



AI in Retirement PLANS

Promise, Pressure, and Prudence

THE TIME TO START HELPING RETIREMENT PLAN SPONSORS WITH DUE DILIGENCE ON THEIR SERVICE PROVIDERS' AI TOOLS HAS ARRIVED.

BY JUDY WARD

When SageView Advisory Group's Jon Chambers thinks about the potential benefits of artificial intelligence (AI) tools for defined contribution plan participants, he looks to how AI could help facilitate an experience more like that of defined benefit plans, including offering participants an individualized, guided path to achieving lifetime income. Chambers – the Seattle-based managing director of retirement plan consulting at SageView – is also intrigued by using AI's predictive analytics capabilities to help plan sponsors make design decisions, such as optimizing the match formula or considering adding a profit-sharing contribution.

"To me, that's the eventual promise of AI: rather than trying to train employees to make decisions like they are a retirement plan specialist, that these tools will help defined contribution plans look more like pension plans," Chambers said. "But I also think that there are lots of risks with the use of AI tools." Plan advisors will need to help their sponsor clients understand the risk/reward trade-off of using different AI tools, he said. "And we will need to measure the risks and rewards with AI in a totally different way than we do with the capital markets," he added.

As recordkeepers and advisory firms begin implementing AI tools, AI has become the number one priority for compliance officers at investment advisory firms.

That's according to the 2025 *Investment Management Compliance Testing (IMCT) Survey*, released in July by the Investment Adviser Association, ACA Group, and Yuter Compliance Consulting. The retirement plan industry is inevitably going in the direction of widespread use of AI tools, said Leslie Ballantine, a Louisville, Kentucky-based retirement plan advisor at Shepherd Financial.

"As an advisor, and as a plan fiduciary, it is not a choice of if you want to monitor that and learn about these things: It's a question of when you are going to do that," Ballantine said. There's a risk for plan fiduciaries who don't keep on top of their plan providers' use of AI tools, she said. "That's true especially

when you consider the amount of personal participant data that is stored with these providers, as well as the significant portion of most people's wealth that is tied up in their retirement plan account," she added. "So, now is the time to develop a governance process for this, and to make sure it is being followed."

Vendors will drive a lot of the implementation of AI tools in retirement plans, so plan fiduciaries' governance responsibilities primarily should focus on making sure vendors use the AI tools responsibly, said Alan Hahn, a New York-based partner at law firm Davis & Gilbert. It's similar to the oversight responsibility that kicks in with cybersecurity, he explained: Fiduciaries need to look out for the best interests of their plan's participants, and ensure that their plan operations run properly.

"Everyone's a little excited, and everyone is also a little nervous, about AI," Hahn said. "As a plan fiduciary, you always have to be prudent, but what does prudence mean in a world that is constantly changing?"

The newness of this generation of AI capabilities poses a challenge for fiduciaries in carrying out oversight tasks, said Joseph Lazzarotti, a principal at law firm Jackson Lewis P.C. in Tampa, Florida. With fiduciaries' service provider selection and oversight responsibilities, for example, there's a somewhat established set of cybersecurity practices that help gauge whether a vendor is operating appropriately. Whereas,

with vendors offering AI-driven tools to retirement plans amid very rapid AI developments, the structures for acceptable practices aren't yet established.

"I suspect there are a lot of tech companies developing AI tools that don't want perfect to be the enemy of good—and that comes with risks," Lazzarotti said. "But if, as a plan fiduciary, you are prudent about assessing AI tools, perhaps work with an outside expert to guide the due diligence, and exercise discretion in selecting the service provider, then I think you will be well-positioned to defend your functions as a fiduciary if the use of those AI tools later gets called into question."

For advisors who want to help plan sponsor clients begin proactively looking at plan providers' utilization of AI, here are six ideas:

• Start doing due diligence: "I like to say that we're in the 'garage band' era of AI tools," said Robert Gibson, Raleigh, North Carolina-based vice president, Platform, Retirement & Private Wealth at HUB International. "Everybody has some kind of AI tool that they've spun up, and that they can sell."

Yes, it's early in the trajectory of retirement plan providers' use of AI tools, and it's a complex subject. But Gibson doesn't think there's anything wrong with asking recordkeepers questions now, and seeking visibility on their plans for AI deployment.

"It is always better to ask, and to know the answer, than to stick your head in



the sand and hope for the best," Gibson said.

Some larger advisory firms with more resources are likely to develop the internal expertise to consult with clients directly on providers' use of AI tools, he said, while other advisory firms will partner with a third-party specialist consultancy with AI expertise.

A lot of the current talk about AI focuses on the promise of AI rather than its actual deployment, Hahn said. Nobody really knows what's coming yet. But it's probably getting to the point where it makes sense for a plan committee to meet annually with an AI expert from the recordkeeper to discuss the recordkeeper's plans for AI utilization, he said. The key thing to get a feel for soon is this: How does the recordkeeper plan to use the technology to benefit the employer's people and its business?

Asked if it makes sense for plan fiduciaries to develop written policies now on how they'll monitor their plan providers' use of AI tools, Hahn responded, "I think we're in the due

diligence phase currently, not in the 'put pen to paper' phase. But because things are moving so quickly, it is not enough to say, 'I'm going to sit back and see what our vendor implements.' As a plan fiduciary, you want to make sure that you are a partner in the recordkeeper's strategic thinking about how to do that."

Don't hesitate because AI developments seem too rapid to get a definitive understanding now, Ballantine thinks. The reality is that AI will continue to evolve, she added.

"We will have to be honest with ourselves that AI is evolving very rapidly, and while we need to help our clients make the best decisions based on the situation that we have today, we also need to understand that the situation is going to be different, not just in five years, but next year," Ballantine said.

• **Understand a recordkeeper's AI priorities:** Broadly speaking, Hahn said that plan fiduciaries need to start to understand what AI-driven tools a recordkeeper aims to add that will help improve operational efficiency for a plan (such as catching administrative errors

quickly), and what tools it wants to add that could help participants achieve the best retirement-savings outcome they could get.

"I'd be listening for what's really motivating the vendor to implement AI tools?" Hahn said. For now, he suggests focusing on macro questions, not nitty-gritty questions. "I'd do a lot of listening and then reacting with questions," he added, "as opposed to having a list of AI tools that the fiduciaries want now for their plan."

Steven Gibson and his colleagues at Rehmann Financial are starting to ask recordkeepers to keep them updated about plans for their use of AI tools, and then Rehmann staff ask follow-up questions as needed. For the most part, what's been implemented already is not too complex, said Gibson, an Ann Arbor, Michigan-based Rehmann principal: Recordkeepers have started using AI for things like custom communication campaigns for participants.

"But there is a ton of really great stuff coming down the pipeline, I think, and for us it's really going to be about

understanding, what is the end result of these AI tools going to be?" Gibson said. For example, if a recordkeeper is developing an AI tool aimed at helping participants with decumulation planning, will the output that participants see be unbiased, understandable to the average person, and actionable in ways that are in participants' best interests?

"It's important to understand why recordkeepers are developing their particular AI tools," Gibson said. "Are they doing it to help plans and plan sponsors to become more efficient? Or are they doing it to increase the recordkeeper's cross-selling opportunities to participants? For us as advisors, it's going to be important to make our plan sponsor clients aware of the pros and cons of each specific tool."

• **Get knowledgeable about data-security risks:** "I think that for AI tools, the first job we have as advisors will be to be 'agents of rationality,'" Chambers said. "We have to tell our clients what we can reasonably expect from AI tools, and what the potential roadblocks are."

Data will fuel the use of AI tools in retirement plans, both at the plan level and, in some cases, at the individual-participant level. There's a benefit in customized output derived from that data, but also security risks in its use.

For example, the rise of AI coincides with an increase in fraudulent withdrawals from 401(k) plans by criminals, as Chambers noted.

Recordkeepers will have to figure out how to make AI-driven tools accessible to participants without making them vulnerable to unauthorized account access. If they don't, the fraud risk will go up, he said.

Plan fiduciaries and their advisors need to learn about numerous aspects of AI tools' data-security issues, Lazzarotti said. For instance, what specific information will the recordkeeper feed into an AI tool? How much individual-participant data will the recordkeeper access for an AI tool, versus plan-level data? Who at the recordkeeper will have access to that data? And for how long will the AI tool retain that information? It's also essential to understand the preventative steps a provider intends to take so that its AI chatbot for participants can't be accessed by a "bad actor" to initiate a fraudulent distribution request.

"That distribution request to a plan's AI chatbot could be coming from a bad actor," Lazzarotti said. "Remember, bad actors have AI tools at their disposal, too. I think that if you're not using AI in a defensive position, you're going to be overtaken by someone who is using AI for 'offensive' purposes. So recordkeepers will have to be constantly vigilant."

• **Learn about hallucination risks:** Data accuracy will be another crucial issue as AI tools get implemented. The topic of "hallucination" risk—meaning the risk that

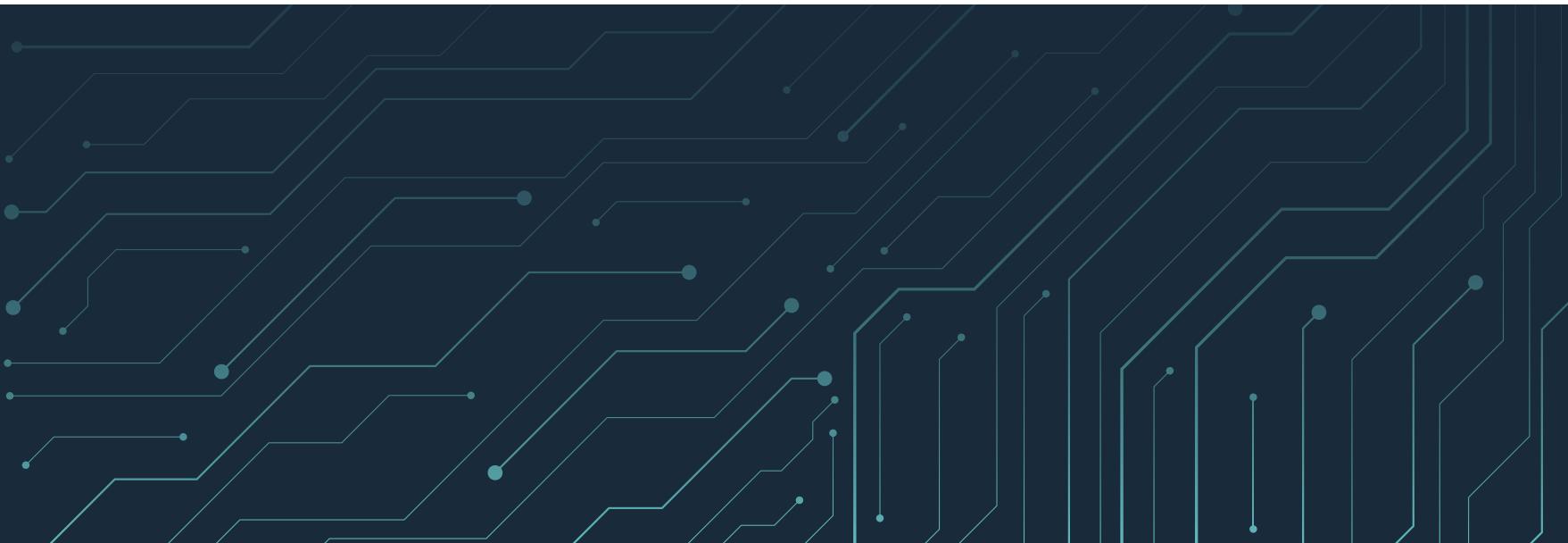
an AI tool produces false or misleading output but presents it as factual—came up frequently when doing interviews for this story. Several factors can lead to hallucinations, including incomplete or biased data used by an AI tool and faulty assumptions made by its model.

"Once you have data security, the question then becomes, how do you ensure that you get data accuracy? In the world of AI, good data inputs lead to better outcomes," HUB's Gibson said. "Is the output generated by an AI tool being 'directionally accurate' going to be close enough? Probably not."

Lazzarotti sees hallucinations as a legitimate risk when retirement plans use AI tools. Just because an AI tool might have an impressive-looking user interface, that doesn't mean the engine behind it will work in ways that produce an output with only accurate and helpful information. With these tools, so much of the output depends on the inputs, he said.

"But many people aren't thinking about AI that way: They think it's a magic tool, and that if you use it, you'll get the perfect answer every time," Lazzarotti said. "That's not true."

An employer's IT department may be able to help the plan's fiduciaries look into the appropriateness of a provider's AI-tool inputs, he said. However, he added that, for risk mitigation, it's important for the plan fiduciaries to understand the basics themselves and ultimately use their discretion to decide



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on an AI tool’s use, rather than passing responsibility for decisions to IT staff.

- **Look into protections if problems occur:**

“What is going to happen if a recordkeeper’s AI tool gives a participant improper information?” Rehmann’s Gibson asked. “I am wondering, are the recordkeepers going to have AI-related guarantees?” As AI tools for participants get implemented, it will be important to understand the answer to that question.

When a plan sponsor begins a recordkeeper search, Lazzarotti recommended asking recordkeeper candidates to see an example of the provider’s standard service agreement. That way, the plan fiduciaries will have ample time during their decision-making process to consider which provisions, if any, a contract will include for liability in the event of problems with an AI tool.

For instance, what if a criminal utilizes a recordkeeper’s AI tool for participants to make a fraudulent withdrawal? Or what if an AI tool gives imprudent investment recommendations that a participant then follows?

“Many developers of AI tools really want to limit any liability that they

could have for the use of these tools,” Lazzarotti said.

But sometimes plan fiduciaries and their counsel can negotiate successfully to modify a service agreement and stipulate different levels of recordkeeper responsibility to make participants whole depending on circumstances, he said.

- **Talk proactively about advisory firm’s AI use:**

Ballantine sees potential for advisory firms themselves to utilize AI tools to provide a powerful benefit to participants, by customizing communications and education more efficiently and effectively. As advisors implement participant-facing AI tools, they should take the initiative to communicate with plan sponsors about this, she said.

“It is incumbent on us as advisors to work with our industry partners to ensure that the AI tools we’re using are in the best interest of participants, that plan sponsors understand the due diligence we’ve done on our side before adding an AI tool, and that sponsors understand how this tool will help their participants,” Ballantine said.

If a plan works with the type of advisory firm that interacts one-on-one with participants, Hahn said, the plan’s committee should understand how that advisory firm uses AI to talk to participants, both about the retirement plan specifically and, more broadly, about their financial life.

“The question is, does that one-on-one contact from advisors get enhanced by AI, or does it get replaced by AI?” Hahn said. An enhancement approach likely will work best, he thinks. “As AI becomes better at helping with more routine stuff, participants are going to potentially rely even more on the human touch,” he added. “They’re still going to need that reality check from an advisor that the AI tool is not hallucinating, that it’s not making mistakes.”

An advisor should be transparent with plan sponsors about how the advisor is beginning to use AI in its work with their plan, HUB’s Gibson believes.

“Advisory firms should explain, ‘Here’s how we are using AI to interact with your employees, and here’s how we’re using it to enhance our services,’” Gibson said. “It’s about visibility.” **NNTM**

