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Use of Managed Accounts in 401(k) Plans and the DOL Fiduciary Ruling

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If you are like most investors, the most difficult part is not figuring out the best investment or retirement goals, it's having the courage to actually act. Managed Account options are a solution for 401(k) participants that need help acting. Managed Account options offer professional management advice and recommendations to participants who want to delegate 401(k) account management, asset allocation, and investment decisions. They are designed to be an easily accessible, customizable, and low cost option, regardless of account balances. Often, the managers of these solutions, act as 3(38) fiduciaries, meaning they assume an investment manager's fiduciary responsibility.

Managers and Fees

Managed Accounts are not an investment option in the core investment line-up. They are an option given to a participant base as a "solution" or "advice service." If a participant is curious, they are typically able to access a website or call a participant call center for more information. The market is currently dominated by four managers - Finacial Engines, Morningstar, Guided Choice, and Fidelity (PAS-W) - who currently advise approximately $376 billion in assets. Platform availability and portability are factors in determining the most appropriate option for a plan sponsor.

Fees vary by providers, but are normally offered at a significant discount to a standard advisory fee. For example, a participant with a liquid net worth under $1 million would likely pay at least 1.00% annually for investment related services. Managed accounts typically charge 0.30-0.60% a year for their services, depending on the assets under management.

How do they Work?

If a participant has deemed the solution appropriate, on the following page are the standard steps taken to begin working with the managers.

Step 1: Profile

A participant would be asked a series of questions regarding his or her investment preferences, salary, retirement age, and retirement goals. For example, is his or her goal to retire at age 65 in the Caribbean or at age 75 in Cleveland?

Step 2: Accounts

Next, a participant would be asked to provide a picture of his or her current financial state, including active contributions (401(k) balances, pension plans, spousal accounts, outside IRA's). A participant would also be asked to provide investment allocations to outside accounts, if known. An estimate of Social Security benefits may be included along with large known or anticipated expenses.

Step 3: Advice

Based on the input from steps 1 and 2, the Managed Account option provider would populate advice on the 401(k) account only; specifically, the contribution rates to obtain retirement goals, a model portfolio, and recommended investment options from the core investment menu. Below is an example of output for a mid-level, mid-career participant with a low account balance and moderately aggressive retirement goals:

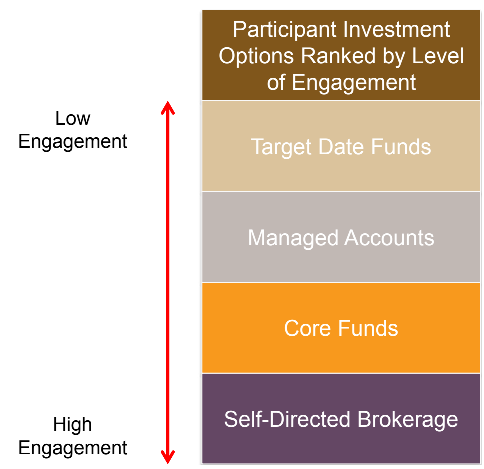
- *Contribution Amount:* Increase contribution from 5% to 7%
- *Portfolio Recommendation:* Moderately Aggressively: 70% stocks, 30% fixed income
- *Investment Options Recommendation:* 15% Large Cap Blend option, 10% Large Cap Growth option, 10% Large Cap Value option, 5% Mid Cap option, 5% Small Cap Growth option, 5% Small Cap Value option, 10% International Growth option, 10% International Value option, 20% Core Fixed Income option, 10% Stable Value option.

The number of model portfolios and investment methodology vary by Managed Account provider.

Step 4: Ongoing Management

The provider will rebalance the portfolio automatically with periodic check-ins on the inputs to confirm recommendations in step 3 remain appropriate.

Initial engagement (i.e., participant inputs and decision making), is high initially, but participants are on auto-pilot after first two steps are set.



DOL Fiduciary Ruling and Usage

Many advisors expect the plan sponsor adoption of Managed Accounts to continue to rise if the final DOL ruling remains similar to the original proposal, due to the 3(38) accountability. Service providers who may no longer feel comfortable providing advice to a participant base will certainly look to leverage available 3(38) services that can be added as an option to a plan. Current survey usage trends, illustrated below, show a moderate plan sponsor adoption with low plan participant usage.

Survey	Plan Sponsor Managed Account	Plan Sponsor Adoption of Managed Account as QDIA**	Participant Adoption
PSCA* 58th Annual Survey of 401(k) and Profit Sharing Plans (2015)	33.7%	8.5%	-
Deloitte Annual Defined Contribution Benchmarking Survey (2015)	34% (consistent with the past two surveys) 8% are considering adoption	-	22% < 1% 38% 1-5% 22% 6-10%

**Profit Sharing Council of America*
***Qualified Default Investment Alternative*

Final Thoughts

It has become common for some service providers to push for the quick adoption of Managed Accounts as a way for plan sponsors to continue to offer advice to participants if fiduciary roles will not be assumed. Hartland cautions the quick decision to adopt a Managed

Account solution without a thorough due diligence process. Understanding the pros and cons of the options available, model portfolios, plan sponsor and participant fees, and user interface are important to review before making a decision to use a Managed Account option. Hartland's services include an analysis and recommendation of Managed Account options, as they are vetted annually with our clients that utilize them.

Qualified Default Investment Alternative (QDIA): An investment vehicle a fund manager many use for retirement plan contributions in the absence of direction from the plan participant. A QDIA must be diversified, many not directly consist of securities in the company for which the plan participant works, and many not penalize the participant for early withdrawal.