

Money Market Reform and Your Retirement Plan: Issues and Considerations for Plan Sponsors



With the objective of offering greater protection and transparency for fund shareholders and promoting stability in the financial markets, the Securities and Exchange Commission (SEC) recently issued rules which will change money market funds as we have known them. These rules leave “government” money funds as they are, but mandate changes to “retail” and “institutional” money funds, including delineations in pricing, liquidity and investment composition. Moreover, it introduces the utilization of a floating net asset value (NAV) and the ability to impose fees or suspend redemptions (known as “gates”) during a time of heightened market stress when liquidity is challenged.



For Plan Sponsor Use Only. Not for Public Distribution.

The VALIC position

After careful and thorough consideration of the new money fund regulations, VALIC has concluded that it will support government money market funds on its recordkeeping platform. However, we believe the utilization of funds which must impose gates and fees is contrary to the liquidity that investors seek in money market funds so we will no longer support nongovernment money market funds.

VALIC offers options such as the fixed account option* issued by VALIC or a stable value option, which may offer higher yields than money market funds and might be an alternative to consider in lieu of nongovernment money market funds.

*Fixed annuities are long-term investments that offer a fixed rate of return guaranteed by the issuing insurance company.

Plans on the VALIC system that currently utilize money market funds that are retail or institutional will need to select a new option or be defaulted into another alternative.

VALIC Company I and VALIC Company II money market funds will become government funds, Government Money Market I Fund and Government Money Market II Fund. The VALIC investment team will continue to communicate with our fund company partners and will provide a list of appropriate options. Each plan sponsor will have a selection list from which to choose options. We also can work with your current investment advisor on other available options that they may suggest as well.

While we provide an outline of the new regulations in the Appendix, below is a brief summary of the characteristics of each type of money fund relevant to a plan sponsor:



A. Government Money Market Fund

- a. Maintain a stable NAV
- b. No requirement to impose gates or fees on withdrawal
- c. Must invest 99.5% of total assets in cash, U.S. government securities or in repurchase agreements that are collateralized by U.S. government securities or cash



B. Retail Money Market Fund

- a. Maintain a stable NAV
- b. Must impose gates and fees during periods of market stress
- c. Investors are limited to “natural persons” generally meaning individuals. This may allow for continued use by certain types of plans [e.g., 401(k) plans] but not by other types of plans, including 403(b) plans



C. Institutional Money Market Fund

- a. Will have a floating NAV
- b. Must impose gates and fees during periods of market stress
- c. Have beneficial owners that are not a natural person (e.g., corporations, partnerships, etc.)

Plan Sponsor Considerations

In light of these reforms, we believe plan sponsors should seriously consider the following questions:

- 1) What should be the capital preservation offerings in your fund lineup? Typically this comprises a fixed account option and/or a money market fund. Should these be the offerings going forward?
- 2) What role does a money market fund serve for participants and the plan? Do you currently use a money market fund for a forfeiture account or for other plan purposes? How will these new rules impact these plan functions?
- 3) What is the strategy for communicating changes to participants?

Your VALIC relationship manager stands ready to discuss these changes with you and to work with you as you evaluate your capital preservation offerings.



Appendix

The New Money Market Regulations

Under the new rules, money market funds will be required to:

1. Classify themselves as either (a) Retail, (b) Institutional, (c) Government, or (d) Tax-exempt

- a. Retail money market funds have policies designed to limit investors to “natural persons,” generally meaning individual people. This may allow for continued use by certain types of plans [e.g., 401(k) plans] but not for other types of plans, including many 403(b) plans.
- b. Institutional funds have beneficial owners who are not natural persons (e.g., corporations, partnerships, etc.).
- c. Government money market funds invest at least 99.5% of total assets in cash, in U.S. government securities, or in repurchase agreements that are collateralized by U.S. government securities or cash.
- d. Tax-exempt funds are not relevant to retirement plan investors.

2. Implement a floating net asset value (NAV)

- a. Institutional money market funds will be required to round their NAVs to four decimal places, effectively creating a floating NAV.
- b. Retail or government money market funds will continue to be allowed to round their NAVs to two decimal places, effectively allowing the fund to maintain a stable \$1 NAV.

3. Implement redemption fees and gates

- a. Retail and institutional money market funds are required to maintain at least 10% of their assets weekly liquid (assets maturing in seven days or less). If the weekly liquidity falls below 10%, a default redemption fee of 1% is automatically applied (subject to override by the fund’s board).
- b. Government funds are not required to implement fees and gates but may elect to opt in.
- c. If the weekly liquidity falls below 30%, the fund’s board (board) may assess a redemption fee of up to 2%.
- d. Additionally, if the weekly liquidity falls below 30%, the board may temporarily impose a gate. The fund may only impose gates for up to 10 days or until weekly liquidity returns to 30% or more.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. While the fund seeks to preserve the value of your investment at \$1 per share, it is subject to potential loss of principal.

SAVING : INVESTING : PLANNING

Real strategies Let us put real retirement solutions to work for your organization and your employees

CALL 1-800-972-6978 **CLICK VALIC.com**

Securities and investment advisory services offered through VALIC Financial Advisors, Inc., member FINRA, SIPC and an SEC-registered investment advisor.

Annuities issued by The Variable Annuity Life Insurance Company. Variable annuities distributed by its affiliate, AIG Capital Services, Inc., member FINRA.

VALIC represents The Variable Annuity Life Insurance Company and its subsidiaries, VALIC Financial Advisors, Inc. and VALIC Retirement Services Company.

Copyright © The Variable Annuity Life Insurance Company.
All rights reserved.
VC 27378 (02/2016) J97887 ER



VALIC®