

Privacy and Security Issues Facing Qualified Retirement Plans

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Agenda

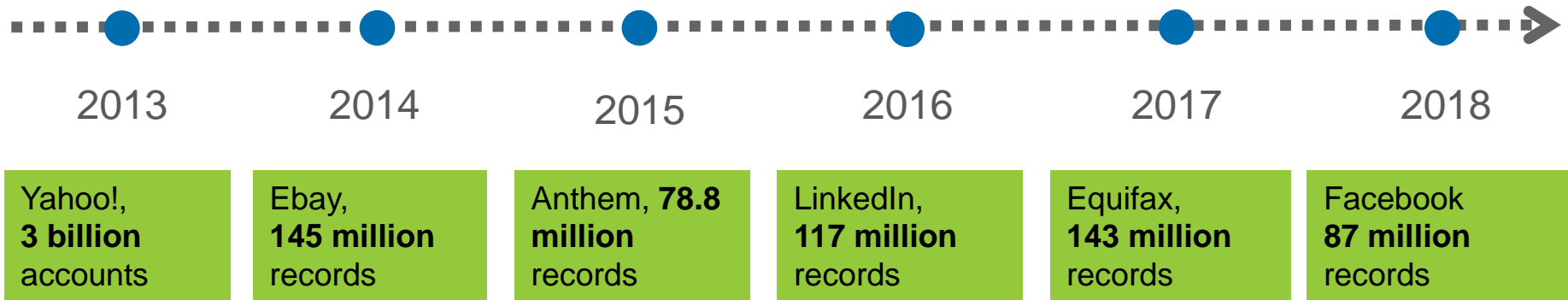
- Why advisors, plan sponsors and participants should care
- Plan sponsor considerations
- Emerging trends
- Advisor role



Why you should care



Examples of breaches Massive Amounts of Information*



United States Population – 323 million

*<https://www.csoonline.com/article/2130877/data-breach/the-biggest-data-breaches-of-the-21st-century.html>



ERISA Advisory Council report on cyber security

“Employee Benefit Plans: Considerations for navigating Cybersecurity Risks”

- Raises awareness of cybersecurity threats
- Provides information on risk mitigation and emerging threats





Gathering information is easy in today's electronic environment



Social Networking

- LinkedIn
- Facebook

Internet

- Company website



Government

- Free ERISA
- EBSA

Dark Web





Account breaches in other industries

Credit Cards

- Many have experienced fraudulent credit card charges
 - Mature threat
 - Established process
 - October 2016 Nilson report cites \$21.8 billion global losses in 2015

Bank Accounts

- ACH fraud

Tax Returns

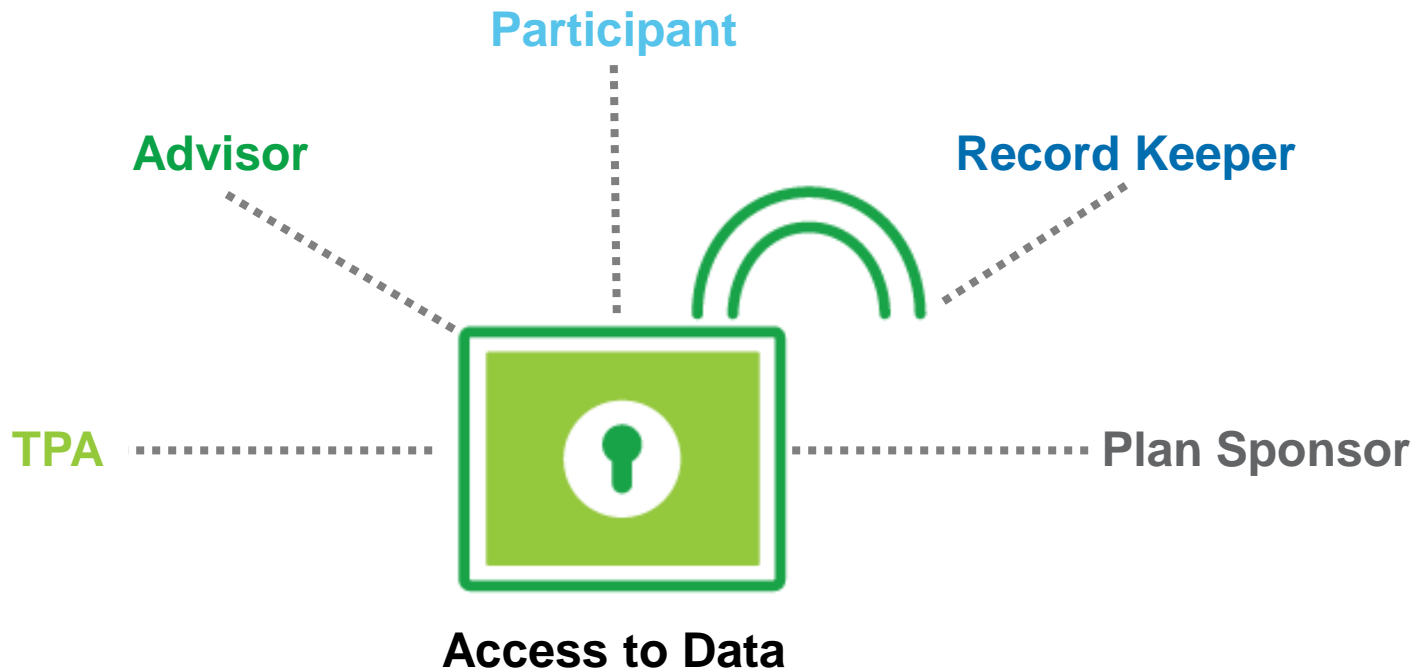
- Stolen Identity Refund Fraud (SIRF)
 - DOJ estimates 5 million tax returns filed in 2013 with false identities, claiming approximately \$30 billion in refunds



Plan sponsor considerations



Plan Sponsor considerations





Plan Sponsor considerations

Plan fiduciaries must discharge their duties prudently with care, skill, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims...

Fiduciary Issue

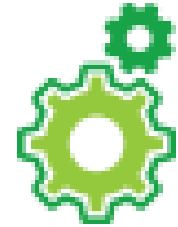
- No precise description of what is procedurally prudent under every circumstance

Process protects!

- Plan documents – follow provisions
- Communication
 - With vendors
 - With participants
- Document



Plan Sponsor considerations



Procedural Prudence

- Selection of service providers
 - RFP questions may include:
 - Inquire about past breaches of private information
 - Request information on privacy and security standards currently in place
 - SOC reports
 - Document
 - Ongoing cooperation
 - How do you stay one step ahead?
 - Industry trends



Plan Sponsor considerations



Procedural Prudence *(continued)*

- Employee Oversight
 - Employee error and/or fraud can be a primary contributor to data breaches
 - Over 50% of surveyed companies reported they have experienced a security incident because of a negligent or malicious employee*
- Vulnerabilities
 - Response to targeted phishing and spear phishing attacks
 - Malicious viruses and downloads

*Source: Experian Data Breach Resolution and Ponemon Institute (2016)



Plan Sponsor considerations

Procedural Prudence *(continued)*

- Educate plan participants and beneficiaries about cyber security and privacy
 - Electronic security controls
 - Complex passwords
 - Register for account two-factor authentication
 - Physical security controls
 - Shred unneeded files
 - Timing out computers
 - Locks, etc.





Emerging trends



Emerging trends



Qualified retirement plans are being identified and targeted*

- Recent Empower case*
- Sharing of credentials with other individuals and/or not adequately securing credentials from family members / acquaintances
- Fraudulent activity by way of malware or breach of security by the Plan Sponsor, Advisor, or Third Party Administrator (TPA)

*<http://www.napa-net.org/news/technical-competence/defined-contribution-plans/fraud-scheme-targeting-401k-accounts-uncovered/>



Emerging trends



Malicious Account Takeovers

- Distributions – what the criminals are after
 - Age 59½
 - Term vests
 - Plan provisions
 - Approval protocol
- Social engineering by using publically available information
- Authentication
 - Available information
 - Third party services
 - CSR operations



Emerging trends

Malicious Account Takeovers *(continued)*

- Record keepers bobbing and weaving
- Where and how forms are accessed
- Front door vs. back door safeguards
- Information available to record keepers
- Technological safeguards



Emerging trends

Malicious Account Takeovers *(continued)*

- Recordkeeping and administrative challenges
 - Threat aptitude
 - Real-time fraud detection hampered by data
 - Everyone wants to be helpful
 - Publically available information



Advisor role



Advisor role

- Trusted advisor



Questions?



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