

Managed Account Services: Selection, Monitoring, and Benchmarking

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Executive Summary: Advisors face a great opportunity to add value to client relationships by helping clients to fulfill their related fiduciary responsibilities. They can help clients to best navigate the selection, monitoring, and benchmarking of managed accounts by:

- encouraging clients to memorialize **why** they're offering a managed account service,
- providing tools to help with the ongoing monitoring responsibilities, and
- understanding what role cost plays in any benchmarking processes.

Through an awareness of recent litigation outcomes, they can help clients to understand what courts expect from plan sponsors when selecting and monitoring investment options and service providers. This piece helps advisors to develop a deeper understanding of how to set clients up for success.



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Your plan sponsor client would like for its participants to have access to a managed account service. Your client naturally has questions about how to select a managed account provider. Your client also has questions about how it will monitor and benchmark its chosen service. Here's how you can guide your client through those steps.

As a starting point, what role should an advisor play in this process?

At all stages, plan sponsors will look to you – as their advisor – to help them to understand their responsibilities and the available tools that will help them to fulfill those responsibilities. Embrace that opportunity to add value to your client relationships by understanding the “how” and the “why” behind the selection, monitoring, and benchmarking stages. Also be mindful of tools your clients can use; Stadion's StoryLine Plan Insight Report can help your clients with all stages.

SELECTION PROCESS

How should a plan fiduciary memorialize the decision to offer a managed account service?

Don't skip this initial step! ERISA's duty of loyalty¹ dictates that fiduciaries make decisions solely in the interest of participants and beneficiaries. Thus, when making the decision to offer a managed account service, fiduciaries are well-served to memorialize **why** they're making that decision. The reasons underlying a fiduciary's decisions to offer managed accounts may include the participants' need for help in managing their accounts, their frequent desire for an investment professional to assume that responsibility, and the various attributes of a managed account service that provide additional value. Meeting minutes are a great place for fiduciaries to record the details supporting their decision to offer the service.

How do we make the initial selection of a managed account service?

Upon identifying the available services that indeed match the reasons recorded in the above step, fiduciaries should look under the hood and examine various facets of the services, including: the process for selecting and monitoring the investments used in the service; how allocations are determined and how many are available; the participant experience and available support services;

experience and available support services; availability of reporting that documents utilization and performance of the service; and flexibility.

To what degree should cost be a factor in the initial selection?

The first question above is targeted at a specific issue: justifying the assessment of *a* cost for a managed account service. Then, when deciding between available options, cost is relevant from a different perspective: taking into account each managed account service option's fee, which seems to provide the *greatest value*? Whether one views this as the greatest “bang for your buck” or through the lens of not choosing a service that imposes additional cost without providing commensurate additional value, this is the right stage for a direct comparison between the cost of available options.

Bear in mind that there are multiple cost levers involved in managed account services. The total cost of the service includes not only fees paid to those who provide the service (such as the managed account provider, the recordkeeper, and maybe an advisor), but also the selected fund lineup. Simply put, if you're attempting to further manage the total cost, you can use a lower-cost lineup toward that aim.

ONGOING MONITORING

Once a managed account service is in effect, how do we monitor it?

A key attribute of a managed account service is that it is indeed a “service” and not merely a product. As such, there are more nuanced ways to monitor the performance and value of the managed account service. A prudent fiduciary process should, at a minimum, track and memorialize (in meeting minutes and/or with attached supporting materials):

1. Features:

In addition to portfolio allocation and management, what other features are available to participants? To what degree are they using or otherwise receiving exposure to those features? Has there been any enhancements?

2. Investment performance:

Does the service use investments otherwise being used in the core funds list and subject to regular review? If not, how does the provider select, monitor, and report on the investments being used?

3. Reporting and trends:

What information is available on a consistent basis? To what degree does it show trends and impact, whether within individual participants' accounts or from a plan-wide plan health perspective?

BENCHMARKING

What legal standards guide the need to benchmark a managed account service?

Fiduciaries are subject to two prominent duties under ERISA: (1) the duty of loyalty; and (2) the duty of prudence.ⁱⁱ Above, we discussed how fiduciaries can support their fulfillment of the duty of loyalty by creating a record of *why* they made managed account services available to their employees. Then, on an ongoing basis it is important to implement a process for monitoring and benchmarking the managed account service because the duty of prudence is inherently process-based.

Are there any best practices to guide fiduciaries through a benchmarking process?

A benchmarking exercise should reflect that the primary measuring stick is *value*, which is a function of two inputs: (1) features, attributes, and services; and (2) cost. An earlier question above strikes at the first of those inputs, as it addresses the implementation of an ongoing process for monitoring the service. Then, when benchmarking those services in the context of the cost, bear in mind that various Federal courts have recently emphasized that things need not be cheap (or free). For example, in two cases, the courts found fiduciaries' recordkeeper decisions to be prudent despite an increase in cost, noting that “the Committee found the small increase in cost justifiable due to what it perceived to be a superior level of service from [the recordkeeper]”ⁱⁱⁱ and a “fiduciary need not accept drastic changes to the plan simply to attain the lowest fee.”^{iv}

How might one compare managed account services to target date funds (TDFs)?

A Federal court considered this question in a case where the participants had alleged breaches of fiduciary duty because fiduciaries had selected a managed account service as the plan's qualified default investment alternative (QDIA) instead of lower-cost TDFs, particularly passive options. The court distinguished between TDFs and managed account services, noting that the managed account service provided "a level of asset allocation and management not present in a TDF."^v It also suggested that comparing active and passive management "is like comparing apples and oranges."

How would that analysis extend to the QDIA context?

The same court recognized that a managed account fee may be reasonable – even for defaulted participants who don't make a proactive election – because of the additional data points contributing to a defaulted participant's deemed investment election. It acknowledged that the TDFs took into account only one data point, while the managed account service relied upon several.

Closing Thoughts

These litigation outcomes pave a path for fiduciaries to safely and flexibly conduct ongoing benchmarking that reflects a record of what participants pay for the service and what value they receive in return. Although some may find frustration in the challenge of performing apples-to-apples comparisons, fiduciaries should see that challenge as a good thing. As their advisor, you can add value by helping them to write the benchmarking playbook and ensuring there's a record of its execution.

ⁱ ERISA 404(a)(1)(A).

ⁱⁱ ERISA 404(a)(1)(B).

ⁱⁱⁱ *Nunez v. B. Braun Medical Inc.* (E.D. Pa. Aug. 18, 2023).

^{iv} *Silva v. Evonik* (D.C.N.J. June 28, 2024).

^v *Hanigan v. Bechtel Global Corp.* (E.D. Va. Jan. 15, 2025).

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