Honorable Mention

By Editorial Staff *Thu, May 27, 2021*

Strength helps insurers withstand volatility: AM Best; T. Rowe Price announces fund fee reductions and a new TDF series; $13 million settlement in high-fee suit against Columbia's 403(b) plan; Ubiquity adds ESG options to plan offerings; Personalized TDFs from Cuna Mutual.

Strength helps insurers withstand volatility: AM Best

An AM Best analysis of the U.S. life/annuity (L/A) industry under the rating agency's Best's Credit Rating Methodology highlights how volatility has a significant impact on a L/A company's balance sheet strength and operating performance, the first two building blocks in AM Best's ratings process.

The new Best's Special Report, "Life/Annuity Benchmarking: Higher-Rated Companies Better Able to Withstand Volatility," also shows how adequate and stable levels of capitalization are relevant to the strength of a company's balance sheet. A high ratio of capital and surplus (C&S) to liabilities implies that the rating unit has a lot more capital cushion to absorb during periods of stress. Higher-assessed companies also are able to grow surplus more quickly than rating units with a weaker assessment.

AM Best uses a variety of benchmarking techniques to view companies from different perspectives, allowing for comparisons of absolute results and volatility levels across the industry. The primary quantitative tool used to evaluate balance sheet strength is Best's Capital Adequacy Ratio (BCAR).

As the report shows, the balance sheet strength assessments of a little more than half the rating units are equal to their BCAR assessments. Meanwhile, the balance sheet strength assessments of 43% of entities are lower than their BCAR assessment, reflecting significant drag from components of the balance sheet strength other than the BCAR score, or from a relatively weaker parent organization.

Along with balance sheet strength, AM Best analyzes operating performance, business profile and enterprise risk management (ERM). Operating performance is a leading indicator of future balance sheet strength and long-term financial stability, as AM Best assesses the ability of an insurer to generate consistent earnings. Companies with an operating performance assessment of marginal or weak reported negative returns over the last 20 years and higher volatility. Anemic returns and greater volatility can act as a drag on ratings. Companies assessed lower on the operating performance scale have reported an operating loss in a much higher number of years than more favorably assessed companies, including an average of nine out of 20 years for companies with an operating performance assessment of weak.

L/A insurers have multiple product lines and business segments, and each business line has a different risk profile and capital requirements, and hence a different target rate of return. Volatility occurs at all levels, but AM Best is primarily concerned with the downside risk volatility seen at weaker rating units, given the negative impact such volatility can have on C&S and overall financial strength.

T Rowe price announces fund fee reductions and new TDF series

T. Rowe Price Group, Inc., a major target-date fund (TDF) provider, has announced expense reductions across its suite of target date mutual funds and trusts. The publicly-traded retirement plan provider also filed to register a new series of TDFs, the Retirement Blend Fund series, with the Securities and Exchange Commission (SEC).

The resulting asset-weighted average fee reduction, based on assets under management as of March 31, 2021, is 6.3 basis points across mutual funds and 4.8 basis points across trusts. Specific fee changes vary across products.

Fee reductions on all T. Rowe Price’s target date portfolios will take effect on July 1, 2021. The new Retirement Blend Fund series is expected to be available publicly on or about July 28, 2021 and will offer Investor Class and I Class shares across all vintages, from 2005-2065.

A new marketing campaign, centered on the theme “Retirement. Meet Your Match,” will show the benefits of the firm’s TDFs.

The expense reduction announcement follows the firm’s establishment last April of a new unitary fee structure for all target date mutual funds. An all-inclusive management fee rate was set at the top level. As part of that restructuring, fees were reduced across the Retirement I Funds – I Class, Target Funds, and Retirement Income 2020 Fund.

The unitary fee structure for the target date mutual funds will remain in place and will reflect the updated fees beginning July 1, 2021. This top-down fee structure allows T. Rowe Price to lower target date mutual fund fees without changing underlying funds or allocations. The investment approach and benchmarks for the Retirement and Target series doesn't change.

The Retirement Blend strategy has been in place at T. Rowe Price since 2018. It was previously only available in the collective investment trust (CIT) format. It will combine active and passive investment styles, using active management where a fully passive management approach may not be appropriate. It also provides the diversification and low costs of passive investments.

The Retirement Blend Funds will use the enhanced Retirement glide path with the same diversification and tactical asset allocation as the Retirement suite. T. Rowe Price recently announced that its target date portfolios are gradually moving to their enhanced glide paths; this transition began in April 2020 and is expected to take approximately two years to complete for all funds and trusts. Neither the Retirement Blend Funds launch nor the fee changes affect this transition process.

All of T. Rowe Price's target date portfolios will continue to be managed by Wyatt Lee, CFA, head of Target Date Strategies, and portfolio managers Kimberly DeDominicis and Andrew Jacobs van Merlen, CFA.

Settlement reached in suit over high fees at Columbia's 403(b) plan

Attorneys representing participants in Columbia University's 403(b) defined contribution retirement savings plan filed a "preliminary settlement approval motion" this week, bringing their suit against the plan closer to completion. Columbia is represented by Schlichter Bogard & Denton LLP of St. Louis, a pioneer in participant-led class action suits.

The suit, filed in August 2016, alleged that the 403(b) plan charged excessive fees for administrative and investment services and violated the Employee Retirement Income Security Act of 1974 (ERISA). The motion filed this week approved the establishment of a $13 million settlement fund for the plaintiffs, as well as non-monetary relief involving changes in the 403(b) plan.

The complaint, **Cates, et al. v. Trustees of Columbia University, et al.**, was filed in the U.S. District Court in the Southern District of New York and was scheduled to be one of the first cases to go to trial in that federal court since the onset of the COVID-19 pandemic.

Columbia has denied it committed any fiduciary breach in its operation of the plan. After the lawsuit was filed, the Columbia fiduciaries consolidated the plans' administrative services and capped costs to a flat, per-participant fee, returning excess revenue to the plan participants.

Columbia has agreed, with consent of an independent consultant, to request competitive bids for administrative services again in the next 3-4 years.

Columbia has also agreed to maintain the lowest share class of plan investments in annuities and mutual funds, to continue to use an independent consultant to make recommendations, to prohibit the recordkeeper from using confidential information obtained from plan participants to sell other investment and wealth management services, and to inform all participants of their ability to move assets out of frozen investment options. Schlichter Bogard & Denton will monitor compliance with these terms for a three-year period.

Ubiquity adds ESG options to plan offerings

Small business retirement plan provider **Ubiquity Retirement + Savings** this week announced the introduction of environmental, social and governance (ESG) fund options to its 401(k) offerings, allowing plan sponsors to add socially responsible investments to the plan's investment options.

Ubiquity's ESG investment lineup includes low-cost mutual funds and exchange-traded funds (ETFs) from Vanguard, and is currently available for participants in the firm's Custom(k) and Reserve(k) plans. Investments in U.S. ESG funds surpassed a record $51 billion in 2020, more than double the total from the previous year and a nearly tenfold increase from 2018, according to Morningstar.

Ubiquity Retirement + Savings "sits at the crossroads of HCM, SaaS and robo-recordkeeping," according to a release. The firm was a pioneer in transparent, flat-fee retirement plans, helping participants at more than 9,000 businesses save over $2.5 billion over the past 20 years.

Personalized TDFs from Cuna Mutual

Cuna Mutual Group today announced the launch of YourTarget Portfolios, a new model portfolio program offering plan sponsors and advisors the ability to build custom-designed plans through the company's Total Retirement Solutions platform.

YourTarget Portfolios is an open architecture program that allows plans of all sizes to structure portfolios that are more personalized than traditional target-date funds. The program offers multi-manager, age and risk-based portfolios from an open architecture investment universe across both active and passive strategies to optimize plan design and more precisely serve the individual circumstances of plan participants.

YourTarget Portfolios also offers innovative fiduciary protection and support through Envestnet Retirement Solutions (ERS), which features the option to delegate the role of custom portfolio design to a provided ERISA 3(38) fiduciary investment manager to develop, monitor and update portfolios on an ongoing basis. Program users can still choose to work with another 3(38) investment manager or manage their own portfolios as a 3(38) investment manager, as well.