

DTCC Concept Paper – 403b Information Sharing

OVERVIEW:

Regulatory Driver:

Regulations applicable to the 403b marketplace take effect 1/1/09 and require information sharing amongst vendors (insurance carriers and mutual fund companies) and employers/plans, their aggregators and TPA's. The information sharing requirements include data passed from the vendor to the employer/plan as well as from the employer/plan to the vendor and are intended to facilitate supervision by the employer of employee plan activities such as contributions, withdrawals, loans, etc.

SPARK Standards:

The SPARK Institute has worked with its members to create draft standard layouts to facilitate the new information sharing requirements. These standards are open to industry utilization.

The SPARK layouts include a two-way data flow – vendor to employer and employer to vendor including:

- Vendor File Detail Records for Employers or their representatives
 - Basic Account Data
 - Deferral Limit Monitoring Data
 - Required Minimum Distribution Data
 - Hardship Withdrawal Data
 - Employer Contribution Restriction Grandfathering Data
 - Non-Emergency Withdrawal Data
 - Loan Data
- Employer File Detail Records for Vendors
 - With Remittance Data (contributions with census data)
 - Without Remittance Data (remittance data sent separately)

DTCC Involvement:

A key desire of industry members is to establish a central data clearing facility to link all parties sharing data (in lieu of establishing proprietary links for every plan/vendor relationship). DTCC was approached by its Insurance Carrier Steering Committee in 2007 to look into offering a centralized solution for the 1/1/09 requirements. Through customer interviews and its existing Mutual Fund Services relationship, DTCC was referred to The SPARK Institute to evaluate the opportunity to implement a solution based on the SPARK standard layouts.

Key Assumptions:

- Expected volumes may be very large (millions of records to manage)
- Cost must be affordable for all communicating parties
- Standards are open and solution must be accessible to marketplace at-large
- File data includes NPI (Non-Public Information), so data security is critical

DTCC PROPOSED SOLUTION:

Industry members have indicated that two distinct data flows are necessary to facilitate information sharing requirements – “point-in-time” and “request/response transaction based”. DTCC will look to utilize the SPARK standard layouts to provide solutions for both flows.

Point-in-time

Point-in-time processing will provide a periodic “snap shot” of annuity contract and/or mutual fund information related to individual employee 403b investments. Industry members have discussed providing a monthly file including all employee account information relative to the employer’s supervision of the plan. DTCC would not monitor or control the actual file frequency, but would provide the mechanism for vendors to send high volume “snapshot” files at periodic intervals as agreed upon by the various trading relationships.

DTCC will build functionality, utilizing the SPARK standard layout, to support multi-plan data routing directed by the various vendors. Data will be compiled by the vendors, grouped by plan, to facilitate DTCC routing to the intended recipients. Recipients of data may be the plan itself or a designated intermediary such as an aggregator or TPA. DTCC protocol for routing data will envelope the SPARK standard layout to manage the routing process.

<Flow diagrams will be provided at the meeting>

Questions:

- Is the point-in-time data flow only relevant for vendor to plan data, or would it also apply to information to be passed from plan to vendor?
- The point-in-time solution appears to be necessary for initial data population and periodic synchronization purposes – is this assumption correct, or will this be used in other capacities?
- Is there a need for basic financial (withdrawal) information that is separate from the employee data? (e.g. PVF versus PFF)

Request/Response Transaction Based

Request/response processing will provide real-time or same-day functionality to facilitate a request by the employer for current annuity contract and/or mutual fund information needed to supervise and process employee transaction requests (e.g. loans, withdrawals). This functionality may be offered real-time or in a multi-batch daily cycle schedule to offer employers access to up-to-date information on an employee’s 403b investments. Employers would query all applicable vendors at the time of an employee request to obtain and aggregate the information needed to

determine the parameters of the request (e.g. maximum loan amount available, withdrawal restrictions, etc.).

DTCC will build functionality, utilizing the SPARK standard layout, to support multi-vendor and multi-pan data routing. The SPARK layouts do not currently include a “request” layout, so this would need to be defined and written into the standard. Data will be compiled by the plans - grouped by vendor, and by the vendors - grouped by plan, to facilitate DTCC routing to the intended recipients. DTCC protocol for routing data (e.g. DATATRAK,, AUTOROUTE, and applicable file headers) will envelope the SPARK standard layout to manage the routing process.

<Flow diagrams will be provided at the meeting>

Questions:

- What does the request transaction look like?
- Does the data need to be real-time, or will a multi-batch daily cycle suffice?
- Should DTCC look into building an online request solution, including a report response, for smaller plans (possibly phase 2)?
- Will responses need to be monitored (e.g., if request sent to 5 vendors, should DTCC monitor and track that 5 responses are received?)
- Is there a need for a date range or single employee (SSN) level on the request?
- How will employers know which applicable vendors to query to satisfy the employee request?
- Does the employer have a table of the applicable vendors by employee or is there another mechanism to poll the correct vendors?

General Considerations/Comments:

- DTCC will apply its core competencies including centralized data routing, editing for compliance to industry standard layouts, and data security when offering these solutions.
- The SPARK task group has defined file layout conventions within the standard layout documentation including the following (these conventions should be validated for DTCC implementation purposes – DTCC has heard some alternative preferences):
 - The extract file should be an ASCII file that is pipe “|” delimited, with no spaces between the data element and pipe at either end.
 - The file will be variable length.
 - In order to maintain file layout consistency, all fields, including null fields, must be provided. Note that multiple loans would be reported as recurring loan components [one set for each loan] with a single account record, rather than repeating records for the same account.
 - Filename: *VendorName/EmployerName/Aggregator_YYMMDD_HHMMSS.TXT*

- Identifying the data source (Vendor, Employer or Aggregator) and creation date of the data. A Vendor is the Investment Provider, a.k.a.”IP”. An “Aggregator” is a firm (e.g. TPA) responsible for Vendor recordkeeping/administration and/or the consolidated platform for administering a Retirement Plan(s) on behalf of an Employer(s). Some Vendors may also provide Aggregator services. A date/time stamp is important in case replacement files are created. Example: VendorABC_081001_110503.TXT.
 - All numeric fields should have an explicit decimal point. All amounts on the Part II – the Vendor detail file (basic Account, Hardships, Loans, and Non-Emergency Withdrawals) represent the latest available data and therefore are positive amounts; no sign is necessary.
 - All date fields should be formatted as YYYYMMDD.
 - Null fields should contain no values/spaces between delimiters.
- DTCC membership is required to utilize its services. Membership exists for majority of the vendors. Plans/employers are not current members, but DTCC relationships do exist for some of the aggregators and TPA’s in this space. Industry members will need to define the “universe” of anticipated DTCC solution users to allow DTCC to evaluate necessary membership/accessibility options for plans and other anticipated users of the service.
 - Existing DTCC connectivity may be utilized for current members; new connectivity would need to be established for those who currently do not have a relationship with DTCC. Connectivity options include the traditional dedicated data lines, dial up and Open Internet options depending on the solutions to be provided.
 - DTCC will need to collect pertinent industry data related to volumes, intended users, and frequency of file transfers in order to establish pricing for the solution(s). These factors, along with defined business requirements and functional specifications, will provide the necessary means to establish the cost for the service. DTCC recognizes the service must be cost effective for all industry participants and will evaluate opportunities to tier pricing based on volume utilization. DTCC pricing is based on the expectation that development costs will be recovered within a 3 year time period.
 - The timeline for this solution(s) is very tight. DTCC proposes the following timeline to meet the 1/1/09 deadline (DTCC milestones for pilot members):
 - June 3: DTCC kick off meeting
 - June 10: Weekly work group meeting to define business requirements
 - June 17: Weekly work group meeting to define business requirements
 - June 24: Weekly work group meeting to define business requirements
 - July 1: Finalize business requirements and begin development
 - Aug 25: TSG (QA)
 - Sept 15: Begin pilot testing (PSE)
 - Nov 6: DTCC production move

Next Steps:

- Receive industry validation to proceed (at June 3 meeting)
- Determine and agree upon timeline for development, testing, production (June 3 meeting for proposed target)
- Establish work group meeting schedule (determine necessary frequency – weekly?, semi-weekly?) and begin functional specification process by Tuesday, June 10th
- Engage aggregators/TPA's and other plan representatives as deemed necessary by Friday, June 13th (begin outreach immediately)
- Pilot commitments by Friday, June 13th
- Collect marketplace data necessary to determine pricing model by Friday, June 20th
- Determine DTCC membership considerations for Plan side of business by Friday, June 27th
- Begin connectivity and membership process for parties not currently doing business with DTCC June – October.