The Bucket

By Editorial Staff *Wed, Jul 13, 2011*

Brief or late-breaking items from Morningstar, Milliman, Vanguard, Allianz Life, Great-West Retirement Services and MassMutual.

Morningstar adds asset allocation functionality to its direct platform for institutions

Morningstar, Inc., the provider of independent investment research, has added asset allocation and forecasting functionality to Morningstar Direct, a web-based global investment analysis platform for institutional investors.

Based on research from Morningstar and Ibbotson Associates Inc., its wholly owned subsidiary, the new tools allow investors to create optimal asset allocation strategies that take into account “fat-tailed” return distributions and measure downside risk.

In a release, Morningstar said:

“Mean-variance optimization (MVO) has been the standard for creating efficient asset allocation strategies for more than half a century and has become synonymous with Modern Portfolio Theory.

“But MVO is not without its shortcomings. Traditional MVO cannot take into account ‘fat-tailed’ or extreme asset class return distributions, which better match real-world historical asset class returns. This framework is also limited by its ability to only optimize asset mixes for one risk metric (standard deviation) and one reward metric (arithmetic return).”

The new asset allocation capabilities in Morningstar Direct allow users to choose from a number of return distribution assumptions to model asset class behavior, including traditional bell-curve shaped return distributions as well as “fat-tailed” and skewed distributions.

Users can then use scenario-based optimization to create optimal asset allocation strategies. They can elect to create strategies that will produce the highest expected return either for a given level of volatility or for one of several downside risk measures.

As the markets have shown—and reminded us most harshly again in 2008—real-life finance is often more complex than the traditional mathematical models used for portfolio optimization and forecasting,” said Xiaohua Xia, president of institutional software for Morningstar.

“Our new asset allocation functionality in Morningstar Direct offers institutional investors a flexible tool with multiple options to enhance and refine traditional mean variance optimization or take advantage of some of the most cutting-edge modeling.”

The new asset allocation functionality is included with all Morningstar Direct subscriptions. Introduced in

2001, Morningstar Direct equips more than 5,300 users at nearly 1,700 institutions globally with data and tools to interpret and communicate financial information.

Allianz Life introduces new FMO distribution model

Allianz Life Insurance Co. of North America has launched Allianz Preferred, a new model for distributing fixed index annuities (FIAs) that will support qualifying field marketing organizations (FMOs) with increased education, training and resources for third-party oversight, as well as access to exclusive products. The first of these products will be launched on August 2.

To qualify for Allianz Preferred, field marketing organizations must hire a formal Field Compliance Officer and Field Suitability Officer who participate in ongoing training from both Allianz Life and the industry. They must also agree to a review and approval process of advertising prepared by the FMO, including review of all non-Allianz Life materials by an Allianz Life-approved third-party ad review firm, which Allianz Life will pay for. FMOs also must meet certain production requirements and must not be affiliated with a distribution group.

Financial professionals who qualify and are contracted with Allianz Preferred may sell innovative Allianz Life products that are exclusive to the Allianz Preferred program.

“As we continue to see significant changes in the economic, regulatory and distribution environments that demand a bold response, the launch of Allianz Preferred is an important step,” said Allianz Life President and CEO Gary C. Bhojwani. “Allianz Preferred reflects our belief that when we invest in agents and FMOs that are most dedicated to a relationship of reciprocal commitment with Allianz, we strengthen sales practices, help ensure uniform compliance with regulations, and continue our high service standards for all policyholders.”

Allianz Life’s release also said:

“With FIA sales setting new records in 2010, securities licensed professionals are among the fastest growing FIA sales channel. FIAs were also the number one selling type of fixed annuity for the second quarter of 2010, a first for the industry according to LIMRA.

“These trends, along with more stringent regulatory standards – lower tolerance for replacement sales, greater scrutiny on source of funds for purchasing FIAs, and more oversight of advertising value-added services, recruiting and sales practices – require a new relationship model between insurers and FMOs, something that Allianz Preferred addresses.”

Rising rates improve corporate pension funded Status by $25 billion in June: Milliman

The 100 largest U.S. defined benefit pension plans suffered a $10 billion investment loss in June but still saw their funded status improve due to a $35 billion liability reduction, said Milliman, Inc., publisher of the Pension Funding Index. The $25 billion reduced the funded status deficit to $186 billion.

"Normally when assets decline we're in for a fall in pension funded status, but not this month," said John Ehrhardt, co-author of the Milliman Pension Funding Study. "In fact it's a rare combination: a funded status improvement driven by liabilities and in spite of a decline in assets. In the eleven years we have tracked this data, we have only seen this combination in a total of ten months."

Over the last 12 months, the cumulative asset return has been 15.0% and the Milliman 100 PFI funded status has improved by $182 billion, pushing the funded ratio from 74.2% up to 87.0% at the end of June.

Great-West Retirement Services expands sales force

Great-West Retirement Services has appointed Mark Berman as regional sales director for its Great Lakes market, reporting to Pete Margiotta, national sales director, said Chris Cumming, Great-West's senior vice president of defined contribution markets.

Berman is based in Chicago and is responsible for developing new business in the over $50 million corporate and nonprofit defined contribution market in Illinois, Michigan, Ohio, Indiana and Kentucky. He replaces Dan Schatz, who moved to a similar position in Texas.

Berman joins Great-West Retirement Services from Marshall and Ilsley Trust Company, where he served as vice president and sales director. Previously, he held defined contribution market sales positions at Principal Financial Group and ABN Amro.

He earned a bachelor's degree in business administration from Bradley University. Berman also holds FINRA Series 6 and 63 securities registrations and life and health insurance licenses.

MassMutual Retirement Services hires three relationship managers

MassMutual has added three new relationship managers to its Retirement Services sales and client management organization led by Hugh O'Toole.

Brian Curtin has been hired as a senior relationship manager effective June 13 and is responsible for mid-market customers in the northeast region. He is based out of southern New Hampshire/Boston as part of the Boston local team. Brian joined MassMutual from Putnam Investments, where he served in a relationship management role.

Tapas Ghosh has been hired as director of relationship management effective June 13 and is responsible for large market customers in the south-central region. He is based out of Raleigh, North Carolina as part of the North Carolina/South Carolina/Tennessee local team. Tapas brings with him a great depth of experience from prior director and relationship management roles with Fidelity Investments and The Vanguard Group.

Richard Wright has joined MassMutual's Retirement Services Division as a senior relationship manager effective June 20 and is responsible for mid-market customers in the greater New York/New Jersey metro area. Prior to joining MassMutual, Rich held several roles with Prudential Financial, Inc., with responsibilities in participant solutions, internal sales and relationship management.

Vanguard profiles 401(k) trends of eight industries

Employees of utility companies who participated in their 401(k) or other defined contribution plan at Vanguard in 2010 tended to save more in their plans, participants in small ambulatory health care firm plans invested more of their plan assets in target-date funds, and participants in the plans of large mining companies had the highest average account balances.

The findings are part of Vanguard's *How America Saves 2011*, an annual report that is a widely used barometer of retirement-planning trends. Using 2010 data, *How America Saves 2011* looks at the overall patterns of more than 3 million participants in plans recordkept at Vanguard.

For the first time, supplemental industry reports to *How America Saves* analyze the behavior of plan participants in eight industries, including the ambulatory health care; finance and insurance; information services; legal services; manufacturing; mining, oil and gas extraction; technology; and utility industries. Plan sponsors in these industries can use a new benchmarking tool to compare their plan data with others in their industry and Vanguard plans overall.

Here are notable trends in participant behavior across these industries:

- **Plan participation.** The plans of small utility firms (fewer than 1,000 employees and 92% participation rate) and large mining companies (more than 1,000 employees, 88% participation rate) had the best participation among the industries in the report. Vanguard plans as a whole had a 74% average participation rate.
- **Auto enrollment**. Vanguard research has found that more employers (plan sponsors) are adopting automatic enrollment plans as a way to boost participation among employees. Auto enroll plans can have a variety of features. Besides the actual automatic enrollment, employers can choose to include an automatic annual increase in the payroll deferral rate (contribution rate) for participants and can choose to automatically earmark participant contributions to a default investment, such as a target-date fund, if they don't choose an investment themselves. Employees always have the ability to opt out of the entire auto enroll program or individual features. Auto enroll plans were far more prevalent at large manufacturing companies (more than 1,000 employees) than at any other type of company in the report and Vanguard plans broadly. Sixty-seven percent of large manufacturing

companies (more than 1,000 employees) had an auto enroll plan versus 24% for all Vanguard plans. At 6%, small ambulatory health care firms (fewer than 250 employees) were least likely to have an auto enroll plan.

- **Contribution rates.** In a typical DC plan, employees are the main source of funding, contributing to their plan via payroll deferrals. On average, participants in the plans of both small and large utilities (more than 1,000 employees) saved at a higher rate than their counterparts in the other industry plans as well as all Vanguard plans. Their 9.0% and 8.2% average contribution rate, respectively, surpassed the 6.8% average contribution rate for Vanguard plans in aggregate. The plans of large manufacturing companies lagged with a 6.5% average contribution rate.
- **Target-date funds.** Target-date funds (TDFs), which are broadly diversified (stock and fixed income) funds that become more conservative the closer an investor gets to the fund's stated retirement date, have increasingly become a dominant retirement investment option. Large plans tended to offer TDFs more so than smaller plans; in the lead was the 93% of large ambulatory health care firms that offered TDFs, far surpassing the 79% of all Vanguard plans offering the funds. The standout in terms of small industry plans was utilities, 94% of whom offered TDFs. However, among participants using TDFs, those in the smaller plans covered by the reports usually invested more of their assets in the funds. For example, 62% of participant assets in small ambulatory health care firm plans were invested in TDFs, compared to the 41% of assets invested in TDFs by participants across all Vanguard plans offering the funds.
- **Account balances.** At $237,081, the average account balance of participants in plans of large mining companies was significantly higher than the average account balance of participants in Vanguard plans collectively ($79,077). In contrast, the lowest average account balance was the $63,697 for participants in large information services company plans (more than 1,000 employees). It is important to note, however, that current plan balances are only a partial measure of retirement preparedness for many participants. A more accurate reflection of retirement readiness includes the participant's plan balance in addition to age, plan tenure, expected Social Security income and assets that may be in personal savings, other employer plans, or a spouse's retirement plan.

The *How America Saves 2011* industry benchmark reports are based on Vanguard's 2010 recordkeeping data for nearly 2.2 million participants in 1,552 qualified defined contribution plans offered by companies in the ambulatory health care; finance and insurance; information services; legal services; manufacturing; mining, oil and gas extraction; technology; and utility industries.