

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



- 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



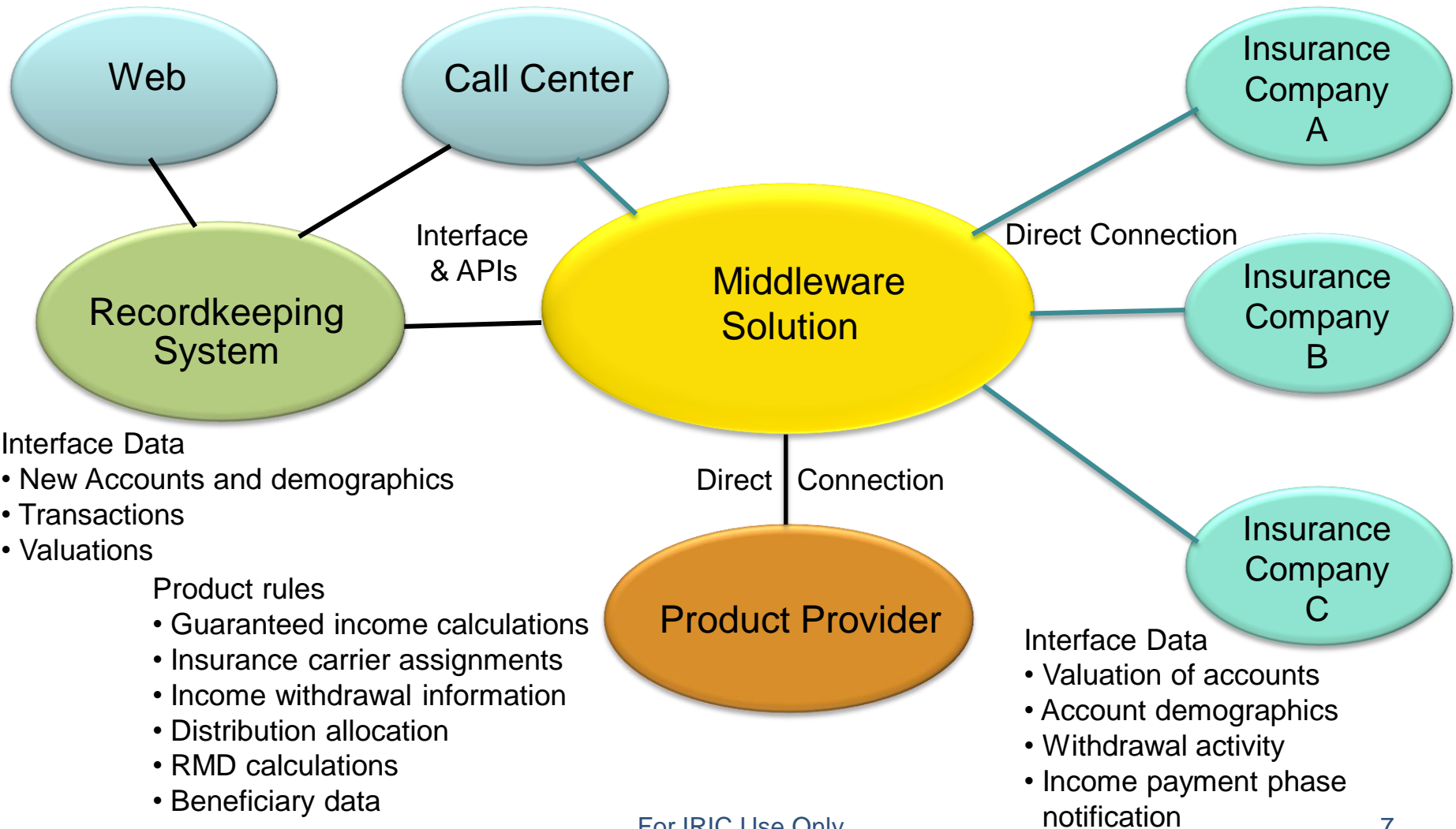
- Middleware is a stand alone platform designed to facilitate the valuation, servicing, and distribution of guaranteed retirement income products through existing recordkeeping platforms
- Functionality will vary by offering, but basic items include:
 - Allows for a single point of integration for recordkeepers 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