



STATE OF WISCONSIN
Department of Employee Trust Funds

Eric O. Stanchfield
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
TTY (608) 267-0676
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: May 3, 2007
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Managed Accounts -- Reality Investing

The Pension Protection Act (PPA) of 2006 clarified that financial advice may be offered to participants via professionally managed accounts. Managed account services use computer programs that automatically manage investment portfolios that are tailored to match an individual's age and risk tolerance. These accounts are managed and rebalanced over the course of a participant's life. Managed accounts typically take into account any other retirement income that a participant expects to have, including retirement annuities (like the Wisconsin Retirement System), Social Security earnings, individual savings, etc. If the firm providing the advice is prudently selected, under the PPA, plan sponsors are not liable for the advice provided to participants.

The Wisconsin Deferred Compensation Program's administrative service provider, Great-West Retirement Services (GWRS), has worked with Ibbotson Associates (a subsidiary of Morningstar as of 2006) to develop "Reality Investing." Reality Investing is a sequence of managed account services designed to provide interested individuals with additional financial management services. This service is provided by Advised Assets Group (AAG) based on data resulting from the methodologies and software developed and employed by Ibbotson. The Department has previewed the Reality Investing services and believes that Reality Investing is a feature the Board should consider adding to the Wisconsin Deferred Compensation Program.

The attached Internet article "FAQs: Managed Accounts Within Defined Contribution Plans" from Financial Engines provides a helpful introduction to the concept of managed accounts and how they might be used by defined contribution benefit plan participants.

Reality Investing

GWRS staff will present detailed information on Reality Investing to the Board at the May meeting. Reality Investing includes a managed account service using an independent financial expert (AAG) to allocate funds and an online service with account planning and advisory tools. Participants receive a retirement portfolio designed for their personal situation, timeframe and overall financial situation. Portfolios are automatically managed each quarter.

Use of Managed Accounts in Defined Contribution Plans

Interest in offering managed accounts is growing. The National Association of Government Defined Contribution Administrators (NAGDCA) asked questions about the use of investment advice and management in the 2006 NAGDCA Biennial State and Local Government Defined Contribution Plan Survey. According to the NAGDCA report, just over half (33 of 65) of the

Reviewed and approved by David Stella, Deputy Secretary	
_____	_____
Signature	Date

Board	Mtg Date	Item #
DC	05/15/2007	10

responding plans offer investment advice. Of the 32 plans that do not offer advice, 17 reported that they expect to offer it within the next year or two. The most common delivery method used is a web-based approach. Twenty-one plans reported that the cost to a participant for using the service was less than \$25 per year.

Thirteen plans offering advice reported that less than one percent of their participants use the service, seven reported that one to five percent use the service, and five reported that six to ten percent use the service. Only two plans reported that more than 30% use the service.¹ The table below provides data from GWRS regarding usage of Reality Investing by participants of eight other large section 457 defined contribution plans.

GWRS Reality Investing Usage				
	Implementation	Adoption Rate	Assets Under Management (3/31/07)	Total Reality Investing Participant Accounts
Plan A	July 2006	7%	\$13,295,349	3,307
Plan B	Dec. 2006	10%	\$34,229,433	3,752
Plan C	April 2005	24%	\$590,365,187	5,723
Plan D	Feb. 2005	3%	\$11,218,143	1,656
Plan E	Sept. 2005	6%	\$8,162,865	1,920
Plan F	Sept. 2005	3%	\$6,949,424	817
Plan G	Oct. 2005	7%	\$26,421,251	1,034
Plan H	Dec. 2004	15%	\$17,018,275	1,444

Costs

Because there is no additional system implementation cost for the Reality Investing services, there would be no additional charge to the WDC if the Board decided to make the Reality Investing features available to participants. Participants who chose to use these optional features would be charged a fee on an individual basis. Quarterly fees would be taken from participant accounts as follows:

Reality Investing Participant Fees		
	Quarterly Fee	Total Annual Fee
Reality Investing Managed Accounts	0.60% bps to 0.30% bps (based on account balances)	Varies based on account balance
Reality Investing Online Advice	\$6.25	\$25

Recommendation

Staff recommends that the Board consider offering Reality Investing to WDC participants.

If the Board decided to add Reality Investing, a separate contract would need to be signed between the Board and Advised Assets Group, as the current administrative services contract does not address Reality Investing. Department staff would also work with GWRS to ensure that a thorough marketing and education campaign to inform WDC participants of the new services is planned and implemented. This would likely include providing Reality Investing information on the WDC’s Web site, at presentations and in the WDC’s quarterly newsletter.

Attachments

¹ 2006 NAGDCA Biennial State and Local Government Defined Contribution Plan Survey p. 7