



How investment options differ from retail mutual funds

Qualified retirement plans, including 401(k) plans, may be funded using different types of investment platforms, including mutual funds and group variable annuities. Many insurance companies use a group variable annuity as the primary funding vehicle for a retirement plan. These are commonly misunderstood, and as a result, comparisons to other investment platforms are often inaccurate.

Group variable annuities were designed specifically to fund retirement plans. The enclosed information provides responses to some of the most common questions about investment options, the externally managed funds in which they invest, how they're different from mutual fund investments and how they track performance.



Q: What is an investment option?

A: Securian Retirement offers qualified retirement plans (e.g., 401(k) plans) through group annuity contracts issued by its affiliate, Minnesota Life Insurance Company.

Group annuity contracts are issued by insurance companies and, depending on plan provisions, may allow plan sponsors or participants to convert lump sums into annuities at retirement. These contracts are designed to provide for the investment and accumulation of contributions to tax-qualified retirement plans. They offer plan sponsors and, in most cases, plan participants, a number of different investment choices for their qualified retirement plans.

The General Account

One choice that many Securian clients offer is the General Account. This account is guaranteed (minimum interest and principal) by Minnesota Life and is backed by the general assets of the company.¹

Investment options

Other choices are offered through what we refer to as “investment options.” An investment option is a separate account asset of Minnesota Life. It can only be used to meet the obligations of contract holders investing in that particular separate account investment option. A separate account cannot be used to pay benefits or liabilities arising from other operations of the company.

Contributions to investment options are pooled with contributions from other participants who use a similar investment strategy. These pooled contributions are then invested according to a specific investment strategy. For example, they may be invested in government bonds which seek current income consistent with capital preservation. Or, they may be invested in large, growth-oriented domestic stocks.

All of the earnings and investment gains and losses of an investment option, whether realized or unrealized, are credited only to that investment option. There are no guarantees associated with an investment option. The value of a contribution may be worth more or less when it is withdrawn than when it was invested.

Minnesota Life investment options accept contributions and process requests for withdrawals on any business day (Monday through Friday, excluding holidays and other New York Stock Exchange closings). Gains, losses, income and expenses are also credited to, or charged against, the investment option on a daily basis.

Minnesota Life has a number of investment options which directly invest in a portfolio of securities. It has also established a number of investment options that invest in a registered mutual fund. In addition, Minnesota Life hires a number of highly regarded asset managers to sub-advise its separate accounts. Minnesota Life offers consolidated reporting of balances, investment performance, and transactions through an 800 number, a website and through periodic written reports.

¹The guarantees for the General Account are solely based on the financial strength and claims-paying ability of Minnesota Life.

Q: How does an investment option differ from a mutual fund?

A: A **mutual fund**, also known as an open-end management investment company, is required to be registered with the Securities Exchange Commission (SEC). It offers its shares as an investment to the general public under the terms and conditions described in a detailed document called a “prospectus.”

Minnesota Life **investment options** are only offered to qualified retirement plans as part of group variable annuity contracts. They are exempt by law from registration with the SEC and are not required to provide a prospectus to investors. However, some of the information contained in a prospectus is provided to sponsors and participants who invest in an investment option through other means, including investment fact sheets, performance reports and custom software programs.

Q: If I’ve selected an investment option that invests in a mutual fund, do I own shares of the mutual fund?

A: No. The group annuity contract is credited with units of the separate account, which in turn, owns shares of the mutual fund. The separate account is owned by Minnesota Life.

Q: What’s the difference between a mutual fund share and an investment option unit?

A: Conceptually they are similar. Both are accounting mechanisms used to track the ongoing value of an account. Each has a value associated with it, which varies daily with the investment performance and expenses of the mutual fund or investment option.

For investment options, this value is referred to as a “Unit Value.” For mutual funds, it is known as the “Share Price” or “Net Asset Value (NAV).”

On the day a contribution is made, the amount of the contribution is divided by the Unit Value of an investment option or the Net Asset Value of a mutual fund to determine the number of units or shares that are purchased. On any subsequent day, the value of that contribution is determined by multiplying the number of units or shares purchased by the Unit Value or Net Asset Value on that subsequent date.

For example:

| | Unit Value | Units | Total Value |
|---|------------|-------|-------------|
| Contribution on 3/1/XX | \$21.75 | 45.97 | \$1,000.00 |
| Total Value of 8/1/XX (Unit Value X # of units) | \$23.42 | 45.97 | \$1,076.62 |

In a mutual fund, the number of shares remains fixed unless additional contributions or withdrawals are made or unless additional shares are credited by dividends.

In an investment option, the number of units remains fixed unless additional contributions or withdrawals, including those for expenses, are made.

In each case, an appropriate number of full or fractional units or shares are purchased or redeemed. Investment income and gains and losses do not result in additional units or shares, but rather change the value of each unit or share.

Q: Can I convert the NAV I find in the newspaper for a mutual fund held by an investment option into the Unit Value of the investment option that invests in that mutual fund?

A: No. The NAV of a mutual fund does not directly convert to the unit value of an investment option investing in that mutual fund for a number of reasons.

- **Mutual funds usually pay investment income and realized capital gains as dividends to shareholders.** This reduces the share price or NAV by the amount of the dividend and results in the purchase of additional full or fractional shares. However, investment options do not pay dividends so when the underlying mutual fund pays a dividend, the unit value is increased by that amount. (See example below)
- **There are insurance company expenses charged against the investment option for accounting, transaction processing, reporting and other plan-related activities.** These expenses are charged on a daily basis and are reflected in the unit value of the investment option, with no impact on the NAV of the underlying mutual fund. (See next question for more detail)

| Effect of a dividend on share price and unit value | | |
|---|--------------------------|--------------------|
| Example | Investment option | Mutual fund |
| Contribution | \$1,000.00 | \$1,000.00 |
| Unit Value | \$20.00 | |
| Units | 50.00 | |
| NAV | | \$40.00 |
| Shares | | 25.00 |
| Income and Realized Gains as a percent of original investment | 5% | 5% |
| Unit/Share Value after income and realized gains | \$21.00 | \$42.00 |
| Dividend from income and realized gains (per share) | \$0 | \$2.00 |
| Dividend Paid | | \$50.00 |
| Unit/Share Value after dividend | \$21.00 | \$40.00 |
| Units/shares purchased from dividend | 0 | 1.25 |
| Total Units/Shares | 50.00 | 26.25 |
| Unit/Share Value | \$21.00 | \$40.00 |
| Total Value | \$1,050.00 | \$1,050.00 |

This is a hypothetical example for illustration purposes only and is not indicative of any particular investment.

Q: How do the expenses of the investment option affect my return?

A: The mutual fund NAV and the changes in the NAV from one day to the next reflect performance and the expenses the mutual fund charges against the assets of the fund.

Likewise, the expenses Minnesota Life imposes against the investment option for accounting, transaction processing, reporting etc. are deducted daily and are reflected in the performance and unit value of the investment option. Since these expenses are in addition to the expenses of the mutual fund, the result will be a lower net return to the sponsor and participants than a direct investment in the mutual fund. However, the scale of the Minnesota Life separate accounts often makes accounts eligible for institutional class or other low-cost share classes that would not otherwise be available to individual investors.

Minnesota Life's expense charge varies by contract. It is expressed as an annual rate – just like the rate of return. And, it reflects any allowances paid to Minnesota Life.

Q: Why does my return differ from that listed in the paper for the mutual fund?

A: We've listed a couple reasons including the difference in expenses and the potential for cash held in the investment option. But there are other reasons you may not be able to relate the returns listed in the paper to the returns earned on your investment in the investment option.

- **The returns may be for different time periods.** A mutual fund may have a significant difference in returns from one day to the next. Unless you are looking at the exact same beginning date and the exact same ending date of the period over which returns are being calculated, there will be a difference.
- **The timing of cash flows into or out of the account during the period will affect the return for the period.**

Q: Why does Minnesota Life charge expenses over and above what the mutual fund charges?

A: Some of the charges imposed under the group variable annuity contract are to recover the expenses associated with the accounting, transaction processing and reporting that Minnesota Life must perform for the investment option and the group annuity contract. However, there may be other plan-related administrative, consulting, communications and compliance services that may be paid for from these charges.

Since 1880, **Securian Financial Group** and its affiliates have provided financial security for individuals and businesses in the form of insurance, investments and retirement plans. Now one of the nation's largest financial services providers, it is the holding company parent of a group of companies that include Minnesota Life Insurance Company.

If you have questions, please contact a Securian customer service representative for further clarification.

SecurianRetirementCenter.com | 1-800-233-2881

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