

MEMORANDUM

Date: May 2024
To: State of Delaware Office of the State Treasurer (OST)
From: CAPTRUST
Re: Deferred Compensation Plans: Voya's Review of Outside Providers

I. Background

For the State of Delaware deferred compensation program, the plans' recordkeeper (Voya) partners with The Charles Schwab Corporation, Inc. ("Schwab"), and Morningstar Investment Management ("Morningstar") to provide for self-directed brokerage account (SDBA) services and managed account advisory services, respectively. With the contractual agreement with Voya, OST agrees to use whichever providers Voya selects for these services for the length of the five-to-eight- year contract period, if the OST wishes to make the services available to the retirement plan members. The below description provides details regarding the ongoing review conducted by Voya with respect to these providers.

II. Considerations

The SDBA is currently offered through Schwab. Voya monitors Schwab's call center's service statistics on a monthly basis, as compared with the service level agreement, and certifies them with Voya Institutional Trust Company. Although Voya's Product Management team does not conduct physical due diligence visits, Voya speaks with Schwab's relationship team on a daily basis. Voya has weekly meetings to address current issues and monthly meetings to discuss any global concerns and/or strategic product initiatives. Additionally, Voya's day-to-day support team in Technical Services speaks with Schwab daily and reviews transfer files and daily reports. Voya also completes a third-party risk and security review annually with Schwab.

In November 2019, Schwab and TD Ameritrade Holding Corporation ("TD Ameritrade") announced that they had entered into a definitive agreement for Schwab to acquire TD Ameritrade. Regulatory approvals were obtained, and the transaction became final in October 2020. Over the following three years, the platforms were integrated and members began to see the name Charles Schwab instead of TD Ameritrade. Schwab and TD Ameritrade collaborated to leverage the strengths of both platforms. The conversion was successfully completed on September 5, 2023.

CAPTRUST recently analyzed the fees associated with the Schwab brokerage account as compared with other leading brokerage account providers. The annual fee for the account falls in the middle of the range of fees charged for such accounts. The transactions and other account associated fees are similarly situated in the middle, or at the lower end, of the fee spectrum.

Separate from these fees related to the account itself, some users of the Schwab SDBA may be working with an advisor helping them make their investment decisions. Schwab can have the fees for these advisors be paid from the individual user's SDBA assets. If the advisor is affiliated with the Schwab Advisor Center, Schwab can direct payment from the SDBA assets for their fees.

For Morningstar, Voya maintains an oversight review process for the managed account offering, *Retirement Manager*. Voya has engaged in formal RFP processes historically but does not have current plans to repeat that process. Voya Retirement Advisors (VRA) performs periodic benchmarking of the advisory services programs – member experience, functionality, ability to integrate with and support the core retirement plan offering, methodology, pricing, and overall effectiveness in improving member outcomes, against other programs available in the marketplace. VRA has recurring meetings with Morningstar to ensure that the services are communicated, integrated and efficiently delivered as part of the overall plan services. Voya considers alternatives and is continually reviewing and assessing the current advisory services solutions, as well as those available in the marketplace.

In addition, Voya maintains an open dialogue with many of the top advisory services providers in order to maintain an understanding of the evolution of their services and ensure Voya's offerings remain competitive. Voya works with its advisory services partners to achieve that goal and will make available other provider offerings to the extent that it determines there is an alternate solution with differentiated and superior services and outcomes.

In 2023, Voya enhanced its delivery of the managed account service. While member allocations and recommendations will continue to be powered by Morningstar and its methodology, Voya offers Investment Advisor Representatives to speak with members in support of the managed account. Voya acts as the fiduciary in providing this service. There is no additional charge for this enhancement.

CAPTRUST recently conducted an analysis of the fees associated with the Voya managed account as compared with other providers of managed account services. While the fees charged fall above the average among the managed account providers at lower account balances, as a user's assets grow, the associated fee declines relative to other providers. With higher account balances, the Voya managed account fee falls in the middle of the other marketplace providers.

III. Conclusion

Voya's ongoing evaluations of its outside providers help confirm that the plan members have access to competitive offerings related to managed accounts and self-directed brokerage accounts. The associated fees do not appear unreasonable for the services provided. Given the limited usage of these services by plan members, the partnership with these providers is not likely to drive any decisions related to the recordkeeper selected for the plan. Nevertheless, it is important to confirm that the providers offered are of a quality to merit incorporation of the services into the plan, and both Schwab and Morningstar remain leading providers in the market for their respective services.