Preparing for the DOL Fiduciary Rule

VALIC's commitment to Plan Sponsors and participants will remain at the forefront under the new DOL Fiduciary Rule (the Rule). In preparing for implementation of the Rule and related guidance, we are:

- Fully supporting Plan Sponsors with information and non-fiduciary platform services and products
- Prepared to act as fiduciary to plan participants while continuing to provide education and information about retirement readiness
- Providing financial advisors with tools to help make client engagement consistent and compliant with the DOL Fiduciary Rule, in order to continue to assist plan participants at key decision points such as a distribution event

Activity	Requirement	VALIC Action
Implementation	Applicability date April 10, 2017 Final effective date January 1, 2018	Targeting initial adjustments to services, products and materials for April 10, 2017.
Plan Sponsor/service provider relationship	Continuity of service and support	VALIC will continue to provide important non-fiduciary platform products and services, record keeping, compliance and administrative services. And we can support the services of a third-party plan fiduciary, where desired by the Plan Sponsor.
Service provider/ participant relationship	Continuity of service and support	For plan participants asking for advice, VALIC Financial Advisors, Inc. (VFA) will provide important fiduciary services to plan participants, such as • Our Guided Portfolio Services® (GPS) program • Asset allocation recommendations • Guaranteed income planning VALIC financial advisors will also continue to provide all participants with education, information and one-on-one service in non-fiduciary interactions.

What is the DOL Fiduciary Rule?

The new Rule mandates some important changes to how companies like VALIC and VALIC Financial Advisors, Inc. work with Plan Sponsors and participants in ERISA plans and IRAs. The Rule:

- Establishes a new and more expansive definition of "fiduciary advice"
- Revises the definition of investment "education"
- Puts new requirements and restrictions in place regarding "fiduciary advice"

The changes are a result of revisions the United States Department of Labor (DOL) has made to its existing fiduciary advice regulation, and to some related DOL guidance.

The Rule becomes generally effective on the regulation's "Applicability Date," which is April 10, 2017. However, compliance with some elements of the related guidance is not required until January 1, 2018.

Plan Sponsors should be sure they are informed and prepared, and that their service providers are prepared, too.

VALIC stands ready to continue to serve Plan Sponsors and participants in compliance with these new requirements.

What is the overall effect of the Rule?

The DOL Fiduciary Rule puts new requirements in place designed to ensure that when working with a client, a service provider and/or a financial advisor acts in the client's best interest and that potential conflicts of interest are eliminated. **The primary focus of the Rule is ERISA retirement plans and Individual Retirement Accounts (which impact rollovers from both ERISA and non-ERISA plans).**

What plans and accounts may potentially be affected by the new requirements?

The new requirements apply to a variety of recommendations under:

- ERISA retirement plans
- IRAs including those held in any qualified retirement plan
- SEP and SIMPLE IRAs
- Non-ERISA self-employed ("Keogh") and other owner-only plans
- Welfare benefit plan products with an investment element, such as HSAs

What does the DOL Fiduciary Rule include?

- A revised regulation that establishes a new and more expansive definition of "fiduciary advice"
- Updated guidance defining "education," an important exception to the definition of "fiduciary advice"
- Revisions to certain prohibited transaction exemptions previously issued by the DOL
- An entirely new exemption, the "best interest contract exemption" (BICE)

What is a "platform" under the Rule?

The Rule refers to "a platform or similar mechanism from which a plan fiduciary may select or monitor investment alternatives." This can include a variety of different platforms, including VALIC mutual fund and annuity investment and record keeping platforms. Qualifying platforms continue to fall under the "non-fiduciary" definition of permitted interactions between Plan Sponsors and service providers.

Impact on Plan Sponsors and their participants

Plan Sponsors will see the impact of the Rule when it comes to support provided by plan service providers in two primary areas:

- In their own interactions with the plan service provider and
- If applicable, in the interactions of the plan service provider with plan participants
  - Participants will continue to be able to receive general education and information from plan service providers, however, there will be increased disclosure and more specific requirements around the definitions of "advice."

The following tables go into more detail about the Rule and what it means for Plan Sponsors and their participants.

How might the Rule affect Plan Sponsors' interactions with their service provider(s)?

What **the Rule** requires

While certain plan service providers today serve the Plan Sponsor in a fiduciary capacity – including those chosen to specifically advise the Plan Sponsor in the selection of investment products and arrangements – many service providers serve the Plan Sponsor in a non-fiduciary role.

Such non-fiduciary services can be integral to the smooth functioning of the plan. The Rule allows such non-fiduciary services to continue uninterrupted, subject however to some specific limits and requirements.

Important examples of such non-fiduciary services can include:

- Non-discretionary record keeping and education services
- Making available an investment platform within the scope of the new platform exception
    - Many investment arrangements currently available to plans generally can either qualify as platforms themselves, or as part of a platform, including: mutual fund platforms, group variable annuity platforms, designated investments for forfeitures or other unallocated amounts, self-directed brokerage windows, IRAs for automatic rollovers, QLACs, etc.
    - Some platforms also will include built-in connectivity to one or more third-party fiduciaries, including 3(16) administrators, 3(21) investment advisors, and/or 3(38) investment managers that the Plan Sponsor can select to provide additional services to the plan.
    - The platform exception also can include assistance with investment identification and monitoring, if the plan fiduciary provides the identification and monitoring criteria.
- Recommendation or offers made to a plan fiduciary, or selected third party engaged by the plan, that qualifies as a fiduciary with financial experience
- Response to a request for proposals (RFP) or similar request

At a minimum, many of these continued exclusions from fiduciary status at the plan level will involve new disclosures. Some will also require confirmations from the plan fiduciary, whether that is the Plan Sponsor or a third-party fiduciary.

VALIC response

We will continue to offer platform services and products, compliance administration and support.

- Record keeping
- Administrative services
    - Plan document
    - Participant services
- Education
    - Online and mobile experiences
    - Educational seminars
- In-person access to a financial advisor
- Other offerings
    - Availability of default investment alternatives and default rollover alternatives
    - Integration with available 3(21) investment advisors and/or 3(38) investment managers
    - Non-fiduciary support in monitoring existing plan investments and identifying potential investment alternatives, based upon designated criteria provided by Plan Sponsors

Continuing to support plans in a non-fiduciary capacity helps allow VALIC to continue to provide the broad range of investments and services that are recognized by Plan Sponsors as important to the success of their plans. **For any Plan Sponsor wishing to employ the services of a third party as a plan fiduciary, VALIC will support the third-party plan fiduciary services wherever possible.**

What might the Rule change for plan participants?

What **the Rule** requires

Some services to plan participants will continue to be "non-fiduciary:"

- Education
- Information
- Many self-serve calculators
- Customer service
- Auto enrollment

Services that were previously defined as "fiduciary" – such as managed investment programs (e.g., GPS) – will remain so.

Some services and transactions that have previously been considered "non-fiduciary" are redefined as fiduciary under the Rule, such as:

- Certain aspects of assisted enrollment
- One-time allocation advice
- Recommendations of a third-party investment advisor
- Distribution or rollover recommendations

The Rule applies primarily to three types of recommendations, under the general topic of investment advice. They include recommendations to:

- Buy, sell, or hold an investment in the plan or IRA
- Engage unaffiliated third-party investment advice provider
- Take a distribution or effect a rollover

VALIC response

VALIC will continue our long-standing commitment to educating and assisting plan participants in achieving important objectives including:

- Saving for the future
- Making adequate preparations for potential future income and financial needs
- Balancing saving for the future with current spending needs

VALIC is fine-tuning its procedures, and all advisor-client transaction protocols, to ensure compliance with the DOL Fiduciary Rule and new fiduciary standard.

Much of the current interchange between our financial advisors and participants is:

- Educational
- Informational
- Procedural

We will also provide tools to help participants evaluate key decisions with the help of a financial advisor, such as:

- Am I saving enough?
- How much will I need for retirement?
- How do I plan for income in retirement?

For transactions that fall under the definition of fiduciary in the new DOL Fiduciary Rule, VALIC Financial Advisors, Inc. will provide:

- Hard-copy and electronic "best interest" disclosures and contracts, where applicable
- Protocols for discussion and disclosure with clients

As noted, this will occur in instances such as:

- Certain enrollment-related recommendations
- Advice for investment allocations
- Assistance with distribution decisions

VALIC financial advisors with VFA and relationship managers will be continually available for questions and clarifications.

What is the "best interest" standard under the DOL Fiduciary Rule?

The "best interest" standard is a cornerstone of the DOL Fiduciary Rule and associated guidance. It is especially pertinent in situations where compensation to the advisor, his or her firm, and an affiliate might vary depending on a recommendation made by the advisor.

The "best interest" requirement generally means that a recommendation must be:

- Prudent
- Based on the investment objectives, risk tolerance, financial circumstances and needs of the retirement investor
- Made without regard to the interests of a party other than the plan or the plan participant

What is the "best interest contract exemption" (BICE)?

One new alternative for complying with the DOL Fiduciary Rule is the **"best interest contract exemption" (BICE).**

What **the Rule** requires	VALIC response
Under the general intent of the BICE, a service provider and/or advisor will provide a "best interest disclosure" ("BID") to a participant prior to a transaction. Once the BID is provided, the advisor (or provider) may receive different compensation based upon the recommendations made, provided that the BICE requirements are met. The purpose of those requirements – and the BICE disclosures and agreements, as applicable – is to ensure the differences in compensation do not affect the advisor's recommendations. Included in the requirements are the impartial conduct standards noted earlier, namely: • Application of "best interest" standards: prudence, suitability, and making recommendations without regard to the interests of anyone other than the client; • Not receiving more than reasonable compensation; and • Not making misleading statements. Plan service providers relying upon BICE – in many cases, the distribution firm supporting the platform or product provider — will provide the BID to each affected plan participant. In circumstances where the plan includes both active and inactive (or "legacy") investment arrangements, the BID may include some or all of the inactive investment arrangements. Investment arrangements not covered by the BID are likely to be treated as grandfathered.	VALIC will provide all participants in retirement plans with individual copies of the "best interest disclosure" (BID) prior to the Applicability Date for the Rule, April 10, 2017. Also, VALIC financial advisors will be rigorously trained in the conditions for implementing an IRA "best interest contract" (BIC) for a participant seeking or considering a rollover distribution, and will have access to both electronic and hard-copy versions of the contract for use with participants. Supporting our long commitment to our clients' best interests, VALIC continues to develop ever more advanced tools to assist our advisors in documenting compliant and consistent client engagement. VALIC is working with third-party experts in developing a suite of sophisticated and powerful tools aimed to help participants understand their choices in financial decisions. This includes both leading edge new tools and enhancements to existing tools, to assist in: • The timely provision of a best interest disclosure to plan participants, or a best interest contract to IRA investors; • The identification of retirement income needs, and alternatives for better meeting those needs; • The prudent allocation of investment accounts

Why all of this is important to you, our Plan Sponsors

As the general effective date for the new DOL Fiduciary Rule approaches, you can expect to hear more about:

- How the new standard will affect the services we provide, including the scope of services, disclosures, and new requirements
- How we will be responding to the new requirements

VALIC remains committed to providing important plan services to both Plan Sponsors and plan participants. You will be hearing more from us as we get closer to April 10, 2017, including how we will continue to support:

- You as Plan Sponsor, with important non-fiduciary services in accordance with the provisions of the DOL Fiduciary Rule
- Your plan participants, with continuing education on retirement readiness and an expanded set of fiduciary services provided by VALIC Financial Advisors, Inc.

What you should do

For services that have been redefined as fiduciary, find out if your service provider(s) will:

- Continue to provide the service, now in a fiduciary capacity
- Cease providing the affected services
- Provide them in a more limited way to maintain non-fiduciary status, such as limiting interactions to education

This may include, for example, a confirmation that services are appropriately limited in order to remain non-fiduciary. It may also include a review of any service reductions that might result (while ensuring that needed services are provided) and that reasonable compensation is paid for those services.

VALIC is in the process of preparing additional information and tools for your convenience which will be ready soon. As you prepare for implementation of the Rule, we are here to partner with you.

Real strategies Let us put real retirement solutions to work for your organization and your employees
CALL 1-800-972-6978 **CLICK** VALIC.com

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