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DOL Information Letter on Private Equity in Defined Contribution Plans

On June 3, 2020, the U.S. Department of Labor (DOL) issued an Information Letter under the Employee Retirement Income Security Act (ERISA) on including private equity as a component of a target date fund (TDF) or other diversified investment fund offered within defined contribution (DC) plans.

Our point of view: This is a not-ready-for-prime-time idea – one that is loaded with risk and exposure for the plan fiduciary, several of which are outlined in the Information Letter itself. Among the problems: The move could be in conflict with some Securities and Exchange Commission (SEC) rules; private equity is typically illiquid, meaning that those putting money into such investments cannot necessarily get those funds back for a long period, sometime years; and fees and expenses associated with private equity investments are typically pretty high.

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To date, nineteen individuals and organizations that advocate on behalf of workers, consumers, investors and retirees wrote to DOL Secretary Eugene Scalia on June 24 urging withdrawal of the policy, citing that these investments are likely to saddle middle-class retirement savers with high costs and lock them into unnecessarily complex investments that often underperform publicly available alternatives.

They have asked the DOL to rescind the policy until it can conduct a more careful and balanced analysis of the potential risks and benefits of including a private equity component in retirement plan investments. Unfortunately, there has been some confusion as to what the Information Letter means. Headlines such as "DOL Gives Green Light to Private Equity in TDFS," as appeared on the website of the National Association of Plan Advisors (NAPA), is misleading because of the aforementioned risk element involved.

In any case, we will wait to see what happens in the industry as this situation develops.
We will continue to provide updates.

Contact the Pentegra Solutions Center at solutions@pentegra.com
or 855-549-6689 for expert guidance on how to make the most of the new rules.

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