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From fiduciary intent to fiduciary evidence

An institutional framework for DC product readiness

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Executive summary

Defined contribution investing is entering a more consequential phase. Private markets, guaranteed income, custom target-date strategies, managed accounts and hybrid investment structures have the potential to improve participant outcomes. The fiduciary challenge is no longer whether these innovations are desirable. It determines when they are ready for broad use in participant-directed retirement plans.

This paper proposes a practical decision framework for Chief Investment Officers, investment consultants, retirement-plan aggregators and fiduciary committees. Its central premise is straightforward:

Investment merit is not the same as defined contribution readiness.

An investment may be institutionally attractive, expected to generate strong long-term returns, professionally managed and appropriately diversified, yet still not be suitable for broad use within a participant-directed retirement plan.

DC readiness requires additional evidence that participants are protected through the following:

- Dependable participant liquidity
- Credible valuation
- Transparent economics
- Meaningful benchmarkability
- Operational resilience
- Participant fairness
- Institutional accountability

The Department of Labor's proposed six-factor framework—performance, fees, liquidity, valuation, benchmarking and complexity—reinforces this approach by organizing the questions fiduciaries have long been expected to answer.[1,2] Those factors should not be viewed as new fiduciary obligations or as permission to weaken existing standards. They provide a more explicit framework for evaluating innovative investment structures while preserving the enduring principles of fiduciary prudence.

Defined contribution (DC) plans require a different application of those principles than defined benefit (DB) plans. A DB sponsor promises the benefit and remains responsible for funding it. A DC participant generally bears the investment outcome through an individual account. As a result, an investment that is appropriate for a DB portfolio is not automatically ready for a DC investment lineup or qualified default investment alternative.

Governing principle

Investment innovation should expand participant opportunities without weakening the fiduciary disciplines that make those opportunities prudent, scalable and durable.

Executive summary

The paper argues that three disciplines become increasingly important as products become more sophisticated:

- **Transparency**, so fiduciaries understand the complete economics and participant consequences.
- **Bounded complexity**, so sophisticated structures remain governable, operationally resilient and understandable.
- **Benchmarkability**, so innovative solutions can be compared fairly with reasonable alternatives.

Liquidity and valuation receive particular emphasis because they determine whether participants can transact fairly and reliably when markets become stressed.

The conclusion is not anti-innovation. Private assets and guaranteed-income solutions may provide meaningful participant benefits. But innovation should be supported by evidence, not assumptions. Products should demonstrate that they can preserve participant protections while delivering their intended investment value.

Products must innovate within the fiduciary framework. The fiduciary framework should not be diluted to accommodate products.

The enduring fiduciary standard

Loyalty, prudence and process

ERISA's fiduciary duties begin with loyalty and prudence.[3] The fiduciary must act solely in the interests of participants and beneficiaries, for the exclusive purpose of providing benefits and paying reasonable plan expenses, and with the care, skill, prudence and diligence of a knowledgeable person acting under comparable circumstances. These duties do not guarantee a favorable investment outcome. They require a disciplined process based on the facts known or reasonably knowable when the decision is made.

ERISA's prudence framework makes the duty practical: consider the relevant facts, understand the investment's role, compare it with reasonable alternatives and act on that analysis.[4] The DOL proposal supplements that historical framework for designated investment alternatives; it does not replace it.[1]

What a fiduciary must never be flexible on

- Participants' financial interests must be the purpose of the decision, not one interest balanced against provider, sponsor or commercial objectives.
- Prudent analysis requires understanding the material economics, rights, restrictions, risks, conflicts and dependencies of the solution.
- Total costs must be identified and judged reasonable relative to demonstrable value.
- Reasonably available alternatives must be compared fairly, with structural differences recognized rather than used to avoid comparison.
- Participant consequences must be evaluated under normal and stressed conditions.
- Complexity must be matched by expertise, governance, operational capability and monitoring.
- A sound review illustrates a willingness to challenge, renegotiate, replace or remove a solution when the original rationale is no longer supported.

AIF® practice as an operating system

The Accredited Investment Fiduciary framework usefully organizes these obligations into four stages: organize, formalize, implement and monitor.[8] Organize establishes authority, roles, records and conflict controls. Formalize defines objectives, risk, liquidity needs and decision criteria before products are considered. Implement applies consistent due diligence and provider selection. Monitor tests whether the original thesis remains valid and whether corrective action is required.

This sequencing is critical. Innovation should begin with the participant need, not the provider's product. The six factors are best viewed as an analytical module inside the broader fiduciary cycle. ERISA supplies the obligations, fiduciary practice organizes the process and the six factors identify major categories of evidence.

A fiduciary may be flexible about the means used to improve participant outcomes, but never about whose interests come first, the quality of the process or the evidence needed to support the decision.

Why the six factors fit past, present and future practice

The six factors are not new fiduciary concepts. What is changing is the evidence required to apply them as DC products become more sophisticated.[1] The table below shows the enduring question behind each factor, how it is commonly applied today and what deserves greater attention as new structures enter the market.

Factor	The enduring question	What fiduciaries evaluate today	What becomes increasingly important
Performance	What return or outcome is reasonably expected for the risk assumed?	Evaluate risk-adjusted, net-of-fee results over an appropriate horizon.	Measure whether the solution fulfills its intended participant purpose, including income, protection, diversification or capital preservation.
Fees	Are costs reasonable in relation to the value provided?	Identify total costs and compare them with services, risk reduction and expected net outcomes.	Decompose embedded spreads, layered fees, guarantee charges, performance compensation and affiliate economics.
Liquidity	Can the plan and participants access assets when required?	Assess normal and stressed liquidity, transaction terms and cash-flow needs.	Ensure participant-facing liquidity remains dependable even when underlying assets, credit markets or participant flows are stressed.
Valuation	Is the reported value reliable enough for the decisions that depend on it?	Review methodology, frequency, governance, independence and fair-value procedures.	Address private-asset estimates, stale values, guarantee and income rights, and equitable treatment of entering and exiting participants.
Benchmarking	How does the investment compare with reasonable alternatives?	Use market indices, peers, custom composites and relevant product comparisons.	Add functional and participant-outcome benchmarks when no identical product or conventional index exists.
Complexity	Can the fiduciary understand, administer and monitor the investment?	Match product complexity with expertise, governance, operations and ongoing oversight.	Require hybrid structures, multiple counterparties and nontraditional features to be decomposable and institutionally managed.

The framework is asset-neutral, not analytically permissive

Asset neutrality means there is no categorical rule that public assets are prudent and private assets are imprudent, or that investment products are prudent while insurance-based solutions are not. It does not mean every asset should be evaluated with the same weight, evidence or tolerance. Consistency of principle does not require uniformity of checklist.

A public index fund may demand close attention to tracking, securities lending, trading and fees. Investments containing private assets generally require deeper analysis of valuation, liquidity, underlying investment structures, manager economics and the mechanisms through which participant transactions are supported. Guaranteed income demands analysis of insurer obligations, contract terms, benefit value, portability, mortality pooling and the exchange of liquidity for protection. The same six factors apply, but their interpretation must follow the investment's intended purpose and participant consequences.

Why the six factors fit past, present and future practice

Participant protections before investment trade-offs

The six factors should not always be treated as freely tradeable. In a DC default, certain participant protections function as thresholds: the ability to transact according to the plan's promise, credible valuation, fair treatment, understandable rights and operational integrity. Only after those protections are established should a fiduciary weigh incremental return, higher cost or added complexity.

Performance potential should not compensate for a design that can fail at the moment a participant needs access most.

DB and DC plans allocate risk differently

Defined benefit and defined contribution plans are not interchangeable investment platforms. The decisive distinction is who promises the benefit and who bears the consequences when investment assumptions fail.

Dimension	Defined Benefit	Defined Contribution
Benefit	Formula-based sponsor promise	Individual account outcome
Primary risk bearer	Sponsor and plan funding system	Participant account
Investment control	Professional pooled portfolio	Fiduciary menu plus participant/ default allocation
Liquidity management	Total-plan cash flow and sponsor support	Participant transactions and distributions
Response to shortfall	Contributions, funding policy and de-risking	Lower participant wealth or income
Participant expertise	Not needed to manage underlying assets	Often limited despite bearing outcome

Why DB plans can pursue an illiquidity premium

A DB plan may hold private equity, private credit, real estate, infrastructure or long-duration assets because it manages liquidity centrally. The sponsor forecasts benefit payments, maintains a diversified pool, receives or makes contributions, and remains responsible for the benefit promise. If a private investment cannot be sold or distributions are delayed, the retiree's monthly benefit is not supposed to wait. The sponsor and plan structure stand between the participant and portfolio illiquidity.

Why the same exposure can be inappropriate in DC

A DC participant cannot issue debt, negotiate a credit facility, sell another portfolio asset or compel a distribution from a private fund. The participant may need to transfer, roll over, retire, take a permitted distribution or respond to job loss during the same stress that impairs an investment. Unless another party has contractually absorbed the risk, illiquidity inside the vehicle becomes participant illiquidity.

The right policy test is not whether a DB plan has successfully used an asset class. It is whether the DC structure preserves participant rights and allocates institutional risks to an institution capable of bearing them.

No institutional liquidity premium should be earned by transferring institutional liquidity risk to an individual plan participant.

The sponsor's two legitimate choices

A sponsor that wants participants to receive potential illiquidity-premium benefits must either establish a durable institutional mechanism that stands behind participant liquidity or exclude structures whose liquidity can fail. The obligation may rest with a sponsor, insurer, manager, bank, trust or other counterparty, but it must be defined, capitalized, enforceable and resilient during stress. Modeling liquidity is not the same as assuming responsibility for it.

The QDIA is a reliance mechanism

Understanding how risk is allocated explains why participant protection becomes the defining characteristic of a prudent DC investment framework. A participant who enters a Qualified Default Investment Alternative (QDIA) has not affirmatively selected the investment.[5,7] Inaction may reflect limited knowledge, lack of confidence, limited time, language barriers, behavioral inertia or reasonable reliance on the plan fiduciary. It should not be interpreted as informed acceptance of unusual investment terms.

Design for the latest financially sophisticated reasonable participant

The investment lineup must be prudent before participant choice begins. The QDIA should be appropriate for the population reasonably expected to rely on it, not merely defensible to an investment professional who can understand obscure structures. Sophisticated participants may recognize and avoid a hidden risk. Defaulted participants are less likely to do so. A fiduciary system should not invert its protection by leaving the least informed participants with the greatest exposure.

No participant should need professional investment expertise to avoid being harmed by the plan's default. This does not treat participants as incapable. It recognizes that the purpose of a professionally designed default is to absorb investment complexity on their behalf.

Participant inertia is not a liquidity facility

A default population may appear to provide stable capital because participants are less likely to move assets rapidly. That behavioral fact should be protected, not monetized. A product should not rely on defaulted participants to remain invested so that a manager can maintain long-duration or illiquid exposures. Nor should slower-moving participants become residual holders after more informed participants exit.

Institutional complexity versus participant consequences

A QDIA can be sophisticated internally. Asset allocation, rebalancing, multiple managers, guarantees and risk controls can be managed institutionally. The key boundary is that internal complexity must not change participant rights unexpectedly. A participant should not need specialist knowledge to determine whether an account can be transferred, whether the displayed value can be realized, whether an election is reversible or whether changing jobs impairs a benefit.

- Appropriate due diligence must see the complete economics even when the participant experience is simplified.
- The recordkeeper and administrator must be able to execute promised transactions reliably.
- The participant must understand consequential and irreversible choices.
- The structure must not place the cost of provider complexity on less-engaged participants.
- The QDIA must remain broadly suitable without requiring participant monitoring or corrective action.

The default should protect rather than capitalize upon participant inaction.

The role of CIOs, consultants and aggregators

As DC investment structures become more sophisticated, Chief Investment Officers (CIOs), large consulting firms and retirement-plan aggregators increasingly serve as the market's principal due-diligence and governance layer. Their decisions influence which products reach plan committees, recordkeeping platforms and millions of participants.

The market's gatekeepers

Increasingly, these firms determine which innovations become scalable market standards. The role extends beyond identifying investments with attractive expected returns. These organizations must determine whether a solution is capable of broad, repeatable and defensible use across plans with different participant demographics, governance resources, recordkeepers and operational environments.

A product may be appropriate for one highly sophisticated institution with extensive internal resources and still be unsuitable for broad distribution across a consultant's or aggregator's client base. The relevant question is not merely whether a product can be approved. It is whether it can be prudently governed, consistently implemented and reliably monitored at scale.

Investment merit is not the same as DC readiness

Investment merit	DC product readiness
Attractive expected return	Dependable participant-level liquidity
Diversification potential	Reliable transaction processing
Institutional pricing	Transparent total economics
Long investment horizon	Portability and plan-conversion support
Professional management	Credible transactional valuation
Risk-adjusted return potential	Participant fairness across cohorts
Sophisticated design	Scalable recordkeeping and monitoring
Illiquidity premium	Institutional assumption of liquidity risk

The role of CIOs, consultants and aggregators

A scalable product-readiness standard

CIOs and consulting platforms should expect a product seeking broad DC adoption to demonstrate:

- Economics that can be independently understood and decomposed.
- Expected benefits supported by credible evidence rather than proprietary assertion.
- Participant-facing liquidity that remains dependable under correlated stress.
- Valuation that supports equitable participant transactions.
- Complexity that can be absorbed institutionally and administered across recordkeepers.
- Portability, conversion and termination processes that do not trap participants.
- Benchmarks at the investment, product, functional and outcome levels.
- Ongoing monitoring information that can be applied consistently across plans.
- Contractual remedies and accountability when the product fails operationally or economically as represented.

Large consultants and aggregators can accelerate beneficial innovation by defining what DC readiness requires before products reach plan menus and defaults.

Transparency: The enabling condition

Transparency is not separately listed among the proposed six factors, but it is the condition that allows fiduciaries to apply them. A fiduciary cannot evaluate fees that cannot be identified, liquidity restrictions that cannot be understood, valuation methods that cannot be examined, performance that cannot be interpreted or complexity that cannot be decomposed.

Disclosure is not the same as transparency

Disclosure is the delivery of information. Transparency is the ability to use that information to understand economic substance. Hundreds of pages of technically complete documents may still leave material economics functionally opaque. A fiduciary needs information organized around decisions: who is paid, what risk is transferred, what risk remains, what rights are surrendered, what assumptions drive value and what can happen under stress.

DC transparency must operate at two levels

Fiduciary transparency must be detailed enough to support independent analysis. Participant transparency must be clear enough to communicate the nature of the benefit, cost, liquidity, portability, reversibility and risk.[6] Participant simplicity should be produced by good design and communication, not by withholding economically material information from the fiduciary.

A minimum transparency standard

- All explicit and embedded fees, spreads, revenue sharing and intermediary compensation
- Sources of return and the assumptions supporting projected benefits.
- Sources of liquidity and the contractual conditions under which they may be limited
- Valuation methodology, frequency, independence and treatment of stale or uncertain values
- Counterparties, insurer obligations, credit exposure and concentration
- Participant rights on transfer, employment termination, plan conversion, death and retirement
- Conflicts of interest, affiliated products and incentives affecting recommendations
- The monitoring data that will be available after selection

Guaranteed income illustrates the need

A guaranteed-income solution may provide longevity-risk pooling, income certainty and protection against poor withdrawal decisions. Those benefits can justify cost or a deliberate exchange of liquidity. But the fiduciary must see the investment fee, guarantee cost, insurer economics, pricing process, portability, death treatment, credit exposure and alternative ways to create income. The participant must know what is guaranteed, what remains variable and when an election becomes irrevocable.

Complexity may be managed on behalf of participants, but it must never be hidden from the fiduciary.

Performance must be evaluated against purpose

Performance is not simply the investment return reported over a standard period. It is the extent to which an investment fulfills the role for which it was selected, after accounting for risk, fees, liquidity, participant behavior and the time horizon over which value is expected to emerge.

Purpose before measurement

A public equity fund may be selected for long-term capital appreciation. A stable value option may be selected for principal preservation and steady credited income. A private-market allocation may be selected for diversification and an expected illiquidity premium. A guaranteed-income solution may be selected to provide protected retirement income and reduce longevity or sequencing risk. Each investment should be evaluated against the objective it was intended to accomplish.

Risk-adjusted and net of cost

Gross return alone is not a sufficient measure of participant value. A fiduciary should evaluate returns after all material costs, volatility and downside exposure, concentration and correlation, drawdown behavior, liquidity risk, valuation uncertainty, counterparty exposure, the time required for expected value to emerge, and the participant consequences if expected performance is not realized.

Historical performance is evidence, not proof

Past results may reflect a favorable market environment, leverage, concentration, valuation smoothing, unusual credit conditions, manager skill, temporary pricing dislocations, survivorship bias or risks that have not yet emerged. A prudent analysis must understand what produced the historical result and whether the same drivers are likely to persist.

Participant performance is not identical to fund performance

DC participants experience returns through actual contributions, withdrawals, transfers and retirement decisions. Their outcomes may differ from reported time-weighted performance because of contribution timing, market sequencing, loans, withdrawals, job changes, retirement timing and behavioral responses to volatility. A strategy that performs acceptably at the fund level may still produce poor participant outcomes if it encourages mistimed decisions, creates confusing elections or imposes liquidity constraints when access is needed.

Private markets and guaranteed income

Private-market analysis may require internal rates of return, multiples, public-market equivalents, vintage comparisons, realized versus unrealized results and contribution to total portfolio outcomes. No single measure is sufficient. Guaranteed income should be evaluated through both accumulation and protection, including investment return, income per dollar, income stability, longevity protection, downside protection, break-even ages, portability, death benefits and outcomes relative to systematic withdrawal or later annuity purchase.

Performance must be evaluated against purpose

A minimum performance standard

- What role is the investment expected to perform?
- What return or participant outcome is reasonably expected?
- What risks are required to produce that result?
- What are the results after all costs?
- What evidence supports the assumptions?
- Over what period should value emerge?
- What alternatives could serve the same purpose?
- How will participant outcomes be measured?
- What would cause the original thesis to be reconsidered?

Performance should be evaluated against purpose, not merely against return.

Fees must be reasonable in relation to demonstrable value

The fiduciary obligation is not to select the lowest-cost investment in every circumstance. The obligation is to determine whether total costs are reasonable in relation to the services, protections, expected outcomes and other economic value provided to participants.

Total cost must be visible

DC investment costs may include investment management, recordkeeping, revenue sharing, administration, underlying fund expenses, performance fees, carried interest, transaction costs, insurance or guarantee charges, embedded spreads, surrender charges, platform fees and affiliate compensation. A stated expense ratio may capture only part of the economic arrangement.

Higher fees require stronger evidence

A higher-cost investment may be prudent if it provides superior net performance, better diversification, reduced downside risk, improved capital preservation, longevity-risk transfer, institutional access, participant advice or more reliable retirement income. The burden is not to prove outperformance with certainty. It is to demonstrate that incremental cost has a reasonable and supportable relationship to expected value.

Fees and performance must be evaluated together

A provider may present an attractive gross return, credited rate or projected income benefit without fully reflecting the cost required to produce it. A sound review should understand whether incentive compensation rewards risk-taking, whether fees continue when performance is weak, whether expenses are charged on committed or invested capital, whether participants pay for unused features, and whether the same outcome could be achieved more efficiently.

Conflicts and layered economics

Performance fees may encourage risk-taking. Revenue sharing may influence platform placement. Proprietary products may generate higher compensation for affiliates. Guarantee pricing may be embedded in spreads. Recordkeeping economics may affect the available menu. Disclosure of a conflict is not the same as management of a conflict.

Private markets and guaranteed income

Private-market fee review may include management fees, carried interest, transaction fees, financing costs, broken-deal expenses, fund-of-funds charges, continuation-vehicle economics and offsets. Guaranteed-income costs may include investment fees, insurance or guarantee charges, insurer spreads, administration, recordkeeping, intermediary compensation, and surrender adjustments. In both cases, the economics should be decomposable and compared with the value delivered.

Fees must be reasonable in relation to demonstrable value

A minimum fee standard

- What is the total cost?
- Who receives each component?
- What benefit or service is purchased?
- What costs are explicit and what costs are embedded?
- Are any fees layered or duplicative?
- Are conflicts influencing product selection?
- Is a lower-cost equivalent available?
- Does expected value justify the incremental cost?
- How will fee reasonableness be monitored over time?

Costs should be judged by demonstrable value, not by visibility alone.

Valuation must be credible, timely and equitable

Valuation is the foundation for participant transactions, performance reporting, fee calculation, asset allocation, liquidity management and fiduciary comparison. In a DC plan, valuation is not merely an accounting exercise. It determines the transaction value at which participants enter, transfer, withdraw or roll over assets. For guaranteed income solutions, it must also support the accurate and equitable measurement of account values and contractual benefit amounts used to determined retirement income.

The account value must mean something

For public securities, value is generally based on observable market prices. For private assets, insurance contracts and guaranteed-income rights, value may depend on models, appraisals, actuarial assumptions, discounted cash flows, comparable transactions, insurer pricing, credit assumptions or manager judgment. These methods may be appropriate, but appropriate due diligence understands whether the reported figure is current market value, estimated fair value, surrender value, accrued benefit value, replacement cost or a unit value based on stale information.

Valuation must support participant transactions

A technical ability to publish a daily unit value does not establish that the underlying assets are valued daily. The fiduciary should understand how stale prices are adjusted, how material market movements are reflected, what happens when information is unavailable, whether independent review exists and whether entering, exiting and remaining participants transact equitably.

Valuation and liquidity are inseparable

If participants redeem at a stale value, early exiters may receive more than the economic value of their holdings and leave the loss with remaining participants. If values are marked down aggressively, exiting participants may bear losses that later prove temporary. If transactions are delayed pending valuation, the participant may lose practical access. Liquidity at an unreliable value is not meaningful liquidity.

Independent valuation matters

Conflicts are greatest when the party that benefits from the valuation also controls it. This can occur when a manager marks its own private assets, performance compensation depends on reported value, a provider determines both guarantee pricing and benefit value, or an affiliated party controls a transaction. Independent valuation does not eliminate judgment, but it improves credibility and discipline.

Valuation must be credible, timely and equitable

Private markets and guaranteed income

Private-market valuation may rely on transactions, comparables, discounted cash flow, third-party appraisals, broker indications and manager estimates. A prudent process should review frequency, consistency, independence, material-event adjustments, leverage, realization experience, and dispersion between reported and exit values. Guaranteed-income products may involve account value, premium paid, accrued income benefit, surrender value, replacement cost, actuarial present value and expected lifetime payout value. These values are not interchangeable and should not be confused with liquidity.

A minimum valuation standard

- What does the reported value represent?
- How is it calculated and how frequently is it updated?
- Who controls the assumptions and who independently reviews them?
- What happens in stressed markets?
- How are stale values adjusted?
- Are entering, exiting and remaining participants treated equitably?
- Can the value support transfers, distributions and rollovers?
- How will the accuracy of prior valuations be tested?

Participant transactions require values that are credible, timely and equitable.

Liquidity: A threshold participant protection

The QDIA regulation establishes transferability protections and preserves the fiduciary duty to prudently select and monitor the default.[5] The legal minimum should not be confused with the prudent design objective of a modern participant-directed plan. Where a plan operates with daily valuation and transactions, participants should be able to rely on the participant-facing liquidity promise without product-specific gates, suspensions, delayed settlement or hidden economic impairment.

Tail risk is not remote when conditions become correlated

Liquidity models often assume that contributions continue, participant transfers remain normal, private funds make distributions, credit remains available and only a limited number of adverse variables occur together. Yet market stress can produce the opposite pattern: investment values fall, participant concern rises, layoffs increase, rollovers and distributions accelerate, private distributions slow, credit tightens, and valuation uncertainty grows.

When investments perform poorly, the scenario once described as a tail can become the most relevant scenario. The same event that impairs the assets can increase participant demand for access. Liquidity risk is therefore often negatively correlated with performance and positively correlated with participant need.

The first-exiter and residual-holder problem

A blended fund may initially meet redemptions by selling liquid holdings. That protects early exiters but leaves remaining participants with a higher concentration of illiquid assets, greater valuation uncertainty and weaker future liquidity. If informed participants move first while less-engaged defaulted participants remain, complexity and illiquidity are allocated regressively.

A required stress test

A prudent analysis assumes poor performance, elevated participant demand, reduced contributions, interrupted private distributions, unavailable financing and uncertain valuations at the same time. The decisive question is whether the party promising liquidity remains legally obligated and financially capable when the underlying investment is impaired.

Institutional support must be real

A liquidity reserve, credit facility or sponsor support arrangement should be judged by its enforceability, capacity, priority, duration and behavior under the same stress that drives participant demand. A structure that depends on discretionary support, normal participant flows or functioning secondary markets has not transferred liquidity risk. It has only assumed the risk will not materialize.

Participant liquidity should remain dependable when markets are most stressed.

Complexity must be bounded and absorbed institutionally

Complexity is not inherently inconsistent with prudence. Modern retirement solutions address complex risks. But complexity must be explainable, decomposable, auditable, operationally supportable and proportional to expected participant benefit.

The decomposability test

For a private-market target-date sleeve, fiduciaries should be able to isolate strategic allocation, pacing, unfunded commitments, liquidity reserves, valuation, rebalancing, fees and redemption management. For a guaranteed-income collective investment trust (CIT), they should be able to isolate the investment sleeve, trust structure, insurers, guarantee mechanics, pricing, allocation process, portability, claims and participant communications.

Decomposition allows the fiduciary to identify what creates value, cost, risk, illiquidity and counterparty dependence. A bundled label cannot substitute for understanding the components.

The proportionality principle

The governance burden created by complexity must be justified by commensurate expected value. A modest projected return advantage should not justify fragile administration, broad gating authority, opaque fees, significant valuation uncertainty or confusing participant elections. As complexity rises, transparency, institutional capability and contractual protection should rise at least proportionately.

Complexity includes administration

DB investment complexity can often remain inside a professional portfolio. DC complexity touches payroll, unitization, recurring contributions, participant transfers, loans, hardship withdrawals, recordkeeping, distributions, rollovers, plan conversions and communications. An analytically attractive investment can still be inappropriate if the DC ecosystem cannot administer it reliably.

A monitoring prerequisite

- Can the fiduciary explain the structure in plain economic terms?
- Can each material fee, risk and dependency be isolated?
- Can the recordkeeper administer all participant events?
- Can the product be removed or the plan converted without trapping participants?
- Will material changes be visible before participant harm occurs?
- Can the governance process be repeated consistently across plans and platforms?

Participants should benefit from institutional sophistication without bearing institutional complexity.

Benchmarkability: From intent to evidence

Benchmarkability is the mechanism that converts fiduciary intent into fiduciary evidence. It tests whether performance is competitive, fees are justified, risk is compensated, liquidity trade-offs create value and the original selection rationale remains valid.

Novelty does not create immunity

An innovative product may lack an identical peer or a universally accepted index. That is a reason to improve the analytical toolkit, not to remove benchmarking as a discipline. The absence of a convenient comparator cannot allow provider claims to become self-validating.

Four levels of DC benchmarking

- **Investment benchmark:** Market or strategy performance using broad indices, custom composites, peer data or public-market equivalents
- **Product benchmark:** Comparison with competing implementations, vehicles, managers and pricing structures
- **Functional benchmark:** Comparison with other ways to solve the same participant need
- **Outcome benchmark:** Measurement of wealth, retirement income, shortfall risk, income stability, utilization and cohort outcomes

Private markets

Private-market analysis may use vintage comparisons, internal rates of return, multiples, public-market equivalents, custom policy benchmarks and contribution-to-portfolio outcomes. Each method has limitations, but those limitations should be disclosed and triangulated. Proprietary data and manager-selected benchmarks require particular scrutiny because opacity and conflicts can reinforce each other.

Guaranteed income

Guaranteed income should be compared on both accumulation and protection dimensions: income per dollar, insurer pricing, credit exposure, liquidity, portability, death benefits, mortality pooling, break-even horizons, income stability, and outcomes relative to systematic withdrawals or later annuity purchase. Comparing only account-value return ignores the function; abandoning comparison ignores fiduciary discipline.

Why benchmarkability matters more in DC

A DB sponsor can respond to a disappointing investment through funding, reallocation or de-risking. DC participants generally do not receive restoration for years of excessive costs or inferior design. Lost compounding and missed income protection can be irreversible. Benchmarkability is therefore a participant-protection mechanism, not merely a reporting convention.

Novelty should improve benchmarking – not eliminate it.

Achieving DC product readiness

Industry support for a process-based fiduciary framework, asset neutrality, appropriate fiduciary discretion and protection from hindsight-based litigation is important. These objectives can encourage thoughtful innovation and allow fiduciaries to evaluate a broader range of investments based on economic merits rather than labels.

At the same time, proposals that reduce the practical importance of benchmarking, permit greater flexibility around participant liquidity or provide broad deference to the overall selection decision raise an important question: when an investment does not fit established DC standards, should the product adapt to the market, or should the fiduciary framework adapt to the product?

The burden of adaptation

The appropriate starting point is not whether an existing product can be accommodated within a DC plan. It is whether the product can be designed to satisfy the protections required by a participant-directed individual-account system. Transparency, dependable participant liquidity, credible valuation and meaningful benchmarkability respond directly to the defining vulnerabilities of DC: information asymmetry, participant risk-bearing, default reliance, individual transactions and the irreversibility of lost retirement wealth.

Safe harbor should not replace substantive analysis

A process-based safe harbor can appropriately protect diligent fiduciaries from hindsight claims. But documentation and procedural formality cannot substitute for substantive answers. A prudent process must determine total cost, the value received for that cost, who bears liquidity and tail risk, whether participant access can be maintained under stress, whether valuations are credible and equitable, whether alternatives were considered, and whether the product can be monitored, removed or replaced.

The product provider’s responsibility

- Design for participant-level transaction, valuation, distribution and portability requirements
- Provide economics that can be decomposed and independently evaluated
- Distinguish investment costs, guarantee costs, embedded spreads, compensation and other expenses
- Develop public-market, custom, functional and participant-outcome benchmarks
- Place liquidity and operational risk with a capable institutional party rather than individual participants
- Provide information necessary for ongoing monitoring at scale
- Establish contractual remedies and contingency arrangements before accepting plan assets
- Recognize that some investment structures remain better suited to DB plans or sophisticated institutions

Achieving DC product readiness

A balanced market position

This is not an argument that providers or industry advocates are uniformly seeking to weaken participant protections. Many market participants support useful disclosure, standardization, improved benchmarking and more effective retirement-income solutions. The concern is narrower: reducing the practical force of benchmarkability, normalizing conditional participant liquidity or relying on broad procedural deference can shift product-design risk from sophisticated institutions to individual participants.

Products should adapt to the fiduciary framework. The fiduciary framework should not be diluted to accommodate products.

A CIO and consultant decision framework for innovation

The following five-stage framework can be used in manager research, product approval, QDIA review, requests for proposal (RFPs), investment policy development and ongoing monitoring.[5,7]

Stage 1: Establish participant and portfolio purpose

- What participant or portfolio problem is being solved?
- What role should the investment perform?
- Which participant populations will be exposed?
- Is the investment elective, defaulted or embedded within a professionally managed solution?
- What participant rights and outcomes are non-negotiable?

Stage 2: Apply the six-factor analysis

- Performance: purpose-based, risk-adjusted and net of all costs
- Fees: transparent and reasonable relative to demonstrable value
- Liquidity: dependable at the participant interface under correlated stress
- Valuation: credible, timely and equitable for participant transactions
- Benchmarking: investment, product, functional and outcome comparisons
- Complexity: decomposable, governable, administrable and monitorable

Stage 3: Apply DC-specific readiness thresholds

- Reliable transaction processing and participant-facing liquidity
- Credible transactional valuation and fair treatment across participant cohorts
- Portability, plan-conversion and termination readiness
- Recordkeeping and communication capability across intended platforms
- Understandable participant rights and irreversible decisions
- A credible exit path that does not trap plans or participants

Stage 4: Test institutional accountability

- Who bears tail risk?
- Who is legally obligated to provide liquidity?
- Who validates valuation?
- Who remedies operational failure?
- What capital or contractual support exists?
- What happens when several protections are tested simultaneously?

A CIO and consultant decision framework for innovation

Stage 5: Monitor against the original thesis

- Is expected value emerging?
- Are costs still justified?
- Is liquidity functioning as represented?
- Are valuations credible and supported by realization experience?
- Are participant outcomes consistent with the original rationale?
- Has product complexity, personnel, counterparty strength or operational risk changed?
- Has a better alternative emerged?
- What evidence requires retention, modification, restriction or removal?

A product is ready for broad DC adoption only when investment merit, participant protection, operational capability and institutional accountability are all present.

The fiduciary evidence checklist

1. **What participant or portfolio problem is being solved?**
2. **Is the decision being made exclusively for participants and beneficiaries?**
3. **Are the structure, economics, risks, conflicts and restrictions understood?**
4. **What objective evidence supports the expected participant benefit?**
5. **What reasonably available and functional alternatives were considered?**
6. **Are total costs reasonable relative to expected value?**
7. **What happens when performance is poor and participant demand rises?**
8. **Who is legally and financially responsible if liquidity or operations fail?**
9. **Can material consequences be explained to an ordinary participant?**
10. **What evidence will trigger retention, modification, restriction or removal?**

How the questions should be used

These questions are not a substitute for legal review, manager research or a complete fiduciary process. They are a governance screen. A product that cannot answer them clearly should not move forward merely because projected return is attractive or a respected institution sponsors the product. The appropriate response may be additional diligence, redesign, stronger contractual protection, limited implementation or rejection.

For national consultants and aggregators, the questions can also support consistency across research teams and client segments. Exceptions should be explicit, documented and supported by a clear explanation of why the product remains appropriate for the specific participant population and operating environment.

Conclusion

Defined contribution investment innovation is entering a more consequential phase. Private markets, guaranteed income, customized target-date structures, managed accounts and hybrid solutions may expand the range of outcomes available to participants.

The fiduciary challenge is not to preserve the existing menu indefinitely. Nor is it to accelerate adoption merely because a product has institutional features or an attractive expected return. The challenge is to determine when an innovation is sufficiently transparent, liquid, valuable, benchmarkable, operationally resilient and governable to be entrusted to a broad population of individual plan participants.

Chief Investment Officers, consultants and retirement-plan aggregators will play a central role in making that determination. Their manager research, product approval and platform-governance processes will increasingly establish the practical standards by which innovative solutions enter the DC marketplace.

The strongest framework will distinguish investment merit from DC readiness. It will recognize that an investment appropriate for a DB plan, endowment or sophisticated institutional investor is not automatically appropriate for a participant-directed individual-account plan. It will require providers to demonstrate not only expected investment benefit, but also the institutional capacity to protect participant liquidity, support credible valuation, disclose total economics, administer the product reliably and provide meaningful evidence of value over time.

The future of defined contribution investing will not be determined by the sophistication of the products introduced into the marketplace. It will be determined by the quality of the fiduciary evidence required before those products earn the trust of millions of retirement savers.

Products must innovate within the fiduciary framework. The fiduciary framework should not be diluted to accommodate products.

1. U.S. Department of Labor, “Fiduciary Duties in Selecting Designated Investment Alternatives,” proposed rule, 91 Fed. Reg. 16088 (Mar. 31, 2026).
2. U.S. Department of Labor, news release announcing the proposed rule (Mar. 30, 2026).
3. ERISA section 404, 29 U.S.C. §1104.
4. 29 C.F.R. §2550.404a-1, Investment Duties.
5. 29 C.F.R. §2550.404c-5, Qualified Default Investment Alternatives.
6. 29 C.F.R. §2550.404a-5, Participant-Level Disclosure.
7. U.S. Department of Labor, Target Date Retirement Funds - Tips for ERISA Plan Fiduciaries (2013).
8. Fi360, Prudent Practices for Investment Fiduciaries and Accredited Investment Fiduciary training materials.

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