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# The Retirement Angle

*Sidebar to Feature article: "Getting Your Shares"*

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**Conditions are improving** for the increased use of exchange-traded funds in 401(k) plans, according to their proponents in the third-party administrator and investment fields. Before then, however, acceptance both psychologically and technically must occur.

First, the provisions of the Pension Protection Act that go into effect in January demanding uniform fee disclosure and transparency make ETFs suitable, as they lend themselves to reporting transparency, according to Alvin Rapp, founding partner of RPG Consultants, a retirement plan consultant and TPA. RPG uses an open-architecture, daily valuation recordkeeping platform that allows the use of ETF's as an investment choice.

"Financial advisors in their fiduciary duty should be evaluating the cost and transparency requirements in the PPA," Rapp says.

New Department of Labor rules will lead to "more efficient investing in retirement platforms, sending an increasing percentage of dollars to ETF-intensive plans," Rapp said in a recent white paper he wrote.

"I think ETFs will represent 10% to 20% of retirement portfolios minimally over the next five years—or that is where it should be," Rapp says. He encourages advisors who use his firm to build lifestyle strategies solely using ETFs .

Darwin Abrahamson, founder and CEO of Invest n Retire, a 401(k) recordkeeper and technology company in Portland, a believer in incorporating ETFs into 401(k) plans, is seeing rapid growth in both the number of plans his company has signed up as well as the size of those plans, and he says most of the assets in those plans are in ETFs. He attributes the growth to the impending DOL fee disclosure rules and the ability to fulfill fiduciary duties. Moreover, the Investment Company Institute has asked his company to start reporting the ETF percentage in 401(k) plans starting at the end of the year, a sign that it is on the ICI radar and that more growth is expected.

"[Those] who have invested in creating platforms that allow the inclusion of ETFs will inevitably be joined by others wanting to capitalize on the unavoidable movement," Rapp writes.

He is right that platforms need to be created, according to Kevin Mahn, a portfolio manager of SmartGrowth Funds, three open-ended mutual funds composed solely of ETFs. One of the four difficulties faced by those who would like greater inclusion of ETFs in 401(k)s is the fact that most recordkeepers and TPAs cannot process ETFs as they stand right now through their own platforms, says Mahn, who is also chief investment strategist at Hennion & Walsh Asset Management in Parsippany, New Jersey.

The other difficulties plan sponsors face are having fiduciaries accept an investment vehicle that some still see as cutting-edge and risky. After all, ETFs have been around only for a little more than a decade, and ETFs can't trade in fractional shares like mutual funds can, Mahn notes.

With regard to costs, Rapp argues that ETFs are highly economical, pointing out that it is not the participant who eats the cost of trading, as is the case with mutual funds. The financial institutions that use RPG's platform incorporate all the trading costs into their custodial fee. Because the cost savings of ETFs are so significant when compared to the average investment expenses of mutual funds, the plan will still pass along substantial savings to plan participants, Rapp says.

"I really think they are going to gain broad acceptance. It is a question of when, not if," Mahn says. "Fiduciaries have to get comfortable and recordkeepers and TPAs have to invest in the technology to process them."