

# Institutional Investment Advisors and Consultants Forum: *Developing Expertise and Insights*

## ***ADMINISTRATION ISSUES***

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*Innovation, Communication, Evaluation*

# Agenda



- Recordkeeper Support for Retirement Income
- What does Implementation Involve
- Guaranteed In-Plan Solutions
  - Middleware Overview
  - Middleware Advantages
  - Administrative Items

# Recordkeeper Support for Retirement Income



- Recordkeepers are still looking for market demand before committing to build out guaranteed products:
  - Most guaranteed products are available as a single option on the platform of the recordkeeper issuing the product
  - The highest demand is from small plans
- For managed accounts solutions, availability is determined based on the business relationship between the managed accounts provider and the recordkeeper:
  - Financial Engines and Morningstar have the majority of the relationships with the recordkeepers
  - Most of the relationships are exclusive between the managed accounts provider and the recordkeeper

# What Does Implementation Involve



- Modifications may be required in the following areas for both guaranteed and nonguaranteed offerings:
  - Updating of plan documents
  - Review of plan distribution options to allow for periodic payments
  - Spousal consent requirements
- For guaranteed products, modifications may be required to the recordkeeping system for the accounting of the guaranteed solution:
  - Maintenance of product rules
  - Recordkeeping of participant balance and insured value
  - History of guaranteed purchases and payments
  - Allocation among multiple insurers
- Middleware may be used to facilitate the recordkeeping of a guaranteed product

# Guaranteed In-Plan Solutions

## Middleware Overview



- Middleware is a stand alone platform designed to facilitate the valuation, servicing, and distribution of guaranteed retirement income products through existing recordkeeping platforms
- Functionality will vary by offering, but basic items include:
  - Allows for a single point of integration for recordkeepers and product providers for distribution of guaranteed retirement income products
  - Maintains product rules of each guaranteed solution
  - Data repository for participant level guaranteed information
  - Processing engine to calculate participant guarantee values based on product rules
  - Improved participant experience through web access to guaranteed values from recordkeeping system

# Guaranteed In-Plan Solutions

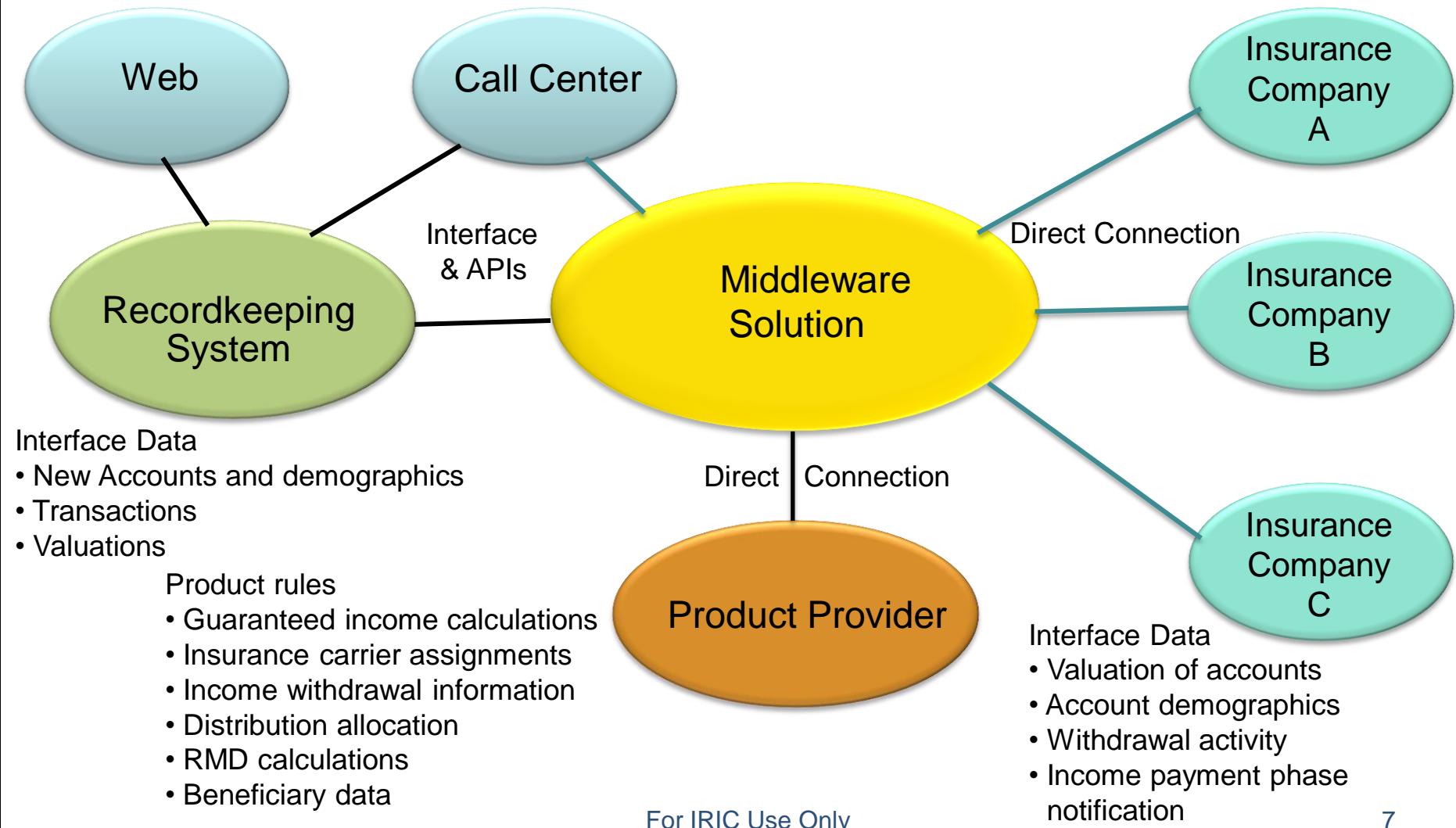
## Middleware Overview (continued)



- Middleware offerings available in the market include:
  - AllianceBernstein: Guarantee Administration Trading and Expensing System (GATES)
  - DST Systems: Retirement Income Information Clearing & Calculation System (RICC)
  - SunGard: Retirement Income Solution (RIS)
- GATES is only available for AllianceBernstein guaranteed offerings
- RICC and RIS support multiple guaranteed products in the market
- If utilized by the recordkeeper, the use of middleware can help address some of the portability issues associated with guaranteed retirement income products

# Guaranteed In-Plan Solutions

## Middleware Overview (continued)



# Guaranteed In-Plan Solutions

## Middleware Advantages



- Reduces the integration efforts required between the recordkeeper and product providers:
  - Common interfaces for guaranteed products
  - Product rules are maintained by the middleware provider
  - Calculation of the guaranteed or withdrawal amounts
  - Reporting of information is performed at the participant or plan level
- Recordkeeper is able to offer the participant an integrated user experience
- Recordkeeper is able to offer multiple guaranteed income products with minimal changes to the recordkeeping platform

# Guaranteed In-Plan Solutions

## Administration Items



- Spousal consent requirements
  - The plan must comply with the QJSA rules or obtain spousal consent to a different form
  - Rules are not as clear for GMWB products
    - Most product providers say the product is not an annuity; rules do not apply in this case
    - IRS has issued rulings that the rules may apply when the insurance guarantee kicks in
    - The guarantee will kick in only years later and the participant may no longer have an account in the plan, so how are the rules applied?

# Guaranteed In-Plan Solutions Administration Items (continued)



- Insurance licensing requirements
  - Insurance products are regulated at the state level
  - The sale, solicitation, and negotiation of an insurance product requires an insurance license
    - An individual must be registered in each state in which they conduct sales activities
    - Must be appointed by an insurance company in order to sell the product
    - The state of residence for the prospect determines which state has jurisdiction over the sales activity
  - Sales and solicitation of an insurance product includes:
    - Discussion with a plan sponsor about features and benefits
    - Discussion with a plan consultant
    - Must be appointed by an insurance company in order to sell the product

# Guaranteed In-Plan Solutions Administration Items (continued)



- Educators and Call Center reps fall under an Enroller Exemption and are not required to be insurance or FINRA licensed:
  - CA, FL, and TX do not support the Enroller Exemption; all inquiries regarding the product must be directed to the product provider
  - Call Center reps have more latitude than onsite educators in explaining product features
- Recordkeepers need to be careful with revenue and incentives to avoid triggering insurance licensing requirements