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Managed Accounts

Due Diligence and Implementation Considerations

Second in a Series

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EXECUTIVE SUMMARY

A managed account (MA) can be an important addition to a defined contribution (DC) plan. In the first paper in this series, *Managed Accounts: A Primer*, DCIIA reviewed the basics of MAs and the ways in which they may be offered. In this second paper, we discuss how plan sponsors can determine whether MAs could be right for their plans. This paper is the next step for DC plan sponsors who have decided to consider a MA for their plan. It is intended to be a reference aid during MA due diligence and reviews the following topics, which are key to the prudent selection and monitoring of a MA provider:

- participant experience
- investment methodology
- operations and risk
- fees
- measurement of success.

This paper also provides a sample request for proposal (RFP), outlines focus areas for the due diligence process and addresses relevant questions and considerations for plan sponsors. DCIIA is pleased to provide this due diligence guide in its Managed Account series as part of our commitment to be a trusted and objective resource on institutional plan design. We welcome feedback and suggestions as we look to further improve the retirement preparedness of America's workers.

PARTICIPANT EXPERIENCE

Understanding how the MA service will be marketed and communicated to all plan participants, the breadth of available participant resources, the required participant inputs for personalization, and how critical information will be obtained are, taken together, a central element to explore in the provider evaluation process. In this paper, we have termed this set of items "participant experience."

Plan sponsors should understand that a MA program's value often hinges on participant awareness and engagement, particularly when the MA is not the default investment option. Below, we review personalized participant portfolios and strategies that plan sponsors can adopt to achieve participant engagement.

A. Personalization

Currently, recordkeepers have basic participant demographic information—such as age, income, savings rate, plan balance and gender—and some or all of these may be directly shared with the MA provider. Participants can also directly supply the MA provider with additional personal details, such as their risk tolerance, potential or desired retirement age, and savings and investments outside the retirement plan. A user-friendly interface can encourage participants to provide those personal details, leading to more individualized recommendations. If a participant prefers not to provide this additional information, the MA provider will then set an asset allocation and manage the investments using the recordkeeper's data. The MA provider may also make savings rate recommendations to the participant. The available data varies by recordkeeper. Generally, the greater the degree of participant engagement, the more personalized the recommendations that the MA provider can produce.

B. Engagement

In many cases, the MA provider's ability to effectively communicate and connect with participants drives participant engagement. Most MA providers offer an array of engagement tools, along with a subset of implementation guidelines for each tool.

Plan sponsors often work with their recordkeepers to set participant communication goals. Often the MA provider has communication materials that the recordkeeper and plan sponsor can leverage. These materials can be targeted to specific groups or, in some cases, customized to specific participants; examples are detailed in **Exhibit 1**.

Exhibit 1

Sample Email Communication Approaches
• Welcome package
• Life-stage related
• Age-related
• Goal-related
• Theme-based (Social Security, America Saves Week, etc.)
These communication approaches can be sent at a planned frequency or on a custom (ad hoc) basis.

With participants consuming information through diverse channels, communication efforts must be flexible and multi-channel, ranging from letter mailings to postcards to emails with embedded audio/video and more. A multi-channel approach to engagement is fairly common across providers and, according to providers, tends to garner the best response from participants.

Plan sponsors considering MAs should:

1. **Evaluate** whether, and to what extent, the plan sponsor or the recordkeeper can provide the basic participant demographic information to the MA provider
2. **Understand** the importance and value of participant engagement with the MA provider
3. **Determine** whether the MA provider will create sufficient access for plan participants to engage with the MA program and provide personalization inputs (e.g., via website, mobile device or advisor)
    - **a.** All user interfaces should be intuitive and actionable
    - **b.** There should also be a capability for the participant to share the information with their human advisor, if applicable
4. **Identify** what is needed to ensure success (e.g., data availability, communication program, investment options, etc.) — these and other items are discussed further in this paper
5. **Monitor** ongoing engagement to ensure participant value
6. **Determine** if user portfolios are truly personalized, and if the personalization enhances the portfolios in ways consistent with the sponsor's views. Also determine if users have beneficially changed their savings rates.

Plan sponsors can evaluate and monitor the effectiveness of the provider's participant communications in many ways. The sponsor could begin by looking at the materials' scope and customization, and participants' engagement with them following their introduction. Another way to gauge effectiveness is to look at the usage rate of the MA service. As a point of reference, the current usage rate for MAs, when offered as an opt-in service, is about 7%, although this rate can vary significantly across plans.[1] A plan sponsor might evaluate a MA provider's email engagement with participants by asking about the number of clicks, opens, opt-outs and—perhaps most importantly—personalization changes that participants initiate. Signs of participant engagement with a MA program can take many forms beyond responding to an email, such as accessing a web portal or mobile app, calling an advisor, or attending a live or web-based information session.

The sponsor should also determine and evaluate the way(s) in which a MA provider reports to a sponsor about their communications' effectiveness and participant engagement. For example, some MA providers might track participant engagement across their programs and report on items such as the click-through rate and the percentage of participants taking action. Other providers may report on how the demographics of the participants in the MA program differ from those invested in the plan's qualified default investment alternative (QDIA) or core investment options in terms of historical returns, risk and contribution rates. As such, these reports can be a means to measure the effectiveness of the portfolio personalization, which results from active participant engagement.

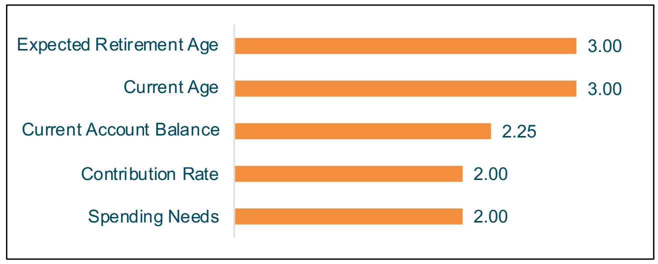
INVESTMENT METHODOLOGY

As with any investment-related decision, the MA provider's investment methodology is an important consideration for fiduciaries. Some MA providers use the plan's investment options to develop a group of portfolios for varying ages (e.g., model portfolios). Other providers construct portfolios on a more individualized basis, using the risk/return characteristics of the plan's investment options, based on what they know about each participant. Investment approaches also differ across MA providers. For example, some MA providers tend to attach higher weights to passive funds in order to minimize investment expenses, while others utilize more actively managed funds, seeking outperformance versus a benchmark. As with the broader investment-management landscape, different MA providers have distinct viewpoints on portfolio construction. Evaluating the MA providers' approaches will help identify ones that may align with a plan sponsor's views or the investment options offered within the plan's core lineup.

Understanding how each personalization factor influences and impacts participants' investment portfolios is important. According to the five MA providers that DCIIA surveyed, the personalization factors most commonly reported to have moderate to high impact on asset allocation are: expected retirement age, current age, and current account balance (**Exhibit 2**). Other important factors can have different levels of influence based on the provider and circumstance. These include contribution rate, spending needs, risk tolerance, and outside assets. Plan sponsors should ask the MA provider for examples of how different participant demographics influence their portfolio recommendations, so that they can then evaluate whether they are comfortable with the result and the explanations given.

Exhibit 2

Top Five Personalization Variables by Highest Average Perceived Impact on Asset Allocation



Source: DCIIA survey of managed account providers, 2019. (Survey to be published as paper four in this series.) Figures reflect the average of MA providers' categorization of 15 personalization variables on a scale of 0 to 3, with 0 being "Not Applicable" and 3 being "High."

A. Investment Menu Robustness

Since MAs generally create portfolios using the DC plan's core menu options, the robustness of the core menu will have a significant impact on the MA's effectiveness. Plan sponsors should also understand the MA provider's philosophy around using the existing investment options in the core menu. Managed account providers typically prefer more investment options to fewer, since greater variety provides them with more flexibility in building diversified portfolios. In addition, MA providers look at the available funds from risk and correlation perspectives.

MA providers' minimum fund requirements range from very specific (e.g., the menu must have multiple US equity options, one non-US equity option, one intermediate-term bond, and one capital preservation fund) to those that give no explicit guidance. While various alternative strategies such as non-US bonds and real assets can make an investment menu more robust, MA providers typically do not utilize these strategies. For plan sponsors wanting to maintain a streamlined core investment menu, some MA providers can build participant portfolios using investments available only in the MA and not on the core menu. This capability gives the MA increased diversification while avoiding more esoteric fund offerings in the core menu that may not be widely utilized, or utilized incorrectly, by participants. Plan sponsors should note that fiduciary oversight of this arrangement may be different from that of the rest of the plan, as they may now have new types of asset classes around which they need to perform due diligence.

B. Investment Menu Vehicles

Plan sponsors should also understand both the MA provider's capabilities and general philosophy as they pertain to different types of investment vehicles. As investment menus have decreased in size over the years, many plan sponsors and consultants have selected or created multi-asset class investment strategies. Some MA providers have style analysis capabilities that enable them to account for asset class exposures that may be combined with other asset classes through off-the-shelf products or white-label strategies. Furthermore, while MA providers do not normally invest in company stock or brokerage assets, they may consider those exposures when developing allocation recommendations.

If your plan uses commingled funds and/or separate account vehicles, it is important to consider any impact the MA program may have on fund/account minimums or tiered-fee scales, as the MA provider adjusts its exposures over time. Depending on the total assets invested in the MA program, it is possible to see significant shifts in investment option balances when the MA provider re-allocates. Sponsors also want to ensure the provider can support any trading restrictions that the funds may carry.

OPERATIONS AND RISK

Operations is a key consideration when evaluating MA service providers. Operational focus points include: recordkeeper connectivity, portal integration, portability, security, privacy and an integration timeline. While all of these points are covered in the RFP questions in the latter part of this paper, some are also discussed here:

A. Recordkeeper Connectivity

For a plan sponsor to select a MA provider, the recordkeeper must be willing and able to accommodate the MA program. Sponsors should therefore determine whether their recordkeeper is open to a MA provider they select and what, if any, limitations the recordkeeper places on such providers.

If a plan sponsor's preferred MA provider is not already available on the plan's recordkeeping platform, the plan either needs to change recordkeepers or work with the recordkeeper to add the MA provider to the platform--neither of which is an inexpensive proposition. Importantly, as with any investment addition, selecting a MA provider is a fiduciary decision and is independent of recordkeeper selection. The DC industry is looking at data exchange protocols in order to simplify access to multiple providers for a given recordkeeper, but this has not yet come to market.

Before beginning the RFP process to evaluate MA providers, plan sponsors should be aware that there are presently three basic MA service models. Sponsors should also understand the differences between the three in order to assess which model their recordkeeper employs, supports or prefers:

Direct: Under this model, plan participants generally log into their accounts on the recordkeeper's platform and directly access the MA provider. In this case, the MA provider is the direct fiduciary to the plan and provides all advisory services. Typically, the recordkeeper earns a fee from the MA provider for providing data connectivity to the MA provider.

Sub-advised: Under this model, the MA provider sub-advises the recordkeeper's registered investment advisor's MA. In this case, the recordkeeper is typically the direct fiduciary to the plan, and provides all services, except the sub-advisory investment management services. Plan participants pay a fee to the recordkeeper, and the recordkeeper pays the MA provider a sub-advisory fee.

Proprietary: Under this model, either the recordkeeper or an affiliated company provides the MA program. There is no independent third-party MA provider involved. The recordkeeper or an affiliate is the direct fiduciary to the plan. All services are provided by this entity. This entity retains all the MA program revenue.

Exhibit 3

Key Attributes of Managed Account Service Models

Service Model	MA Provider	Recordkeeper
Direct		
Fiduciary	X	
Advisory Services	X	
Earns a fee	X	X
Sub-advised		
Fiduciary		X
Advisory Services		X
Earns a fee	X	X
Proprietary		
Fiduciary		X
Advisory Services		X
Earns a fee		X

B. Other Operational Topics

MA providers may have varying levels of technical expertise and approaches to integrating with recordkeeping websites. As part of the due diligence process, therefore, fiduciaries should inquire about the MA program's staffing, implementation and user-experience teams. Understanding the staffing, resources and sophistication of tools will help the sponsor set expectations on implementation timelines and processes. For example, plan sponsors can explore the qualifications of the call center staff, as well as whether they would be employed by the recordkeeper or by the MA provider. Additionally, there may be differences in the level of integration with the benefits website. For instance, those looking to use MAs may have a separate login, as opposed to a seamless transition from the participant website. Plan sponsors should also ask questions about additional operational areas, such as trading and execution, portability of participant experience across mediums, and recordkeepers.

C. Risk

Plan sponsors can and should assess the MA provider's policies and procedures for mitigating risks. These risks pertain to everything from investment to cybersecurity. Investment risk is often addressed within the investment methodology, but plan sponsors can probe further on mitigation tactics, scenario analysis, and use of specific software. Due to the increasing number of cyber breaches, plan sponsors should inquire about how the MA provider handles data processing and security. In addition to understanding the MA provider's privacy policies and procedures, plan sponsors should find out if any third parties might have access to participants' private information. Understanding privacy and data-sharing practices can also help uncover risks posed by conflicts of interest, such as when a MA provider would benefit from using this information to cross-sell retail products.

A 2019 DCIIA white paper notes that plan sponsors should consider the benefits of creating a data processing agreement (or updating an existing one); this agreement should outline the vendors' obligations and responsibilities in relation to participants' personal data.[2] The European Union's General Data Protection Regulation (GDPR) provides a number of best practices around an individual's data that may, and should, be adopted by the US.

FEES

As with any service providers, the sponsor must consider and evaluate the MA providers' fees in the context of the services provided and expected benefits. This process should include collecting information from prospective providers about all of the following:

- How are the fees stated—in terms of basis points, or another method?
- Are the fees paid by the participants and, if so, how are they disclosed to participants?
- According to the MA provider, how does it add value to the plan?
- Do fees vary depending on whether the MA is the default option or one that requires participants to opt-in?

Here's an example of how fees may vary based on how a MA program is offered: a MA program that would cost 45-60 basis points as an opt-in option (depending on plan size and account balance) could be reduced to 20-35 basis points as a plan's default investment.

MA fees are assessed in addition to any other fees paid by participants (e.g., recordkeeping fees, as well as the expense ratios of the underlying investments used in the MA portfolio). Plan sponsors should determine if the value that participants will receive from a MA program is worth these additional fees. In order to do so, sponsors should carefully decide what "value" means in their plan. For their part, MA providers may seek to address this question by: quantitatively analyzing a plan's participant base; providing personalized participant-profile examples; or showcasing how retirement readiness changes over time. Each approach comes with particular assumptions, caveats and disclosures, which should be taken into consideration when reviewing providers.

Plan sponsors should understand who receives the MA fees, as outlined in the "Recordkeeper Connectivity" section, above. Sponsors should also be comfortable that each party's fees appear reasonable, given the services provided. Sponsors should further assess how transparently the various parties share this information and understand what sponsor and participant disclosures to expect.

MEASURING MANAGED ACCOUNT SUCCESS

Ongoing monitoring enables fiduciaries to measure the impact of MAs on participants' accounts. It is important to understand the appropriate criteria for measuring the effectiveness of managed accounts as they differ given that they are investment services rather than investment funds. There are some of the familiar metrics that are generally used when evaluating investment fund providers, but not all. For example, there is no disclosed guidepath like there would be for a target date fund. Also because they are a service with an incremental fee, additional factors around their usage and incremental value provided are particularly important.

It may be helpful to note that all of the common investment evaluation criteria—such as the fund manager's investment methodology, the consistency with which participant portfolios match the stated methodology, and changes in the investment team—continue to apply unchanged to the menu options, whether they are employed within a MA or not. These same factors also apply to the MA provider. In addition, for the MA provider, the sponsors' evaluations should include:

- The percentage of participants using MAs and their ongoing engagement
- The percentage of MA participants in other plans who have provided additional data to the MA provider as a measure of engagement and ease of use
- An attribution of the degree to which portfolios are different (personalized) and what drives those differences
- A review of the savings rates of users

- What additional analysis or enhanced plan analytics the MA offers, such as plan-level retirement readiness, segment assessments, and trends over time.

Some MA providers can report more personalized analytics, which can enable calculation of replacement retirement income as a percentage of a participant's current salary. This income-replacement ratio can be used as a proxy for "personalized retirement readiness," which can then be analyzed across participants segmented by age, income, job code, geography, tenure and other criteria, for example. Plan sponsors should inquire about the types of enhanced plan analytics that MA providers offer, such as:

- Plan metrics that include personalized retirement readiness, aggregated at a plan level
- Segment assessments based on age, income, job type, geography, tenure and other measures
- Comparative analysis between managed and self-managed accounts across those segments
- Trends and changes over time

Exhibit 4
Non-Managed vs. Managed Accounts Comparison

Detailed analytics can measure the effectiveness of managed accounts—and enable targeted, personalized messaging as well as plan design improvement. This chart is an illustration of the type of analytics that could be provided. In this example, the chart shows the difference in replacement income ratios (% of salary replacement in retirement) between managed and non-managed accounts users.

Retirement income ratios:
dark green = 75%+; light green = 50-75%; light blue = 25-49%; dark blue = <25%

Source: GuidedChoice analysis of 6,582 eligible participants, September 2017

A. Ongoing Monitoring

Plan sponsors should evaluate the MA provider's ongoing reporting capabilities to ensure that the plan sponsor can, when desired, review sufficient information and comparative statistics to assess the MA program's effectiveness. The provider should also have the capability to run custom analytics. Additionally, sponsors should expect MA providers to report on each participant using the service and indicate if they have added demographics such as their age, income, outside assets, risk tolerance, etc. The MA provider should also enable plan sponsors to review each participant's equity allocation sorted by age. Often, a low degree of personalization will result in tightly clustered allocations for those in a given age group, while more personalization will result in a wider dispersion of equity allocations.

Personalized analytics also help a plan sponsor directly compare metrics associated with MA users and non-users, which can in turn help plan sponsors measure the MA's effectiveness. In some cases, a plan sponsor can more efficiently target key segments for improvement, both for MA participants and for those who do not use the service. In effect, the plan sponsor can direct personalized retirement readiness messaging to drive participant action. These analyses have the potential to improve overall DC plan health by identifying specific participants that would benefit from targeted messaging.

MA metrics may serve to supplement the standard annual recordkeeper reports, and sponsors may therefore wish to ask whether they would be available on a more frequent basis. Such reports may enable sponsors to understand some ways in which personalization results in individual changes that are counterintuitive to retirement design rules of thumb. For example, one participant may stop deferring in order to pay down high-interest revolving debt, while another participant might lower a deferral in light of projected spousal-income benefits. Plan sponsors may also find that participants that identify as conservative or aggressive investors have lower or higher equity allocations than participants of a similar age that are invested in the target date funds (TDFs). At a minimum, these differences often simply convey that participants are receiving personalized advice, thereby increasing their sense of financial self-awareness and the potential to more appropriately prepare for their retirement over the long term.

B. Benchmarking

This section discusses benchmarking considerations for evaluating MA providers, starting with investment performance and followed by behavioral impacts.

In part because portfolios are personalized at the participant level, some common methods that DC plan sponsors use when benchmarking discretionary managers' investment performance, such as Global Investment Performance Standards (GIPS) compliant, risk-adjusted historical performance, do not apply to MA providers. Consequently, fiduciaries must turn to different methods and criteria to benchmark MA providers.

For example, although MAs are frequently compared to TDFs or other professionally managed investment solutions, such comparisons often fail to consider the difference between the MAs and the other options. First, participant engagement levels with MAs can result in value differences to the participant. Second, while some MA programs include near and in-retirement planning features, others are more focused on accumulating assets and outperforming applicable benchmarks.[3] Third, MA providers are generally limited to the plan sponsor-selected asset classes and funds; therefore, the MA providers do not control a major component of the investment risk, making comparison to TDF performance a bit like comparing apples and oranges.

Recently, the industry has discussed benchmarking MAs by looking at what value plan participants are receiving from the various features and ensuring the incremental value is worth additional fees. A recent report from Empower Retirement[4] proposed that plan fiduciaries should first understand the MA features and then estimate their value by assigning value based on two factors:

- **Engaged vs. unengaged participants**: Some MA features apply automatically (e.g., rebalancing investments allocation), while others require participant interaction (e.g., tax-efficient drawdown). Automated features have the same value for all participants; those that require participant engagement have value only for those who are engaged.
- **Proximity to retirement**: For features with different values depending on the life stage of the participant (e.g., a drawdown strategy is more helpful for a participant closer to retirement), create differentiated values based on proximity to retirement (identified by age).

Empower Retirement has also measured the value of eight MA features across different age cohorts, including investment allocation, savings advice, Social Security-claiming advice, withdrawal advice, and more. This value-add is translated into basis points for unengaged and engaged participants and can be compared to the additional fees paid for the MA service to determine total potential value derived. This process for measuring value is just one creative proposal for how to benchmark MAs outside of investment performance. Other ideas include benchmarking a specific plan against a client average by assets or industry (for data points such as engagement and financial health scores), though that benchmarking may be limited to the MA's client base. In any case, MA providers, plan sponsors and firms in the DC industry need to continue to make progress on the benchmarking front.

CONCLUSION

A managed account can be a useful program to improve participant retirement readiness. As with any plan product or service, fiduciaries should conduct due diligence or consult with outside experts to determine which service provider would work in the best interest of plan participants. Sponsors should also be prepared for the complexities involved in evaluating and monitoring MAs, since they require different oversight than other DC investment products and services do. As outlined in this paper, the due diligence process and ongoing monitoring should encompass the participant experience, investment methodology, operations, fees and measurement tools.

We invite you to continue reading to see a sample RFP, which covers key areas of focus in the due diligence process as well as relevant questions and considerations for plan sponsors. The sample questions for each of the areas should help determine if the MA provider, product and fees match the needs and goals of the plan, as well as the goals of the potential MA program.

DCIIA will continue its Managed Account series with a third paper comparing and contrasting TDFs vs. MAs by looking at MAs from the point of view of an investment committee deciding between MAs and TDFs as a default option. The fourth paper in the series will examine personalized asset allocations across different participant profiles to determine where MAs may add the most value.

Endnotes

1 Alight Solutions, "The impact of managed accounts and target date funds in defined contribution plans, 2007-2016," 2018.

2 DCIIA, "Why GDPR Matters: A Reminder for US Retirement Plan Service Providers and Plan Sponsors," October 2019.

3 Cosmano, Brian, "Made to Measure: Evaluating the impact of a retirement managed account," Empower Institute, August 2018.

4 Ibid.

APPENDIX

Sample RFP for Managed Account Providers

Outline of RFP Sections

Business

Understand the importance of the provider's managed accounts business line and presence in market, existence of and transparency about potential conflicts of interest, range of fiduciary responsibility, and experience plus ability to work with recordkeepers.

Staffing

Understand the number and quality of individuals who work behind the scenes on the investment process, the individuals who work directly with participants either through in-person, web or phone interactions, and if compensation practices are in the best interest of participants.

Process

Understand the investment philosophy, approach and inputs that are utilized to create personalized investment portfolios. These questions should cover all aspects of the investment decision making process, including identifying key inputs and assumptions, asset allocation models, portfolio construction processes, investment strategy evaluations, investment preferences, biases and limitations, and the methods for identifying and making changes and enhancements.

Participant Experience

Understand how the service will be marketed and communicated to all plan participants, the breadth of available participant resources, the required participant inputs for personalization, and how critical information will be obtained. Request examples of participant materials.

Performance / Measurement

Understand how the provider evaluates and measures its performance in terms of investment results and participant experience, and the provider's reporting and benchmarking capabilities for both the participant and plan sponsor. Questions should include requests for their reported investment performance, and quantitative metrics that show value of services, including participant engagement metrics.

Risk

Understand how risk is viewed, managed, monitored and reported. These questions should cover areas such as accuracy of inputs, asset allocation risk limits, extreme market situations, tools to measure and monitor risk, and oversight practices.

Operations

Understand how the service can be integrated into the recordkeeping website, cybersecurity provisions, operational steps and requirements of the plan sponsor and recordkeeper, security provisions and implementation timeline.

Fees

Understand and document the total fee components and drivers. Questions should cover the proposed fee structure, fee transparency for the plan sponsor and participants, total fee expectations based on various levels of utilization, fee allocation for services, and if there is any revenue sharing with, or fees paid to, the plan's recordkeeper.

APPENDIX

Sample RFP Questions

Business

1. Provide the annual gains and losses in the number of plans, participants and assets.
2. Please provide a revenue breakdown of your firm's business lines.
3. Please provide client breakdown by asset under management (AUM) segment and tenure.
4. Which recordkeeping platforms is your managed accounts service available on, and how many plans do you service on the <add recordkeeper name> platform?
5. Have any lawsuits or regulatory actions been taken against your firm, its executives or its principals in the last five years?
6. Describe in detail any potential conflicts of interest.
7. What is the provider's range of fiduciary responsibility?

Staffing

8. Identify the number of individuals dedicated to the investment process, and provide their experience, tenure, credentials and turnover.
9. Identify the number of individuals dedicated to the participant experience, and provide their experience, tenure, credentials and turnover.
10. Provide the number of individuals available for in-person, online, and phone interactions, and their associated locations.
11. Describe the compensation arrangements for the staff dedicated to the investment process and for those dedicated to the participant experience.

Process

Asset Allocation Inputs

12. Describe your investment philosophy and associated investment objectives.
13. Identify the inputs that are crucial to the asset allocation model and portfolio construction process.
14. Describe the methods used to determine the expected return, estimated risk and correlation factors.
15. What does the asset allocation model optimize for (e.g., income replacement, income shortfall, Value-at-Risk, etc.)?
16. How does your investment process consider retirement income?

Investment Fund Inputs

17. Identify and rank in order of importance the criteria used to evaluate a plan's investment options for inclusion in the managed account investment portfolio:
    a. Historical risk and return (short-term and/or long-term
    b. Tracking error to benchmark (fund-specific or broad-based benchmark)
    c. Investment holdings
    d. Investment style
    e. Market capitalization
    f. Investment management fees
    g. Qualitative manager assessments
    h. Other (please add)

Participant Inputs

18. Does participant risk tolerance play a role in the modeling process, and if so, how do you assess it?
    a. What is the specific information that must be collected from participants to best assess risk tolerance and goal alignment, and to what extent can the recordkeeper typically accommodate information needs automatically (e.g., salary information, etc.)
    b. How does a participant's current asset allocation or investment strategy impact the risk tolerance assessment or proposed portfolio?
    c. How do you collect this information, and how often is it reviewed and updated?
19. Describe in detail how the model handles the following key personalization drivers and their relative impact on the proposed portfolio (e.g., provide a ranking of High, Medium, Low).
    a. Social Security retirement benefits
    b. Spousal income
    c. Outside assets
    d. Initial portfolio allocation
    e. Retirement age

20. How does the model offer advice if participants do not provide the information that is critical for personalization?

Preferences, Biases and Limitations

21. Describe how the model handles the following, and specifically address any investment-option challenges or limitations:
    a. Multi-manager funds
    b. Non-target date, multi-asset class funds
    c. Target date funds
    d. Inflation-sensitive funds (e.g., TIPS, REITs, commodities, etc.)
    e. Investment vehicles (e.g., mutual funds, commingled funds, separate accounts)
    f. Funds with limited performance history
    g. Company stock
    h. Proprietary vs. non-proprietary funds
    i. Stable value (market-value vs. book-value performance)
    j. Alternative investments
    k. Investment balances within a brokerage window
    l. Investments not available on the plan investment menu
22. Describe any investment style preferences, such as:
    a. Active vs. Passive
    b. Value vs. Growth
    c. Domestic vs. International
    d. Large vs. Mid vs. Small Cap
    e. Developed International vs. Emerging Markets
    f. Short vs. Intermediate vs. Long Term Bonds
    g. Stable Value vs. Money Market

Output

23. Does your asset allocation output have a set number of model portfolios? If so, how many models are available?
24. Please provide three sample glide paths for a typical participant: one that is considered conservative, one that is moderate and one that is aggressive.

Participant Experience

25. Describe the initial participant experience (e.g., new opt-in, rollover from current managed account provider, default, etc.), including the request for personalized information.
26. Describe the subsequent in-person and digital touch points over a participant's lifetime and the various communication channels available.
27. Do participants have any input into the asset allocation of their portfolio? If so, describe.
28. Describe the experience for those participants approaching and in retirement.
29. Provide examples of participant materials and the online experience. Which materials are customizable?
30. Describe the advisor experience for a participant, and if there are any limitations to advisor access.
31. What types of financial advice are available to participants?
32. To what extent is the participant experience portable in the event of participant turnover or a recordkeeper change?
33. What kinds of tools and calculators are available to participants?

Performance / Measurement

34. How do you measure success?
35. Please provide a description of your performance measurement composites or reported numbers. Are they GIPS-compliant? Do they show risk-adjusted performance or just returns?
36. Describe the specific plan-sponsor reporting capabilities
37. Excluding performance, what other metrics do you provide reporting/benchmarking on to plan fiduciaries (e.g., contribution rates, participant engagement, balances, etc.)?

Risk

38. What types of risks do you measure and monitor?
39. How are risks managed and reported?
40. Do you have defined drawdown procedures in place in the event of extreme market duress? Is there an upper limit for volatility?

41. Do you have limits on the percentage of any one strategy in the portfolio?
42. What types of risk software or models are used to manage portfolio risk?
43. What oversight practices exist?

Operations

44. Describe how your managed accounts service is integrated into the recordkeeping website.
45. What is required of the plan sponsor and the recordkeeper for the integration of the service and its ongoing operations?
46. What is the expected implementation timeline? Please provide an example of your shortest and longest implementation timeline and reason for those differences.
47. Describe the system of controls and practices your firm has put in place to guard against unauthorized access to participant and financial data, as well as a description of any insurance coverage(s) maintained for cyber breach-related costs.
48. Have any plans that have retained your services experienced unauthorized access or distribution of participant and financial data due to a breach of your firm's information systems? If so, please describe fully.
49. Describe your documented disaster recovery plan. How often do you test your recovery system?
50. What enhancements are you planning over the next 12 to 18 months?

Fees

51. Given the current plan size and number of participants, what is the proposed fee schedule for participants under an opt-in structure? How about for an opt-out structure?
52. Is there a base fee or are there other fees that participants or the plan sponsor must pay?
53. Is there revenue sharing or are there fees paid to the recordkeeper to offer the managed accounts service? If so, please provide the details of this arrangement.
54. In instances where some or all of the plan options are proprietary investment strategies, are fees credited back to the participant/plan? If so, how does this process work?