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## Honorable Mention

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By Kerry Pechter      Thu, Jan 30, 2020

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*Alight Financial Advisors hires Edelman Financial Engines; Fidelity offers 'real-time fractional shares trading'; MetLife assumes \$1.9 billion in Lockheed Martin pension liabilities; MassMutual and Millenium Trust introduce 401(k) 'sidecars';*

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### 2019 was a remarkable year for passive large-cap funds: Morningstar

Though the S&P 500 gained 31.5% in 2019, actively managed U.S. equity funds saw \$41.4 billion in outflows last year. It was the sixth year of net outflows during the decade-long bull market, according to Morningstar's report on U.S. mutual fund and exchange-traded fund (ETF) flows for full-year and December 2019.

Passive U.S. equity funds had \$162.8 billion in inflows, finishing the year with a 51.2% market share based on total assets.

Morningstar estimates net flow for mutual funds by computing the change in assets not explained by the performance of the fund, and net flow for U.S. ETFs shares outstanding and reported net assets.

Morningstar's report about U.S. fund flows for the full-year and December 2019 is available **here**. Highlights from the report include:

- Long-term funds collected \$414.6 billion in 2019, more than double 2018's \$168.3 billion. Money market flows received \$547.5 billion in inflows, the group's best year since 2008's record \$593.6 billion. Thanks to rising markets, long-term assets grew in 2019 to \$20.7 trillion from \$16.9 trillion.
- The strong long-term inflows in both December and for all of 2019 was due almost entirely to record inflows for both taxable-bond and municipal-bond funds, which collected \$413.9 billion and \$105.5 billion, respectively for the year, and \$50.3 billion and \$10.2 billion, respectively for December. With greater 2019 flows than their active counterparts, passive taxable-bond funds now have a third of that market.
- In December, investors directed \$25.3 billion of inflows to passive U.S. equity funds, but \$23.5 billion of outflows from actively managed U.S. equity funds.
- Among the top-10 largest U.S. fund families, Vanguard saw its best month of the year in December with inflows of \$22.3 billion. Its \$183.3 billion in inflows for 2019 topped 2018's \$162.9 billion, and the firm's long-term assets grew by \$1.1 trillion to \$5.3 trillion—a 25.7% market share.
- Vanguard Total Bond Market Index II saw the greatest inflows of 2019 with \$29.7 billion. This fund is only available to investors through target-date funds, and this same

dynamic likely propelled the \$29.0 billion of inflows into Vanguard Total International Bond Index. Both currently have a Morningstar Analyst Rating of Silver.

### **Alight Financial Advisors hires Edelman Financial Engines**

Edelman Financial Engines has agreed to provide financial planning and investment management services to clients of Alight Financial Advisors, a unit of Alight Solutions, a benefits and payroll services provider.

Under the preferred agreement, FE will now offer integrated financial planning and comprehensive investment management services with a dedicated planner for employees of sponsors using AFA advisory services will receive services from Edelman Financial Engines' national network of financial planners.

The enhanced offering expands the existing advisory services for retirement plans delivered through AFA by providing comprehensive, financial planning and investment management services, free of product conflict, to support employees with their personal finance decisions.

The newly available services include:

- A dedicated financial planner who can work with employees in-person, over the phone or online.
- Plans that can help employees reach specific goals.
- Institutional investment management for all the household's accounts, including IRA and taxable accounts.
- Tax optimization, including investment specific tax efficiency; and
- onsite education and planner programs at the employer's offices.

### **Fidelity offers 'real-time fractional shares trading'**

Fidelity Investments, an online brokerage with more than 23 million retail accounts, says it will now offer "real-time fractional shares trading" of stocks and ETFs (also known as dollar-based investing). Investors will be able to trade as little as 0.001 of a share using Fidelity's app for mobile phones with the iOS and Android operating systems.

Fidelity is the only brokerage firm to offer zero online commissions for stock and ETF trades, zero account minimums, zero account fees for retail brokerage accounts, a higher cash sweep rate versus the other largest online brokerage firms regardless of investable assets<sup>1</sup>, and continues to forgo payment-for-order-flow from market makers for stock and

ETF trades, helping facilitate industry leading price improvement for customers.

In a release, Fidelity said it will execute all fractional trades in real-time during market hours, rather than at the end of a trading day or after consolidating multiple orders to trade full shares. Fractional share or dollar-based trades must be “market” or “limit order” types and are good for the day only. The service is available in eligible Fidelity retail accounts, including brokerage, HSAs, IRAs, and self-directed brokerage accounts via a workplace retirement plan.

Fidelity expects investors to use dollar-based trading to make round-dollar purchases of several stocks at the same time, or to practice dollar-cost averaging with automatic, periodic, round-dollar transfers from a bank account to a Fidelity brokerage account.

### **MetLife assumes \$1.9 billion in Lockheed Martin pension liabilities**

In a major pension risk transfer deal, a unit of MetLife, Inc. will provide annuity benefits worth about \$1.9 billion to about 20,000 retirees and beneficiaries in Lockheed Martin Corp.’s defined benefit pension plans, MetLife announced this week.

Lockheed Martin, through its master retirement trust, purchased a group annuity contract from MetLife’s Metropolitan Tower Life Insurance Company in December 2019. The transaction will not change the amount of the monthly pension benefit received by the corporation’s retirees and beneficiaries.

Metropolitan Tower Life Insurance Company, rather than Lockheed Martin, will be responsible for making these monthly payments. No action is needed by retirees or beneficiaries. Lockheed Martin and MetLife will provide details to retired participants and beneficiaries whose ongoing payments will be made by Metropolitan Tower Life Insurance Company.

MetLife’s 2019 Pension Risk Transfer Poll projects that the market for transfers will continue to grow in 2020. More than three-quarters (76%) of DB plan sponsors with de-risking goals intend to completely divest all of their company’s DB plan liabilities at some point in the future, and 33% intend to do so in the next five years.

MetLife, through its subsidiaries, Metropolitan Life Insurance Company and Metropolitan Tower Life Insurance Co. manages benefit payments of more than \$2 billion a year for more than 700,000 annuitants. Overall, MetLife was responsible for \$47 billion of transferred pension liabilities as of Sept. 30, 2019.

### **MassMutual and Millenium Trust introduce 401(k) 'sidecars'**

Massachusetts Mutual Life Insurance Company now offers an emergency savings solution to every worker who participates in one of the insurer's 401(k)s or other defined contribution plans. It will be available to more than 2.6 million participants in plans for which MassMutual is the administrator or recordkeeper.

The emergency savings fund product was created and will be administered by Millennium Trust Company, LLC, a which custodies automatic rollovers of small abandoned MassMutual 401(k) accounts to IRAs.

The solution will be available automatically through MassMutual's MapMyFinances financial wellness tool. The accounts require a minimum deposit of \$25 per month, are FDIC-insured, taxable and through Millennium Trust's cash account sweep program earn a risk-free rate of return. The maximum amount workers can accumulate in their emergency account is \$250,000.

MassMutual's 2019 Workplace Financial Wellness Study found that 79% of employers say their workers are struggling financially. About half of employers estimate that at least 25% of their workers struggle financially and 15% of employers say at least half of their workers are plagued by financial woes, the study found.

The most prevalent employee financial problems cited by employers include credit card or other consumer debt, day-to-day expenses for housing and childcare, the inability to save and prepare for retirement, a lack of emergency savings, and high medical costs, according to the study.