

KAROUB

ASSOCIATES

TO: Senate Appropriations Committee Members

FROM: Matt Kurta

DATE: September 7, 2016

RE: HB 4338

Please find attached written testimony from our client, Voya Financial, in opposition to House Bill 4338.

KAROUB

ASSOCIATES

September 7, 2016

Members of the Senate Appropriations Committee,

My name is Brian Merrick, and I am a Senior Relationship Manager at Voya Financial. I would like to thank the Senate Appropriations Committee for the opportunity to provide testimony in opposition to House Bill 4338. Our opposition to this bill is grounded on three primary issues:

1. The State of Michigan 401(k)/457 Plan (Plan) is already subject to competition through a competitive bid process, last executed in 2013.
2. The size, scale and complexity of this Plan is not readily replicated – requiring institutional-level investments, very customized recordkeeping programming, and comprehensive plan sponsor reporting.
3. Participants already have choices including the following:
 - o Access to LOCAL representatives who are 100% dedicated to the State's plan and provide advice that is impartial and without conflict, and
 - o The ability to work directly with their personally selected Registered Investment Advisor.

With respect to our background, over the last 20 years, Voya has partnered with the Office of Retirement Services to provide retirement benefits for hundreds of thousands of public employees within the State of Michigan. Our services have evolved and improved over this time, as these Plans have grown and changed. We have maneuvered quickly over the last 5 years to build custom solutions mandated by State legislative changes, including support for both hybrid and defined contribution plans for Michigan public school employees. As with many public retirement plans, our service model has been subject to competitive bid processes, as recently as 2013. Through each of these competitive rebids we have made service commitments and fee concessions to make sure that the State's 457 and 401(k) plans are competitive, and that we are providing the best service possible for plan participants.

With respect to House Bill 4338, we want to point out certain unique services the Plan offers due to the size and scale of over \$7 billion in assets not available when splitting such a plan into smaller programs as the bill proposes:

1. **Institutionally priced investment options**, including mutual funds, stable value, collective investment trusts, and separate accounts that are not typically available in a retail or in small plans:
 - These investments are directed by the State Treasurer's office
 - We do not provide a pre-determined investment lineup for the Plan
 - We do not require any revenue directly off the investments (such as revenue sharing or 12b-1 fees)

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- Any revenue generated by the funds is returned to the plan and plan participants – and not kept by Voya
2. **Advice:** Participants who seek advice on how much to invest or how to manage their investments in their Plan can speak or meet with a Voya Retirement Advisor. Voya Retirement Advisors can offer **unbiased** investment advice using tools available through our relationship with Financial Engines, and independent investment advisor – **at no cost**. Participants who want to allow an advisor to manage their 457/401(k) account ongoing can receive this managed account services for a fee of 0.30% (30 basis points). This is a fraction of what a retail advisor or an advisor in a smaller plan would require to provide a similar service, as their fees are typically over 1% (or 100 basis points).
 3. **In Person Education:** We provide Plan and investment education support to participants throughout the entire State. Our team delivers educational seminars on the plan, and conducts one on one appointment with plan participants – **in their communities**. They are FINRA registered and able to provide in-person investment advice within the plan using our Financial Engines tool.
 4. Voya representatives for the Plan are fully dedicated only to this Plan which represents 100% of their job:
 - They are **salary based** education representatives,
 - They do NOT sell retail products,
 - They do NOT receive commissions or revenue sharing,
 - They have NO incentives to roll participant accounts outside of the plan, and
 - Therefore there are NO CONFLICTS of interest with these representatives.

Lastly, when the specific concern about employees' desire to work with their own personal financial advisor was raised to our attention, we in fact developed a solution to address this by allowing RIAs to manage participant accounts through the Plan's self-directed brokerage account

To reiterate, we understand that this bill was originally drafted to allow for participants to have choices. Yet, participants already have numerous choices:

1. They can choose whether not to contribute to the State's 457 plan
2. They can choose whether or not to contribute to their school's 403b plan
3. They can choose a hybrid of contributing to both plans
4. They can choose which funds within those plans to invest
5. They can choose whether or not to seek and pay for Advice – both inside and outside of their plans – through one of our dedication education specialists, or through their own local Registered Investment Advisor

For all of these reasons, in addition to concerns raised by the Office of Retirement Services, we oppose this bill, and believe it is frankly not necessary. Thank you for the opportunity to testify, and I welcome

any questions with respect to HB 4338 or any of the services we currently provide to state and school employees in Michigan.

Sincerely,

Brian Merrick

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