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Employers Urged to Tap Automatic 401(k)s

Adobe Stock

STRATEGY

By Suleman Din

THERE'S A WIDE DISCONNECT between 401(k) participants and their retirement goals, and that is affecting how employees understand and interact with plans, according to new research by J.P. Morgan Asset Management.

However, there is enough leeway in attitudes that employers can deploy automatic 401(k)s without fear of pushback, the study's authors add.

For instance, a large majority of the 1,000 plan participants surveyed for the study (90%) had a positive view of target-date funds, and nearly all who were enrolled in automatic plans (96%) said they were satisfied with them.

At the same time, almost half (45%) said they do not have a retirement savings plan, and almost 70% said they have not been saving enough for retirement.

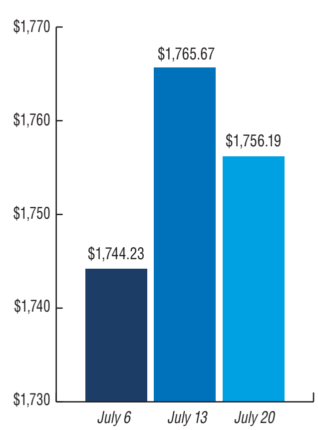
One solution that J.P. Morgan researchers emphasized was the impact that employers can exercise through adopting automatic 401(k) measures such as employee enrollment into TDFs.

"Many DC plan participants still face significant barriers to reaching retirement goals," said Catherine Peterson, managing director and global head of insights programs at J.P. Morgan Asset Management.

"We think plan sponsors have an opportunity to strengthen their plans and help

AUTOMATIC, *on page 5*

Money Market Fund Assets in the 3rd Week of July Dropped $5.59B ($ billions)



Source: Investment Company Institute

The Challenges Awaiting Pimco's New CEO

STRATEGY

By John Gittelsohn, Nishant Kumar and Oliver Suess

EMMANUEL ROMAN WAS BLUNT: A LOT OF mutual funds stink.

"When you look at the mutual fund industry, when you look at the way they manage your 401(k)," a grinning Roman told a Ted Talk in London, "it's a really, really sad story."

Roman's performance didn't put off Dan Ivascyn, chief investment officer of Pimco, one of that industry's tarnished stars. After a nearly yearlong search, Ivascyn picked the hedge-fund veteran, who revived the fortunes of

PIMCO, *on page 6*

Reducing Risk Ahead of Future Market Turmoil

Q&A

By Andrew Shilling

ALTHOUGH MARKETS WERE JOLTED BY THE UK's vote to leave the European Union, one asset manager says it was a good test for firms, as its quick duration provided managers a stress test for their investments in risk technology and personnel.

Gemini Companies CEO Andrew Rogers says while the industry experienced a brief correction, it is the unanticipated events for which managers must always be prepared.

"Stock market ups and downs don't really impact us operationally as much, and Brexit, for the

RISK, *on page 8*

There Are No Quick Fixes for Operating Model Repairs

EXPERT VIEW

By Mark Evans

The asset management industry is caught between a rock and hard place. On one side, investors are clamoring for more transparency and access to data, which translates into increases in back-office technology investments. On the other side, new technologies like robo advisers are negatively impacting commission revenue.

So there you have it. Costs are going up while fee revenue is declining. That's not an easy challenge to solve for in any business.

There's no doubt that our industry is going through a period of extreme disruption. Perhaps the most disruptive thing about the current environment is that real transformation is happening in the back office. When the front office was undergoing its technological revolution in the 90s and throughout the last decade, the cost-benefit analysis for the business was easy to decipher. A faster trading system or a better algorithm could improve portfolio performance. Better performance leads to more clients, more revenue.

I recently heard someone compare the transformation happening in the asset management back office to repairing the foundation of a house. From the street, it's hard to identify issues with the foundation. But if persistent issues aren't addressed, the house will almost certainly be compromised — it's just a matter of time. To fix this type of problem, you need architects, engineers, contractors and special machinery. And it's not a cheap repair, particularly if the issue is severe.

I like the analogy because it illustrates where we are as an industry. We have bedrock issues that need to be addressed. Regulators have initiated the process, but it's up to us, the industry, to effect real change. The current status quo in the back office is no longer sustainable, and responding only with short-term fixes has resulted in a cobbling together of technology and data management solutions that will ultimately weaken the business.

IMAGINING THE FUTURE

Connecting the costs of back-office transformation to potential benefits is not always straightforward, which is a struggle for some firms. For technology and operations teams, building broad internal support for the need to invest in a more transparent operating model is a lot tougher than getting budget approval to invest in technologies aimed at improving portfolio performance.

Managers are having to make tough decisions about how they respond to changing investor expectations. Some are looking at long-term implications while others focus on the short-term challenges. I believe one of the hardest things to do in business is to make a bet on what the future's going to look like and then commit to meeting the challenges you face on your way to the goal. Yes, it requires information. But it also requires intuition and staying power. Throw in a lot of unknown variables, and it can become difficult to pull the trigger on your vision.

So it can be much easier to address short-term issues. How do I respond to this client inquiry? Should I hire more people to address increased reporting requirements? Can another spreadsheet help me with this new regulation? While addressing those questions is necessary, focusing only on the short-term is a recipe for disaster.

In many conversations I've had with clients in recent months, everyone is asking "where am I spending money, and how can I compress that to compensate for thinner margins?" The way firms approach answering these questions varies quite a bit.

SHORT-TERM PAIN OR LONG-TERM GAIN?

Some firms are making decisions based only on the short-term, and they don't always see that those decisions could be working against their long-term goals. Instead of thinking about how they can engineer a sustainable model, they look for ways to make doing the status quo cheaper. I call that investing in future pain. This only perpetuates inefficiencies and delivers no long-term value.

The smartest firms are looking for ways to improve their full value chain, which includes their administrator, software vendors, distribution partners and their own firm's unique special sauce. They look for ways to reengineer and optimize that value chain to be effective for today and tomorrow.

Many of those firms approach this problem as a city planner does development. Buildings aren't constructed too close to major roads to allow for expansion, and ample room is created and preserved to ensure communities have sufficient residential and commercial resources. Planning is thought out in terms of decades.

INACTION IS A SURE FAIL PLAN

The back office is the foundation of any asset managemer. It's where business intelligence gets captured, analyzed and acted on. Historically, investors haven't heavily scrutinized this part of the business, but now they want access. And delivering on that expectation will require a retooling of the foundation of the business. It's not an easy or comfortable initiative to undertake.

The industry finds itself caught between a rock and a hard place, needing to reinvent itself in an era when revenue margin is getting squeezed.

Making real changes to position your business for the long term won't come without their costs, which can feel unnerving today. But the alternative — inaction, delay, procrastination, however you want to phrase it — will ultimately put the entire business at risk. MME

Matt Evans is chairman, CEO and founder of Confluence, a data management and automation specialist for the asset management industry.