

MANAGED ACCOUNTS

Industry Overview and Fiduciary
Best Practices

CONTENT

Industry
Update

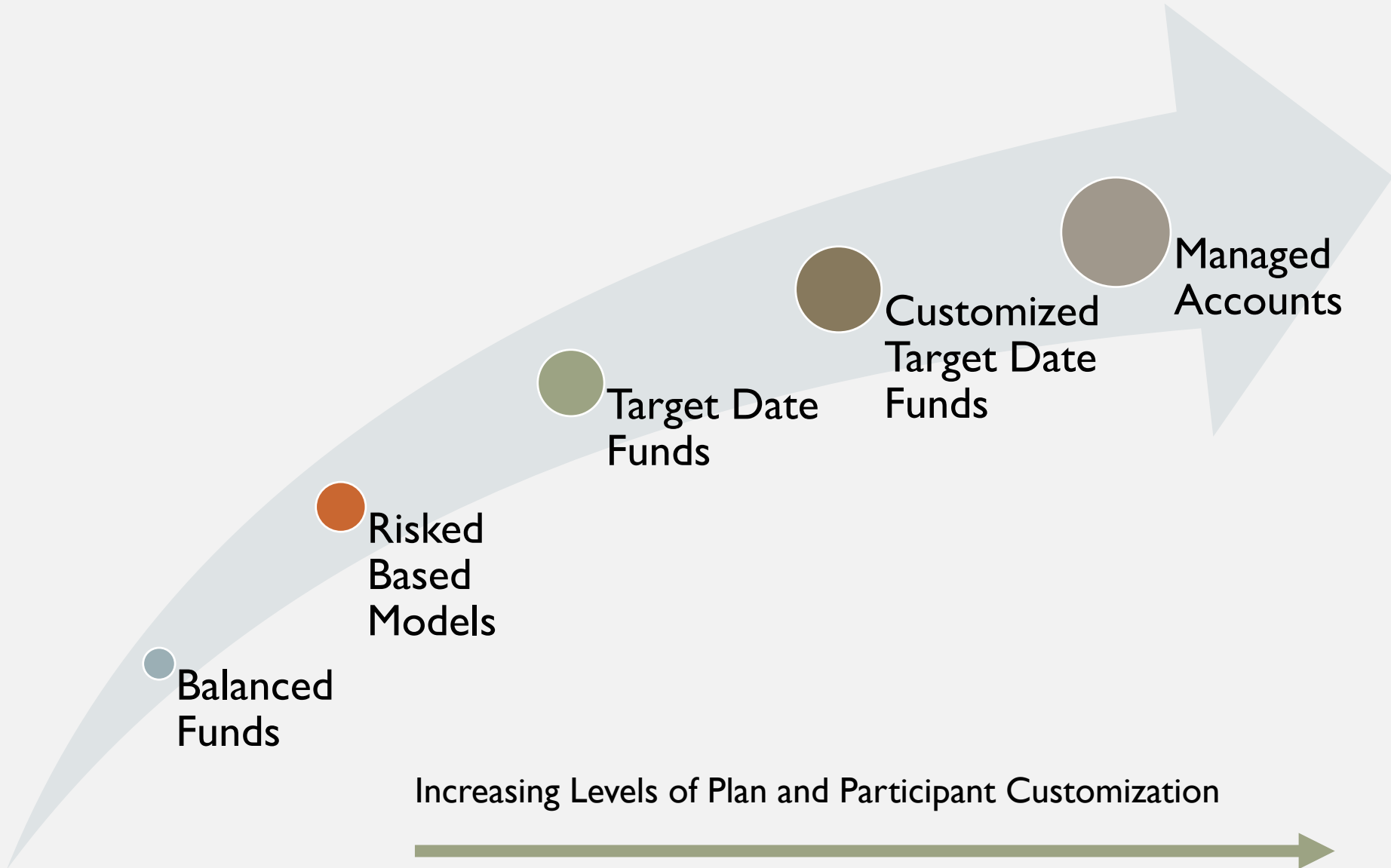
Provider
Overview

Managed
Account
Fees

Plan Sponsor
and
Consultant
Best
Practices

INDUSTRY UPDATE

INDUSTRY TIMELINE



MANAGED ACCOUNTS



Provide participants with customized asset allocation, education, and investment selection services



Typically incorporate outside and partner assets



Encourage increased deferral rates

MANAGED ACCOUNTS (CONT.)



Allocations are auto rebalanced and adjusted based on personal circumstance



Incorporate the plan's investment lineup and may provide ongoing investment monitoring



Are typically an “all or nothing” election for the participant

PARTICIPANT DATA

LOCATION

ACCOUNT BALANCE

SOCIAL SECURITY

AGE

PENSION AND OTHER PLANS

SAVINGS RATE

GENDER

SALARY

SPONSOR MATCH

OUTSIDE ASSETS

PARTNER ASSETS

EXPECTED EXPENSES

RETIREMENT INCOME GOAL

LOAN BALANCE

INDUSTRY STATS

- Between 2012 and 2017, managed account assets increased from \$108 billion to \$271.3 billion*
- In 2017, DC managed accounts assets represented 3.6% of the total \$7.6 trillion DC market
- Managed accounts are in line with the influential trends shaping the DC market (financial wellness, asset decumulation, and retirement income)

* According to a Cerulli Associates report

SERVICES MAY INCLUDE



ADVICE CALL CENTERS
(OPERATED BY MA
PROVIDER OF
RECORDKEEPER)



RETIREMENT INCOME



FINANCIAL WELLNESS
PLATFORMS



PARTICIPANT
COMMUNICATIONS



SOCIAL SECURITY
PLANNING

SUMMARY OF SERVICES OFFERED

Asset allocation services

“Point-in-time” advice option

Professionally built portfolios incorporating participant specific variables

Investment evaluation and ongoing portfolio management

Rebalancing

Incorporation of outside assets

Participant engagement

Census data

Call center

Video

Email

Outbound phone calls

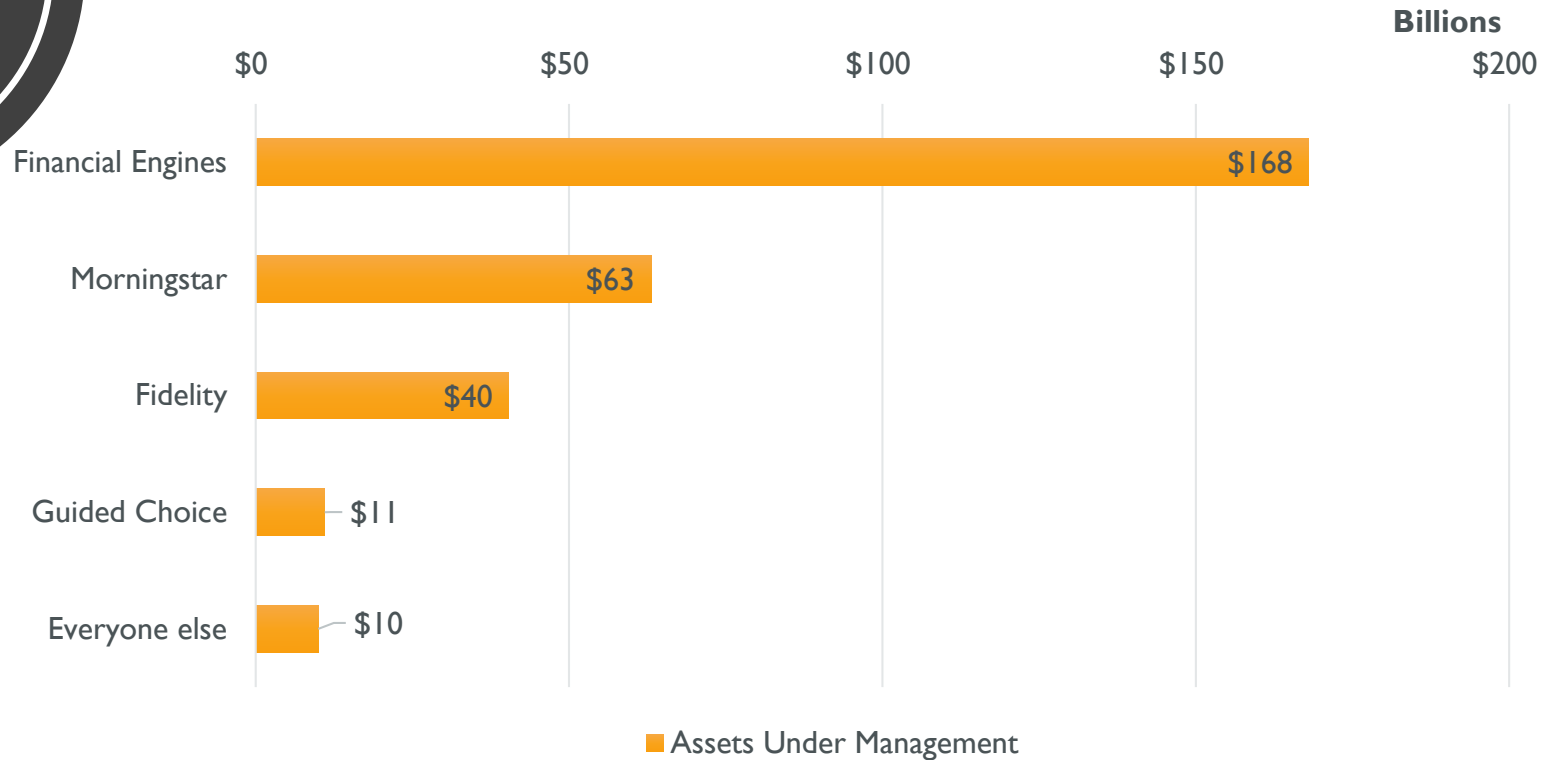
In-person consultations

INDUSTRY TRENDS

- “Dynamic” or “Hybrid” QDIA
- Retirement Income
- Social Security Planning
- Not a current trend, but compelling: capped fees (e.g., max annual participant fee \$1,500)

PROVIDER OVERVIEWS

Provider Footprint



INDUSTRY PROVIDERS

Financial Engines

Morningstar

Fidelity

Guided Choice

Russell

Wellington

The logo consists of a dark blue rounded square with a white border, containing the text "FINANCIAL ENGINES" in white, uppercase, sans-serif font.

FINANCIAL ENGINES

Years in the industry	15
Offer integrated and standalone experience	Yes
Available on the following platforms	Fidelity, Empower, Wells Fargo, etc. (12 in total)
Fee schedule	0-\$100k= 0.60% \$100k-\$250k= 0.40% \$250k-\$500k= 0.25%
Number of portfolios in asset allocation methodology	Custom to each participant (over 800k)
Incorporate active and passive management	Yes
Maximum # of variables permitted AA recommendation	14
Income planning services	Yes

FINANCIAL ENGINES

COMPELLING FEATURES

- Predominately found with largest RKs in large and jumbo plan segments
- New relationship with ADP
- Focus on participant education and communication
- 16% average participation rate
- Offers call center with licensed advisors

FINANCIAL ENGINES (CONT.)

COMPELLING FEATURES

- Not actively marketing platform as QDIA solution
- Offer in-plan, non-annuity, income solution (works with existing line-up)
- Three service offerings:
 - ❖ Free point in time advice
 - ❖ Managed accounts
 - ❖ Personal advisor (185 retail centers)

FINANCIAL ENGINES (CONT.)

INVESTMENT SELECTION

- “Pricing kernel”: inflation, real interest rates, and dividend growth rate for U.S. market
- Pricing kernel outputs are expected returns, volatilities, correlations for cash, long-term bonds, and U.S. equities
- Generic asset model generates forward looking returns on 15 different asset classes
- Modeling will incorporate real estate, private equity, hedge funds, commodities, and TIPS
- Evaluate over 19,000 mutual funds on a monthly basis
- Provides **qualitative** reviews on more commonly held investments
- Model specifically for Stable Value funds (also handles wash rule)
- Incorporate family-specific glidepath information for TDFs modeling



Years in the industry	Since 2003
Offer integrated and standalone experience	No
Available on the following platforms	Most platforms except for American Funds and Mass Mutual (30+ RKs)
Fee Schedule	0.0% – 0.60%
Number of portfolios in asset allocation methodology	Several hundred
Incorporate active and passive management	Yes
Maximum # of variables permitted AA recommendation	+20
Distribution planning services	Yes

MORNINGSTAR

COMPELLING FEATURES

- Personalized asset allocation, investments, savings rate and retirement age
- “Risk Capacity” methodology (total saved capital and human capital) used in lieu of a subjective risk tolerance questionnaire.
- Goals-Based
- Incorporate “forward-looking” estimates into assumptions about future returns
- Estimates your federal and state income, and capital gains taxes
- Charge recordkeepers a fee of 0.20% - 0.25%

MORNINGSTAR (CONT.)

COMPELLING FEATURES

- Defaults to proposing a savings rate of 2% higher than minimum contribution needed to receive the full company match
- Call centers are typically provided by RKs
- View plan sponsor as the client
- Provide “Retirement” button
- Liability approach to drawdown methodology: Gamma

MORNINGSTAR (CONT.)

INVESTMENT SELECTION

- Manger experience
- Performance record
- Manager history
- Alpha
- Style consistency
- Fund type
- Reviewed quarterly

COMING SOON

- Cross-platform 3(38) service for advisors/RIAs



Years in the industry	15
Offer integrated and standalone experience	Yes
Available on the following platforms	Fidelity and now on other RK platforms
Fee schedule	0-\$100k= 0.60% \$100k-\$250k= 0.40% \$250k-\$500k= 0.25%
Number of portfolios in asset allocation methodology	101
Incorporate active and passive management	Yes
Maximum # of variables permitted AA recommendation	24
Distribution planning services	Yes

FIDELITY

COMPELLING FEATURES

- Develops unique profiles for each participant
- Allows participants to see how changing parameters affects outcomes
- Multiple data entry sources including NetBenefits, through phone consultation or at investor center
- Incorporates Social Security Benefits
- Cohort data of similarly aged participants used if participant info not provided
- Offers both point-in-time and full service managed accounts

FIDELITY (CONT.)

COMPELLING FEATURES

- Portfolio construction methodology develops a long-term asset allocation (LTAA)
- Sponsors can choose to enable active asset allocation; blending of mean-variance optimization of LTAA with fundamental insights on the current market environment generated by Fidelity's AA Research Team
- Allows for asset class tilts
- Allows plan sponsors to elect low cost index fund only methodology

FIDELITY (CONT.)

INVESTMENT SELECTION

- Evaluate every eligible investment option
- Regression analysis used to estimate alpha component of each investment
- Fund performance refreshed daily
- Info used in optimization process when accounts reallocated (3 to 4 times a year)
- Total return
- Fidelity ranking (by manager excess return)
- Plan level analysis for final allocation

NEWS FLASH

- Standalone PASW: Can be used on non-Fidelity recordkeepers

SUMMARY OF FEES

THE LATEST IN MA FEES

- Fees are slowly coming down
- Significant discounts for re-enrollment as default QDIA or when opt-in adoption is $\geq 20\%$
- One recordkeeper provides a maximum dollar amount a participant pays to retain high balance participants
- These services are provided for a fee, typically an asset based fee (~0.30% – 0.60%).
- Fees schedules are commonly tiered:

Plan Assets	Fee
\$0 – \$100k	0.60%
\$100k – \$250k	0.50%
\$250 – and higher	0.35%

**PLAN SPONSOR AND
CONSULTANT BEST PRACTICES**

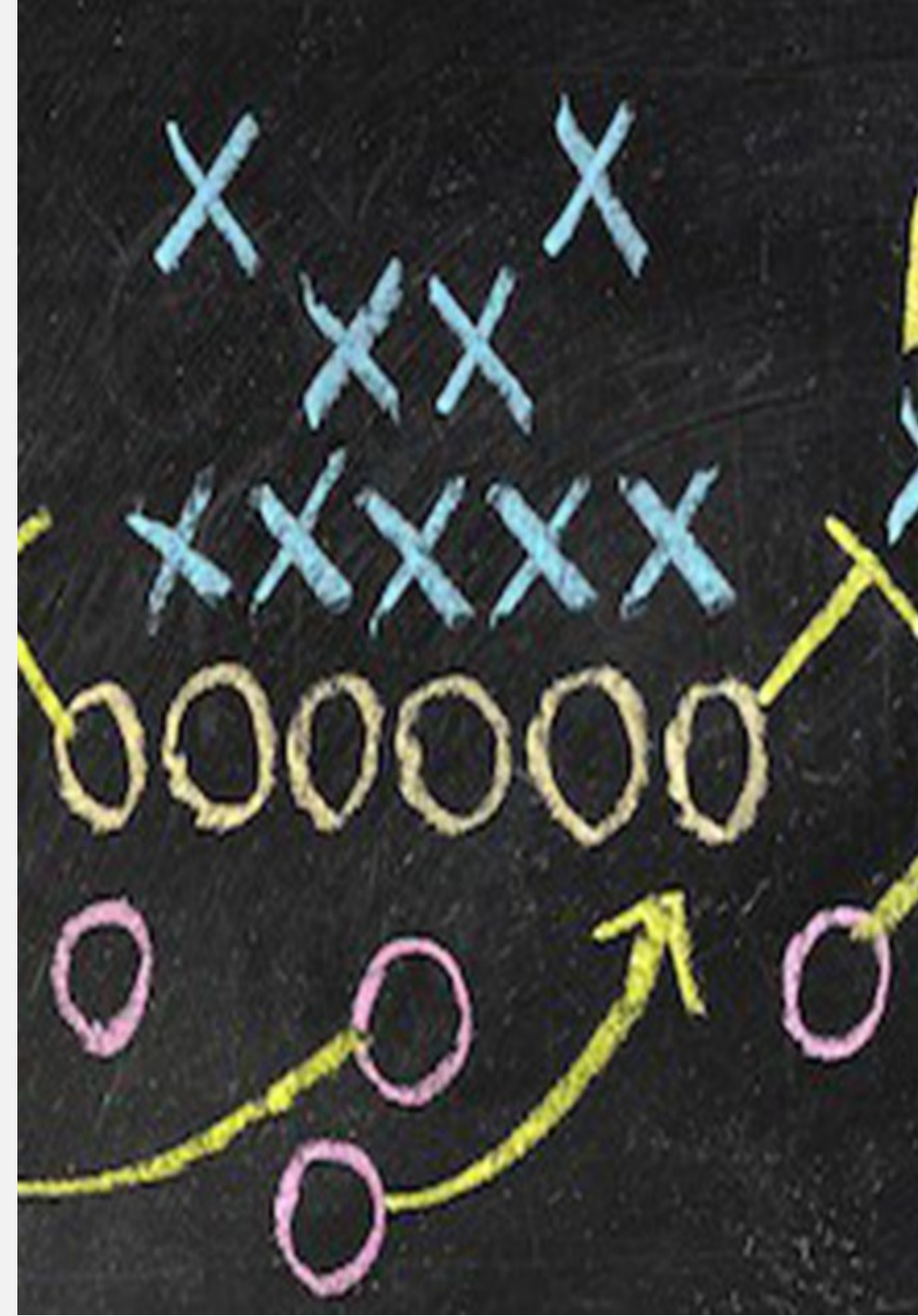
PLAN SPONSOR AND ADVISOR PLAYBOOK

- A good fiduciary exercise is to discuss the merits in offering a managed account program
- Not all managed account programs are created equal
- If you are not evaluating your plans' managed account program, you should be
- Four critical pillars to a successful managed accounts program that should be evaluated are:
 - ❖ Asset allocation methodology
 - ❖ Investment selection and ongoing management
 - ❖ Participant engagement platform
 - ❖ Fees
- Managed account provider should serve as a 3(38) advisor
- Program should be acceptable to serve as the plan's QDIA (at least have the option)



PLAN SPONSOR AND ADVISOR PLAYBOOK

- There is no industry standard for assessing participant risk tolerance, nor is there a standard for which data variables are used in determining a participant's asset allocation
- Sub-advised solutions are growing. Eight of the top ten recordkeepers developed proprietary managed account programs that are sub-advised by one of the industry's established and recognizable investment advisory firms
- Participant engagement and experience: If the program doesn't effectively engage participants will it be able to provide a value proposition commiserate with its fee structure?
- What are plan participants' obligations once they enroll in the program
- Does your recordkeeper offer choices when it comes to selecting a managed account provider?
- QDIAs and Hybrid QDIAs: What census data can the plan sponsor provide is key





MANAGED
ACCOUNTS
AS A QDIA

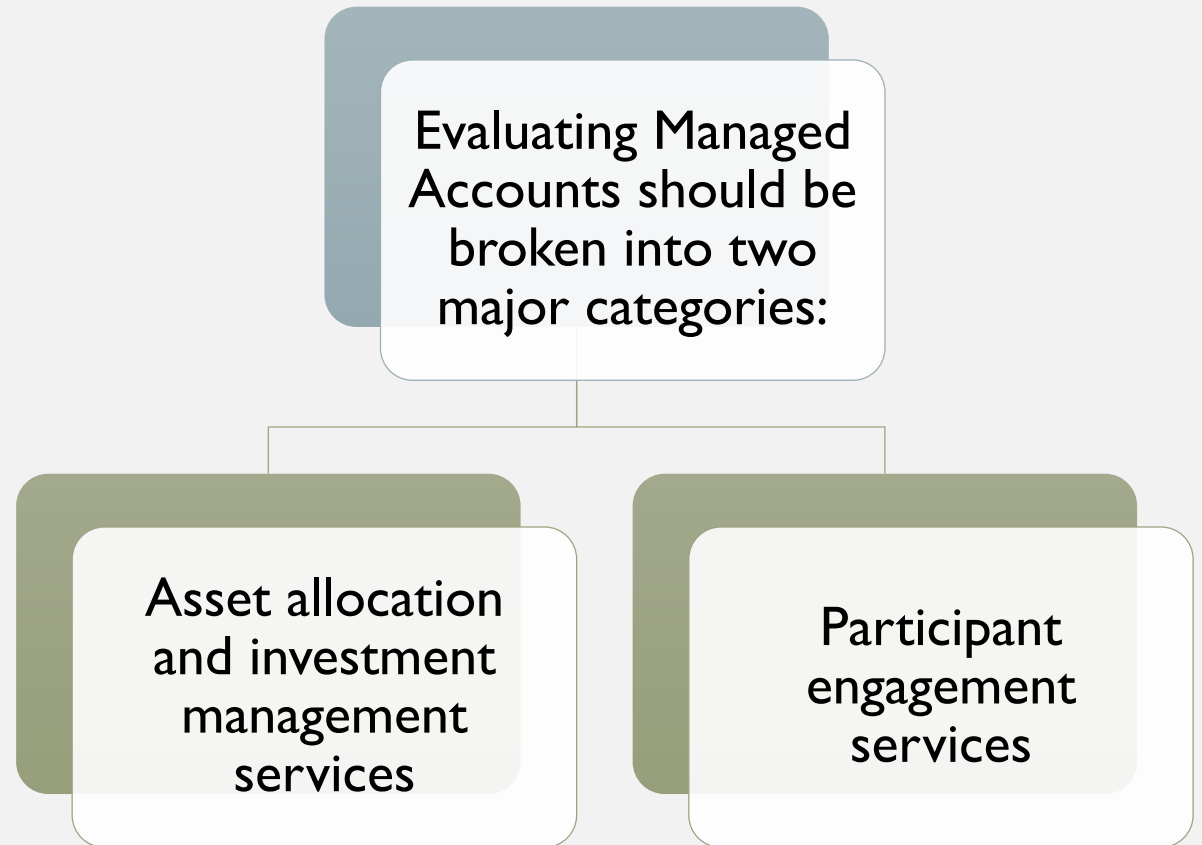
- Documenting the process
- Critical to evaluate the number of participant variables that can be provided through a census file
- Does the census file provide enough information for the managed account program to add enough value to justify fees
- Understand all fees associated with the program
- Hybrid / Dynamic QDIA offer a compelling option (less the increased savings communication)

BENCHMARKING MANAGED ACCOUNTS

HOW WILL YOU BENCHMARK

- Is the program effective in getting participants to increase savings rates?
- What are fees for the program?
- How are fees assessed and what are the opt-out provisions?
- Does the service lead to a better participant experience and better retirement outcomes?
- Does the program's investment process add value?
- How effective is the program at obtaining participant data initially and on an ongoing basis?
- Is the platform fully integrated with the recordkeeper's website?

OPINION



**PARTICIPANT
ENGAGEMENT**



Enrollment



Monitoring



Retirement

INVESTMENTS



Asset Allocation Methodology



Initial Asset Allocation



Ongoing portfolio management

EVALUATION (RFP) QUESTIONS

Financial arrangements between recordkeeper and MA provider

What happens with the managed account program if the recordkeeping is replaced

What platforms are available

Do participants get a free-trial period

What is the process and fees for a participant to terminate service

How are fees disclosed to participants both initially and on an on-going basis

Provide a sample participant statement

What plan sponsor reports are available (e.g., investment performance, participant utilization, other participant demographics)

What services does the program offer specifically to separated/retired participants

How does the platform handle passive investments

Can the program be used as a QDIA

Maximum portfolios created by methodology

BEST PRACTICES SUMMARY



FI360 WEBINAR SERIES

Webinar I: Provider Panel

The leading providers in the industry will discuss their program capabilities and answer questions about their platforms. Additionally, they will discuss what features they are working on going forward.

Webinar II: Advisor and Consultant Panel

A diverse panel of advisors and consultants that work with Large, Mid, and Small size plans will discuss their experience with managed accounts and outline best practices for fiduciary due-diligence



Q&A

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