

SELF-DIRECTED BROKERAGE IN RETIREMENT PLANS: FIDUCIARY CONSIDERATIONS

Introduction

Brokerage windows have been made available in retirement plans for decades. Notwithstanding their long history, plan fiduciaries often ask whether adding a brokerage window to their plan will increase or decrease their fiduciary risk. The decision to offer a brokerage window is a matter of plan design if incorporated into the plan document. However, there are fiduciary obligations when selecting a brokerage window services provider.

What is a Brokerage Window?

A brokerage window provides retirement plan participants access to a wide range of investments beyond the lineup of specific funds that may have been designated by a fiduciary for the plan. Typically, a brokerage account is established for the benefit of each participant who chooses to invest in one or more of the non-designated investments offered in the brokerage window. Through a brokerage window, participants may be able to invest in mutual funds, exchange-traded products (ETPs), stocks, bonds, certificates of deposit (CDs), and other investments offered on the brokerage service provider's platform.



Some Plan Fiduciary Considerations for Adding a Brokerage Window

1. Brokerage Services Provider

Fiduciaries should collaborate with their recordkeeper and consultant to gain a comprehensive understanding of the provider's brokerage platform and capabilities, including:

- How the brokerage account works
- How participants provide investment instructions
- How the brokerage platform integrates with the retirement plan platform

2. Fees and Compensation

Fiduciaries should understand the compensation that the service provider will receive with respect to the services being provided. Considerations include:

- Costs of adding or maintaining a brokerage window
- Ongoing participant fees for utilizing the brokerage window
- Direct and indirect compensation, including commissions and other trading fees

3. Plan-Specific Setup and Parameters

Fiduciaries should be aware of the investment products available to participants in the brokerage window and decide whether to impose investment parameters. This includes:

- Eligible and ineligible investments
- How participants obtain information about the available investments
- Limitations on how much can be invested in the brokerage window

Conclusion

While the decision to offer a brokerage window may be a plan design decision, the brokerage services provider selected to provide the brokerage window is considered a service provider to the plan. As with the selection of any service provider to a plan, plan fiduciaries making the selection must act prudently and solely in the interest of the plan participants and beneficiaries, both in making the selection and in continuing such selection. Plan fiduciary considerations include selecting the brokerage provider, assessing the fees and compensation, and deciding whether to implement a plan-specific setup or investment parameters.

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