

Pursuant to the Department of Labor's request for comments on the Proposed Extension of Information Collection Request Submitted for Public Comment; Form 5500 Annual Return/Report of Employee Benefit Plan

August 23, 2010

G. Christopher Cosby
Department of Labor, Employee Benefits Security Administration
200 Constitution Avenue, N.W.
Washington, DC 20210

Re: Proposed Extension of Information Collection, Form 5500 Annual Return/Report

Dear Mr. Cosby:

Ariel Investments takes this opportunity to comment on and offer recommendations to improve the quality of information compiled in the Form 5500 administered by the Department of Labor and the Internal Revenue Service.

For over a decade, Ariel, the first minority-owned money-management firm in the country, has been examining and studying the differences in saving and investing between minority and non-minority groups in the middle-to-high income levels. Through our annual "Black Investor Survey," Ariel has concluded that there are vast differences in how each group saves for retirement.

Last year, Ariel teamed up with Hewitt Associates, the National Urban League, the National Council of la Raza, the Joint Center for Political and Economic Studies and the Raben Group on a study, *401(k) Plans in Living Color: A study of Savings Disparities Across Racial and Ethnic Groups*, which looked at how race, gender, and ethnicity affect the retirement savings of 3 million employees in 57 of the nation's largest companies. The findings revealed that when all other factors such as salary, age, and job tenure are controlled, participation rates, contribution levels, and account balances varied by race, gender, and ethnicity. Additionally, African Americans and Hispanics were more likely to have taken out a loan or hardship withdrawal, which led to overall lower account balances.¹

After reviewing the Ariel/Hewitt study, the Office of Personnel Management (OPM) conducted a similar study looking at 1.5 million federal employees in the Thrift Savings Plan. The data findings in the OPM study mirrored those in the Ariel/Hewitt study.

While these two studies compiled expansive employee samples showing the saving and investing trends in the public and private sectors, further empirical data is needed on plan participation by race, gender and ethnicity. Currently, there is no reporting or tracking mechanism by which employers use to review their own company participation by these demographics.

¹ 401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups

The Form 5500 is an important and valuable tool that the Department of Labor and the Internal Revenue Service rely on for "information concerning the operation, funding, assets and investments of pension and other employee benefit plans."² Additionally the form provides insight as to who is participating in each retirement plan and offers details such as account balances, what benefits certain employees are eligible for, as well as some employee information but does not include race, gender, and ethnicity. These forms are also used for research practices and compliance checks to ensure companies are following Titles I, II and IV of the Employee Retirement Income Security Act (ERISA).

Ariel is supportive of the current process and system under which the Department and Labor and the IRS collect this information through the Form 5500. However, to improve the quality of information collected and to increase its effectiveness and utility in narrowing the racial wealth gap, Ariel recommends adding a component that would give companies the opportunity to *voluntarily* track and report on their plan participation by race, gender and ethnicity. The Department of Labor can use the collected data for conducting research, establishing benchmarks, and developing comparative analysis reports. The incorporation of this information would encourage employers to consider reforms that would improve overall participation and retirement security for its employees. For example, after finding racial and gender disparities in the Federal Thrift Savings Plan, the OPM has undertaken steps to develop an action plan and strategy that will increase participation, eliminate the racial and gender disparities, and improve financial literacy for its employees.

To prevent the risk of exposing companies to unnecessary litigation, we also recommend the Department of Labor offer a safe harbor for employers that submit this information. The primary objective of the additional demographic information should be for research and information-gathering purposes.

Tracking and reporting retirement plan participation should be completed on an ongoing basis and implemented in a voluntary matter that allows companies to create innovative and plan-specific reforms. The Department of Labor should take the necessary steps and include comprehensive literature that clearly explains the purpose for this data inquiry. To ensure maximum compliance and participation, the Department of Labor should work with the Office of Personnel Management and offer best practices and methods for collecting and reporting this information.

If you would like to discuss any of these comments, please contact Kimberly Goulart at (202) 223-2610 or email her at kgoulart@rabengroup.com. We look forward to working with your staff on this proposal. Thank you very much for your time and consideration of these comments.

Sincerely,

Amar Parikh
Director, Corporate Affairs
Ariel Investments

² Federal Register/Vol 75, No. 120/Wednesday, June 23, 2010/Notices



August 23, 2010

G. Christopher Cosby
Department of Labor, Employee Benefits Security Administration
200 Constitution Avenue, N.W.
Washington, DC 20210

Re: Proposed Extension of Information Collection, Form 5500 Annual Return/Report

Dear Mr. Cosby:

BrightScope appreciates the opportunity to comment on and offer recommendations on how to improve the quality and accuracy of information contained on the Form 5500. BrightScope is a data and analytics firm focused on increasing the level of transparency in the retirement marketplace through its industry-leading retirement plan benchmarking services. We use the Form 5500 and its attached schedules as a source of data for our retirement plan analytics.

In the request for comments the Department indicated particular interest in four areas. We believe we are in a particularly good position to respond to two of the four areas:

1. *Evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility.*

In spite of its flaws, we believe that the Form 5500 data has enormous utility in helping the agency understand the performance and design of retirement plans in the marketplace. In addition, by making the data available to the public the agency is fostering third party data collection and evaluation efforts that in turn help protect retirement plan participants.

2. *Enhance the quality, utility, and clarity of the information to be collected.*

We believe there are a variety of improvements that can be made to improve the utility and clarity of the information that is collected. Our suggestions fall in to one of three categories; missing data, standardization and data inconsistencies.

- **Missing Data:** Some of these suggestions relate to missing data points that if added would add an enormous amount of utility to the data that is already collected.
- **Standardization:** Other suggestions relate to the lack of standardization of some of the schedules and attachments. Without standardization much of the data collected is in narrative form making it difficult to aggregate and compare the information across plans. Because much of this data is already stored in database form in the recordkeeping system it would actually lower the burden of time spent filling out the form by removing the need to write out narrative descriptions of the plan.

- **Data Inconsistencies:** Finally, there are suggestions that seek to minimize data inconsistencies that are found across the schedules that make the data difficult to evaluate. Eliminating these inconsistencies does not require additions to the forms, but merely more detailed descriptions of what is required.

Please refer to the chart below for details on our suggestions for improvement:

Issue	Location of Change	Description
Missing Key Data	Main Form	Collect information on Total Payroll (\$). Necessary for critical plan performance calculations including salary deferral rates.
Missing Key Data	Main Form	Collect information on Total Employees. Necessary for critical plan coverage calculations including participation rates.
Missing Key Data*	Main Form	Plan Demographics: Age, Sex and Race numbers for employees.
Lack of Standardization	Schedule H Line 4i Schedules	Require a consistent format for important investment data: Fund Name, Fund Type, Ticker Symbol or CUSIP, Cost and Balance.
Lack of Standardization	Audit Report Plan Description	Standardize the collection of certain data currently included in the audit report plan description in narrative format: eligibility periods, match design/structure,
Data Inconsistencies	Schedule D	Require the listing of individual PSA's rather than a single group variable annuity in the Schedule D.
Data Inconsistencies	Schedule A, D & H	Adding a 'fund type' column to the Schedule H Line 4i schedules will help resolve inconsistent data filed between these three schedules. Currently funds listed as PSAs on Schedule A/D might appear differently on the Line 4i Schedules.
Data Inconsistencies	Schedule D	Make a distinction between collective trust and guaranteed investment contracts on Schedule D.

**We are sympathetic to the comments from Ariel Investments requesting more detailed participation and salary deferral data along demographic lines. This data need not be made public, but will help policymakers and others identify how to close the well-documented gender and racial gap in retirement savings. For details see comments filed by Anur Parikh, Director Corporate Affairs, Ariel Investments.*

Questions about these comments should be directed towards Ryan Alfred, ryan@brightscope.com. We look forward to working with Department staff on this proposal. Thank you again for the opportunity to submit comments.

Sincerely,

Ryan Alfred
President
Brightscope, Inc.