



22 West Washington Street  
Chicago  
Illinois 60602

Telephone: +1 312 696-6000  
Facsimile: +1 312 696-6001

Submitted electronically via <http://www.regulations.gov>.

Nov. 1, 2021

Office of Regulations and Interpretations  
Employee Benefits Security Administration  
Attn: RIN 1210-AB97; Proposed Revision of Annual Information Return/Reports  
U.S. Department of Labor  
200 Constitution Avenue NW  
Washington, DC 20210

RE: Proposed Revision of Annual Information Return/Reports, Annual Reporting and Disclosure, RIN 1210-AB97

Ladies and Gentlemen:

Morningstar, Inc. appreciates the opportunity to comment on the Proposed Revision of Annual Information Return/Reports<sup>1</sup> and Annual Reporting and Disclosure.<sup>2</sup> Morningstar's interest in the Form 5500 Annual Return/Report stems from our offering a variety of services to employer-sponsored plans, and from our Retirement Plan Intelligence business unit (formerly RightPond), which aggregates retirement plans' annual reports and auditors' reports from the Form 5500.

Morningstar applauds the Department of Labor (DOL) for proposing important steps to increase retirement-plan transparency. We believe that the proposed revisions to the Form 5500 will make it much easier to understand the investments that retirement plans hold and the compensation they pay to their providers. We also believe the proposed changes will improve defined-contribution, or DC, plans for participants and beneficiaries by making it easier to understand the investments available to them and the costs of investing through the plan. These disclosures are even more important today because plan participants need to consider whether to roll money from one DC plan to another, or whether to roll some (or all) of their money into an individual retirement account, or IRA. Without clear information, it is difficult for plan participants to ascertain whether (and in what areas) their plan provides good value compared with other options. Further, it is difficult for financial advisors to ascertain the strengths or weaknesses of an advisee's plan when they give advice. Many advisors rely on the vendors

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<sup>1</sup> Department of Labor. 2021. Proposed Revision of Annual Information Return/Reports. <https://www.federalregister.gov/documents/2021/09/15/2021-19714/proposed-revision-of-annual-information-return-reports>. (Proposed Revision).

<sup>2</sup> Department of Labor. 2021. Annual Reporting and Disclosure. <https://www.federalregister.gov/documents/2021/09/15/2021-19713/annual-reporting-and-disclosure>.

using the Form 5500 to extract fees and investment options for specific plans. With the changes DOL proposes, this data will be much more accurate.

To be clear, this proposal, if finalized, would be enormously helpful, particularly given the introduction of structured data with new identifiers as well as the fee disclosures DOL contemplates. We have suggestions for four areas that might further strengthen the Form 5500: 1) refining and clarifying the list of identifiers and descriptions of investments that the proposal requires; 2) adding additional structured data for certain pooled investments that do not file as direct filing entities; 3) making additional improvements to the Schedule I that could reduce the burden on plan sponsors while generating a rich data set for smaller plans; and 4) clarifying the instructions and refining the checks for new fields.

Before moving on to details to improve the proposal, we also want to express our support for the new Schedule MEP as well the decision not to establish simplified filing requirements for multiple-employer plans, including pooled employer plans. As we discuss in the paper DOL cited in the economic analysis, such a decision would reduce transparency on thousands of retirement plans.<sup>3</sup>

#### **Small Adjustments and Clarifications to Identifiers and Descriptions of Investments Would Maximize the Value of the Structured Data in the Schedule H**

DOL's proposed Schedule H, line 4i(1) Schedule of Assets Held for Investment at End of Year table would make an important change from the current format in element *b* that we believe would be further enhanced by reordering the elements to capture complete and consistent descriptions of the investments. The proposed elements *b* and *g* closely mirror their current counterparts and we frequently see inconsistent usage of these fields when describing investments.<sup>4</sup> Many filers report the entire investment name in element *b*, using element *g* to capture the asset type, while many others report just the investment provider in element *b* and the remainder of the name in *g*, leaving no place to specify the type of investment. This inconsistency reduces the usability of the form and limits the value of the structured data DOL proposes to collect. Therefore, we suggest that element *g* would be clearer if placed immediately after element *b* and the name of the investment provider.

Additionally, we recommend moving element *f(1)* to its own column so it is clear that the asset type should be reported according to those outlined in Schedule H, line 1(c) here rather than in either of the elements seeking a description of the investment. While the format example and instructions in the proposal instruct filers to list the asset category from Schedule H, line 1(b), this is the category of receivables, and we believe DOL intends to capture the type of general investment in which the asset is included on line 1(c). Separating this from the other components of element *f* and placing it immediately after the elements requesting the

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<sup>3</sup> Szapiro, Aron and Lia Mitchell, "Pooled Employer Plans: Paperwork or Panacea." [https://www.morningstar.com/lp/paperwork\\_or\\_panacea](https://www.morningstar.com/lp/paperwork_or_panacea).

<sup>4</sup> Szapiro, Aron and Lia Mitchell, "Retirement Plan Transparency: Opaque Data Hinders Best-Interest Advice." <https://www.morningstar.com/lp/retirement-plan-transparency>.

investment name and description would provide more structure to the schedule of assets and reduce filer confusion.

To improve the specificity of the identifiers, we recommend DOL request filers provide the SEC Class ID<sup>5</sup> rather than the CIK on the Schedule H, line 4i(1) Schedule of Assets Held for Investment at End of Year. This should be updated in both the information included in the format example and in the instructions and applied to the line 4i(2) Schedule of Assets Acquired and Disposed of During the Plan Year as well. We also recommend that DOL add ISIN and ticker to the suggested list of identifiers, as these are common to many investments and more specific than an LEI or NAIC Company Code alone.

With the many different identifiers filers could provide and DOL's efforts to structure the data collected, we recommend that consideration is given as to how filers will indicate the type of each identifier in the reporting system. To reduce confusion and facilitate easier use of the data, we think it is important that the structured data include the identifier type (CUSIP, SEC Class ID, and so on) of each identifier for every investment. If a filer chooses to report an identifier that is not one of the example types provided in the instructions, we recommend they be required to provide a description of the identifier source.

We also suggest DOL update the instructions and information in the format example for the elements requesting descriptions of the investments in line 4i(1) and 4i(2), as proposed element *g* and element *j*, respectively, to specify that the share class or tier of the investment must be provided in the description, if applicable. While share class is currently listed in the information in the format example, it is not specified in the instructions in the proposal. The addition of "tier" would incorporate the nomenclature that is more common for Common/Collective Trusts, or CCTs, to refer to the specific investment.

### **More Structure for Certain Pooled Investment Types in the Schedule H Would Ensure Comparability Across All Plans**

We recommend DOL make a few additional changes to the line 4i(1) Schedule of Assets Held for Investment to ensure consistent information for all pooled investment types and to remove any incentive for direct filing entities to withhold from filing a Form 5500 so that their participating plans do not report the total annual operating expense. Specifically, we recommend that DOL require that all pooled investment vehicles reported in the most recent "404a5" statement must be listed in the table, with the corresponding total annual operating expenses reported.

These changes would ensure there is parity in the information reported by all plans regardless of the type of pooled investment they utilize. Additionally, this removes any incentive that direct filing entity providers may have to withhold from filing a Form 5500 so that the annual operating expenses of their products would not be disclosed by the plans.

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<sup>5</sup> For variable annuities, this identifier is specific to the contract through which an investment is held and will provide significant insight into the types of contracts that plans are selecting.

We recognize that there are cases where plans must report the underlying assets held in these pooled vehicles, such as if a CCT or pooled separate account, or PSA, does not file a Form 5500, or if they invest in a separately managed account. To allow for the underlying assets to be reported, we propose the table in Exhibit 1 be adopted.

To capture the appropriate information for pooled vehicles not registered with the SEC and not filing a Form 5500 and that for assets held through these pooled vehicles, we suggest adding new check boxes to those proposed in element *f* and adding a new element *k*. The new check box, element *h(1)* in Exhibit 1, would identify any pooled vehicles not registered with the SEC and not filing a Form 5500 but that had assets as of the end of the year and were reported in the most recent “404a5” statement. Our proposed element *k* would ensure that assets held through these pooled vehicles can easily be reconciled with the vehicle through which they were held by requiring the row number for the relevant pooled vehicle to be listed.

**Exhibit 1** Recommended Schedule H, Line 4i(1) Schedule of Assets Held for Investment With Additions in **Red** and Deletions Indicated by **Cross-Out**

<b>Schedule H, Line 4i(1) Schedule of Assets Held for Investment</b>					
<p><b>a</b> Check if issuer, borrower, lessor similar party is a party-in-interest. <input type="checkbox"/></p>	<p><b>b</b> Name of issuer, borrower, lessor, or similar party.</p>	<p><b>g c</b> Description of investment, including, as applicable, share class, <b>tier</b>, maturity date, rate of interest, par or maturity value, including whether asset/investment is subject to surrender charge. See instructions for reporting assets held through a participant-directed brokerage account.</p>	<p><b>f(1) d</b> Indicate Sch. H, line 1<b>bc</b> asset category.</p>	<p><b>e e</b> Check if asset is hard-to-value asset. <input type="checkbox"/></p>	<p><b>d f</b> CUSIP, <del>CIK</del>, <b>SEC Class ID</b>, <b>ISIN</b>, <b>Ticker</b>, LEI, NAIC Company Code, other registration number:</p>
<p><b>e g</b> Cost</p>	<p><b>f h(1)</b> <input type="checkbox"/> Check here if the asset is a <b>pooled investment vehicle that is not registered with the SEC and did not file a Form 5500.</b></p> <p><b>(2)</b> <input type="checkbox"/> Check here if <del>entry in f(1)</del> <b>the asset</b> is held through a <b>pooled investment vehicle CCT or PSA</b> that <b>is not registered with the SEC and did not file a Form 5500.</b></p> <p><b>(3)</b> <input type="checkbox"/> Check here if the asset is a designated investment alternative in a defined contribution plan.</p> <p><b>(4)</b> <input type="checkbox"/> Check here if the asset is a qualified default investment alternative in a defined contribution plan.</p> <p><b>(5)</b> <input type="checkbox"/> Check here if the asset is held in a participant-directed brokerage account that is required to be broken out and separately reported (see instructions for reporting assets held through a participant-directed brokerage account).</p>	<p><b>h i</b> Current value</p>	<p><b>i j</b> If a checkbox for <b>fh(3)</b> or <b>fh(4)</b> is checked, enter the total annual operating expenses for the designated investment alternative expressed as a percentage of assets that was furnished to participants and beneficiaries in their most recent "404a-5" statement.</p>	<p><b>k</b> If checkbox for <b>h(2)</b> is checked, enter the row number of the corresponding entry for the unregistered pooled investment vehicle through which the asset is held, which has <b>h(1)</b> checked.</p>	

In summary, we make the following recommendations to enhance the structure and clarity in DOL's proposal for the Schedule of Assets:

- Add further identifiers to proposed element *d* (element *f* if using our suggestions) to provide information that matches with that collected by the SEC, including CUSIP, SEC Class ID, ISIN, Ticker, LEI, and NAIC Company Code. We also propose dropping the CIK, as it is redundant with the SEC Class ID.
- Rename element *g* to *c* and update the wording to include “tier” to more clearly include CCTs.
- Move element *f(1)* into its own column (*d*) and update the wording to refer to Schedule H, line 1c asset categories, as 1b is a list of receivable categories and we believe DOL intends to identify the type of general investments.
- Rename elements *c* to *e*, *d* to *f*, *e* to *g*, and *h* to *i*.
- Rename elements *f(2)*, *f(3)*, *f(4)*, and *f(5)* as *h(2)*, *h(3)*, *h(4)*, and *h(5)*, respectively.
- Add element *h(1)* to capture any pooled investment vehicles that are not registered with the SEC and did not file a Form 5500 as a DFE.
- Reword element *h(2)* to capture any assets that are held through a pooled investment vehicle that is not registered with the SEC and did not file a Form 5500 as a DFE rather than just those held through CCTs and PSAs.
- Rename element *i* to *j* and update the wording to reflect the renaming of other elements.
- Add element *k* to capture the necessary information to connect assets for which filers mark *h(2)* to the pooled vehicle through which they are held.

### **Requesting Additional Information for Small Plans Would Vastly Improve the Usefulness of the Data With Minimal Costs**

We recommend DOL augment the Schedule I and Form 5500-SF to require small defined-contribution plans to report key information on their qualified default investment alternatives and designated investment alternatives. This would greatly improve the usability of the Form 5500 data set, provide unprecedented insight into the quality of small plans, and it would not significantly raise the reporting burden for these plans.

DOL could narrow the scope of the Schedule H, line 4i(1) to just the table in Exhibit 2, which only includes information these plans utilize to furnish their “404a5” statements. For element *d*, the list in the instructions would mirror the options from Schedule H, line 1c to ensure consistency across filers in classifying their assets.

**Exhibit 2** Proposed Fields for a Schedule I and Form 5500-SF Schedule of Investment Alternatives With Additions in **Red** and Deletions Indicated by ~~Cross-Out~~ Compared With Proposed Schedule H Line 4i(1) Schedule of Assets

<b>Schedule I and Form 5500-SF, Schedule of Investment Alternatives</b>						
<b>a</b> Check if issuer, borrower, lessor similar party is a party-in-interest. <input type="checkbox"/>	<b>b</b> Name of issuer, borrower, lessor, or similar party.	<b>g c</b> Description of investment, including, as applicable, share class, <b>tier</b> , maturity date, rate of interest, par or maturity value, including whether asset/investment is subject to surrender charge. See instructions for reporting assets held through a participant-directed brokerage account.	<del><b>f(1)</b></del> <b>d</b> Indicate Sch. H, line 1 <del>b</del> <b>c</b> asset category.	<del><b>d</b></del> <b>e</b> CUSIP, <del>CHK</del> , <b>SEC Class ID</b> , <b>ISIN</b> , <b>Ticker</b> , LEI, NAIC Company Code, other registration number:	<del><b>f(3)</b></del> <b>(1)</b> <input type="checkbox"/> Check here if the asset is a designated investment alternative in a defined contribution plan.  <del><b>(4)</b></del> <b>(2)</b> <input type="checkbox"/> Check here if the asset is a qualified default investment alternative in a defined contribution plan.	<b>i g</b> If a checkbox for <b>f(3)</b> or <b>f(4)</b> is checked, enter the total annual operating expenses for the designated investment alternative expressed as a percentage of assets that was furnished to participants and beneficiaries in their most recent "404a-5" statement.

By only asking for information on qualified default investment alternatives and designated default investment alternatives, and by removing any columns related to the valuation of the investment alternatives, the required information would be sufficiently narrow as to not introduce any undue reporting costs for small plans.

**Clarifications to New Instructions and Refinements for New Fields**

We have several suggestions for changes proposed in Appendix E of the regulation that we believe will clarify the instructions for future filers and are summarized in the subsequent Exhibit 3 with some suggested edits to the proposal in **red**. These technical adjustments will serve to make the structured, machine-readable data more useful and clarify when it must be provided. We have used the element references from the proposal--not including any of our previous suggestions--for clarity, as we think these adjustments will be beneficial regardless of if our previous suggestions are incorporated.

**Exhibit 3** Technical Suggestions for New Schedule H Fields With Additions in **Red** and Deletions Indicated by **Cross-Out**

Location in the Proposal	Proposal Citation	Our Recommendation
<p>Appendix E.2 Proposed Changes to 2022 Schedule H and Instructions to Standardize Data Collection for Schedule H, Line 4i Schedules of Assets - Line 4i(1). Schedule of Assets Held for Investment at End of Year.</p>	<p><b>Element(d).</b> If the person is a plan sponsor, service provider, or direct filing entity also identified on the Form 5500, Schedule C, or Schedule D, or any other of the Schedule H line 4 schedules, or is a DFE that files its own Form 5500, use the same identification numbers in all places. If the person identified in element c, has a CUSIP, CIK number, LEI, NAIC Company Code, or other government or market exchange registration number or identity number, you must include all that apply here.</p>	<p><b>Element(d).</b> If the <del>person</del> <b>entity</b> is a plan sponsor, service provider, or direct filing entity also identified on the Form 5500, Schedule C, or Schedule D, or any other of the Schedule H line 4 schedules, or is a DFE that files its own Form 5500, use the same identification numbers in all places. If the <del>person</del> <b>entity</b> identified in elements <del>e b and g</del>, has a CUSIP, <del>CIK</del>, <b>SEC Class ID, ISIN, Ticker</b>, LEI, NAIC Company Code, or other government or market exchange registration number or identity number, you must include all that apply here.</p>
	<p><b>Element (f).</b> Enter in element f(1) which category the asset was part of the total on line 1b and check all applicable boxes.</p>	<p><b>Element (f).</b> Enter in element f(1) which category the asset was part of the total on line 1<b>bc</b> and check all applicable boxes.</p>
	<p><b>Element (g).</b> Enter a description of the investment, including, as applicable maturity date, rate of interest, par, or maturity value, including whether asset/investment is subject to surrender charge. Include any restriction on transferability of corporate securities. (Including lending of securities permitted under Prohibited Transaction Exemption 81-6.)</p>	<p><b>Element (g).</b> Enter a description of the investment, including, as applicable, <b>share class, tier</b>, maturity date, rate of interest, par or maturity value, including whether asset/investment is subject to surrender charge. Include any restriction on transferability of corporate securities. (Including lending of securities permitted under Prohibited Transaction Exemption 81-6.)</p>
<p>Appendix E.2 Proposed Changes to 2022 Schedule H and Instructions to Standardize Data Collection for Schedule H, Line 4i Schedules of Assets - Line 4i(2). Assets Acquired and Disposed of During Plan Year.</p>	<p><b>Element (e).</b> Enter in element (e) in which category the asset was part of the total on line 1(b).</p>	<p><b>Element (e).</b> Enter in element (e) in which category the asset was part of the total on line 1(<del>b</del><b>c</b>).</p>
	<p><b>Element (j).</b> Enter a description of the investment, including maturity date, rate of interest, collateral, par, or maturity value.</p>	<p><b>Element (j).</b> Enter a description of the investment, including, <b>as applicable, share class, tier</b>, maturity date, rate of interest, collateral, par or maturity value.</p>



As noted earlier, we support DOL’s introduction of the new Schedule MEP and its decision to have information on participating plans reported in a structured format rather than an attachment. We suggest DOL expand the note in the instructions to this schedule as follows: “**Note.** The amounts listed in line 2c and line 2f must equal 100% (with a permitted variance of less than 1% due to rounding). The amounts listed in line 2d and 2g must equal the amount listed on line 11(b) of the Schedule H or on line 1c(b) of the Schedule I (with a permitted variance of less than 1% of the amount from Schedule H or Schedule I due to rounding).”<sup>6</sup> As the information on participating plans will be reported in a structured format on Schedule MEP, we recommend DOL consider implementing checks within the filing system to ensure these summations are valid before accepting filings to reduce errors and align with this note in the instructions.

We suggest DOL add an additional field to the new trust questions outlined in Appendix E.5 Proposed Changes to 2022 Schedule H, Schedule I, Form 5500-SF, Form 5500-EZ And Their Instructions To Add New Trust Questions to increase transparency when plans utilize multiple trusts. DOL directs plans that use more than one trust to “enter the primary trust in which the greatest dollar amount or largest percentage of plan assets as of the end of the plan year is held,”<sup>7</sup>; however, there is currently no distinguishing element to identify when the trust is the sole trust and when it is the primary of many. We suggest that an additional line “6e. Percent of Plan Assets in Trust” be added to account for this. We propose the following instructions for this line: “Line 6e. Enter a good faith estimate of the percentage of the plan assets as of the end of the plan year held in the trust. If the plan uses only one trust, enter 100.”

Thank you for the opportunity to comment on the proposal. We greatly appreciate DOL’s attention to this issue and believe the proposal will significantly improve the quality of plan data available to regulators, third parties, and advisors considering rollover recommendations. We believe a few small changes could make the proposal even stronger.

Sincerely yours,

Aron Szapiro  
Head of Retirement Studies and Public Policy  
Morningstar, Inc./Morningstar Investment Management, LLC

Lia Mitchell  
Senior Analyst, Policy Research  
Morningstar, Inc.

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<sup>6</sup> Proposed Revision, P. 51515.

<sup>7</sup> Proposed Revision, P. 51568.