A CUSTOM FIT

With managed accounts, the more participant input, the better the allocation strategy

What is a managed account? The term has taken on multiple meanings depending on the context and provider, which can lead to confusion for plan sponsors trying to evaluate available solutions. "In general, any product that allocates participants to some collection of investments using a multi-factor risk assessment likely achieves some of the core benefits of managed accounts," says Brian O'Keefe, director, research and surveys, at PLANSPONSOR. The term has evolved to not just cover an individualized account run by a third-party manager, but also some sort of asset allocation overlay on top of plan funds—often also referred to as a model portfolio.

The PLANSPONSOR Managed Account Buyer's Guide, which was last published in 2015, uses a narrow definition of "managed account," concentrating on providers of the technology-driven products that run on participant-level accounts. These three points carve out our definition:

1) Managed accounts offer asset allocation, and other ancillary services, at the participant account level. From our perspective, investment vehicles whereby a third party manages a pool of assets at the plan level, which participants can then invest in as they would in a mutual fund, are *not* managed accounts in this context.

2) Managed accounts should be acceptable as a qualified default investment alternative (QDIA) per Department of Labor (DOL) guidelines. If the product or solution is not an eligible QDIA, we are not considering it a managed account. Some solutions have been specifically designed for non-Employee Retirement Income Security Act (ERISA) 403(b) plans, but, for most defined contribution (DC) plan sponsors that see managed accounts as a way to mitigate some fiduciary responsibility for participant assets, the QDIA distinction is important.

3) For participants invested in them, managed accounts should act as a 3(38) fiduciary—i.e., having discretionary control over trade execution. Advice-based products that offer a wide range of tools and account monitoring services—and may even make recommendations for the participant—are not considered managed accounts, even if the recommendations can be implemented in a single click.

For the more traditional managed account providers, much of their development over the last few years has focused on improving the personalization of asset allocation for participants—especially if the participants neglect to engage with the managed account solution. The process of assessing participant risk tolerance is not standardized, nor is there a standard for which data elements are used in determining an asset allocation, O'Keefe says.

Providers leverage various data points: Some use what is available in the recordkeeping system such as age, gender, savings rate and income, while others employ data points accumulated from the payroll system such as marital status and dependents. While providers can determine a custom allocation without the engagement of the participant, some providers also allow for participants to enhance the information, by adding details about outside assets, for example.

Some providers of managed accounts and model portfolios leverage questionnaires that participants need to complete, which are usually designed to direct the person into a particular asset allocation "sleeve," O'Keefe says. The number of sleeves can sometimes give plan sponsors a sense of how custom the allocations will get—i.e., whether a participant will be slotted into one of say, five, risk-based pools, or whether the allocation will be individualized based on the data points referenced above.

Plan sponsors considering managed accounts should look under the hood of the program to understand the differences. It may be hard to compare methodologies' advantages, but differentiation does exist in some quantifiable areas, such as how each product handles company stock or retirement income creation, whether participants have access to licensed representatives or advisers, and what fees the provider charges, O'Keefe says.

Although the growth in managed account assets has trailed asset growth in TDFs, O'Keefe says, interest in the accounts is clearly increasing, as experience and research suggest they may be the better solution when participants reach a certain level of retirement savings or their financial situation becomes complex. —*PS*

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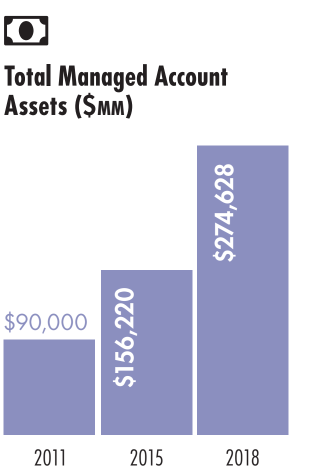
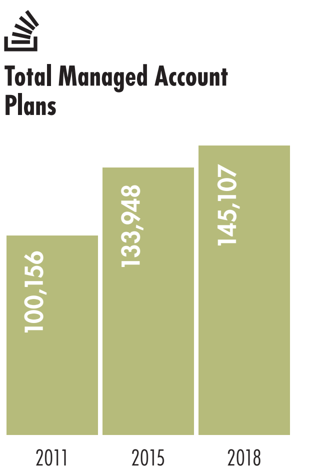
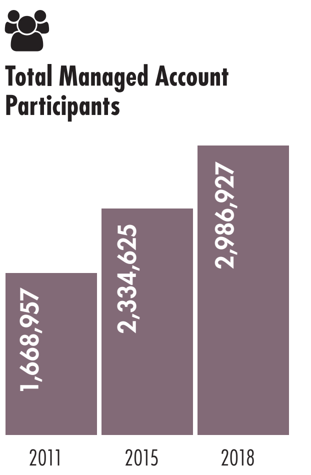
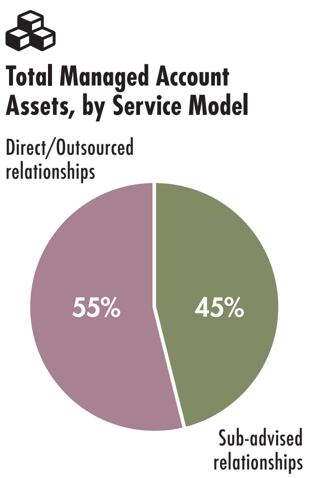
2018 PLANSPONSOR Managed Account Buyer's Guide

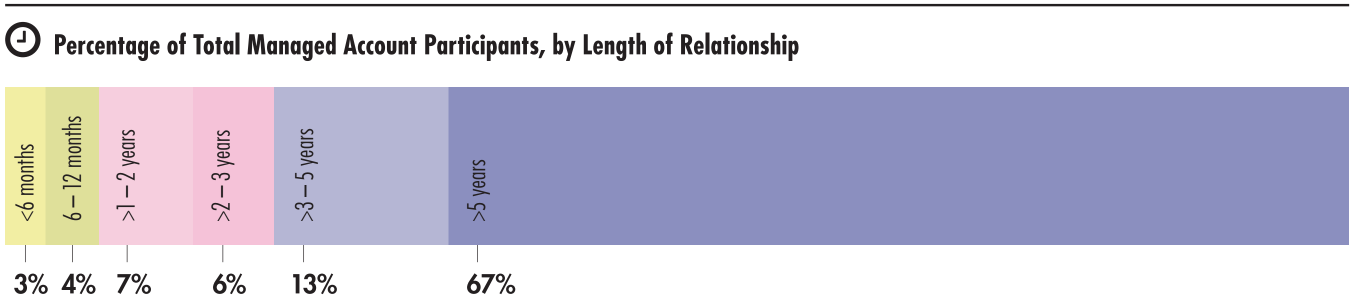
Industry Snapshot











Select Independent Managed Account Services

Fidelity® Personalized Planning & Advice (PP&A)

WEBSITE: workplace.fidelity.com

PROFILE		CAPABILITIES/OFFERINGS	
Assets ($MM):	$31,700	Fee model:	Tiered bps*
Plans:	5,677	Separate statements:	Quarterly
Participants:	370,000	Account review/rebalance:	Varies
Years' experience:	15	Offers IRA/retail product:	Yes
Recordkeeping partners:	6	Licensed call center reps:	Yes

PRODUCT OVERVIEW: Fidelity PP&A builds a participant profile to understand a participant's time horizon, financial situation and individual risk tolerance. Allocations manage risk across all asset goals and can proactively account for both other employer benefits and outside assets. A simplified experience includes a robust planning dashboard and access to professional advisers.

Financial Engines Professional Management

WEBSITE: financialengines.com

PROFILE		CAPABILITIES/OFFERINGS	
Assets ($MM):	$163,500	Fee model:	Tiered bps
Plans:	769	Separate statements:	Quarterly
Participants:	1,053,000	Account review/rebalance:	Monthly
Years' experience:	14	Offers IRA/retail product:	Yes
Recordkeeping partners:	13	Licensed call center reps:	Yes

PRODUCT OVERVIEW: Seeks to maximize risk-adjusted returns by optimizing asset class exposures, expenses, performance, fund-specific risk and other characteristics. Resulting portfolios are highly personalized—82% of all portfolios are unique—and based on market consensus expectations, vs. perceived over- or undervalued options, which helps prevent subjective bias.

GuidedChoice Managed Account Service

WEBSITE: guidedchoice.com/business

PROFILE		CAPABILITIES/OFFERINGS	
Assets ($MM):	$15,000	Fee model:	Tiered, capped bps
Plans:	27,000	Separate statements:	Annually
Participants:	162,000	Account review/rebalance:	Quarterly
Years' experience:	17	Offers IRA/retail product:	Yes
Recordkeeping partners:	6	Licensed call center reps:	No

PRODUCT OVERVIEW: Creates a portfolio targeting the most appropriate risk level and maximizing its geometric return. Unique Bi-CRRA utility function prioritizes avoiding bad outcomes. Avoids conflicts by not creating its own funds. Modular, scalable technology powers financial/emotional goal planning beyond asset allocation, enables caps on participant fees, drives broader recordkeeper compatibility.

Morningstar® Retirement Manager℠

WEBSITE: Morningstar.com/products/retirement-manager

PROFILE		CAPABILITIES/OFFERINGS	
Assets ($MM):	$60,300	Fee model:	Varies
Plans:	104,207	Separate statements:	Quarterly
Participants:	>1,400,000	Account review/rebalance:	Quarterly
Years' experience:	17	Offers IRA/retail product:	No
Recordkeeping partners:	24	Licensed call center reps:	No

PRODUCT OVERVIEW: Employing its award-winning research, Morningstar establishes a participant's "risk capacity" using its patented Human Capital Methodology, which values both tradable assets and future earnings/savings potential. Portfolios seek to dynamically balance investor's life stage and risk level and are supported by a recently improved user experience.

Russell Investments Adaptive Retirement Accounts (ARA)

WEBSITE: russellinvestments.com

PROFILE		CAPABILITIES/OFFERINGS	
Assets ($MM):	$330	Fee model:	Fixed bps
Plans:	6	Separate statements:	None
Participants:	1,927	Account review/rebalance:	Quarterly
Years' experience:	4	Offers IRA/retail product:	No
Recordkeeping partners:	7	Licensed call center reps:	Yes

PRODUCT OVERVIEW: Launched in 2014, ARA seeks to increase the chance of meeting retirement income goals. Allocations are selected using a shortfall-based, optimization approach designed to maximize income while avoiding outcomes that fall below the targeted income. ARA adapts to each participant's situation through time.

Methodology

This August, PLANSPONSOR invited leading providers of managed account services to complete a short questionnaire summarizing their experience and capabilities in servicing defined contribution (DC) plan participants. Invitees were selected based on data from our 2018 Recordkeeping Survey and offer the most common solutions available to plan sponsors. The survey received responses from five independent advisory firms (see profiles on this page) and managers of five sub-advised offerings (see sidebar, page 46). Recordkeeper relationships were ascertained from available sources and may be incomplete or subject to change; please contact vendors directly for current availability or options. More extensive product descriptions of advisory firms are available at www.plansponsor.com/research. For additional information related to this or any of PLANSPONSOR's industry surveys, please email surveys@strategic-i.com.

*Basis points.

Select Recordkeeping Relationships

PROVIDER NAME	MANAGED ACCOUNT ADVISERS: Fidelity Investments	Financial Engines	GuidedChoice	Morningstar Investment Management LLC	Russell Investments	Other Providers
ADP Retirement Services		✓	✓			
Alight Solutions		✓✤				✓
American Funds						
Ascensus				✓		✓
AXA Equitable Life Insurance Company						✓
Bank of America Merrill Lynch				✤		
Charles Schwab			✓	✓		
Conduent HR Services, LLC		✓				
Empower Retirement		✤		✤		
Fidelity Investments	✓	✓				
ICMA-RC				✓		
John Hancock Retirement Plan Services				✤		✓
Lincoln Financial Group				✓		✓
MassMutual						✓
MetLife Resources						✓
Milliman, Inc.				✓	✓	✓
Nationwide						✓
Newport Group						✓
Northwest Plan Services, Inc.		✓			✓	✓
OneAmerica					✳	✓
Paychex, Inc.			✓			
Principal Financial Group				✤		
Prudential Retirement				✓		
TIAA				✤		
Transamerica		✓		✤		
T. Rowe Price		✓		✓		
VALIC				✤		
The Vanguard Group, Inc.		✤				
Voya Financial		✤		✓		
Wells Fargo		✓		✤		

✤ = Sub-advised offerings/relationship; ✓ = Direct/Outsourced solution available; ✳ = Available this December

Sub-Advised Solutions Gain Ground

While managed accounts have historically been positioned as independent of the plan administrator, a more recent trend has seen many large recordkeepers—including eight of the top 10, as measured by total recordkept assets—develop proprietary managed accounts that are sub-advised by one of the industry's established and recognizable investment advisory firms.

Such relationships seek to simplify the experience, for both sponsors and participants, by creating a single source for the accounts, integrating administrative systems, web portals and tools, and communications and education materials. Sub-advised products may also enable administrative efficiencies, reducing the number of contracts and vendors, and pricing flexibility—e.g., Bank of America Merrill Lynch offers Advice Access to participants at no cost.

Still, they often lack portability. Conversely, outsourced managed account providers often maintain connections with multiple recordkeepers, which can simplify conversions. Regardless, whether the accounts are sub-advised or not, they stand to offer plan sponsors and participants many benefits. —*Brian O'Keefe*

Select Sub-Advised Services

✤ **Bank of America Merrill Lynch**
Advice Access
ASSETS: $13.6B; PARTICIPANTS: 262,402

✤ **Empower Retirement**
Empower Retirement Advisory Services
ASSETS: $28.7B; PARTICIPANTS: 561,673

✤ **Transamerica Retirement Solutions, LLC**
Managed Advice®
ASSETS: $1.6B; PARTICIPANTS: 35,000

✤ **VALIC**
Guided Portfolio Services (GPS)
Assets: $13.2B; PARTICIPANTS: 254,893

✤ **Voya Financial**
Voya Retirement Advisors – Professional Management
ASSETS: $16.4B; PARTICIPANTS: 137,014

✤ **Wells Fargo, Inc.**
Target My Retirement
ASSETS: $1.9B; PARTICIPANTS: 60,000