

Trump DOL Throws 401k Investors To The Wolves



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Trump U. S. Department of Labor watchdogs just opened the door for private equity wolves to sell the highest cost, highest risk, most secretive investments ever devised by Wall Street to 401k plan sponsors. 401k investors will be devoured like lambs to the slaughter.

[Last week](#), the U.S. Department of Labor opened the door for plan sponsors to add private equity funds to their 401(k) plans. That's a huge win for the private equity industry since 401ks hold nearly \$9 trillion in assets and a monstrous setback to American workers who invest in 401ks for retirement security.

After over three decades of egregious retail price gouging by mutual fund companies—as to which the DOL turned a blind eye—401k costs have in recent years been trending downward thanks primarily to widespread excessive-fee private class action litigation. Now, if private equity is embraced, 401k costs will skyrocket, risk will dramatically increase and transparency will plummet.

Bad enough that DOL—the federal agency which is supposed to protect employer-sponsored retirement benefit plans—welcomed the wolves of Wall Street to feast on workers’ hard-earned savings, but the explanation the agency provided for its reckless action is perverse.

Ramping up the fees and risks to 401k savers will “overcome the effects the coronavirus had had on our economy” and “level the playing field for ordinary investors” by allowing workers to gamble their limited retirement savings like millionaires who can afford to lose lots.

According to the DOL press release, Chairman of the U.S. Securities and Exchange Commission Jay Clayton commended the Department’s efforts “to improve investor choice and investor protection,” saying the new guidance, “will provide our long-term Main Street investors with a choice of professionally managed funds that more closely match the diversified public and private market asset allocation strategies pursued by many well-managed pension funds as well as the benefit of selection and monitoring by ERISA fiduciaries.”

The Chairman of the world’s premier securities regulator evidently is unaware a decade-plus of private equity investing by so-called “well-managed” pensions has resulted in increasingly disappointing, not to mention inflated and unauditible performance results. Warren Buffett, arguably the world’s most respected investor, recently escalated his criticism of private equity firms.

At last year’s Berkshire Hathaway [BRK.B annual meeting](#) Buffett stated, “We have seen a number of proposals from private equity firms where the returns are not calculated in a

manner that I would regard as honest... If I were running a pension fund, I would be very careful about what was being offered to me.”

Chairman Clayton and DOL may think they know more about the risks and rewards of private equity investing than Buffett.

They don't.

They may believe gambling on private equity is a prudent strategy for recovering pandemic losses.

It isn't.

In my experience investigating over \$1 trillion pensions, struggling plans almost always migrate to riskier, costlier investments in their final hours to save themselves—a Hail Mary that, predictably, only hastens their demise. Gambling is no way to improve retirement security.

Private equity improves investor protection? Given that private equity funds lack all of the hallmarks of prudent investments this statement is especially disingenuous.

Private equity funds are the highest cost, highest risk, least transparent and most illiquid. Their assets are the hardest-to-value and the easiest-to-inflate.

I've investigated thousands of these funds and found [rampant violations](#) of law.

SEC staff [examinations](#) of private equity firms have reportedly found that more than half allocated expenses and collected fees inappropriately and, in some cases, illegally. Why would a retirement plan regulator open the door to an industry which more-often-than-not cheats? Are 401k investors clamoring for private equity and willing to take their chances?

According to EBSA Acting Assistant Secretary Jeanne Klinefelter Wilson, the new guidance “should assure defined contribution plan fiduciaries that private equity may be

part of a prudent investment mix and a way to enhance retirement savings and investment security for American workers.”

In my 35 years of experience, I have never met a defined contribution plan fiduciary who is capable of fully understanding the heightened risks related to private equity investing. For plan fiduciaries who choose to dance with these wolves, prepare to be bitten.

Check out my [website](#).



Edward Siedle

I have been called "the Sam Spade of Money Management," "the Financial Watchdog" and "the Pension Detective." Born Edward Ahmed Hamilton Siedle, I grew up in Trinidad, Venezuela, Panama, Peru, England, Uganda, Egypt and the U.S. I am a former SEC attorney, former Legal Counsel and Director of Compliance to Putnam Investments. For over 20 years, I owned securities trading and investment banking firms. My firm, Benchmark Financial Services, Inc. and I have pioneered over \$1 trillion in forensic investigations of the money management industry. I am nationally recognized as an authority on pensions and investment management matters, having testified before the Senate Banking Committee regarding the mutual fund scandals and as an expert in various Madoff and other litigations. I am an active member of the Florida Bar. In 2017, I secured the largest SEC whistleblower award in history (\$48 million) and in 2018, the largest CFTC award in history (\$30 million).