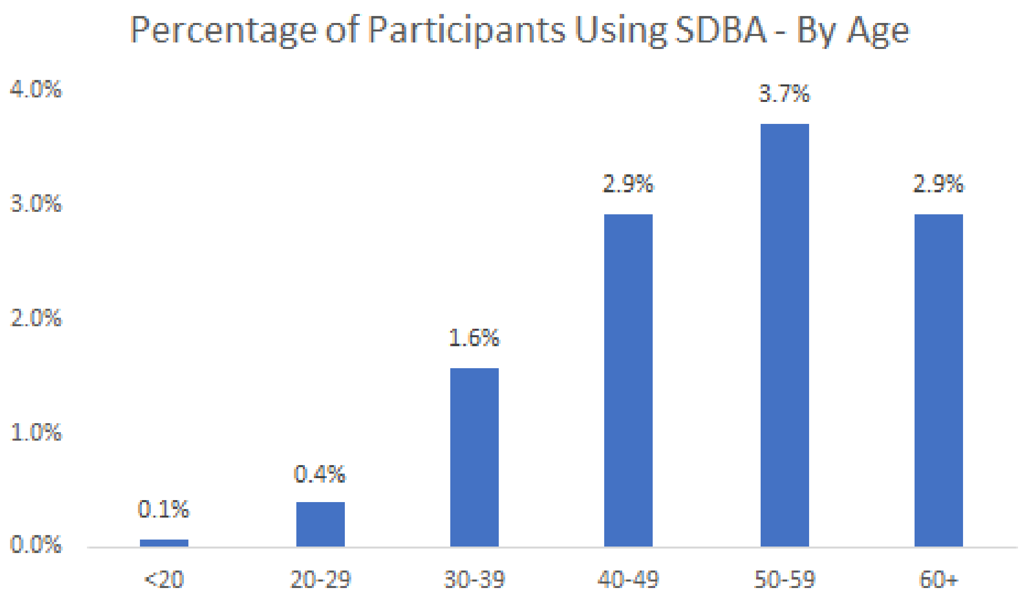
Participants who invest in brokerage windows within their defined contribution plan maintain many of the benefits of investing through an employer plan, including the economy of scale provided by institutional investing, which may lower trading and other fees within the brokerage window. In addition, participants have access to tools and screeners that would otherwise need to be purchased.

Potential for increased risk

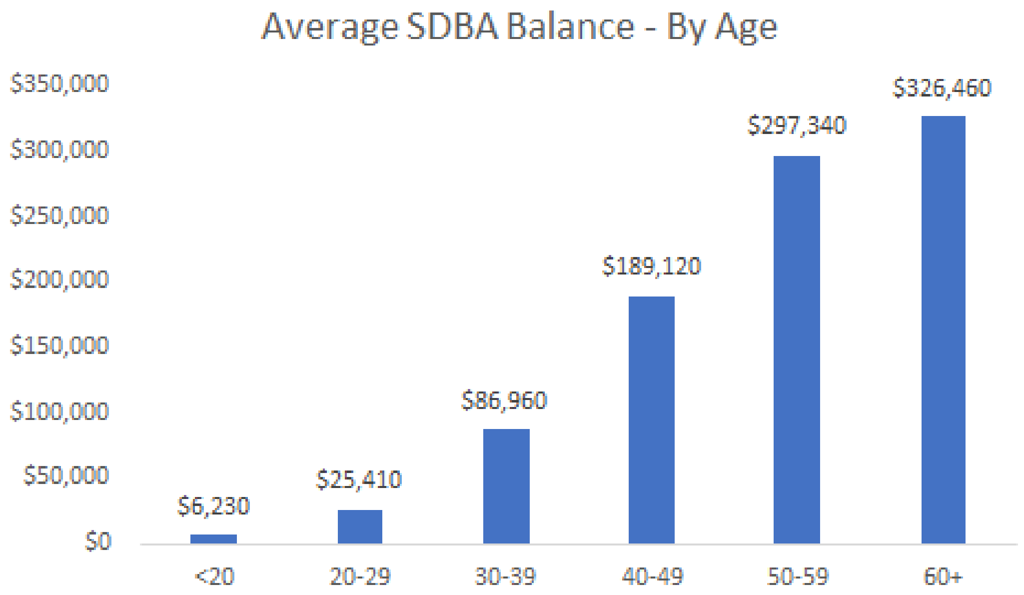
While brokerage windows can offer participants new investing opportunities, they aren't appropriate for everyone. Participants assume the full risk and responsibility for their investments they select, so they must be prepared to closely manage and monitor this portion of their plan. Although the instances are rare, if participants aren't experienced investors, don't have the time to do proper research, or don't seek professional advice, they may mismanage their 401(k) assets and make riskier decisions that the plan lineups are design to help mitigate.

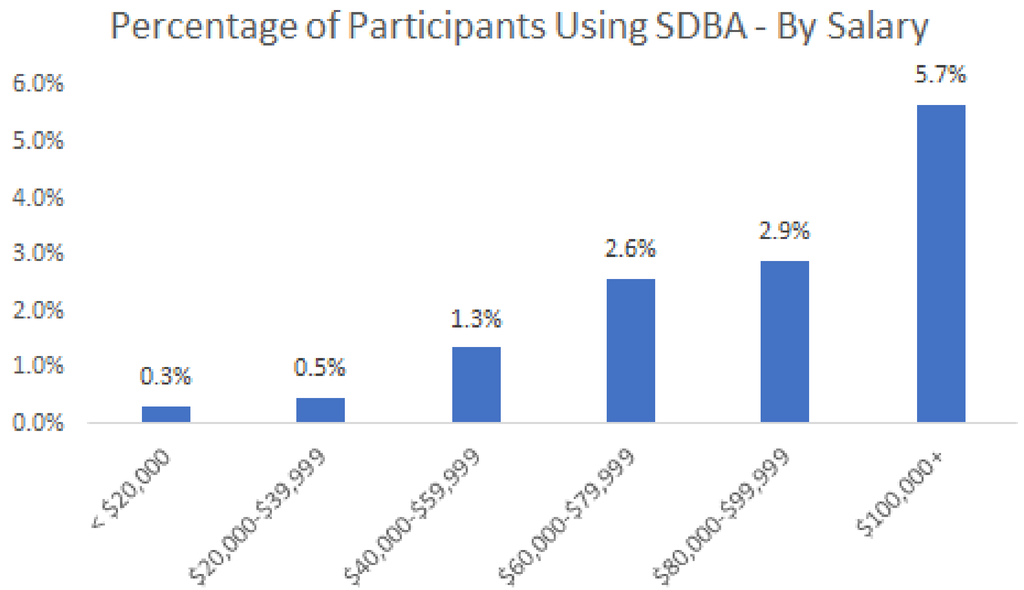
III. Participant profile

Older, higher salaried and higher-tenured participants are most likely to use brokerage windows. Participants making at least $100,000 annually are the most common users of brokerage windows.

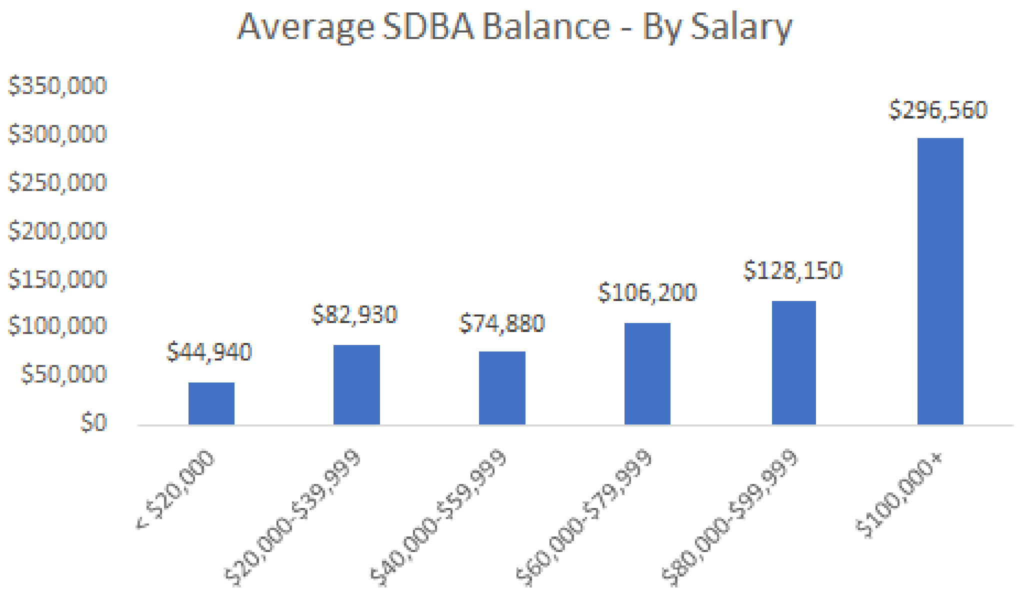


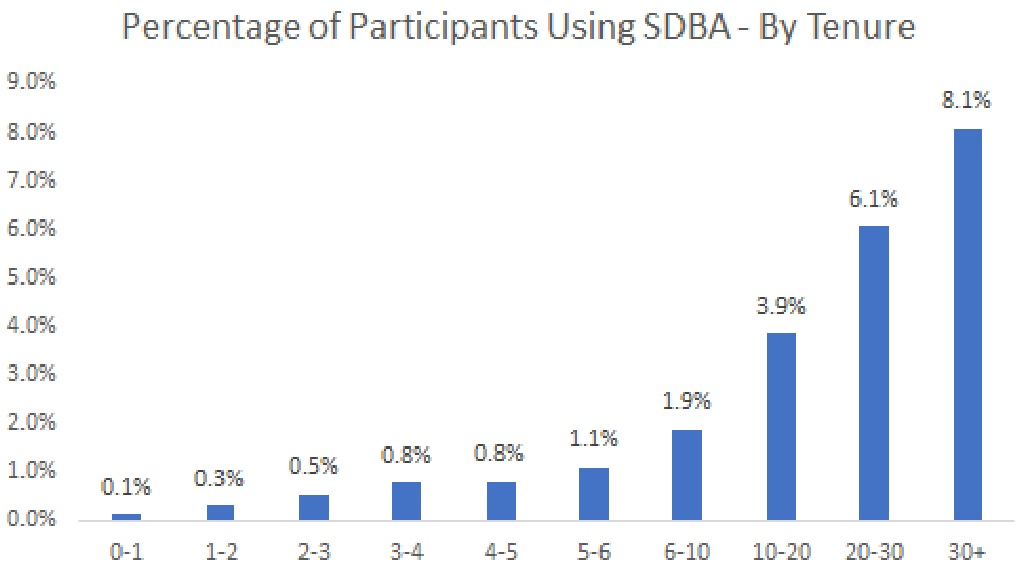
Source: Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).



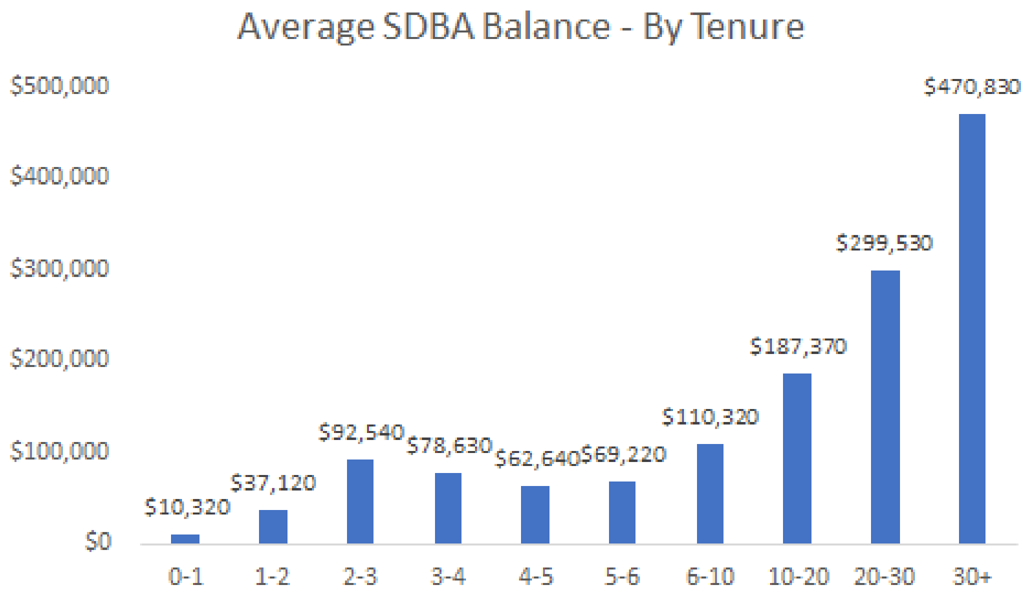


Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).





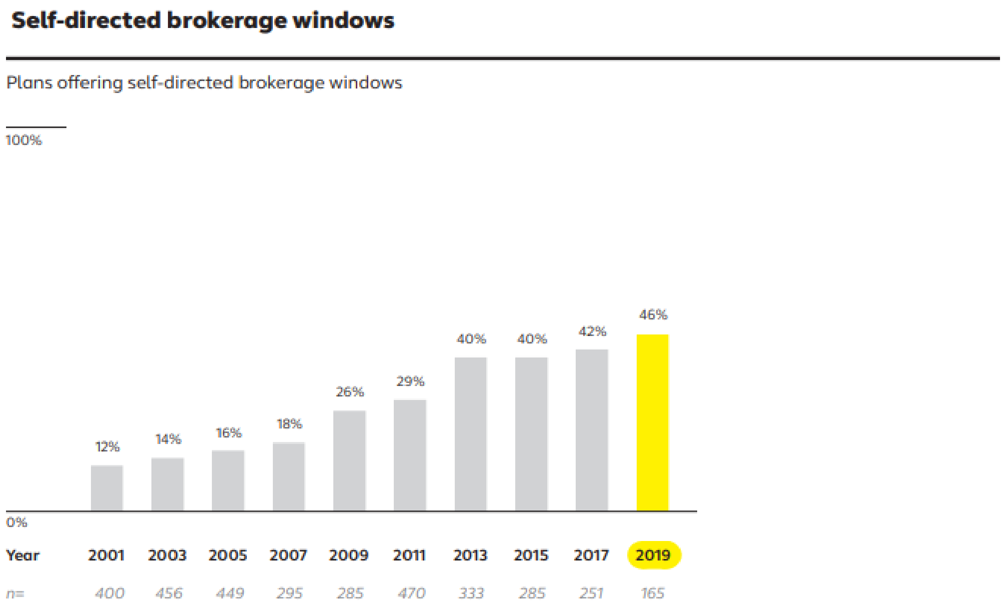
Source: Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).



Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).

IV. Prevalence and usage

The number of plan sponsors that offer brokerage windows has steadily increased over time. In 2019, 46% of plans in the market offered a brokerage window.



Source: Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).

The rate of participants that use brokerage windows has remained close to 2% for the last several years, with 2.4% participants using them in 2020. On average, participants using brokerage windows allocate half of their defined contribution plan balance to the window—up from 44% in 2018.

	2020	2019	2018
Participants using self-directed brokerage account (SDBA)	2.4%	2.2%	2.3%
Average SDBA balance among users	$232,340	$195,110	$160,640
Average portion allocated to SDBA among users	50%	46%	44%

Source: Alight Solutions, *Universe Benchmarks* (2021).

V. Plan sponsor oversight

Plan sponsors can customize brokerage windows to best achieve their plan goals and fit the needs and interests of their participants.

Fifty-four percent of plans that offer brokerage windows have no-to-very minimal ($1,000 or less balance required in the 401(k) account) restrictions on the maximum percentage of the balance that can be invested in the brokerage window, while the remaining plans place varying restrictions on participants. The most common restriction is to prohibit participants from investing more than 50% of their balance in the brokerage window, with 19% of plan sponsors with brokerage window offerings using this restriction[3].

In addition, plan sponsors may choose to limit investment options in a brokerage window. While 60% of plan sponsors who offer brokerage windows do allow for full brokerage options, the remaining 40% of plan sponsors limit the investment options in some way. For example, of this 40%, 9% allow for a mix of mutual funds and ETFs while the remaining 31% allow for only mutual funds[4].

VI. Disclosures

In our experience, before participants can open a brokerage account, they are required to complete necessary paperwork that includes acknowledgements and disclosures about fees and how they relate to their 401(k) plan as well as the nature of a brokerage window. If the application paperwork does include these disclosures and the brokerage provider is following disclosure notifications as required by FINRA, we feel this is appropriate and adequate.

At minimum, prior to or at the time of brokerage window account opening at Alight Financial Solutions LLC, a participant will have received and/or acknowledged review of the following documents:

[3] Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).
[4] Alight Solutions, *Universe Benchmarks* (2021).

- Alight Financial Solutions LLC Qualified Plan Self-Directed Brokerage Account Plan Participant Agreement
- Statement of Financial Condition, as required by Rule 17a-5 of the Securities Exchange Act of 1934
- Alight Financial Solutions LLC Privacy Statement
- Legal disclosures

We believe that the participant-level disclosure regulations are sufficient to protect plan participants, as those regulations require information on how the brokerage window works and whom to contact with questions.

In our experience, approximately the same level of brokerage window information is disclosed to participants pre- and post-participant fee disclosure regulation. What is different is the frequency with which this information is delivered to participants. Before participant fee disclosure regulation, significant information about brokerage windows was communicated to participants at the time the window was implemented. Information would then be available to participants on a “self-serve” basis through the recordkeeper or brokerage window provider website and in the summary plan description (SPD). Participant fee disclosure now requires information to be sent to participants and beneficiaries at least every 12 months, and this disclosure includes information about any brokerage window available. As the participant fee disclosure regulations require, plan sponsors are responsible for delivering the annual fee disclosure notice. Generally, many parties collaborate to support the plan sponsor’s effort to create and update the annual disclosure notice. The responsibility to distribute the annual disclosure notice typically lies with the recordkeeper or plan sponsor.

VII. Fees and plan costs

We understand that plan sponsors are sensitive to costs on behalf of their participants, and the vast majority (85%) review fees and plan costs at least annually[5].

Frequency of review of fees and plan costs

	2013	2015	2017	2019
Annually	75%	61%	59%	**59%**
Quarterly	7%	23%	25%	**26%**
Every 2 years	8%	10%	7%	**7%**
Every 3 years	7%	4%	5%	**4%**
Other	3%	2%	4%	**4%**
n=	*268*	*259*	*181*	*118*

[5] Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).

Source: Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).

The most common costs associated with brokerage windows are annual maintenance and transaction fees. In most cases, the costs associated with brokerage windows are primarily borne by the participant. In our experience, there is generally not an issue with cross subsidization of costs between brokerage account investors and other plan participants.

Brokerage window costs are disclosed to the participant prior to or at the time of enrolling in the brokerage window and, in our experience, the participant is required to proactively acknowledge that they have read and reviewed these disclosures. We believe that fees and costs are properly and adequately disclosed to both employer and participant when utilizing a brokerage window.

Transaction-based fees assessed to participants

	2001	2003	2005	2007	2009	2011	2013	2015	2017	**2019**
Loan originations/applications	63%	72%	75%	79%	79%	83%	83%	85%	89%	**91%**
Self-directed brokerage account maintenance fee	—	—	71%	78%	56%	51%	60%	57%	56%	**68%**
QDRO asset transfers	—	—	16%	17%	26%	39%	48%	55%	60%	**63%**
Wire transfers for plan disbursements	10%	13%	16%	18%	22%	24%	35%	27%	26%	**36%**
Loan maintenance/servicing	27%	33%	37%	34%	36%	37%	38%	37%	34%	**34%**
Account maintenance fee for inactive vested participants	—	—	13%	10%	18%	18%	15%	20%	27%	**26%**
In-service withdrawals	—	—	16%	15%	13%	23%	23%	25%	29%	**25%**
Hardship withdrawals	—	—	16%	13%	14%	20%	26%	28%	27%	**25%**
Fund transfers (not those charged by fund managers)	3%	3%	4%	2%	6%	9%	6%	2%	4%	**3%**
n=	*423*	*460*	*429*	*292*	*270*	*323*	*358*	*280*	*246*	*168*

Fees charged to participants among plans that assess transaction-based fees

	Average fee charged	Median fee charged
Loan originations/applications	$58	$50
Self-directed brokerage account maintenance fee	$36	$20
QDRO asset transfers	$529	$500
Wire transfers for plan disbursements	$31	$25
Loan maintenance/servicing	$29	$25
Account maintenance fee for inactive vested participants	$38	$18
In-service withdrawals	$27	$25
Hardship withdrawals	$58	$50

n=15-95

Source: Alight Solutions, *Trends & Experience in Defined Contribution Plans* (2019).

Summary

Brokerage windows generally benefit plan participants and encourage employee participation in employer-sponsored defined contribution plans by providing certain investors a mean of customizing their investment options under the plan.

The benefits of brokerage windows are numerous and include:

- Offers investment choice to sophisticated plan participants
- Empowers participants to take more control over their investment decisions
- Allows plan sponsors to keep their core funds lineup simple
- Enhances the defined contribution offerings with little or no additional ongoing costs to the plan sponsor

Our research and experience working with plan sponsors signal that the right participants are generally using brokerage windows and that they have flexibility within their portfolio to make investment choices without jeopardizing their long-term financial future.

Conclusion

Alight appreciates the opportunity to share our perspective with the ERISA Advisory Council and fully supports the Department's stated goal of better understanding why and how often brokerage windows are offered and used in ERISA-covered plans.

We believe the Department should not impose additional fiduciary or disclosure obligations on plan that contain brokerage windows, especially where such plans also provide designated investment alternatives. Participants in brokerage windows are currently subject to rigorous disclosure requirements under both Department rules and securities rules. Such disclosures, when combined with other plan-related disclosures that must be provided to participants in accordance with the requirements of ERISA, are sufficient to enable participants to make informed decisions about both the initial choice to participate in brokerage windows and investments thereunder.

About Alight Solutions

With an unwavering belief that a company's success starts with its people, Alight Solutions is a leading cloud-based provider of integrated digital human capital and business solutions. Leveraging proprietary AI and data analytics, Alight optimizes business process as a service (BPaaS) to deliver superior outcomes for employees and employers across a comprehensive portfolio of services. Alight allows employees to enrich their health, wealth and work while enabling global organizations to achieve a high-performance culture. Alight's 15,000 dedicated colleagues serve more than 30 million employees and family members. Learn how Alight helps organizations of all sizes, including over 70% of the Fortune 100 at alight.com.