The Bucket

By Editorial Staff *Wed, Dec 8, 2010*

Late-breaking items about Sun Life, Genworth, J.P. Morgan, MetLife, the SPARK Institute, Fred Reish and Bosnia-Herzogovina.

Sun Life executive writes about retirement income planning

Stephen L. Deschenes, Senior Vice President and General Manager, U.S. Annuities, Sun Life Financial Inc. has written a new article in which he discusses the significant challenges that would-be retirees need to be aware of as they begin to plan for a financially secure retirement.

In the paper, Deschenes demonstrates that in order to overcome the risks and obstacles to funding a successful retirement, it is crucial investors and their advisors must first understand what they face.

According to "What is Retirement Income Success," a strong retirement income plan must adapt to changing lifestyle needs, withstand up and down markets and last for more than 30 years or more now that people are living longer lives. Deschenes spells out the risks as well as the components that investors should understand and the solutions advisors should be discussing with their clients.

Genworth's ClearCourse adopted by BB&T

BB&T Corp., the Winston-Salem, NC-based financial services company, announced that it would add ClearCourse, the guaranteed lifetime income investment option from Genworth Financial, to its retirement plan investment options.

ClearCourse is a group variable annuity issued by Genworth Life and Annuity Insurance Company and is available to BB&T's Institutional Services client companies that elect it as an investment choice for their employees.

ClearCourse is designed to protect 401(k) plan participants from retirement risks such as outliving assets, retiring during a down market, and the effects of inflation. ClearCourse provides a guaranteed source of lifetime income.

BB&T is a holding company that operates some 1,800 financial centers in the U.S., with about $157.2 billion in assets and market capitalization of $16.7 billion, as of Sept. 30, 2010.

New J.P. Morgan share class let plan sponsors report investment and administrative fees separately

J.P. Morgan Asset Management today announced that new Class R6 Shares will be available on 18 of its funds. The new shares, formerly called Ultra Shares for certain funds, allow plan sponsors to report their investment management expenses and their recordkeeping, administrative and marketing expenses separately.

The Class R6 Shares will have an investment advisory fee and other traditional fund expenses, but not 12b-1 or shareholder servicing fees. “Plan sponsors will have the ability to simplify participant communication through separate disclosure of the applicable fees,” said David Musto, head of J.P. Morgan’s Defined Contribution Investment Solutions business.

Defined contribution and defined benefit retirement plans, 529 plans, and certain direct investors and discretionary investment management accounts within J.P. Morgan Investment Management and its affiliates will be eligible for Class R6 Shares if they meet minimum and eligibility requirements.

The Class R6 Shares include 18 funds across the spectrum of J.P. Morgan investment capabilities. J.P. Morgan Asset Management has approximately $51 billion in defined contribution assets under management as of September 30, 2010.

MetLife forecasts financial results for 2010 and 2011

MetLife expects its operating earnings to increase 38% in 2011, to between $5.1 billion and $5.5 billion ($4.75 to $5.15 per share),” chairman, president & chief executive officer C. Robert Henrikson said this week.

“We plan to grow premiums, fees and other revenues 30% next year to between $45.8 billion and $47.0 billion,” he added. He predicted “an improved operating return on equity (ROE) of approximately 11% for 2011 and further ROE improvements in the years that follow.”

Premiums, fees and other revenues for 2010 are expected to be between $35.6 billion and $36.0 billion, up approximately 5% from $34.0 billion in 2009. Operating earnings for 2010 are expected to be $3.8 billion to $3.9 billion ($4.26 to $4.36 per share) compared with $2.4 billion ($2.87 per share) in 2009.

Book value per share at year-end 2010 is expected to be between $44.50 and $45.85, up 19% from $37.96 at year-end 2009. The company expects a 62% increase in operating earnings compared with 2009.

MetLife expects full year 2010 net income to be between $2.8 billion and $3.2 billion ($3.13 to $3.57 per share), reflecting net investment and net derivative gains and losses. For 2009, MetLife reported a net loss of $2.4 billion ($2.89 per share), including $3.3 billion, after tax, in derivative losses. MetLife uses derivatives to hedge a number of risks, including changes in interest rates and fluctuations in foreign currencies. Movement in interest rates, foreign currencies and MetLife’s own credit spread – which impacts the valuation of certain insurance liabilities – can generate derivative gains or losses.

Premiums, fees and other revenues for the fourth quarter of 2010 are expected to be between $9.5 billion and $9.9 billion, up 4% from $9.3 billion in the fourth quarter of 2009. Operating earnings for the fourth quarter of 2010 are expected to be between $1.1 billion and $1.2 billion ($1.04 to $1.14 per share), up 39% from $793 million ($0.96 per share) in the fourth quarter of 2009.

For the fourth quarter of 2010, MetLife expects net income to be between $170 million and $570 million ($0.17 to $0.56 per share), compared with $289 million ($0.35 per share) in the fourth quarter of 2009.

Per share calculations for full year and fourth quarter 2010 are based on 890.2 million and 1,014.2 million shares outstanding, respectively. Per share calculations for 2011 are based on 1,066.3 million average shares outstanding.

Hedge Funds Receive $16.0 Billion in October

The hedge fund industry posted an estimated inflow of $16.0 billion (1.0% of assets) in October 2010, the fourth straight inflow as well as the heaviest since November 2009, TrimTabs Investment Research and BarclayHedge reported.

“Flows are doubtless following performance,” said Sol Waksman, founder and President of BarclayHedge. “Hedge funds returned 1.95% in October and 7.10% in the four months following the May-June skid. Also, our preliminary data shows that hedge funds are outperforming the S&P 500 by about 21 basis points through November.

Distressed securities funds hauled in $3.8 billion (3.3% of assets) in October, the heaviest inflow of any hedge fund strategy, while emerging markets funds posted an inflow of $2.2 billion (1.0% of assets). Meanwhile, fixed income funds received only $506 million (0.3% of assets), the lightest inflow since April.

“Hedge fund investors are exhibiting a healthier appetite for risk,” noted Waksman. “They are finally venturing into areas like distressed securities after embracing conservative strategies for most of the year.”

Commodity trading advisors (CTAs) received $7.9 billion (2.8% of assets) in October, the eighth straight inflow, while funds of hedge funds took in $3.3 billion (0.6% of assets), the fourth straight inflow. Meanwhile, hedge fund managers are capitalizing on kind conditions heading into 2011.

“Borrowing money to buy assets is virtually costless, investors handed hedge fund managers $32.1 billion in the past four months, and margin debt is soaring,” explained Vincent Deluard, executive vice president of research at TrimTabs. “At the same time, the rolling 12-month beta of hedge fund returns sits below the long-term average, and that of equity long-short funds is dipping below zero. Managers should be especially eager to book fat profits through year-end, but they remain very reluctant to make directional bets on equities.”

Managers are also extremely bearish on the 10-year Treasury note, according to the TrimTabs/BarclayHedge Survey of Hedge Fund Managers. Bearish sentiment soared to 49% in November from 28% in October, while bullish sentiment sank to 13%, the lowest level since the inception of the survey in May.

"Retail investors and pension funds have been pouring money into high-flying fixed income for nearly two years," noted Deluard. "But now hedge fund as well as retail bond inflows have ground to a halt, and mom and pop are ditching munis and junk. The more the infatuation with bond funds fades the more we fear the fallout will prove particularly ugly."

Broad adoption of lifetime income recordkeeping standards seen

In a recent SPARK Institute survey, more than 85% of the large retirement plan recordkeepers said they plan to use the Institute's information sharing standards and data records for the lifetime income solutions in retirement plans, according to Larry Goldbrum, the organization's general counsel.

More than half of the firms that plan to use the standards expect their record keeping systems to be ready to support them within the next 12 months.

The standards allow customer-facing record keepers to offer one or more products from unaffiliated insurance carriers; will facilitate portability of products when a plan sponsor changes plan record keepers (record keeper portability); and will support portability of guaranteed income when a participant has a distributable event in the form of a rollover to a Rollover IRA or as a qualified plan-distributed annuity (participant portability).

The information sharing standards document, "Data Layouts for Retirement Income Solutions (Version 1.0)," is posted on The SPARK Institute website < http://www.sparkinstitute.org/comments-and-materials.php>, Goldbrum said The SPARK Institute will also maintain a Q&A section on its website to address technical questions that may arise as the standards achieve increased utilization.

The SPARK Institute represents retirement plan service providers and investment managers, including banks, mutual fund companies, insurance companies, third party administrators, trade clearing firms and benefits consultants. Its members serve over 62 million participants in 401(k) and other defined contribution plans.

Guidance offered to plan fiduciaries on revenue-sharing

A new whitepaper from ERISA attorneys Fred Reish, Bruce Ashton and Summer Conley analyzes the obligation of fiduciaries with respect to the proper allocation of revenue sharing among participants and the obligation to disclose information about that allocation to the participants. It is entitled “Allocating Fees Among Participant-Directed Plan Participants.”

“While ERISA does not specify how plan expenses or the revenue sharing that helps pay those expenses should be allocated, it does require fiduciaries to act prudently in making the decision,” the attorneys said in a release.

“There are a number of workable and acceptable approaches, from pro rata based on account value, to per capita, to an emerging possibility that allocates revenue sharing to the accounts of the participants invested in the funds that make those payments.

“We are beginning to see the latter approach be used in larger plans using service providers with the resources to develop these sophisticated systems. The specific allocation method that fiduciaries choose may depend on which methods the service provider can accommodate.

“Whatever allocation method is used, fiduciaries must engage in a prudent process to consider an equitable method of allocation to avoid a breach of fiduciary duty. This likely means fiduciaries have an obligation to consider all available allocation methods when deciding how to properly allocate revenue sharing amounts.”

The whitepaper analyzes the issues related to the decision on how to allocate costs and the offsetting of revenue sharing, and discusses the obligation of fiduciaries to disclose the methodology to plan participants. The disclosure issue has come into sharper focus in light of the DOL’s proposed participant disclosure regulation.

Latest troubles in the Balkans involve pensions

Creating a “second pillar” retirement plan is no longer part of the pension reform plans for Bosnia and Herzegovina, the country’s government told the International Monetary Fund (IMF).

“Costs and complexity” were cited as major reasons for the change in the initial plan for the Republika Srpska, which with the Federation of Bosnia and Herzegovina makes up the country of Bosnia and Herzegovina.

Expenditure on public pensions has been one of the fastest-growing components of public expenditure in the two entities. In the Federation, it rose to 10% of GDP in 2009 from 7.7% in 2005; and in the Republika Srpska, to 9% of GDP from 7.8% over the same period.

“The transition to the second pillar has been ruled out as too costly and difficult in the near term,“ the government said. A third pillar had been created over the last few years and the country will see a major overhaul of the first pillar.

The first pillar overhaul will include a “further increase in the effective retirement age of men and women,” a system of awarding points for every year of employment, and an indexation “in line with the Swiss model,” where increases are pegged to an average of CPI and the wage indexes.

The pension reform strategy for the other part of the divided country, which was approved in summer, “still needs to incorporate an overhaul of privileged pensions” (such as allowing certain types of workers to retire early without loss of privileges), the IMF said.